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Reduce Taxes With These Accounts

Description

One thing that's certain in life is taxes. They're one of the biggest expenses we have. Thankfully, there are ways to reduce taxes. Here are some accounts that help you achieve lower taxes.

Use tax-advantaged accounts

Where appropriate, use tax-advantaged accounts such as tax-free savings accounts (TFSAs), registered retirement savings plans (RRSPs), and registered education savings plans (RESPs). They help you reduce taxes over the long term.

TFSAs

If you're a Canadian and are at least 18 years old, TFSAs allow you to use after-tax dollars to invest. It's the perfect tax-avoiding vehicle to save for short-term goals because you can take out money anytime with no consequences.

If you're disciplined enough, you can also use it to save for retirement. What you earn inside is tax free for life, so it makes sense to place high-growth investments including stocks in there.

For example, I have **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) shares in my TFSA. I expect it to give long-term returns of at least 9% in the foreseeable future. It's not difficult to achieve that because the bank already pays a yield of 4.6%. So, it'd only require 4.4% of growth to achieve that 9% rate of return.

Remember to keep track of your contributions; there will be penalties if you over contribute!

RRSPs

If you have filed a tax return before, the Canada Revenue Agency would have sent you a Notice of Assessment, which tells you your deduction limit for the year. That's your available contribution room.

Generally, if you are in a low tax bracket, it's better to fill up your TFSA first. As you earn higher income throughout your career and your tax bracket increases, you can contribute to your RRSP to reduce your tax bracket.

Canadians can buy U.S. dividend stocks with no withholding tax on the dividends in RRSPs. For example, if you bought **Procter & Gamble Co** (NYSE:PG) in a TFSA, you'd receive a 15% withholding tax, which is not recoverable in a TFSA, but you can file for a foreign tax credit in a non-registered account. However, if you hold Procter & Gamble in an RRSP, you will receive the full dividend.

Don't over contribute to your RRSP because there will be penalties.

RESPs

Most RESPs are opened for children because it is a savings vehicle for higher education for children under 17 years of age. You can put up to $50,000 in an RESP, and you can invest in stocks, bonds, mutual funds, or GICs in there.

Every year the government matches your contribution by 20% up to a total of $500 for each child. You must contribute $2,500 per year to get the full grant. So, you get a 20% return just for contributing!

In other words, the sooner you start contributing to an RESP, the better. You can let the government contribute more and let compounding to work over a matter of at least a decade. In other words, it's be a great vehicle for stock investments because 10 years is a long time frame. And what's earned inside an RESP is tax free.

When your child goes to college or university, he or she can take out the money from his or her RESP tax free to pay for tuition.

In conclusion

If you're earning an income and you're able to save some money, there's no reason why you shouldn't be using at least one of these tax-advantaged accounts to reduce your taxes. Reducing taxes means more money in your pocket. Who doesn't want that?

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:PG (The Procter & Gamble Company)
3. TSX:BNS (Bank Of Nova Scotia)

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