3 Steps to Create Your Own Tax-Free Permanent CERB

Description

The Canada Emergency Response Benefit (CERB) offers Canadians $500 a week to cover their loss of livelihood due to the pandemic. That's a sizable amount that should cover basic living expenses anywhere in the country. However, the program is temporary. Payments run out within 16 weeks.

However, savvy investors and diligent savers can use the government's existing tax rules and the economy's long-term trajectory to create their own "permanent CERB." Here's a three step process that could allow you to generate $2,000 a month in tax-free passive income.

Max out your TFSA

Canada's Tax-Free Savings Account (TFSA) is probably the best investment tool out there. The account shields any dividends and capital gains from taxes. This means savvy investors can use it to create wealth that the Canadian Revenue Agency (CRA) can't touch.

Best of all: the TFSA contribution accumulates over time. If you were older than 18 in 2009 and have never contributed, you can deploy a whopping $69,500 in the TFSA this year.

By using up all your TFSA room, you can kickstart your self-made CERB. You can invest this sizeable war chest in two long-term phases.

High-growth phase

Expanding your investment assets aggressively is the first step towards a self-made CERB. Cutting-edge technology stocks and emerging consumer brands are your best bet for capital appreciation.

An annual growth rate of 15% or higher could expand your $69,500 TFSA into $400,000 within 10 years. How practical is a 15% growth rate? Well, several growth stocks have exceeded that benchmark over the past decade. **Dollarama's** stock price has expanded at an annual rate of 27% since 2010. Over the same period, **CGI** and **Constellation Software** have delivered 18% and 44%, respectively.

With that in mind, 15% is certainly a reasonable target.

High-income phase

The final step is to shift your investment strategy from high-risk growth to low-risk income. Your TFSA should be worth $400,000 if the high-growth phase worked out as planned. Now, shifting these assets to high-yield dividend stocks and real estate investment trusts (REITs) can help you generate your own CERB payments.

A dividend yield of 6% on your $400,000 TFSA should deliver $2,000 a month in tax-free passive income. Robust dividend stocks such as **BCE** and **RioCan REIT** offer 6% and 9%, respectively. A reasonable dividend stock is all you need to create your own permanent self-funded CERB.

Caveats

None of these three steps are easy or risk-free. Most investors never get close to maximizing their TFSA contribution rooms. The wrong growth stocks can destroy value over time. Dividends from even the most robust corporation isn't guaranteed.

However, if you align this strategy with your personal finances and risk appetite, generating $2,000 in monthly passive income over time is a practical goal.

Bottom line

The government's CERB program accounts for the fact that millions of Canadians have seen their income completely vanish in recent months. The government seems to be suggesting that $500 a week or $2,000 a month is sufficient to meet basic living expenses.

A simple three-step process can help you create your own stream of passive income that matches the CERB payments. Aggressively funding your TFSA, focusing on growth stocks initially, and moving to income stocks later in life is a surefire way to achieve financial freedom.

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