# Canada Revenue Agency: How to Use the TFSA to Turn $10,000 Into $313,000

### Description

The Canada Revenue Agency takes a cut on most of the money Canadians earn, but not when it is generated inside a Tax-Free Savings Account (TFSA).



## TFSA 101

Canada launched the TFSA in 2009. Since then, the cumulative contribution limit has grown to $69,500 for Canadian residents who were at least 18 years old when the program started. The contribution space increases each year, indexed to inflation in increments of $500. The TFSA limit increase for 2021 will likely be $6,000.

People carry forward unused TFSA contribution room. This provides flexibility to top up the fund in good financial years. The TFSA can be used for a number of financial goals. Some people use it to save for a house purchase. Others take advantage of the tax-free status and the power of compounding to build personal pensions for retirement.

Profits earned on investments inside the TFSA remain beyond the reach of the CRA. In addition, people can remove the funds at any time. This is helpful when an emergency arises.

Those who use the TFSA for retirement planning often harness the power of compounding. The strategy involves holding high-quality dividend stocks and using the distributions to buy more shares. Additional shares mean bigger dividend amounts that in turn buy more shares. It's like a snowball rolling down a mountain. When the process is combined with rising stock prices, it can have a major impact on the size of your portfolio.

## Tops stocks for a TFSA

The best stocks for a buy-and-hold dividend portfolio normally exhibit similar characteristics. The companies are often leaders in their industries. They have long track records of dividend growth supported by rising revenue and higher profits. In the current environment, it makes sense to seek out businesses that provide essential services. In difficult economic times, such companies normally continue to generate strong profits.

**Royal Bank of Canada** (TSX:RY)(NYSE:RY) is a good example. The company is the largest bank in Canada and one of the most profitable banks in the world. In fact, Royal Bank earned $3.2 billion in net income in fiscal Q3 2020. That's not bad for being in the middle of a pandemic. Return on equity (ROE) came in at 15.7%. This was down a bit compared to 2019, but most large international banks would consider ROE at that level to be great in any economic situation.

Royal Bank raises the dividend steadily and currently provides a 4.3% yield. The stock isn't as cheap as it was earlier this year but still sits about 10% below the 12-month high.

Long-term investors have done well with the stock. A $10,000 investment in Royal Bank 25 years ago would be worth $313,000 today with the dividends reinvested.

## The bottom line

The TFSA is a great tool to help younger investors set some serious cash aside for their retirement. Owning top dividend stocks and using the distributions to buy new shares is a proven strategy to build wealth.



Royal Bank is one top stock that deserves to be in the portfolio. However, the **TSX Index** is home to many companies that have delivered fantastic returns for their investors over the years. It just takes some patience and discipline to stick to the plan.

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