Why Dividend Income Is Better Than CRB’s $500 a Week

Description

While it’s helpful to be able to receive the Canada Recovery Benefit’s (CRB) $1,000 every two weeks, as long as you continue to be eligible, you can further increase your income.

You can create an income that’s better than CRB’s $500 a week. Here are some reasons why dividend income is better.

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Everyone is eligible for dividend income

You must meet a long list of eligibility criteria every time you apply for the CRB. You can apply to receive CRB’s $1,000 for 13 eligible periods (or 26 weeks) but $100 of tax is withheld, so you would end up receiving $900.

Everyone is eligible to receive dividend income! You just need to have some savings and buy shares of a company that pays safe dividends.

For example, if you buy and hold 100 shares of **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) stock, you’ll receive annual income of $316, as long as TD continues to maintain its dividend. At writing, TD stock offers a juicy yield of 5.22%.

Note that dividend stocks aren’t obliged to pay common share dividends — they can choose to cut or eliminate their common stock dividends any time. They are only obliged to pay out declared dividends. That’s why it’s important to invest in companies (like TD stock) that have a culture of paying and growing their dividends.

For example, TD declared a quarterly dividend of $0.79 per share on August 27 that it must pay out on October 31 for TD common stock shareholders who held the stock on or before October 7, as the ex-dividend date for that dividend was October 8.

Some investors are worried that the pandemic-impacted macro environment could trigger dividend cuts in the Canadian banks. A quality bank like TD is more likely to maintain its dividend instead. And when the economy improves, you can count on it to resume dividend growth.

Your dividend income can grow forever

There can be bad years like this year, during which a greater number of dividend stocks will cut or even eliminate their dividends. The good thing is that if you've built a diversified portfolio of quality dividend stocks, it's more likely that you'll experience pretty stable or even growth in your dividend income.

Typically, the lower your portfolio yield is, the higher the growth of your income will be. TD had been an above-average bank stock investment. In the past 10 years, TD's dividend-growth rate was 9%, and it normally yielded about 3.8%.

As a general rule of thumb, safe dividend-growth stocks that yield 5% might grow their dividends by roughly 5%. Ones that yield about 4% will typically grow their dividends by about 6%. Those that yield 2% or lower could increase their dividends at a rate that's north of 10%.

Once you have your money invested in safe dividend-growth stocks, your dividend income should be able to grow faster than inflation and thereby maintain your purchasing power.

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Dividend income is favourably taxed

Eligible Canadian dividends received in non-registered accounts are taxed at lower rates than your job's income. The dividends can even be tax-free or tax-deferred if you hold the shares in a registered account like a TFSA, RRSP, RESP, or RDSP.

The Foolish takeaway

It's nice to receive CRB benefits. You can also consider building a dividend income stream to protect you and your family better financially. Anyone can start generating dividends by investing in dividend stocks. The income is favourably taxed and can grow on its own as the underlying businesses grow. At challenging economic times like these, any extra passive income would be super useful.

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