Did You Save Some Cash in 2020? Use Your New $6,000 TFSA Room in 2021!

Description

The Tax-Free Savings Account (TFSA) is about to see its cumulative limit increase again. With the 2021 update, the contribution limit will increase by $6,000 to become $75,500 since the program's inception.

The TFSA is a special account. While its name suggests it could be a savings account, the TFSA is so much more. It is an investment vehicle that you can use to achieve both short- and long-term financial goals. If you managed to save some money in 2020, you could have a fantastic opportunity with the additional $6,000 contribution room.

Crucial TFSA features to remember

Your TFSA contribution room consists of a few important things:

- The Canada Revenue Agency (CRA) announces an additional TFSA contribution room that applies from the start of each new year. The contribution room accumulates from the year a contributor turns 18. Suppose that you turned 18 before the program's inception in 2011, and you have yet to open a TFSA. In that case, you can invest a cumulative $75,500 in your account.
- If you did not contribute to your TFSA in the previous year, the unused contribution room can carry forward to the next year. You may not have had the funds to maximize the contribution room in 2020. You can use it in 2021 or in any future year.
- You can withdraw any amount from your TFSA without taxes or penalties. However, you cannot recontribute or deposit the full withdrawn amount until the next year begins.

A Dividend Aristocrat to consider

A stock like **Fortis Inc.** (TSX:FTS)(NYSE:FTS) can be a perfect addition to your TFSA portfolio. The high-quality Canadian Dividend Aristocrat has an impressive 47-year dividend growth streak. Trading for $53.26 per share, Fortis provides its shareholders' payouts at a juicy 3.79% dividend yield.

The utility company has a strong operational and financial performance, regardless of Canada's economic circumstances. It is a non-cyclical stock that can continue generating predictable revenues for substantial cash flows. The last two decades have seen Fortis deliver average annualized returns of 14%.

In addition, 99% of its revenue comes from highly regulated sources, making it relatively immune to stock market volatility and harsh economic landscapes. Its high-quality utility assets allow it to generate solid cash flows that it can use to continue financing its continuously increasing dividends.

Fortis expects to increase its rate base by 6% annually in the next few years. It means that the company can provide far better returns for its shareholders in the long run through its earnings and dividends.

Foolish takeaway

Using your TFSA contribution room to buy and hold high-quality dividend stocks can help you leverage the account's tax-advantaged status to become a wealthy investor in the long run. A portfolio of dividend stocks that continuously increase payouts can help you achieve most of your short-, medium-, and long-term financial goals.

Fortis could be an excellent stock to begin building a robust TFSA dividend stock portfolio that the CRA can't tax.

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