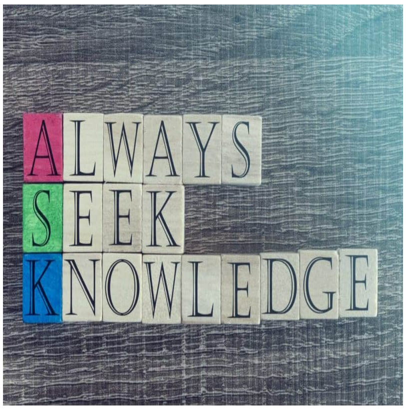

Hate Taxes? Then You Gotta Read This

Description

As the old adage goes, there are only two certainties in life: death and taxes.

Although the former is, unfortunately, inevitable — at least until scientists develop technologies that will move our brain functions onto the cloud — there are easy strategies that enable investors to avoid the latter. Getting your tax bill down to zero may not happen, but there are certainly solutions that will minimize your taxes in a big way.

The best part? These strategies aren't complex plans that require you to have an accountant on speed dial. They're simple tax-avoidance solutions anybody can pull off.

If you're tired of lining the government's pockets, you're going to want to read this. Here are two easy ways you can avoid taxes.

Use TFSAs for retirement savings

RRSPs are a fantastic product — at least for most Canadian savers. RRSPs allow an investor to put money away during their younger, high-earning years and withdraw it when they're older — a time when earnings (and taxes) are low.

But there are a few problems with the strategy. What if you plan to slowly accumulate wealth throughout your life? A successful person would be forced to withdraw from their RRSP right when their tax bill is highest. The system also penalizes successful investors, forcing them to pay huge taxes on buy-and-hold positions on stocks that have risen consistently for decades.

There's a better solution. Investors can use their TFSAs as their primary retirement savings vehicle and not have to worry about a tax bill when it comes time to withdraw. TFSAs also offer a ton of flexibility, allowing an investor to reinvest dividends back into the account during prosperous times and withdraw as little or as much as they want during leaner times.

Invest in Canada’s top dividend payers

There are two main reasons to avoid GICs, government bonds, and other more traditional sources of income during your glory years.

The first is these asset classes don’t pay much. You have to lock up your cash for five years in a GIC to earn any more than 2% annually. Government bonds are even worse; the Government of Canada five-year bond yield is barely above 1%.

The other reason to avoid GICs and bonds is any income received is in the form of interest, which is fully taxable. Your 2% gross return might be reduced to 1.5% or even 1%, depending on the tax bracket you’re in.

There’s a better solution. Not only do dividend stocks provide more income — because they’re more dangerous, at least in theory — they also do so in a tax-advantaged way. This translates into even more dollars in your pocket.

In fact, in many Canadian provinces, you can earn $50,000 per year in dividend income and not pay a nickel of tax on it. Add on a spouse who also earns $50,000 annually in dividends, and that’s the basis of a prosperous (and tax-advantaged) retirement.

And remember, dividends tend to grow over time. This provides a perfect inflation hedge.

An Ontario-based retiree that makes $10,000 in regular income (like from CPP or another pension) and $50,000 annually in dividends will have a tax bill of just over $1,000 per year. The same person who makes $10,000 in regular income and $50,000 in interest will pay more than $11,000 in annual taxes. Advantage, dividends.

Foolish takeaway

It’s not that hard to avoid taxes. Some simple (and fully legal!) tax avoidance can really maximize the number of dollars that end up in your pocket. Wouldn’t it be more fun to use them on spoiling the grandkids rather than giving back to the feds?

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