



TFSA Users: 4 Benefits of Investing in This Account

Description

The Tax-Free Savings Account (TFSA) program was introduced in 2009. This registered account allows Canadians over the age of 18 with a valid social insurance account to allocate capital and multiply their savings.

The TFSA contribution limit for 2020 stands at \$6,000. The total contribution limit since its introduction is \$69,500. So, what are the benefits of contributing to the TFSA?

Tax-free withdrawals

While the contributions to the TFSA are not tax-deductible, any withdrawals in the form of dividends or capital gains are exempt from Canada Revenue Agency (CRA) taxes. For example, if you invested \$5,000 in **Constellation Software** ([TSX:CSU](#)) stock back in 2009, your investment would have ballooned to a massive \$250,000 right now.

And yes, you can withdraw this amount without paying a single dollar of tax.

TFSA contributions are cumulative

The TFSA contribution room accumulates each year, so even if you do not make a contribution to this account in a particular year, this unused limit can be carried forward. For example, [the contribution limit](#) between 2016 and 2018 was \$5,000 a year. This amount increased to \$6,000 for 2019 and 2020.

In case you haven't made any contributions since 2015, you can allocate \$27,000 in 2020 to your TFSA.

TFSA withdrawals are easy

You can withdraw money from the TFSA easily. Your TFSA funds are easily accessible and there is no

lock-in period, making it an ideal vehicle for emergency expenses as well as both short-term and long-term financial goals.

You can invest without earning any income

Another major benefit of allocating capital to the TFSA is that you can do so without having to earn income. This is not the case with other registered accounts such as the RRSP, however. The TFSA can be used by students, retirees, and employed individuals alike to allocate lump sum funds.

Use the TFSA for allocating growth stocks

The flexible nature and tax-free benefits of the TFSA make it a perfect account for allocating growth stocks such as Constellation Software. While CSU stock has generated massive returns in the last decade, it continues to remain a top company on the **TSX**.

CSU is one of the largest tech companies in Canada with a market cap of \$31.8 billion. Constellation Software has grown by [acquiring profitable software companies](#) that provide mission-critical services to enterprises.

As these companies develop client-specific applications, they are integral to client operations, which makes switching costs extremely high.

CSU stock has a forward price-to-sales ratio of 7 and a price-to-earnings multiple of 32. While these multiples might seem expensive, analysts expect CSU to grow sales by 13.8% in 2020 and 17.7% in 2021. Its earnings are expected to grow at an annual rate of 17% in the next five years.

Constellation Software is somewhat recession-proof given how critical it is to the enterprise clients. Its growth strategy via acquisitions will continue to drive top-line growth in the upcoming decade, making it a top-stock for your TFSA.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)

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