Worried About CERB? Here’s How You Can Avoid Paying $14,000 Back to the CRA

Description

The Canada Revenue Agency (CRA) has been sending notices to many Canadians across the country who received the Canada Emergency Response Benefit (CERB), informing them that they may have to pay back some or all of the payments they collected this year.

One common mistake that’s caused problems for Canadians is that for those who were self-employed in 2019, they needed to earn at least $5,000 in net income to be eligible for CERB.

The net income figure includes gross income less expenses, and so it’s possible someone earned more than $5,000 in gross income but not at the net level. This means that for Canadians who received CERB payments without meeting the minimum income requirement, they may have to pay back as much as $14,000.

While it’s a big problem for many Canadians, there is one potential way to address the issue by making an adjustment to the previous tax year’s bill. Using a T1 adjustment form, Canadians can adjust a prior-year return. While you do need to report all the income that you’ve made, many tax experts have pointed out that you don’t need to claim every expense.

And by reducing the tax expenses that you claimed in a previous year, you would increase your net income. While that would mean you would need to pay more taxes in the year that you make the adjustment, it would likely be a drop in the bucket compared to paying back $14,000 in CERB.

If you’re not familiar with making an adjustment to a prior tax year, now could be a good time to call a tax preparer and explore your options.

Why you should put aside some money from CRB and other benefits you receive

Even if you’re able to avoid paying back CERB, it’s still a good idea to start putting aside some of the money you receive from the Canada Recovery Benefit (CRB) or other taxable benefits. Although there may be some withholding taxes on CRB, you could still have a tax bill to pay next year.

By putting aside some money, you can help prepare yourself in the event that you need to pay taxes. Even if you don't end up needing to pay anything, it's good practice to put money away into a tax-free savings account (TFSA) to build up your savings.

Next year, the TFSA goes up by another $6,000 and investing in a bank stock like the **Royal Bank of Canada** (TSX:RY)(NYSE:RY) can be an easy and safe place to hold your money.

Shares of RBC currently pay a dividend of 4.1%. If you were to invest the full $6,000 in new TFSA contribution room on that one stock, you could earn a little less than $250 in dividend income next year. It isn't going to make you rich anytime soon, but as you slowly build up your portfolio that dividend income can get a whole lot bigger, especially with a stock like RBC that grows its payouts over the years.

Today it pays a quarterly dividend of $1.08, but that's 37% higher than the $0.79 that the bank was paying its shareholders towards the end of 2015. RBC's raised its dividend by an average of 6.5% during that time.

The stock itself has also risen more than 40% over the past five years, and that's including a dreadful 2020 that's been weighed down by the coronavirus pandemic and a horrible outlook for the economy.

Whether you need a place to store your money for a few months, a few years, or forever, RBC stock is one of the safer, more stable investments that you can put your money into today.

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