



## Canada Revenue Agency: Why You Will Pay a Higher Income Tax in April

### Description

The 2020 tax year is different in every possible way. Last year, the Canada Revenue Agency (CRA) gave generous cash benefits as part of the fiscal stimulus package to help Canadians cope with the COVID-19 pandemic. These benefits increased the [average household disposable income](#) of locals in the second quarter of 2020.

Some of the most popular benefits include the Canada Emergency Response Benefit (CERB) and the Canada Recovery Benefit (CRB). The CRA gave these benefits to people who lost their jobs as a direct result of the pandemic. They are taxable, which means the CRA will add the benefits money you received to your 2020 taxable income. The CRA will claw back a portion of these benefits in the form of income tax in April 2021.

### How will the CERB increase your income tax?

The CRA gave \$2,000 per month in the CERB between March 15 and September 26, 2020. You can get up to \$14,000 in CERB payments, which will be included in your taxable income. For instance, Rose, a real estate agent living in Ontario, earned \$50,000 in 2019. However, in 2020, she earned only \$25,000, as the pandemic-induced lockdown brought everything to a standstill. She received the entire \$14,000 in CERB payments. This increased her 2020 taxable income to \$39,000.

### How will the CRB increase your income tax?

After the CERB ended on September 26, 2020, the CRA replaced the benefit with the CRB. The window for CRB applications extends from September 27, 2020, to September 25, 2021. The CRA is giving \$1,000 in CRB for every two weeks, up to a maximum of 26 weeks. You will get \$900 in the CRB as the CRA will deduct 10% tax at the source. Between September 26 and December 31, you can get up to \$5,400 in the CRB.

You are eligible to get the CRB only if you have taken a pay cut of 50% due to pandemic-related reasons. Even though you got the benefit in 2020, the CRA can claw back \$0.5 of the CRB for every dollar you earned above \$38,000 last year. This annual earning of \$38,000 includes the CERB but excludes the CRB.

In the above example, Rose's taxable income totaled \$39,000 in 2020 before the CRB. She also filed for the CRB and received \$5,400. However, the CRA will take back \$500 (50% of \$1,000) in CRB payment by adding it to her 2020 income tax bill.

## Prepare for your taxes early

The above benefits can increase your income tax bill significantly. Hence, I would suggest you learn about the various tax benefits and save yourself from a hefty tax bill. You have until March 1, 2021, to calculate your income tax and invest in Registered Retirement Savings Plan (RRSP). You can reduce your taxable income by the RRSP contribution amount.

For 2020, you can contribute up to 18% of your annual income, up to a maximum of \$27,230 in RRSP. In the above example, Rose can invest up to \$7,992 (18% of \$44,400) in RRSP. However, if you withdraw from this amount before you turn 71, you will have to pay a penalty between 10% and 30%, depending on the amount of your withdrawal. This penalty discourages many Canadians from maxing out their RRSP contribution.

So, what should you do? You can also look for [various tax benefits](#) the CRA offers, like the basic personal amount credit and home office expense deduction. After all the deductions, if the tax bill is still high, you can invest some portion of your income in the RRSP.

You can invest your RRSP money in **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)). The Dividend Aristocrat has a history of paying incremental dividends for the past 25 years. During the pandemic, when almost every company ceased or cut dividends, the pipeline infrastructure firm continued to pay dividends. Enbridge has a dividend yield of 7.44%. If you invest \$1,000 in Enbridge through RRSP, you can get \$74 by the end of the year. This \$74 will increase to \$160 in the next 10 years if Enbridge increases its dividend per share at a compounded annual growth rate of 8% during the period.

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