Canada Revenue Agency: How to Turn Your TFSA From $6,000 to $300,000

Description

The Canada Revenue Agency (CRA) taxes most of Canadians' income. Thankfully, what we earn inside the Tax-Free Savings Account (TFSA) is shielded from the CRA.

Tips for your TFSA

Since its inception in 2009, the TFSA has helped Canadians save thousands of dollars in taxes. Since there's new TFSA contribution room every year, Canadians should contribute to the account every year to get the tax-free compounding started as soon as possible.

Canadians who were eligible for the TFSA since 2009 and have never contributed to a TFSA will have accumulated $69,500 of room for tax-free investment.

Year	TFSA contribution limit for each year
2009-2012	$5,000
2013-2014	$5,500
2015	$10,000
2016-2018	$5,500
2019-2020	$6,000
Total	$69,500

Canadians can use the TFSA to achieve their financial goals, such as saving for a down payment for a home or even saving for retirement. The TFSA is also flexible in that you can withdraw funds from it tax free and contribute the amount back in a future year.

Out of all asset classes, stocks provide the greatest long-term returns. Stock prices are volatile in the short term but follow the business fundamentals in the long run. A proven strategy to generate more consistent returns is investing in quality dividend stocks.

A top dividend stock for your TFSA

You want dividend stocks that provide safety of principal and dividends. Right now, **Manulife** (TSX:MFC)(NYSE:MFC) offers just that. Even during this pandemic, its earnings have been super resilient.

Specifically, Manulife reported net income of $4.6 billion in the trailing 12 months. Since the insurer is only paying out about 46% of its earnings as dividends, its cash distribution is very secure.

At $21.58 per share, MFC shares are very cheap — trading at about seven times its normal multiple. That's an incredible discount from its intrinsic value, assuming a multiple of about 11.3 times normal earnings.

Manulife is also a Canadian Dividend Aristocrat that has increased its dividend for six consecutive years. Its quarterly dividend of $0.28 per share is 12% higher than it was a year ago.

Because of the discounted shares and its big dividend, Manulife stock can deliver total returns of more than 17% per year over the next five years. Investors will at least get a consistent return from its generous dividend that yields 5.2% at the moment.

Turning your TFSA from $6,000 to $300,000

If you're starting from a $6,000 TFSA this year and continue to contribute $6,000 per year, you'll arrive at more than $300,000 in 18 years on a 10% rate of return.

If you're able to invest for 17% per year, such as potentially from our Manulife example, you'll achieve a +$300,000 TFSA in 14 years instead!

Going forward, the TFSA will have tax-free room of at least $6,000 every year. This means you'll have multiple opportunities to grow $6,000 to $300,000! Four times $300,000 already arrives at more than $1,000,000. In other words, you can potentially arrive at a $1,200,000 TFSA portfolio over the next 20 years or so with only $6,000 of annual contributions over four years.

Investor takeaway

Save and invest as much as possible inside your TFSA. In the earlier years of your investing journey, your savings are super important. Use the savings to invest in top dividend stocks like Manulife — stocks that are trading at good valuations and provide a nice dividend.

The dividends can help you buy new shares in top dividend stocks. Only take money out from your TFSA in an emergency, because you'd want your money to grow inside tax free for as long as possible, potentially until retirement.

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kayng