TFSA Investors: 1 Top Canadian Stock for a Retirement Portfolio

Description

Canadian savers are using their self-directed TFSAs to hold top Canadian stocks as part of the retirement-planning strategy.

TFSA advantage

The TFSA provides attractive flexibility for savers. The invested funds can be removed at any time without penalty, and the TFSA space becomes available again in the following calendar year. In contrast, pulling money out of RRSP accounts to cover an emergency triggers a withholding tax.

TFSA profits are all tax-free. The CRA doesn't take a chunk of any interest, dividends, or capital gains generated inside the TFSA. RRSP withdrawals are taxed at the personal tax rate for the year the money is removed. The reason for this is that RRSP contributions are used to reduce taxable income.

Many people in the early part of their careers are using the TFSA space first and saving their RRSP contribution room for down the road when they expect to be in a higher marginal tax bracket.

Retirees benefit from using the TFSA, as well. Earnings generated on TFSA investments don't count towards the CRA's net world income calculation that is used to determine the Old Age Security (OAS) pension recovery tax, also known as the OAS clawback.

Best stocks for a TFSA pension fund

Whether you are a new investor looking to build a long-term portfolio or a retiree seeking reliable income, the best stocks to own tend to be industry leaders with long track records of dividend growth. Inside the TFSA, the full value of distributions can be used to buy new shares and take advantage of the power of compounding or removed to supplement pension income.

Let's take a look at **TD Bank** (TSX:TD)(NYSE:TD) to see why it might be an interesting TFSA pick.

TD

TD is a major player in the Canadian financial sector with strong retail banking operations. The bank also has a significant U.S. operation. TD is among the top 10 retail banks in the United States. A decade of deals south of the border gave TD the size it needed to compete successfully in the American market.

TD delivered solid fiscal Q2 2021 results. The bank generated adjusted net income of $3.8 billion and reported a provisions for credit loss (PCL) *recovery* of $377 million. Government aid and loan deferrals helped the economy avoid a worst-case scenario over the past year and TD's capital position, or CET1 ratio, is now at 14.2%. This means TD is sitting on billions of dollars of excess cash it built up to ride out the pandemic. Investors could soon see a new round of acquisitions to boost growth in Canada and south of the border.

TD has a great track record of dividend growth. The government is expected to give the Canadian banks the green light to raise payouts again by the end of this year or in early 2022. TD investors should see annualized distribution increases in line with the historic level of about 11%. The current dividend provides a yield of 3.6%.

Long-term investors have done well with the stock. A $10,000 investment in TD just 25 years ago would be worth more than $325,000 today with the dividends reinvested.

The bottom line

TD stock isn't as cheap as it was last year, but the company still deserves to be an anchor position in a TFSA retirement fund focused on top Canadian dividend stocks.

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