

If you're on CERB, you're going to have to pay taxes on it next spring — here's how to make sure you're not caught off guard

By Elaine Smith Special to the Star
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When COVID-19 began to spread, the summer course that Lorne Opler often teaches at Humber College was cancelled, and it looks as if the same will be true for the fall class he frequently teaches at Seneca College.

Opler, a fitness educator, personal trainer and freelance fitness writer, also saw much of his training and public speaking work dry up as Torontonians went into lockdown.

Fortunately, in March, the federal government stepped up with the Canada Emergency Response Benefit (CERB), financial support for employed and self-employed Canadians whose livelihoods were affected by the pandemic, and Opler was able to apply.

“I’ve seen a significant reduction in income,” said Opler. “I’m trying to do some personal training online and I write freelance articles here and there, but it’s really tough right now.”

For those months when his income doesn’t exceed \$1,000, Opler has been relying on CERB to help him get by.

“It pays my rent and a bit of my other expenses and I’m grateful for it,” he said.

In addition to being grateful, Opler has also been smart about his CERB money, putting 20 per cent of it into a savings account in the event that he needs it to pay his 2020 taxes.

CERB funds are taxable, something that many recipients seem to ignore. But come tax time, the federal government will issue recipients T-4A slips for the CERB funds they were paid so they can add it to their other income.

Liisa Tatem, a Toronto certified financial planner (CFP) with Money Coaches Canada, advises her clients to save at least 15 per cent of the CERB payment for tax purposes.

“If you expect a refund given a drop in income and all of a sudden, you’re paying \$500, it can be a big hit for people,” Tatem said. “Setting aside more than you need never hurts.”

If you don’t need it all for taxes, you have a bit of a bonus, she said.

“The trick with CERB is that there is no withholding,” said Mark Kowalski, a chartered professional accountant (CPA) in private practice in Ottawa. Depending on your income level, “You need to set aside at the minimum 20 per cent,” he said.

“Although this aspect of CERB is definitely something that has been in the news, there seems to be a lot of confusion about it. People are used to the Ontario Trillium benefit and the Canadian child care benefit, which are both tax free, but CERB is meant to replace income, so it’s taxable.”

He suggests putting money set aside into simple, straightforward vehicles: a high-interest savings account, a short-term bond or a GIC to get the best interest rate.

Tatem agrees with this approach.

“When I work with people, I advise them to set up separate savings for particular goals,” Tatem said. “You could open a free, high-interest savings account or put the money in your TFSA.

She wouldn’t suggest investing it, calling it too risky short term.

Both professionals say that setting a portion of the CERB aside is easier said than done.

“It’s hard, especially for people who went from a larger income down to receiving the CERB,” said Kowalski. “It will certainly be challenging for a lot of people.”

Tatem worries about people living close to the edge.

“If you’re not able to eat or pay rent, you may not be able to set 20 per cent of the CERB aside,” Tatem said. “In that case, you’ll need to have a plan for paying your taxes.”

Whether or not people have taken his advice and set CERB money aside for taxes, Kowalski urges everyone to file their returns on time next year.

“If you file on time and you owe money that you can’t pay, the Revenue Canada agents will help you plan a payment schedule,” Kowalski said. “Revenue Canada agents aren’t like commercial collections people who work for private companies; they want to encourage people to file on time.”

Filing on time works in an individual’s favour, because penalties can be avoided. If you file your taxes on time and owe money, interest will be added to your bill. However, if you don’t file on time because you know you can’t pay, you’ll be charged interest, as well as a penalty for filing late.

Of course, Opler won’t have to worry about interest or penalties because he has been diligent about setting money aside.

“There’s no question that I’m very grateful for CERB,” he said. “I wouldn’t be able to get by without it.”