Did You Receive CERB Payments? Be Ready to Fork Over Taxes to the CRA

Description

Canadians who received pandemic money through the Canada Emergency Response Benefit (CERB) should review their tax slips. CERB is a taxable benefit. Recipients in 2020 must be ready to fork over taxes in 2021.

Tax experts warned early on that CERB claimants must be aware of the financial lifeline's tax component. The benefit payments are gross of tax or no withholding tax at source. Some recipients did not spend their entire CERB but reserved a portion for tax payments.

Emergency income support

CERB was instrumental in easing the financial hardships of Canadians displaced by the pandemic. An eligible recipient received the full amount of $2,000 per month ($500 weekly). The federal government extended the program not once but twice. A recipient would have received a total of $14,000 for the entire stretch.

It was 16 weeks before the first extension of eight weeks, which lengthened the payments to 24 weeks. On August 20, 2020, the government announced a second extension. With four more weeks, it became a maximum of 28 weeks.

CERB officially ended on September 27, 2020, and the government began to transition recipients to Employment Insurance (EI). The CRA started applications for the Canada Response Benefit (CRB) to those who will not qualify for EI benefits.

Tax reckoning

The reckoning of CERB taxes is coming. Unpleasant surprises could arise in the 2021 tax season. You might owe the CRA income tax on the emergency money you received in 2020. People who got CERB must include the payments (stated in the tax slips) as taxable income in their tax returns.

Even if you don't have any other income or tax credits besides the maximum $14,000 CERB, you might still owe the CRA a small amount of tax. Since the basic personal amount (BPA) for 2020 is $13,229, there's a $771 taxable income. It's advisable to review your income in 2020 to have an estimate. Usually, the total tax due in a year depends on all of your income sources. This year, it includes CERB payments.

Motivation to invest

The health crisis could motivate more Canadians to create passive income or build an emergency fund. Seed capital of $14,000 is sufficient to start the ball rolling. Amid a global pandemic, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) stands out above the rest. The blue-chip income stock pays a respectable 4.47% dividend.

Apart from its impressive 163-year dividend track record, TD's dividend increase streak is nine years. In the 2008 financial crisis, TD was the only company that registered revenue and profit growth. It's not surprising that in 2020, Canada's second-largest bank is proving its resiliency again.

The bank reported a net income of $5.14 billion in Q4 of the fiscal year 2020 (quarter ended October 31, 2020), or 80% more than in Q4 2019. Bharat Masrani, Group president and CEO of the TD Bank Group, credit the strength of the business model and balance sheet for the quarter's solid results.

Ready for tax payments

Household savings in Canada are spiking during the pandemic. Statistics Canada reports a historic 28.2% increase in savings rate in Q2 2020. Perhaps many did save and have money ready for tax payments and investments in 2021.

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Date
2025/08/25
Date Created
2020/12/07
Author
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