Canada Revenue Agency: How to Avoid Paying Taxes on 2020 CERB Payments

Description

The Canada Emergency Response Benefit (CERB) was launched by the federal government in March. This ambitious and radical program was introduced to provide much-needed support to the millions of Canadians who had been upended by the COVID-19 pandemic and subsequent lockdowns. In October, the Canada Revenue Agency revealed that there were 8.9 million unique applicants for the CERB. The government had paid out a total of $81 billion in CERB payments.

Unfortunately, some applicants were unaware of the finer details of the CERB. The federal government sought to make applications easy in a time of crisis, but this also opened the door to carelessness, oversights, and even fraud. Suffice it to say, the Canada Revenue Agency will have its work cut out for it sifting through recipients in 2021.

Today, I want to discuss how Canadians can avoid paying those pesky taxes on CERB payments when they file in 2021. Moreover, I want to look at alternatives, which will allow Canadians to avoid headaches like these in the future.

Canada Revenue Agency: Why CERB recipients need to prepare for 2021

The CERB was introduced as a taxable benefit in March. However, the ball was in the court of recipients who received the full $2,000 month payment. Those who failed to account for this reality may be in for a tough time next year.

With that in mind, let’s do a quick round up and give a snapshot of what Canadians may owe as we look ahead to a new year.

How to determine where you sit for this taxable benefit

Canadians who qualified for the CERB but earn less than the Basic Personal Amount (BPA) do not have to pay any tax. Those with incomes under $48,536 but above the BPA will be taxed at 15%. Of course, there are also differences across provinces. That can be a substantial surprise when tax season rolls around. For many Canadians, it is time to start planning.

Those who have lost out on expected income for part of 2020 could be eligible for child credits or GST/HST credits they would not have qualified for previously. This could lighten the load of a CERB-related tax bill. Canadians also have the option of contributing to a Registered Retirement Savings Plan (RRSP). However, the deferred tax would likely not add up to a substantial amount.

Small business owners have the option to apply operational losses against taxable income for the past three years through the Canada Revenue Agency. Moreover, business owners who have filed for bankruptcy also have options in this area.

Future planning: Avoid paying the Canada Revenue Agency an invest in a TFSA!

Back in the summer, I'd suggested that Canadians should look to building long-term passive income in a Tax-Free Savings Account (TFSA) rather than leaning on the CERB program. The CERB provided valuable financial support to many Canadians in this difficult year. However, all Canadians should aspire to construct a long-term passive-income stream. The TFSA allows you to stash income-generating vehicles without having to pay capital gains to the Canada Revenue Agency.

Canadians looking to go this route should consider **AltaGas** (TSX:ALA) for their TFSA. The company provides energy infrastructure in North America. Its shares have dropped 3.2% in 2020. However, this is solid considering the tough year for the oil and gas space. AltaGas stock last possessed a price-to-earnings ratio of 15 and a price-to-book value of 0.8. That puts this dividend stock in favourable value territory.

Moreover, AltaGas currently offers a monthly dividend of $0.08 per share. This represents a strong 5.2% yield.

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aocallaghan