Canada Revenue Agency: COVID Is Creating Tax Havoc

Description

The tax season is just around the corner, and COVID-19 is already making a mess of it. Last year, we saw the rules on COVID-19 aid eligibility change several times. Eventually, the main program — the CERB — was wound down and replaced with several forms of "recovery benefits," adding to the confusion. Today, many Canadians aren't sure how much taxes to pay on their COVID-19 benefits — or if they owe taxes at all. In this article, I'll highlight two of the most notable controversies have that raised havoc this tax season.

Rare CERB error

One big COVID-19-related issue right now is a "rare" error that's found its way on to CERB recipients' tax slips. According to *CTV News*, people are being told that they have to pay taxes on CERB money they already repaid. Last year, many people were forced to repay the CERB after it turned out that they had earned too much income in a four-week period. Many did so. However, some of them still got tax slips claiming that they owed taxes on the money they had repaid in full. That caused a lot of stress and confusion initially. Thankfully, the CRA clarified the matter, saying that it was simply an administrative error.

Gross vs. net income

Another issue that has been plaguing taxpayers this year is the question of gross vs. net income. Last year, some self-employed Canadians applied for the CERB based on their gross income, which put them above the $5,000 minimum threshold. Later, however, they learned that they had to apply based on net income. As a result, many of them were told that they had to pay back the CERB money they received. Thankfully, the CRA later changed the rules to allow gross reporting for CERB purposes. But initially, this situation caused many self-employed Canadians some serious stress.

Foolish takeaway

As we've seen, there has been major confusion about COVID-19 benefits this tax season. Not only have Canadians been given mixed signals on whether they'd have to pay taxes on benefits, they, in many cases, have been left unsure as to whether they were entitled to them at all.

If you take benefits like the CERB or the CRB, this is always a risk. When programs are rolled out hastily, there is always a chance that there will be problems with implementation.

This is why it might be a good idea to start investing. If you hold ETFs like **iShares S&P/TSX 60 Index Fund** (TSX:XIU) in a TFSA, you can build a tax-free income stream that can keep you afloat financially. The more passive income you have coming in from investments, the less you need to rely on benefits like the CERB in tough times. In XIU's case, you get about a 2.5% yield once management fees are factored in. That means you'd get $1,863 back in annual cash on a $75,500 position — the maximum position you could achieve in a new TFSA. That's a pretty decent income supplement, and it could grow over time. Over the course of a few decades, you could build a dividend portfolio large enough to pay more than what the CERB paid each year.

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