



## Canada Revenue Agency: Free Your CERB and CRB Payments From Taxes

### Description

This year, the Canada Revenue Agency (CRA) opened up its wallet to give generous cash benefits to Canadian as part of the COVID-19 Economic Response Plan. One of the benefits was Canada Emergency Response Benefit (CERB), which the CRA has replaced with the Canada Recovery Benefit (CRB).

Both these benefits give a flat payment of \$2,000/month to eligible Canadians, as long as they earned at least \$5,000 in working income in 2019, thereby increasing the average household disposable income of many Canadians. However, the CRA is deducting 10% tax at source from the CRB payments, which means you will get \$1,800/month after tax. If you are getting the CERB or the CRB, you can't get any other COVID-19 benefit like [caregiving or sickness](#) benefit.

### Make your CERB and CRB payments tax-free

Before you decide to apply for the CRB, note that both CERB and CRB payments will add to your 2020 taxable income. If you exclude working income and look at the benefits payments, it adds up to \$19,400 (\$14,000 in CERB and \$5,400 in CRB). This is the maximum you can get in CRA's taxable COVID-19 benefits between March 15 and December.

A \$19,400 taxable income puts you under the 15% federal tax bracket, which equates to a tax bill of \$2,910. You can reduce this tax bill to \$926 by claiming the basic personal amount (BPA) tax credit. How does it work? For 2020, you can deduct \$13,299 in BPA amount from your 2020 taxable income. This BPA amount will give you a federal tax credit of \$1,984.

If you are above 65, you can even deduct the \$926 tax bill by claiming [an age amount tax credit](#) of \$1,145. The CRA allows you to deduct up to \$7,637 in age amount from your 2020 taxable income.

If you are a student, you can reduce your federal tax bill further by claiming the tuition tax credit. This credit deducts the federal tax you pay on tuition fees, which was not reimbursed by your employer or federal government program. If you paid around \$6,200 in tuition fees, your CERB and CRB will be free from taxes.

## Make the most of your tax savings

A little research and time on your 2020 tax returns are worth \$2,900. You can further increase the tax-savings on CERB and CRB by investing it in **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)). Make sure you invest your tax savings through a Tax-Free Savings Account (TFSA) as you don't want the CRA to claw back your investments with more taxes. TFSA lets your investment grow tax-free and even excludes your withdrawals from taxable income.

If you still have more tax bills, then instead of TFSA, invest in **RioCan REIT** ([TSX:REI-UN](#)) through a Registered Retirement Savings Plan (RRSP). RRSP allows you to deduct your contribution of up to \$27,230 or 18% of your income, whichever is less, from your 2020 taxable income.

## TFSA versus RRSP

You might wonder why I suggested different stocks for TFSA and RRSP. It is because of their tax treatment. If your 2020 tax bill is zero, put your tax savings in a high-growth stock like Shopify through a TFSA. The stock is currently trading at the lower end of its \$1,200-\$1,450 price range. Investors are divided if the virus stock can shine in the post-pandemic world. But the company's fundamentals are strong, and e-commerce growth potential is significant, and bulls know that.

The bulls will buy at the dip and push Shopify stock above \$1,400, representing a 20% upside. So your \$2,900 can become \$3,480 in the short term. And the CRA can't take this money from you as it will be a TFSA withdrawal.

If your 2020 tax bill is high, put your tax savings in a high-dividend stock like RioCan through an RRSP. It has a dividend yield of over 8%. Let the dividend income stay in RRSP and withdraw it when your annual income is low, as withdrawals are taxable. RioCan has a history of paying stable dividends for 20 years. The stock will recover with the economy and surge 50% to the pre-pandemic level in the next three years.

Your \$2,900 investment in RioCan will earn you \$720 in dividend income and \$1,450 in capital appreciation in three years.

### CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Tech Stocks

### TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)
3. TSX:SHOP (Shopify Inc.)

## **PARTNER-FEEDS**

1. Business Insider
2. Koyfin
3. Msn
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