How to Start the New Year off Right

Description

With another new year upon us, investors will want to start the year off on the right foot. Although markets were closed on January 1, we need not wait much longer to take advantage of the benefits offered by various registered plans.

Although each individual faces their own unique situation and should consult with their own tax professional, here are some common factors that lead to similar benefits for investors:

Tax-Free Savings Account (TFSA)

Each year on January 1, the annual TFSA limit accrues to Canadians, which translates into the ability to shield investment gains from the taxman. For 2018, the TFSA limit is $5,500, which will allow investors the ability to avoid taxes on the gains made from that amount of money. Although this contribution room is most often used by stock investors, the truth is that it can also be used to shield interest income, which is taxed at a much higher rate than capital gains.

In certain cases, investors who have their basic needs taken care of (a high amount of savings in a bank account) will then be able to take more risk with their long-term investment dollars. Of course, each investor has different circumstances.

Registered Education Savings Plan (RESP)

With another new year underway, parents of children under 17 years of age as of January 1, 2018 will be able to contribute up to $2,500 per year and receive a 20% matching contribution from the government in the form of “free money,” or a government grant as it is officially called. For parents who missed their contributions in previous years, they can receive up to $1,000 of grant should they wish to “catch up” on the previous year.

The caveat is, of course, that grants will not be paid on contributions in excess of $5,000 per year. Additional rules govern the grant that can be received by a 16- or 17-year-old beneficiary.

How can investors benefit from this?

In order to take full advantage of the benefits extended by the government, each investor must have the money to deposit into each account. They must then conduct diligent research about which investment they wish to make. As a reminder, each contributor from Motley Fool submits his or her top monthly pick for an article to be published on the first of every month. January's list of top picks can be found here.

In a previous article, I spoke very highly of **Laurentian Bank of Canada** (TSX:LB), which could very well be the best pick of 2018. For those seeking a lower risk alternative, shares of big five bank **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) remain a fantastic bargain at less than 11 times the trailing earnings and pay a healthy dividend of 4.25%.

To make this investment even more attractive, the dividend payout ratio is no more than 45%, which is set to decline after the most recent acquisition (a U.S. wealth manager) becomes fully integrated.

The rationale is very simple: given the higher equity markets, there is a greater amount of assets under management, which translates to higher revenues and higher profits.

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