Canada Revenue Agency: 2 One-Time Changes to Your 2020 Taxable Income

Description

The year 2020 was different as there were many one-offs. The world went into lockdown for the first time. A significant portion of the world population started working from home for the first time. Canada witnessed its highest-ever unemployment rate of 13.7% in May 2020. The Canada Revenue Agency (CRA) announced many cash and tax benefits for the first time. These many firsts will reflect in your 2020 taxable income.

What are the changes in your 2020 taxable income?

The CRA introduced two main taxable cash benefits, the Canada Emergency Response Benefit (CERB) and the Canada Recovery Benefit (CRB). These benefits are for people who lost their jobs as a direct result of the COVID-19 pandemic.

The CRA gave $2,000 per month in CERB to people impacted by the pandemic. The benefit was live from March 15 to September 26, 2020. The CRA gave you up to $14,000 in the CERB, which you need to include in your 2020 taxable income.

For instance, Adam is an insurance broker and lives in Toronto. Following the announcement of lockdown, he was working from home till June. His company shut down operations in the light of the pandemic, and Adam lost his job. He is eligible to get a CERB of $6,000 as he was unemployed for 12 weeks from July to September.

After the CERB ended, the CRA replaced it with the CRB. The CRA is giving $1,000 (before tax) every two weeks for a maximum of 26 weeks in the CRB. You will be eligible to get the benefit only if you are not entitled to Employment Insurance (EI) benefits. You can apply for the CRB between September 27, 2020, and September 25, 2021.

In the above example, Adam can apply for the CRB until he finds a job. His company restarted operations in January and rehired all the past employees. He can get $5,400 (after tax) in CRB for the 12 weeks he remained unemployed.

The CRA introduces a tax benefit only for the 2020 tax year

Apart from these cash benefits, the CRA has also announced a home-office expense tax deduction for the days you worked from home last year. You can deduct $2 per day, from your taxable income, up to a maximum of $400 in the home-office expenses. This comes to 200 days of working from home.

You are eligible for the tax benefit only when you have operated out of your home for more than 50% of your working hours. These 200 days exclude statutory holidays, sick leaves, and vacations. Also, you can deduct only those expenses that your employer did not reimburse.

Continuing on the above example, Adam started providing freelance insurance consultancy services from home from July 2020. Since he got his job back in January, he worked from home for 120 days until December 2020. He can claim a work-from-home tax deduction of $240 (120 days times $2).

In total, Adam got CRA cash benefits of $11,400 ($6,000 in CERB + $5,400 in CRB) from which he can deduct $240 in the work-from-home tax deduction. This brings his total taxable income to $11,160.

How can you use these benefits?

These several one-offs in 2020 have reiterated that an emergency comes unannounced, and you need to be prepared. You can create an emergency fund. Ensure that you have at least six months' salary accumulated in this emergency fund so that you are prepared for these one-off events. You can build your emergency fund by investing in **Magna International** (TSX:MG)(NYSE:MGA) via a Tax-Free Savings Account (TFSA). The biggest plus of a TFSA is that all withdrawals made from this account are tax-free.

Magna is a car-parts supplier that is expanding into the electric vehicles (EV) segment to boost growth. With the world waking up to clean energy, demand for EVs will only rise. The company is working with several tech firms and automakers to build EVs and self-driving cars. A few of these companies include **LG Electronics, Sony,** and **Alphabet's** Waymo. This shows Magna's future growth potential in the 2030 decade.

Magna stock has nearly tripled from its March 2020 low. Even though it is currently trading at an all-time high, it has the potential to increase further as the demand and uptake of EVs rise.

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