



1 Top TSX Dividend Stock to Buy for a Self-Directed RRSP

Description

Canadian savers are searching for quality TSX dividend stocks to put in their self-directed RRSP portfolios.

RRSP advantage

Launched in 1957 as a vehicle for people without pensions to save for retirement, the RRSP has come a long way in its importance for Canadian savers. Contributions are used to reduce taxable income for the year they are made and investments inside the RRSP grow tax-free until the funds are removed, at which time the withdrawal is taxed as income. Ideally, the money is taken out when the investor is in a lower marginal tax bracket than when the original funds were contributed to the plan.

The RRSP has evolved over time. Some positive changes include allowing unused contribution room to be carried forward. The size of the annual contribution amount also increased. Today, Canadians can contribute up to 18% of their earned income reported for the previous tax year, up to a limit that is adjusted annually. For the 2022 tax year, the maximum RRSP contribution amount is \$29,210. That corresponds to earned income of just under \$162,278.

One thing to note is that contributions made to a company pension plan reduce the amount of the RRSP contribution space. People with generous work pension plans might find that these use up a good chunk of the annual RRSP contribution room determined by their earned income.

Investors have a wide variety of options inside the RRSP. One popular investing strategy involves owning dividend stocks and using the distributions to buy new shares. RRSP investments tend to be for the long term, so this makes sense for many people.

TD Bank

TD ([TSX:TD](#))([NYSE:TD](#)) is a good example of a top TSX dividend stock that can be an anchor position in a self-directed RRSP portfolio.

Canada's second-largest bank by [market capitalization](#) is a very profitable business with strong operations in both Canada and the United States. TD generated adjusted net earnings of \$14.65 billion in fiscal 2021. The bank is off to a strong start in 2022, as well. Fiscal Q2 2022 adjusted net earnings came in at \$3.7 billion. That's pretty good for three months of work.

TD made it through the worst of the pandemic in good shape. The company is now using the cash it set aside to cover potential losses to make a large acquisition. TD is buying **First Horizon** in the United States for US\$13.4 billion. The deal will make TD a top-six bank in the United States and adds strategic operations in the U.S. southeast to complement TD's existing network that runs down the American east coast from Maine to Florida.

TD has a great track record of dividend growth with a compound annual dividend-growth rate of better than 10% over the past two decades. The board gave investors a 13% increase late last year. Another generous dividend hike is likely on the way for 2023.

Long-term RRSP investors have done well with TD stock. A \$10,000 investment in TD shares 25 years ago would be worth about \$200,000 today with the dividends reinvested.

The bottom line on RRSP investments

The RRSP is a useful tool for Canadians to use as part of their retirement-planning process. With careful planning the tax savings on contributions can be higher than the tax paid on the eventual withdrawal, and investors benefit from the tax-free growth of the investments while the funds remain in the RRSP.

There is no guarantee TD will generate the same returns in the coming years, but it remains an attractive RRSP pick as part of a diversified portfolio. The strategy of buying top dividend stocks and using the distributions to buy new shares is a proven one for building wealth.

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