



A TFSA Contribution Room of \$88,000 and 1 Dividend Aristocrat Can Make You \$172,330 Richer

Description

The new Tax-Free Savings Account (TFSA) ceiling for 2023 is \$6,500, not \$6,000 anymore, as it has been in the past four years. Because of the \$500 increase in the annual limit, the cumulative contribution room for next year is also higher than expected. A Canadian who has been eligible to own a TFSA since its inception in 2009 but has yet to open one would have an available contribution room of \$88,000.

TFSA holders can hold income-producing assets in the registered account to create tax-free income or build retirement wealth. The Canada Revenue Agency (CRA) will only intervene or levy penalty taxes if you overcontribute, trade extensively, or carry on a business in the account.

Assuming your available contribution room is indeed \$88,000, a high-yield Dividend Aristocrat like **TC Energy** ([TSX:TRP](#)) is an ideal holding in your TFSA. The large-cap [energy stock](#) has raised its dividend every year since 2000. At \$65.38 per share, current investors are up 15.82% year to date and enjoy a generous 5.46% dividend yield.

Potential profit from dividends

Most TFSA users prefer to invest long term because [all returns you can generate are tax free](#). Reinvestment of dividends is a common practice, as you can benefit from the power of compounding when you don't claim the dividends and instead use them to buy more shares.

\$88,000 in seed capital can buy around 1,346 shares of TC Energy. Assuming your holding period is 20 years, below is your potential profit from dividends:

COMPANY	RECENT PRICE	NUMBER OF SHARES	DIVIDEND	TOTAL PAYOUT	FREQUENCY
TC Energy	\$65.38	1,346	0.8925	\$1,201.30	Quarterly

Dividend yield: 5.46%

Annual dividend per share: \$3.57

Compound frequency: Quarterly

Final balance after 20 years: \$260,330.26

Profit from dividends: Final balance less seed capital: $\$260,330.26 - \$88,000 = \$172,330.26$

While an \$88,000 investment in TC Energy will produce \$1,201.30 in passive income every quarter, your TFSA balance will grow faster if you keep reinvesting the dividends.

Investment takeaway

TC Energy is an investment for keeps. The \$65.38 billion pipeline company sees extensive opportunities ahead and aims to deliver long-term shareholder value. Management has a long-term comparable EBITDA (earnings before interest, taxes, depreciation, and amortization) growth outlook of 6% by 2026 and between a 3% and 5% annual dividend-growth rate.

Its president and chief executive officer Francis Poirier said, "We have an industry-leading \$34 billion of fully sanctioned, secured capital projects and an unparalleled opportunity set that will continue to differentiate TC Energy as a leader in the energy infrastructure space."

Poirier added, "We are leveraging our extensive North American footprint to expand and extend the reach of our services that will also align with the evolving energy mix and needs of our customers." Since around 95% of the projected comparable EBITDA [earnings before interest, taxes, depreciation, and amortization] is under long-term take-or-pay contracts or is rate regulated, TC Energy has insulation against rising inflation and interest rates.

Because the company is opportunity rich, management will only sanction high-quality growth projects. In the nine months that ended September 30, 2022, TC Energy's net income ballooned nearly 200% to \$2.08 billion.

Inflationary environment

The TFSA's annual limit of \$6,500 is an offshoot of the CRA's higher indexed inflation rate (6.3%) for 2023. Accountholders should welcome the additional contribution room in the current inflationary environment.

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