



TFSA Investors: Turn \$69,500 Into \$2.5 Million and Pay Zero Taxes to the CRA

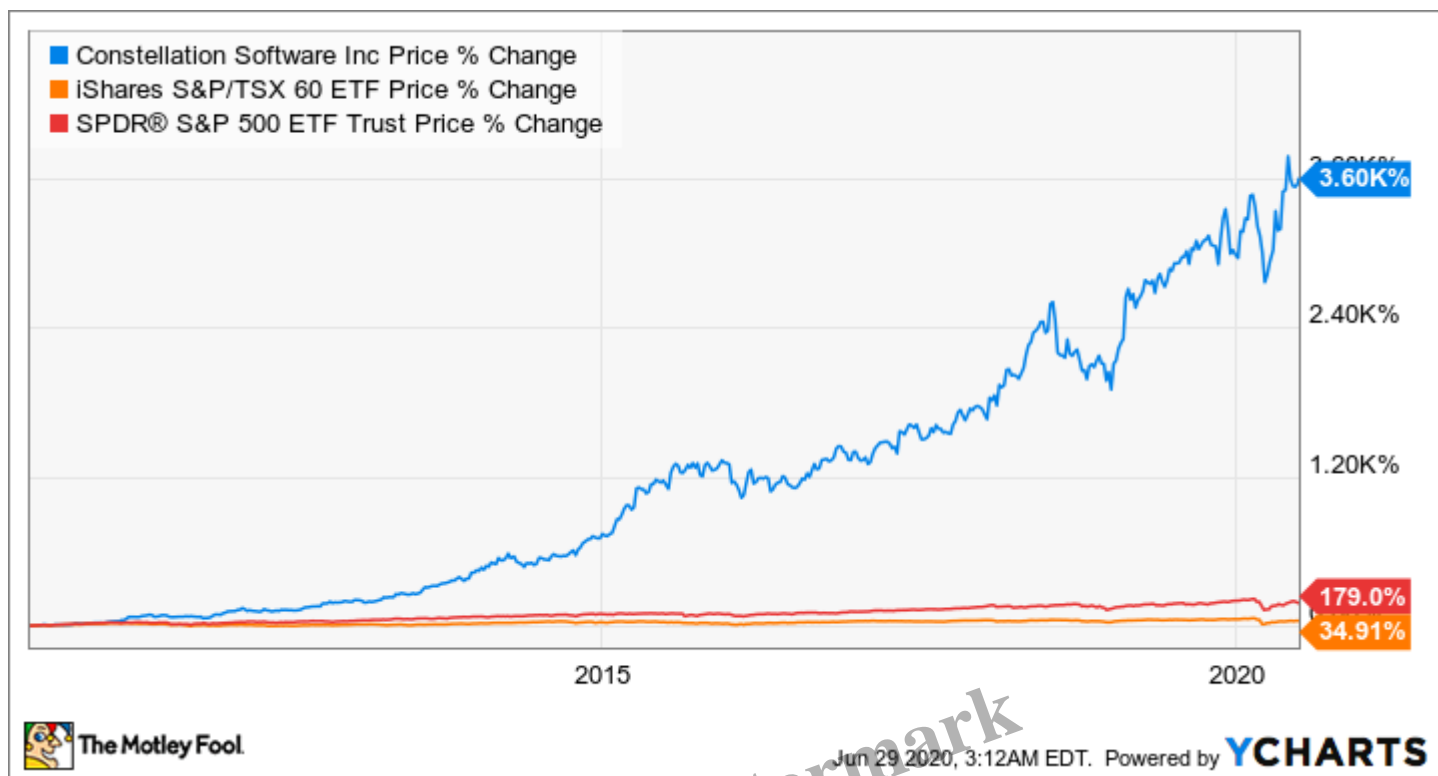
Description

The Tax-Free Savings Account was introduced back in 2009. This registered account is fast gaining in popularity among Canadians [due to its](#) flexibility and tax-free withdrawals. The TFSA allows Canadians over the age of 18 with a valid social insurance number to allocate capital and multiply their wealth without paying taxes to the CRA (Canada Revenue Agency).

While contributions to the TFSA are not tax-deductible, any withdrawals in the form of capital gains or dividends are exempt from CRA taxes. The TFSA contributions are cumulative. This means if you do not contribute toward this account in a particular year, the unused limit can be carried forward.

The TFSA contribution limit for 2020 is \$6,000, while the cumulative contribution room is \$69,500. As the CRA can't tax withdrawals, you can allocate the TFSA capital and buy growth stocks to benefit from exponential returns.

Long-term investors can buy quality growth stocks, which will help accelerate their retirement. Here, we look at one such top Canadian company ideal for your TFSA.



CSU data by [YCharts](#)

Constellation Software is a growth stock for your TFSA

As we can see in the above chart, shares of Canada's tech giant **Constellation Software** ([TSX:CSU](#)) have gained a mammoth 3,600% in the last 10 years. The company has easily crushed the broader indexes and is poised to move higher.

Here's why:

CSU is [an international provider of](#) software and services to enterprise companies in the public and private sectors. It acquires, manages, and builds market-leading software businesses that develop mission-critical solutions to address specific needs.

CSU was founded in 1995 and has since assembled a portfolio of vertical market software companies. The company generates revenue from software licensing fees, maintenance and other recurring fees, professional service fees as well as from hardware sales. CSU has over 125,000 customers spread across 100 countries around the world.

It has grown its top-line by aggressively acquiring profitable companies in the range of \$5 million and \$10 million. While most tech companies have focused on growth, CSU continues to remain profitable while increasing revenue at an enviable pace.

Constellation Software's sales in Q1 were up 16%, at \$953 million, up from \$819 million in the prior-year period. However, its net income fell 4% due to an increase in goodwill amortization and foreign exchange fluctuations.

A look at valuation and other metrics

Constellation Software has a market cap of \$32.3 billion, which means it's valued at 8.1 times forward sales. The stock's forward price-to-earnings multiple of 44 might also seem expensive for most investors.

But we also know that growth stocks trade at a premium due to their robust metrics. CSU sales are estimated to grow by 13.8% to \$3.97 billion in 2020 and by 17.7% in 2021. Analysts expect its earnings to grow at an annual rate of 17% in the next five years.

CSU stock has continued to surge ahead despite valuation concerns over the years. Currently, analysts have a 12-month target price of \$1,221 for CSU stock, 20% below its current trading price. In case the stock markets crash again and CSU falls lower, it will provide investors with an opportunity to buy a quality stock at a lower valuation.

The Foolish takeaway

If you had invested \$69,500 in CSU stock back in June 2010, it would have ballooned to \$2.5 million today. However, it is not advisable to put all your eggs in one basket.

Investors should instead identify similar growth stocks and benefit from the power of compounding by allocating similar stocks to their TFSA.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date

2025/09/28

Date Created

2020/07/01

Author

araghunath

default watermark

default watermark