CRA 2020: 3 Ways CERB Could Change Things Forever

Description

Historians will likely look back on 2020 as a momentous year. The COVID-19 pandemic has shaken our societies, ushering in long-lasting economic changes. In March, the Canadian federal government introduced the Canada Emergency Response Benefit (CERB).

Some experts noted its similarity to a guaranteed basic income. Interestingly, the liberals had attempted a basic income pilot project early in their term. The introduction of the CERB program is a radical experiment that could pave the way to a guaranteed income.

Today, I want to discuss three ways the CERB could change things forever on the financial front. Let's dive in.

CERB: A permanent passive income

In previous articles, I discussed how important it is for investors to build passive income. This can be a tall order for Canadians who are already dealing with a difficult financial reality.

A guaranteed income could potentially provide much-needed support for Canadians who are falling behind with their regular employment. Moreover, it will provide a chance for these citizens to enter the market, which brings me to the next point.

Here's why financial institutions are flirting with basic income

The COVID-19 pandemic has made many formerly radical ideas appear more palatable. Interestingly, financial institutions are warming up to the idea of a basic income. Central banks have been called upon to provide a much-needed boost to financial markets on more than one occasion over the past decade.

This has provided a boost to the markets and to various sectors of the economy. Now, many theorize that a direct cash injection to citizens could make the future brighter for financial institutions.

This would boost deposits at top banks. Moreover, it would allow many Canadians to enter the stock market due to increased financial flexibility. For many institutions, this is a desirable outcome. A permanent CERB could provide social stability and a boost to economic growth in the long term.

Another potential passive income stream

With a guaranteed income, Canadians who are granted extra flexibility will also be able to build alternative passive income streams. In 2009, the federal government launched the Tax-Free Savings Account (TFSA).

This new registered account has grown into a favourite for many Canadians. While it’s phenomenal as a launchpad for growth stocks, it can also allow investors to churn out tax-free income indefinitely.

A stock like **TransAlta Renewables** is perfect for a TFSA. Its shares have climbed 12% year over year as of close on June 30. The stock currently offers a monthly distribution of $0.07833 per share. This represents an attractive 6.4% yield.

A $2,000 investment in TransAlta — the amount of a monthly CERB payment — would net an investor a little over $10 a month going forward.

RioCan REIT is one of the top real estate investment trusts operating in Canada. Its shares have dropped 39% in 2020 so far. As the economy reopens, real estate is poised to rebound.

Now is a good time for income investors to scoop up discounted REITS. RioCan last had a favourable price-to-earnings ratio of 6.9 and a price-to-book value of 0.6.

Moreover, it offers a monthly dividend of $0.12 per share, representing a monster 9.3% yield. A $2,000 investment in RioCan would net investors over $15 a month in dividends.

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aocallaghan