



Calculating the tax you may owe on your COVID-19 benefits

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For millions of Canadians whose income declined as a result of COVID-19, perhaps because they lost their jobs or couldn't work while they were caring for themselves or others, government benefits have been a critical source of cash flow. But it's important to remember that many of these benefits are taxable. For some benefits, however, income tax is not withheld from the benefits at the time they are paid. This differs from many other common sources of income, such as employment income or RRSP withdrawals, where tax is deducted automatically at source. Even when tax is deducted, the amount withheld may be lower than the tax that you ultimately need to pay, which could come as an unexpected surprise next year when you file your 2020 tax return. You could be left owing hundreds, or even thousands, of dollars of taxes on your benefits next April.

Our report [Personal tax measures: Canada's COVID-19 response plan](#)¹ provides details for a number of government benefits that have been announced for individuals affected by COVID-19. Let's review some of the main benefits and how the payments are taxed, so you can set aside some funds, where feasible, for any tax owing next spring.

Key government benefits

Canada Emergency Response Benefit (CERB)

The CERB covered the period from March 15, 2020 to September 26, 2020, and provided eligible applicants \$500 per week for up to 28 weeks, for a maximum of \$14,000. The benefit was available to residents of Canada who were at least 15 years old and who stopped working because of reasons related to COVID-19. To qualify, you must have had (self-)employment income of at least \$5,000 in 2019 or in the 12 months prior to the date of your application and have not quit your job voluntarily.

The government states on its website that the CERB is taxable, reminding recipients that "you will be expected to report it as income when you file your income tax for the 2020 tax year." That being said, the Canada Revenue Agency did not deduct any income tax at source from the \$2,000 CERB payments, presumably to allow recipients to have full access to the cash when most needed.

Simplified Employment Insurance Program

The government has increased the minimum benefits that are available from the EI program, so individuals will receive at least the same weekly amount as the CERB provided. Eligible individuals will receive at least \$500 weekly for a minimum of 26 weeks for a one year period starting September 27, 2020. EI benefits are taxable and tax is withheld at source.

¹ The report "Personal tax measures: Canada's COVID-19 response plan" is available online at [cibc.com/content/dam/personal_banking/advice_centre/tax-savings/covid-tax-en.pdf](https://www.cibc.com/content/dam/personal_banking/advice_centre/tax-savings/covid-tax-en.pdf).

Canada Recovery Benefit (CRB)

If you are not eligible for EI, perhaps if you are self-employed and working in the so-called "gig economy," you may be able to qualify for the CRB, which began on September 27, 2020 and runs until September 25, 2021. You could receive a benefit amount of \$500 per week, for up to 26 weeks. The CRB is taxable and 10% tax is withheld at source.

Canada Recovery Sickness Benefit (CRSB)

If you are (self-)employed and don't have a paid sick leave program, the CRSB may provide a \$500 per week taxable benefit, for up to two weeks, if you cannot work either because you are ill or because you must self-isolate due to COVID-19, or you are more susceptible to COVID 19. This benefit is available from September 27, 2020 to September 25, 2021. The CRSB is taxable and 10% tax is withheld at source.

Canada Recovery Caregiving Benefit (CRCB)

The CRCB provides a \$500 per week taxable benefit, for up to 26 weeks, if you miss work to care for a family member in certain circumstances due to COVID-19. This benefit is also available from September 27, 2020 to September 25, 2021. The CRCB is taxable and 10% tax is withheld at source.

How much tax will I owe?

The CERB, EI benefits, CRB, CRSB and CRCB are taxable as ordinary income, just like (self-)employment income or interest income from a GIC. The amount of tax you will owe, therefore, depends on your total income for 2020 and your marginal tax rate for the year.

Your marginal tax rate is the amount of tax you would pay on an additional dollar of income. It's based on the rates of tax applied to a given level of income, both federally and provincially. Individuals pay taxes at graduated rates, meaning that your rate of tax gets progressively higher as your taxable income increases.

Federally, there are five income tax brackets in 2020: zero to \$48,535 of income (15 per cent); above \$48,535 to \$97,069 (20.5 per cent); above \$97,069 to \$150,473 (26 per cent); above \$150,473 to \$214,368 (29 per cent); and anything above that is taxed at 33 per cent. Each province also has its own set of provincial tax brackets, meaning that your combined federal/provincial rate could range from a low of 20 per cent (in B.C. and Ontario) to high of 54 per cent (in Nova Scotia).

To properly determine the 2020 tax you will owe on your government benefits next spring, you would need to know what your total 2020 income will be, which can be very hard to gauge during this time of income uncertainty. A starting point would be to add your pre-pandemic income to your estimated total taxable COVID-19 benefits. You can then use an [online tax calculator](#)² to estimate the taxes owing on your income without and with the government benefits. If you find that any tax that was withheld is less than the tax owing on the benefits, you may want to set aside the difference for next April's tax payment. As you will see by the following examples for the CERB, the tax liability can vary dramatically by taxpayer.

Examples of CERB taxation: Tom, Dick and Harriet

To illustrate, let's take a look at three taxpayers who have experienced job losses as a result of COVID-19 and who each collected CERB payments.

Tom, a B.C. resident, earned \$2,000 before he was furloughed on March 15. He then received the maximum \$14,000 of CERB. If the \$2,000 was his only 2020 income, he would have owed no tax since total estimated income of \$2,000 is below the basic personal amount federally and in B.C. With the addition of \$12,000 CERB, he would owe \$416 of tax on his total income of \$14,000. He should, therefore, set aside \$416 to pay his tax. If he earns more income later this year, he would need to recalculate his tax owing.

² The calculator that is available from Ernst & Young LLP at eytaxcalculators.com/en/2020-personal-tax-calculator.html has been used for calculations in this report. The calculator only considers the basic personal tax credit.

Dick, an Ontario resident, earned \$20,000 until March 31, 2020 when he was laid off. He collected \$14,000 in CERB for 2020, bringing his 2020 estimated income to \$34,000. With \$20,000 of income, his tax bill would have been \$1,449 but with a total of \$34,000 of income, his tax bill would be \$4,288. He should, therefore, set aside \$2,839 (the difference between \$1,449 and \$4,288) to cover his tax liability for 2020. Again, if he gets re-hired later this year, he may owe more tax on the CERB come next spring.

Finally, Harriet is a self-employed professional in Nova Scotia who had to shut down her practice in March as a result of COVID-19. She collected \$4,000 of CERB before she was able to reopen her practice this summer. She estimates the 2020 income from her practice will be \$220,000, on which she would normally pay tax of \$86,250. With the addition of the \$4,000 CERB, her tax bill on total income of \$224,000 would be \$2,160 higher, or \$88,410. She will, therefore, need to set aside \$2,160 to cover the tax owing next spring.

Example of CRB taxation: Emma

Emma is self-employed and lives in Saskatchewan. She did not qualify for CERB, but starts to qualify for CRB in October. She will receive CRB for 12 weeks in 2020, making her total income for the year, including \$6,000 of CRB, \$30,000. She estimates that the tax on her 2020 self-employment income of \$24,000 will be \$2,448. With the addition of the \$6,000 in CRB, however, her estimated total tax is for 2020 is now \$3,978, an increase of \$1,530.

As only 10% or \$600 would have been withheld at source from her \$6,000 of CRB payments, Emma will need to set aside \$930 (\$1,530 – \$600) to cover the estimated tax that will be owing next spring.

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As with all planning strategies, you should seek the advice of a qualified tax advisor.

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