



CRA: How to Grow Your TFSA to \$1 Million in 25 Years

Description

The TFSA is a great tool that Canadian investors have. Not only can you save a tonne of money and earn interest for free, but you can actually invest that money and earn the capital gains and dividends tax-free also. That's huge, especially considering the contribution room grows rather quickly.

The TFSA has been around for only 11 years, and already investors who have been eligible since year one will have more than \$75,000 of contribution room by 2021. \$75,000 is a significant amount of money and will allow you to build a great diversified portfolio to compound all that capital.

If you stick to long-term investments, stay disciplined, and continue to save, there is no doubt that you can grow your TFSA to \$1,000,000. Besides the fact that having \$1,000,000 would be satisfying, having it in your TFSA can be extremely beneficial. One of the biggest benefits of the TFSA is that you can withdraw the money anytime and not have to pay any tax on it.

This is extremely important, because when you withdraw cash from an RRSP in retirement, for example, that money is counted as income, so not only does it get taxed, but it can trigger OAS clawbacks. With the TFSA, you don't have to worry about that, so you could easily withdraw money with no problem.

Canada Revenue Agency: Use your TFSA to invest

Let's assume you're starting with 75,500 on January 1, 2021. Over time, the annual [TFSA contribution limit](#) is going to grow, but for simplicity's sake, we will keep it constant in this example.

The annual contribution room is \$6,000, and for the sake of this example, we are going to save \$500 a month.

If you could earn a consistent annual return of just 8.15% in 25 years, you would have saved and contributed a total of \$225,500. That's right; if you have \$75,500 today and save just \$500 a month, earning 8.2% a year, you'll have \$1 million on less than a quarter-million of total savings.

Earning 8% consistently may sound like a difficult thing to do. However, with long-term investing, as long as you buy high-quality stocks and are reinvesting your dividends, your money will compound rapidly.

Here is a **TSX** stock for your TFSA that's grown at more than triple that in the last decade.

Top-performing TSX stock

Finding top investments that can consistently grow your income is key. One of the best performers on the TSX over the last decade has been **Alimentation Couche-Tard** (TSX:ATD.B).

Couche-Tard is a rapidly growing convenience store and gas station operator. The company has grown mostly through acquisition. However, it has more recently switched its strategy to focus more on organic growth opportunities. That doesn't mean it won't take advantage of any short-term opportunities created by the pandemic, though.

The stock may not seem that cheap, but that's the price you pay for a premium business. Investors in Couche-Tard have seen a total return of more than 1,000% over the last decade. Imagine owning that in a TFSA and paying no tax on it. That's a more than 27% compounded annual growth rate.

27% annually is an extremely impressive return and more than 3.25 times as much as you would need to earn to grow your portfolio to \$1 million in 25 years. That's why Alimentation Couche-Tard is the [perfect stock](#) to buy for any investor, but especially in a TFSA.

Bottom line

The TFSA is a powerful tool, so make sure you use it to your advantage. It's important to buy high-quality stocks that you can count on, so you don't lose any contribution room. However, you also need strong enough growth stocks that you're taking full advantage of the taxes you're saving.

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