



## CRA Warning: Stay Out of Hot Water and Pay Taxes on Your \$14,000 CERB

### Description

The Canada Revenue Agency (CRA) was tasked with a monumental endeavour to provide Canadians with the largest financial relief package in the country's history. The Canada Emergency Response Benefit (CERB) was announced a few weeks in the wake of COVID-19 and the ensuing lockdown.

CERB saw qualifying Canadians receive \$2,000 per month for over 16 weeks. After the two extensions to this program, CERB lasted 28 weeks. The CRA paid out a massive \$14,000 per person to Canadians who qualified for the benefit throughout its duration.

However, CERB is a taxable benefit. The government agency did not deduct the taxes while distributing the payments. It means that the payment will count as part of your taxable income for the 2020 tax year. If you received any money for CERB without qualifying for it, you can repay the CRA and avoid paying taxes on mistakenly received money.

If you received the payments and truly needed them, you should prepare your taxes for 2020, including the CERB amount you received.

### Calculate your taxes for 2020

The CRA delayed the tax deadlines in 2020 to make the situation slightly easier for Canadians dealing with the crisis. Whether or not the CRA introduces [tax-deadline delays in 2021](#) remains to be seen. You should assume that the regular April deadline will be in effect and prepare your taxes accordingly.

It would be best if you take out the time to calculate your estimated taxes right now. You need to remember that you need to pay federal and provincial taxes on your income. The federal tax is 15% for the first \$48,535 of your taxable income in 2020. Many people might not have earned much this year due to the pandemic.

Suppose you received the full \$14,000 over 28 weeks through CERB, and you earned \$15,000 besides CERB before losing your job, and you live in Manitoba. Your total taxable income for the year would be  $\$15,000 + \$14,000 = \$29,000$ . Your federal taxes for the 2020 income year would be \$4,350.

The provincial tax for your region would be 10.78% for the first \$33,389. It means that your provincial tax will be \$3,126.2 based on your income. Your total tax bill on the \$29,000 you earned, including CERB money, can amount to \$7,476.2. That is a hefty tax bill.

## Offsetting your tax bill

Calculating your estimated tax bill in advance can help you understand how much money you should set aside, so you have enough to deal with the tax bill when April ends. While the tax season is several months away, every penny counts. If you have any cash savings that you did not need to touch courtesy of CERB, it would be wise to use it to your advantage.

Consider using it as capital to invest in an income-generating asset like **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) and storing it in your Tax-Free Savings Account (TFSA). A TFSA portfolio of reliable dividend stocks like Fortis can help you generate a substantial passive income that the CRA cannot tax. You can use the passive income to offset some of the tax bill.

Fortis is an ideal stock to consider for this purpose because it is virtually guaranteeing returns to its investors. The utility stock is an all-time favourite recession-resistant stock. Yes, the stock might not be much in terms of market movements in a booming market. However, it also managed to retain its cash flows when the markets are in a downturn.

Fortis has been paying its shareholders consistently growing dividends for almost half a century. The Canadian Dividend Aristocrat does not just pay you — it can keep increasing its payouts to help you keep pace with inflation while you remain invested. Holding the stock in your TFSA means that you can enjoy its returns tax-free.

## Foolish takeaway

The CRA might have helped a lot through CERB and [CERB alternatives](#). However, the agency will come knocking on your door to collect taxes in April. Preparing a dividend income portfolio in your TFSA can help you offset your tax bill. Fortis can be an excellent stock to begin building such a portfolio.

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