



1 Important Benefit of a TFSA Every Canadian Needs to Understand

Description

Tax-Free Savings Accounts (TFSAs) are gaining a lot of attention among Canadians, as their ability to accelerate the rate at which wealth can be created is recognized. A key benefit of using a TFSA is their [tax-sheltered nature](#), meaning that effectively all capital gains and dividends received are tax-free for the life of the investment. This removes the impact of taxes on investment returns, which is one of the primary impediments to creating wealth over the long term.

Grow your contribution room

A little-known advantage that comes from using a TFSA to hold growth investments is the ability to expand the contribution room.

You see, for 2019 TFSA contributions were capped at \$6,000 annually and any amount over that limit is subject to penalty tax. Nonetheless, funds can be withdrawn any time for any reason and are tax-free. If the value of your TFSA has grown, then the contribution room expands.

Let me explain.

If you had made the maximum allowable contributions between 2009 and 2019, you would have invested a total of \$63,500 in your TFSA. Let's assume that the fair market value of that investment has reached \$100,000 and you withdrew the full amount before the end of 2019. At the beginning of 2020, you would be eligible to contribute a maximum of \$106,000 to your TFSA, which is the balance withdrawn plus the additional contribution for 2020 that has been assumed to be \$6,000.

By expanding their contribution room, investors can increase the amount they can add to a TFSA to benefit from its tax-sheltered status, while maximizing the power of compounding to further accelerate the rate at which wealth can be created.

Accelerate wealth creation

A top growth stock that allows investors to unleash the power of compounding thereby accelerating the rate of return is **Pembina Pipeline** ([TSX:PPL](#))([NYSE:PBA](#)). Pembina is one of North America's largest providers of energy transportation, processing, and storage infrastructure as well as midstream services. It has gained 14% since the start of 2019 and appears poised to continue delivering value for investors as crude and natural gas prices rebound.

This is evident from Pembina's third-quarter 2019 results, where earnings per share grew by 10% year over year to \$0.66 and cash flow from operating activities expanded by almost 11% to \$1.05 per share. Earnings will continue to grow as projects in Pembina's \$5.7 billion portfolio of assets under development enter service, leading to greater volumes of oil as well as natural gas being transported, processed, and stored. The \$4.35 billion [acquisition](#) of **Kinder Morgan Canada** and the Cochin Pipeline will drive further earnings growth.

Pembina also possesses a wide economic moat, which — along with the highly contracted nature of its earnings — virtually ensures that its earnings will continue to grow.

Foolish takeaway

The attributes discussed combined with Pembina's sustainable dividend yielding a juicy 5% makes it an ideal stock to hold in a TFSA to create wealth. Over the last 10 years, Pembina has delivered, when including dividends, a return of 308%, or 15% annually. If those dividends had been reinvested, that increases to 406%, or almost 18% on an annualized basis. While past performance is no guarantee of future performance, there is every indication that Pembina can keep delivering similar long-term returns. This makes it an ideal buy-and-hold investment to hold in a TFSA to not only create wealth but also expand the contribution room.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. NYSE:PPL (PPL)

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