



Got \$4,000 to Invest in a TFSA? Turn It Into \$84,000

Description

The Tax-Free Savings Account (TFSA) is a great tool for Canadians to invest in top stocks and potentially build a massive tax-free pension fund.

TFSA investing

The TFSA offers attractive opportunities for young investors, but those in the middle part of their careers as well as retirees can also benefit. Investors have as much as \$69,500 in cumulative TFSA contribution space right now.

Younger investors might decide to use the TFSA to start saving for their golden years. It makes sense to use the TFSA when income is lower and to save RRSP room later on when you will likely be in a higher marginal tax bracket.

Investors in the middle part of their careers might be maxing out their RRSP space, especially if they have decent pension contributions at work. The TFSA offers a great place to invest extra cash without worrying about the dividends or capital gains pushing you into a higher tax bracket.

Retirees can use the TFSA to set up tax-free income portfolios. This is a great place to put money that has to be removed from RRIF accounts. The TFSA is also a good option for generating income that won't trigger an [OAS clawback](#). The CRA doesn't use TFSA earnings when it calculates a person's net world income. Once earnings exceed a minimum threshold the CRA implements a 15% pension recovery tax on OAS payments.

Best investments to grow a TFSA

Investors who plan to hold [top stocks](#) for two or three decades should consider industry leaders in a number of segments. The companies with the best track records of providing long-term returns often pay reliable and growing dividends. Retirees use these stocks to provide an income stream.

Younger investors often decide to buy more shares with the dividend payments, creating a snowball effect that can turn small initial investments into large funds for a personal pension plan. In the event the money isn't required for retirement, it could be used to purchase a house or a vacation property.

Let's take a look at one stock that might be an interesting pick right now to start the portfolio.

Fortis

Fortis ([TSX:FTS](#))([NYSE:FTS](#)) is a Canadian utility company with \$56 billion in assets spread out across Canada, the United States, and the Caribbean. The business units include power generation, electric transmission, and natural gas distribution.

Fortis is working on \$19.6 billion in capital projects, boosting the [rate base](#) from \$30.2 billion in 2020 to \$40.3 billion by 2025. The resulting increase in cash flow should support ongoing annual dividend increases of 6%. The company raised the payout in each of the past 47 years.

At the time of writing, the stock provides a 3.8% dividend yield.

Long-term investors have done well with Fortis. A \$4,000 investment in Fortis just 25 years ago would be worth \$84,000 today with the dividends reinvested.

The bottom line on TFSA investing

The strategy of buying top dividend stocks and using the distributions to acquire more shares is a proven one. Inside the TFSA, all the gains are tax-free and any profits removed remain beyond the reach of the CRA!

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
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Author

aswalker

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