# Canada Revenue Agency: How to Turn $7,500 Into $150,000 Inside a TFSA

### Description

Canadians are taking advantage of the tax-free status of the TFSA to build substantial savings funds.

## TFSA benefits



The Canadian government designed the TFSA to help people set cash aside for a future goal. The TFSA contribution limit increase in 2021 will probably be $6,000. That will push the total cumulative TFSA contribution room since the TFSA began in 2009 to $75,500.

Who should use the TFSA?

Retirees with money sitting in taxable accounts can move it to the TFSA to take advantage of the tax-free interest, dividends, and capital gains. The earnings taken out of the TFSA do not count as income when the CRA calculates the OAS clawback. This is important for high-income pensioners who receive Old Age Security.

Investors in the middle part of their careers might use the TFSA as an overflow investment vehicle once RRSP contributions are maxed out. Investors in higher marginal tax brackets take advantage of the RRSP rules that allow contributions to reduce taxable income. In addition, company pension plans can use up a good chunk of their RRSP room, so people use the TFSA to invest after-tax savings.

Young investors like the flexibility of the TFSA. They can remove the funds at any time without a penalty. The amount taken out gets added back to the TFSA contribution limit in the next year. That provides some nimbleness in the event the money is required for a home purchase or an emergency.

It might also make sense for investors in the early part of their careers to use the TFSA as the main vehicle for building retirement savings. RRSP room can be carried forward to years when income should be higher. This gives you a better tax break on the contributions. Ideally, RRSP money is removed when the investor is in a lower marginal tax bracket than when the initial contribution is made.

## Best TFSA investments

A popular TFSA strategy to build wealth involves owning top-quality dividend stocks and using the distributions to buy more shares. This sets off a powerful compounding process that can turn a small initial investment into a substantial retirement fund. Each new share purchased by the dividends increases the size of the next dividend payout. It’s a bit like rolling a snowball to make a snowman.

The best stocks to own normally have long histories of boosting their dividends every year. These companies earn decent profits regardless of the state of the economy. In addition, they often provide essential services or products.

**Fortis** (TSX:FTS)(NYSE:FTS) is a good example. The company owns more than $50 billion in utility assets in Canada, the United States, and the Caribbean. Power generation, electricity transmission, and natural gas distribution make up the core parts. These might not be exciting, but they deliver steady and reliable cash flow. That’s great for TFSA dividend investors.

Fortis raised the dividend in each of the past 47 years. The board intends to boost the payout by an average annual rate of 6% through 2025. This is great guidance in the current economic environment.

Long-term investors have done well holding Fortis stock. A $7,500 investment in Fortis 25 years ago would be worth $150,000 today with the dividends reinvested!



## The bottom line

The TFSA is a great saving tool for investors who want to build large personal pension portfolios. It takes patience and discipline, but the the strategy of using dividends to buy more shares is a proven one.

Fortis is just one stock in the **TSX Index** that has delivered amazing returns.

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