The Easiest Way to Turn Your $6,000 TFSA Into $60,000

Description

Do you want to enjoy the tax benefits of a Tax-Free Savings Account (TFSA) but worry that the small contribution limit will impede your saving potential?

Aside from using accumulated contribution room from past years, there aren't many ways around the conundrum.

Sure, you can contribute to an RRSP and a TFSA simultaneously. But the tax benefits of RRSPs are completely different from those of TFSAs, and because of the withdrawal fees, RRSPs aren't ideal for short-term saving.

Ultimately, the TFSA contribution limit puts a pretty low ceiling on how much you can save. However, saving and investing are two different things. If you maximize your TFSA returns, you can end up with a fairly high balance, even with the low ceiling. And there's one very good, overlooked way to do that — without having to buy ultra-risky stocks.

Reinvest your dividends

Automated dividend reinvestment is one of the best ways to maximize your TFSA returns. Many blue-chip, dividend-paying stocks have plans available where your dividend payouts are automatically spent on more stock, with the end result being that your position gradually increases over time. So, not only do you see your share price increase (if all goes well), but you also gradually accumulate more shares.

Consider **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), for example. TD is a blue-chip Canadian bank stock that lets you reinvest your dividends automatically. Over the past five years, TD has delivered an approximately 25% return — not exactly earth shattering, but significantly boosted by a dividend with an average yield of about 4%. By buying TD and reinvesting your dividends, you'd have received a return much higher than 25%. The same is also true if you'd invested in TD and gotten paid cash dividends, but the return would have been less than if you had reinvested them.

The lesson?

If you're buying shares and you can reinvest your dividends, do so. If the stock does well, your ultimate return will be much higher.

Contribute the maximum amount each year

A second point about TFSAs is worth mentioning: always contribute as much as you possibly can.

The TFSA contribution limit for 2019 is only $6,000, so even somebody earning minimum wage in a low cost-of-living area could contribute the maximum. In light of this, there's no reason *not* to contribute the maximum — unless you have some financial obligation, like debt payments or an RRSP you're trying to max out.

Additionally, TFSA contribution room is cumulative, so if you open one for the first time this year, you may be able to contribute up to $63,500. You do need to have been over 18 in 2009 (the year TFSAs were created) to get a full 10 years of accumulated contribution space, but if you're over 19 today, you have at least some space accumulated from previous years.

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