



CRA Tax Filing: Pay No Income Tax on the \$14,000 CERB in April

Description

Did you receive your T4A slip from the Canada Revenue Agency (CRA)? The CRA has added boxes in the T4 slip stating the COVID-19 benefits you received last year. Every eligible Canadian could collect up to \$14,000 in the Canada Emergency Response Benefit (CERB) over the seven-month period from March 15 to September 26, 2020.

Calculating income tax on the \$14,000 CERB

If you missed collecting the CERB, the CRA allowed retroactive claims until December 2, 2020. The CRA also asked people who wrongly got the CERB to voluntarily return the money. If you returned the CERB before December 31, 2020, the CRA deducted it from your T4A slip. But if you returned the CERB in 2021, you will be taxed on that amount in 2020 tax returns. The CRA will make the tax adjustments for this refund in the 2021 tax returns. This is because it only considers transactions that happened in the 2020 tax year.

The CRA will add the \$14,000 CERB to your 2020 taxable income on which the federal and provincial income tax will apply. If you live in Ontario, the CERB will attract a tax rate of 20.05% (15% in federal tax +5.05% in provincial tax). Your total tax bill will come to \$2,807.

How to save income tax on the \$14,000 CERB

You need not pay the entire \$2,807 tax bill. The CRA offers many tax benefits that can make your CERB tax-free. One common benefit every Canadian who files taxes can avail of is the basic personal amount (BPA) tax credit. The CRA determines a certain amount that a person needs for daily necessities like food, clothing, and more. It doesn't charge tax on this amount.

For the 2020 tax year, the CRA has set the BPA at \$13,229, on which no federal tax will be levied. Ontario has set the BPA at \$10,783 for 2020, on which no provincial tax will be levied. The total BPA tax credit comes to of \$2,528.5 (\$1,984 + \$544.5).

Now, your CERB tax bill is reduced to \$278.5. If you have worked from home last year, you can avail of the one-time \$400 home-office-expense [tax deduction](#) and reduce the tax bill further. You can also avail of the age amount tax credit if you turned 65 last year.

The age amount is an extra benefit the CRA gives those above 65 to help them with their medical expenses. The age amount calculation is the same as the BPA. For the 2020 tax year, you can get an age amount tax credit of up to \$1,407 (\$1,146 in federal tax relief + \$261 in Ontario province tax relief).

Taxpayers trick or treat

While you can save taxes on the CERB, you can use some of it to pay other taxes. If you can set aside \$2,000 from the \$14,000 CERB, invest it in a dividend stock through your Tax-Free Savings Account (TFSA).

Create a small tax fund, and put the \$2,000 in **TC Energy** ([TSX:TRP](#))([NYSE:TRP](#)). The pipeline operator earns revenue by transmitting natural gas through its pipeline. It enjoys a stable and predictable cash flow that helps it pay regular dividends.

A \$2,000 investment in TC Energy stock, which has a 6.1% dividend yield, will earn you \$85 in annual dividend income that will be tax-free in the TFSA. You have already exempted the \$2,000 TFSA contribution from tax by applying for BPA tax credit. TC Energy has a 20-year [record](#) of increasing dividends, and in the last 10 years, it has increased dividends at an average rate of 6.8%.

Taking a conservative estimate of a 6% dividend growth, your \$2,000 will earn you \$144 in annual dividend income by 2030. Just withdrawing the dividend money during the tax season will do the trick and act as tax relief. You have to shell out lesser money from your active income to pay your tax bills.

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