# The Pitfalls of Holding U.S. Dividend Stocks

## Description

If investors hold U.S. stocks that pay qualified dividends in a TFSA, they'd get a 15% withholding tax. If investors hold these U.S. stocks in a non-registered (i.e., taxable) account, they'd get a 15% withholding tax but can file for a foreign tax credit. However, they'll still end up paying the marginal tax rate on the foreign dividends. If these U.S. stocks are held in an RRSP, there will be no withholding tax on the dividends.



Should investors only hold U.S. dividend stocks in an RRSP? The short answer is no.

**One reason not to hold in an RRSP**

First of all, if you expect most returns of a company to be from capital gains instead of dividends, then the investment is still mostly favourably taxed in a non-registered account. For example, in a year **Starbucks Corporation** (NASDAQ:SBUX) rose 28%, but it only pays out a yield of 1.3%.

If investors hold it in an RRSP, when they withdraw the money, it'll be counted as taxable income in its entirety. However, if they hold it in a non-registered account, when they sell the shares, only half of the capital gains are taxed at their marginal tax rate, which depends on the investors' tax bracket and the province or territory they reside in.

**Second reason not to hold in an RRSP**

Some investors only buy quality companies with strong business models and balance sheets. However, some investors buy all kinds of companies as long as they're priced at a significant margin of safety.

Even if a U.S. dividend stock pays a yield of 4%, investors might decide to hold it in a non-registered account in case a loss must be taken. Capital losses in an RRSP can't be used to offset capital gains, but it can if it's in a non-registered account.

**Avoid master limited partnerships**

Investors may be attracted by the high yields of master limited partnerships (MLPs) such as **Enterprise Products Partners L.P.** (NYSE:EPD), which yields above 6%.

However, MLPs fall outside the tax treaty between the U.S. and Canada. So even in an RRSP, investors will experience an even bigger withholding tax than the usual 15%. Further, there are additional tax-filing obligations required from Canadians who own shares in MLPs, which complicates the matter of investing in MLPs.

**Conclusion**

Investors should consider holding quality, high-yield, conventional U.S. companies in an RRSP. For me, a high yield is at least 3%, and the company should have a history of growing its dividend. If you're not sure if a firm is a conventional U.S. company or not, check with your broker.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. NASDAQ:SBUX (Starbucks Corporation)
2. NYSE:EPD (Enterprise Products Partners L.P.)



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