



Attention Savers: 5 Stocks That Belong in Your TFSA

Description

The Federal government has just doubled the annual contribution limit on tax-free saving accounts (TFSAs), which could mean the books on Canadian personal finance will have to be rewritten.

In Tuesday's budget the governing Conservatives raised the ceiling on TFSA contributions, with the annual limit now set at \$10,000. Once funds are deposited into these accounts, investors don't have to pay taxes on any earned interest, dividends, or capital gains.

This is big news for savers. For those able to contribute the maximum, the new limits would create additional tax savings of about \$112 at the top marginal rate this year, assuming the money is invested in a fixed-income security earning 5% per annum.

However, young people are the real winners. That's because the biggest benefits of the new TFSA limits come over time through the compounding effect on untaxed returns.

For example, an 18 year old who contributed the maximum \$10,000 each year starting today and managed an average annual return of 5% would have an additional \$841,600 in their plan by age 65 than with the previous TFSA limits.

And unlike RRSP contributions, none of that money is taxable when withdrawn. Nor would it affect your eligibility for government programs like Old Age Security or the Guaranteed Income Supplement.

No wonder some financial experts are calling TFSAs legal Swiss bank accounts. For savvy savers, these are wonderful wealth-building tools. The question now is how can you best take advantage of them?

You could do worse than double down on dividends. The idea is that when you combine the compounding wonder of dividend stocks and the tax-free advantage of TFSAs, you get a powerful money growing formula! And even though fixed-income securities are taxed at a higher rate, low bond yields mean you're not hiding that much money from the CRA.

The good news is that the recent doldrums in equities has turned some traditional dividend-payers into

veritable cash cows. Here are five:

Stock	Current Yield	Market Cap
BCE Inc.	4.8%	\$45.7 billion
Canadian Utilities Limited	3.0%	\$10.6 billion
Royal Bank of Canada	3.8%	\$115.6 billion
Suncor Energy Inc.	2.8%	\$57.7 billion
Toronto-Dominion Bank	3.6%	\$103.6 billion

Source: Yahoo! Finance

Let's say a few words about these companies.

I hate dealing with banks: account fees, statement fees, inactivity fees. Each year more of my cash seems to end up in bank coffers. The question is how can we fight back? We can buy bank stocks.

Companies like the **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) and the **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) have long made wonderful investments for Canadian savers. You can bet there are thousands of other saps just like me stuck feeding more money into the bankers' pockets. But for investors, that means a rising share price and juicy dividends.

It's a similar story at **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)). I still remember wincing at the pump last year when gas prices hit \$1.50 per litre, but the pain is a little more tolerable when you own shares of oil companies. In the case of Suncor, the company made \$2.7 billion in profits last year *alone* and has paid a dividend every quarter since 1992. Unless Canadians start fueling their cars with pixie dust, I expect that tradition to continue.

BCE Inc. ([TSX:BCE](#))([NYSE:BCE](#)) cranks out some of the biggest, safest dividends around. However, the stock is looked down upon because everyone knows future earnings growth will be meager at best. That said, shareholders who sit around patiently reinvesting their dividends will beat the pants off most other investors as the years tick by.

Finally, the story is straightforward with **Canadian Utilities Limited** ([TSX:CU](#))—it's a well-run power company serving millions of customers in Western Canada. They turn their lights on, you get a dividend—a dividend, by the way, that has been increased for 43 consecutive years.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:RY (Royal Bank of Canada)
3. NYSE:SU (Suncor Energy Inc.)
4. NYSE:TD (The Toronto-Dominion Bank)
5. TSX:BCE (BCE Inc.)
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