How to Succeed With Investing: Maximize Returns in Your Taxable Account

Description

In Canada, there are a number of account types in which one can invest. Investments held in these accounts have various tax implications, so in order to optimize the returns on your accounts, it pays to place your stocks in the best places. So, where should you put your various assortment of stocks and bonds? Well, essentially, it comes down to three main account types: the TFSA, RRSP, and taxable accounts. Which stocks are best suited for your taxable account?

Keep in mind, this article takes a relatively conservative approach to investment. As such, capital preservation and risk management play a more important role than maximizing capital gains on risky stocks.

Choosing stocks for your taxable account

The taxable account is best used to house either stocks with no dividends or Canadian dividend-paying stocks. Do not hold U.S. dividend-paying stocks within this account, as they will be subject to the U.S. withholding tax and are fully taxable.

Canadian companies such as **BCE** (TSX:BCE)(NYSE:BCE) pay dividends that are eligible for the Canadian dividend tax credit, which reduces the amount of tax paid on income received from these sources. BCE, for example, pays a dividend of over 5.5% at the current share price. The huge dividend is the result of a combination of stock price reduction and dividend hikes, making this a golden opportunity for beginning to build a position.

Emera (TSX:EMA) is another stock with a favourable dividend that could be added to your taxable account. Similar to BCE, Emera has a huge dividend after rising rates took their toll on the company's share price. Its massive 5.45% dividend is relatively stable, as most of its earnings are largely regulated and stable. The company also is quite diversified with operations in the United States and Canada, further stabilizing its dividend payouts.

Stocks that do not pay dividends and trade at high valuations also benefit from being purchased in a taxable account. Yes, you will be taxed on capital gains when you sell, but the capital gains tax rate is more favourable than interest or dividends. Also, if a risky stock should collapse, you will be able to write off the loss — something you cannot do in a registered account.

Stocks such as **Netflix** and **Shopify** could fit into this high-multiple, higher-risk category, as they trade at significantly high multiples and can go downhill quickly if they miss earnings or the market begins to trend downward.

Summing up

If you organize your investments in this manner, you should be able to optimize your investment returns. Take advantage of government tax incentives such as the dividend tax credit, capital gains benefits, and tax-loss selling in your taxable accounts. The one caveat would be account size. If all your investments can fit into your tax-free accounts, it would be wise to maximize your TFSA and RRSP before allocating your investments, as is outlined here.

Remember to check with your accountant before making any changes to your account to make sure they match your personal tax situation. Your registered accounts have limited contribution room that you should save for other investments that are better suited for tax-free status.

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