Beware! The CRA Will Tax You on Your $2,000 CRB

Description

While we may live in a free country, it's safe to assume that you know nothing in this life is free. While this may not seem like the nicest thing to hear, especially during times like these, it's necessary to remind yourself of that.

The statement is more relevant right now because many Canadians have been receiving the $2,000 per month Canada Emergency Response Benefit (CERB) payments. The amount is going to be a part of your taxable income during the next tax season.

The CERB alternatives that replaced the initial stimulus program are also taxable benefits. The Canada Recovery Benefit (CRB) was introduced to benefit Canadians who were relying on CERB and cannot qualify for the Employment Insurance (EI) benefits program.

CRB tax implications

While both of these are taxable benefits, there is a difference between the tax implications for CERB and CRB. The CERB was not taxed at the source. The Canada Revenue Agency (CRA) distributed the full $2,000 for the four-week eligibility periods to applicants. When you do your taxes for the 2020 income year, you will have to consider it all as part of your taxable income.

However, CRB is taxed at the source. The government deducts a 10% withholding tax when it is distributing the funds. It is a bi-weekly $1,000 payment, but you will receive $900 for the two-week eligibility periods. That doesn't mean you will not have to account for it when you are doing your taxes.

If your annual income for 2020 is more than $38,000, including CERB and excluding CRB, the CRA will deduct $0.5 from your CRB for each dollar your annual income exceeds the $38,000 limit.

Create entirely tax-free income

If you have assets held in your Tax-Free Savings Account (TFSA), you can use them to offset your tax bill by generating entirely tax-free income. Any assets you store in the account can grow tax-free. If your assets generate returns through interests, capital gains, and dividends, the amount can grow without incurring any income taxes. Additionally, you can withdraw funds from your TFSA without any withdrawal charges.

Generating substantial passive income through your TFSA is a matter of investing in a portfolio of reliable dividend stocks like **Fortis Inc.** (TSX:FTS)(NYSE:FTS). Fortis makes an exceptional addition to any TFSA portfolio for several reasons.

The utility company is a Canadian Dividend Aristocrat that has been increasing its payouts for the past 47 years. Fortis is a utility sector company that has operations across Canada, the U.S., and the Caribbean. It can continue generating a stable and predictable income due to the necessity of its service.

No matter how bad the economy gets, people will continue relying on utility companies like Fortis to provide them with natural gas and electricity. Fortis also generates most of its income through regulated and long-term contracts, which means the company can continue earning substantial income to finance its continuously growing dividends.

Foolish takeaway

Understanding your CRB money’s tax implications can help you improve your financial planning so you can preemptively prepare for the tax season. You may have a hefty tax bill during the next tax season. Taking any measures to reduce your tax bill can help.

Investing in a portfolio of dividend stocks and holding it in your TFSA can offset your tax bills by allowing you to pay for it from your tax-free income. Fortis is an excellent stock to begin building such a portfolio.

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