2 Ways to Defer Tax in a Taxable Account

Description

Isn't it ironic that you can avoid taxes, at least for the time being, in your taxable account? Yes, that's right. You can defer taxes in a taxable or non-registered account.

What's a tax deferral? A tax deferral means to delay paying taxes on some income or growth until a later point in time.

Why is it beneficial for you to defer taxes? It's beneficial because you can compound your money. It's just like what happens when you invest in a RRSP, except you're investing in a non-registered or taxable account instead.

This is actually more flexible for you. While you can only withdraw from a RRSP in a few scenarios other than for your retirement, you can access your money in a non-registered account anytime.

1. Unrealized capital gains

Especially for younger investors who have at least a decade's time before retirement, it's important to have some growth in your portfolio. As such, you might add dividend stocks that have high growth. **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) is a good choice.

Through to 2018, Enbridge estimates earnings growth of 10-12% as well as dividend growth of 14-16%. Further, I believe it's priced at a discount according to its price-to-cash-flow multiple. It should be trading around the $70 level in the next year.

If you hold shares in this quality company, you won't need to pay a dime on the unrealized capital gains until you sell their shares. And its earnings growth is compounded silently in the background. On the other hand, you can't avoid the taxes that need to be paid for its dividends… unless you invest in a TFSA.

So, if you have room in a TFSA, and you are very confident in the future prospects of Enbridge and your ability to buy it at a fair price, then a TFSA is a better place to buy it.

2. Tax-deferred income: REITs' return of capital

Investors buying shares in real estate investment trusts (REITs) can decide to do so in a non-registered account for the trusts that pay a high portion of return of capital (ROC) as a part of the distribution.

You should reduce the adjusted cost basis (ACB) by the ROC as it's paid. Until you sell your shares, or until the ACB turns negative, you don't need to pay the taxes on the ROC.

So, it doesn't make sense to buy these REITs in a RRSP because most of it can be tax deferred in a non-registered account. However, you just need to do a bit more math to keep track of the ACB.

REITs I found that have a big portion of their distributions as ROC include **Dream Global REIT** (TSX:DRG.UN), **Dream Office REIT** (TSX:D.UN), and **Northwest Healthcare Properties REIT** (TSX:NWH.UN).

For more information and for a concrete example, check out this secret to getting tax-deferred income every month by buying REITs.

In conclusion

You can defer taxes to compound your money in your non-registered account by way of unrealized capital gains and reducing your ACB by the ROC amount for your REIT shares.

However, just like stock prices, the unrealized capital gains goes up and down. Still, in the long term it will go up if you hold good businesses and if you bought at the proper valuations. All of the companies above are at fair valuations in my opinion, with Enbridge and Northwest Healthcare Properties being the best values.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:D.UN (Dream Office Real Estate Investment Trust)
3. TSX:ENB (Enbridge Inc.)
4. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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