The Best Way to Use Your TFSA Limit in 2020

Description

The Tax-Free Savings Accounts (TFSA) has provided a great investment vehicle for Canadians since its launch a decade ago. Some of the biggest advantages of investing through TFSA is that your capital gains are tax free. That means you can take out your funds whenever you want without incurring any tax liability. With these benefits, your overall investment limit remains the same.

Because of this tax advantage and the flexibility, TFSAs have become very popular among Canadians. Since their introduction, more than 14 million people have used it.

According to the latest data from the Canada Revenue Agency (CRA), a total fair market value of individual TFSAs had reached $277 billion by the end of 2017, up 19% from the previous year.

That level of commitment by Canadians to invest in their TFSAs shows that it’s much easier and beneficial to grow your savings through this instrument.

Another interesting detail gleaned from the CRA data is that despite the huge popularity of these savings accounts, very few Canadians were able to max out their limit — only 10% of total TFSA contributors. By the end of 2017, the average amount of unused TFSA room was almost $31,000.

If you haven’t yet contributed a single penny through your TFSA, you have $63,500 unused total contribution room through 2019. If you’re someone who still has an unused TFSA limit, there are many ways to put that money to work. In my view, the best way to use TFSA funds is to buy dividend growth stocks.

Dividend growth stocks

Canadian investors have good reason to be excited about dividend growth stocks. They provide tax-advantaged gains in non-registered accounts, making them a big part of the total returns generated by the stock markets.

For TFSA investors, these stocks will offer dividend growth, helping to offset the effects of inflation and drive share price growth. In Canada, the best dividend growth stocks are banks, power and gas utilities, real estate investment trusts, railroad operators and telecom operators.

Pick the top names from these sectors, such as **Bank of Nova Scotia** (NYSE:BNS)(TSX:BNS), and **Canadian National Railway Co.** (TSX:CNR)(NYSE:CNI) and hold them for a long time in your TFSA — let's say for the next 10 years.

These companies distribute huge amounts of their income in dividends, growing these payouts every year as their profits rise. The dividend at Canadian National Railway increased by an average 15.6% over the past 10 years, while Bank of Nova Scotia boosted its dividend by an average annual 6%.

Bottom line

A disciplined investment approach, picking solid dividend-paying stocks, and holding them for a long time should be the main component of your strategy to max out your TFSA limit.

When you combine this approach with the power of compounding, you can achieve your financial goals quickly.

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