Canada Revenue Agency: How to Use the TFSA to Turn $10,000 Into $200,000

Description

The Canada Revenue Agency (CRA) taxes most of the income you earn. However, any income or gains generated from the Tax-Free Savings Account (TFSA) is left untouched by the CRA.

TFSA 101

The TFSA was introduced in 2009 where any Canadian resident over the age of 18 with a valid social insurance number could open this registered account. The Canada Revenue Agency has increased the contribution limit in the TFSA each year.

For 2021, the TFSA contribution limit stood at $6,000, taking the cumulative contribution limit to $75,500 at the start of next year. TFSA users can carry forward any unused contribution room. Further, you can also withdraw funds at any time making this a very popular account among residents.

The TFSA can be used to reach a number of short-term and long-term financial goals. You can withdraw to make a down payment for your house or to fund your vacation.

Its tax-free status and the power of compounding makes the TFSA ideal to hold dividend stocks. Long-term investors can benefit from a steady stream of recurring income as well as capital gains.

A regular dividend payment will help you create a tax-free income stream and accelerate your retirement. Further, these dividend distributions can be reinvested to buy additional shares and this strategy can have a major impact on the size of your portfolio over time.

Enbridge is a top stock for your TFSA

While identifying dividend stocks you need to look at companies that have the ability to generatesteady cash flows across economic cycles which will ensure regular dividend payments. Companiesthat are market leaders have a strong track record of dividend growth as well as rising revenue andearnings.

One such company is Canada-based energy infrastructure giant **Enbridge** (TSX:ENB)(NYSE:ENB). If you had invested $10,000 in Enbridge stock at the start of 1995, your investment would now have been worth close to $200,000, after accounting for dividend reinvestments.

A similar investment in the **S&P 500** would have returned just over $100,000 over the last 26 years. While past returns don't matter much to future investors, here's why Enbridge remains a top buy in the upcoming decade as well.

Enbridge is a midstream company, which means it does not produce oil but transports the commodity. However, due to the sell-off in the energy sector and lower crude oil prices, Enbridge stock has declined in 2020.

ENB stock is trading at $42.6, which is 25% below its 52-week high of $57.32. This pullback in stock prices has meant Enbridge has a forward yield of a tasty 7.6%.

Over 90% of the company's EBITDA is secured by regulated or long-term contracts, ensuring the company derives predictable cash flows, making a dividend cut highly unlikely. Enbridge is eyeing expansion in the renewables energy space –a key driver of revenue and earnings in the next few years.

Its robust business model has allowed Enbridge to increase dividends by 11% annually since 1995. The company's strong balance sheet, recurring cash flows, low valuation, and attractive dividend yield make it a strong bet for your TFSA right now.

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