CERB Expires October 3 But This $2,000/Month Lasts Forever!

Description

As of this writing, the Canada Emergency Response Benefit (CERB) is set to expire on October 3. The benefit could be extended if Canadians are still out of work at that time, but it would be imprudent to assume that will happen. So far, the CRA has already paid out $40.33 billion in CERB benefits, and more applications are coming in every day. This can't last forever, and when it ends, you'll want to be prepared.

If you have a nice amount of money saved, that's entirely within your power. Even if you remain out of work in the fall, you can build up an investment portfolio that pays you just as much as the CERB. In fact, you can shelter a decent portion of it from taxes, which you can't do with CERB money. By building up such a portfolio, you can live off your savings *without* spending the money invested up front. Here's how.

Build a $480,000 portfolio yielding 5%

If you invest $480,000 at an average yield of 5%, you'll get $24,000 in dividends every year. That works out to $2,000 a month — the same as what CERB pays — but paid quarterly instead of monthly.

If you've got $480,000 to invest, you can get the $2,000 a month just mentioned by investing in stocks like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). TD is a bank known for conservative lending practices. It has a long track record of financial stability, and its dividend appears safe, despite having a high yield.

At current prices, TD yields 5.16% — more than enough to build the income stream just mentioned. To be fair, that is to a large extent because the company's stock has been falling. Banks were hit hard in the COVID-19 market crash, and TD shares fell as much as 35%.

They've since recovered somewhat but are still down from 52 week highs. But if it's only the dividend you're after, TD should be safe: even after a rough first quarter, the bank maintained its dividend and had more than enough after-tax earnings to pay it.

You can even get some of that money tax-free!

One of the best things about dividend stocks is that you can shelter them from taxes to a considerable degree.

First, all “eligible” Canadian dividends get the dividend tax credit. That’s a 15% credit applied to the dividends after they’ve been “grossed up” by 38%.

Second, you can hold part of your dividend stock portfolio in a TFSA. In 2020, you can contribute up to $69,500 to a TFSA as an absolute maximum. So if, for example, you invest $480,000 in a portfolio yielding 5% — consisting of TD and a basket of other stocks at the same yield — you can keep 14.4% of that portfolio in a tax-free environment. That means you’ll never pay any taxes on a sizable chunk of your portfolio’s dividends.

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