Canada Revenue Agency: A 3-Step Plan to Replace the $2,000 CERB

Description

The financial ramifications of COVID-19 are beyond compare. Business closures and job layoffs are widespread. Luckily for Canadians, the federal government rolled out the Canada Emergency Response Benefit (CERB).

However, the program is ending as the Canada Revenue Agency (CRA) enters the seventh and last eligibility period. After August 2020, the tax agency will stop disbursing $2,000 monthly to people in need. If not for CERB, unemployed Canadians will have no first line of defence against financial ruin.

The experience of the 2020 health crisis highlights the importance of creating a suitable replacement for CERB. The CRA suggests a three-step plan to replace CERB. It will entail financial discipline but will ensure your readiness to survive another crisis.

Open a TFSA

Set your sights on opening a Tax-Free Savings Account (TFSA). If you have an account, maximize its use. The TFSA is your conduit to create an emergency fund and build wealth. Tax-free money growth is the best feature of this one-of-kind investment vehicle.

Whatever interest and gain you derive from your TFSA is 100% tax-exempt. Similarly, your income or withdrawals will not affect your eligibility for government benefits like the Child Care Benefit (CCB). If you need funds, you can withdraw anytime without tax consequences.

Save money

The economic fallout from the coronavirus outbreak teaches a simple but valuable lesson: to save money. Financial experts recommend an emergency fund equivalent to one year worth of bare minimum expenses, at least. You might find it hard to save due to other financial priorities.

However, it’s for your protection if you can prioritize saving. Having an emergency fund in the postpandemic is essential more than ever. It can serve as a toolkit to soften the impact of economic meltdowns. Also, you avoid financial dislocation should another crisis hits.

Invest your savings

The TFSA is not an ordinary savings account, so you won't stop at accumulating cash. You can invest your savings in eligible investments like stocks. The CRA sets an annual contribution limit so you can program your stock purchases. In 2020, the limit is $6,000, although the cumulative contribution room since 2009 is now $69,500.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is among the preferred investments of TFSA users. This bank stock pays a hefty 6.42% dividend and currently trading at a discount of 20.8% ($55.55 per share), which is a good entry point for would-be investors. To earn $2,000 monthly, you must own at $375,000 worth of BNS shares.

Don't be discouraged. Your investment will compound over time through dividend reinvesting. Also, BNS has a dividend track record of 188 years, so the payouts should be enduring. The third-largest bank in Canada has diversified product offerings, a stable balance sheet, and $1.85 billion in credit loss provision. It's well positioned to weather the crisis.

Take the first step

Opening a TFSA is the first step if you're preparing for a worst-scenario like losing income during a pandemic. If you follow through with the next two steps, you can create an emergency fund and long-term income that CERB can't provide.

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