Forget CERB: Here’s How to Get $15,000 Per Year Tax-Free

Description

The CRA plans to end CERB eligibility after the October 3, 2020, deadline, which came into effect with the CERB extension.

CERB update

Prime Minister Trudeau just announced plans to end CERB. The government says CERB served its purpose to help out-of-work Canadians get through the initial months of the pandemic lockdowns. As the economy reopens and employment conditions improve, a transition to the employment insurance (EI) program is being put in place.

The CRA has paid out more than $60 billion to nearly 8.5 million people under the CERB program.

In the latest update, Statistics Canada said the economy grew by 4.5% in May. The government hopes to see Canadians start working again as soon as possible. The anticipated overhaul of the EI system is expected to address the lack of provisions to help gig and contract workers.

The CRA added two periods or eight weeks to the original 16 weeks that CERB was available to eligible applicants. Canadian residents who qualify can now collect up to $12,000 over the time frame starting March 15 and ending October 3, 2020. The deadline for CERB applications within the seven designated periods is now set at December 2, 2020.

The CERB pays $500 per week for a maximum of 24 weeks. Recipients must apply for each subsequent four-week period until they hit the maximum amount.

A personal tax-free EI and CERB plan

The pandemic is a reminder to all of us that life can change in an instant. One way to prepare for the next financial or health crisis is to put a savings plan in place that creates our own EI or CERB benefit.

One option involves owning top dividend stocks inside a Tax-Free Savings Account (TFSA). Every Canadian resident aged 18 or older has TFSA contribution space available. The TFSA limit increased by $6,000 in 2020 and is as high as $69,500.

Power of compounding

Investors who might not need dividends right now to cover living costs can use the distributions to buy new shares. This sets off a compounding process that can turn a modest initial investment into a large portfolio over time.

For example, a $10,000 investment in **Canadian National Railway** just 20 years ago would be worth $230,000 today with the dividends reinvested.

The same $10,000 invested in **Fortis** would be worth about $130,000.

Investors who put $10,000 into **Royal Bank** stock two decades ago would be sitting on close to $100,000 today with the dividends reinvested.

That’s $30,000 turned into $460,000 in just 20 years. The average dividend yield from the three stocks is currently about 3.3%. This would generate more than $15,000 per year in dividend income on the portfolio.

Not everyone has $30,000 to invest right now, but putting the $6,000 per year in a TFSA over five years might be achievable.

The bottom line

Canadians can take advantage of the downturn in the market this year to start building their own personal emergency fund. Ideally, we won’t need to use it until retirement, but it makes sense to create a self-directed safety net. The government might not have the same financial flexibility next time to fund a CERB program.

Advisors recommend a balanced portfolio. CN, Fortis, and Royal Bank deserve to be anchor picks. However, other top dividend stocks in the **TSX Index** have also delivered great returns over the years. Several now trade at attractive prices and provide yields of 5-7%.

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aswalker