# Canada Revenue Agency: 3 Investing Moves to Save on Taxes

### Description

If you're investing in securities, it pays to keep an eye tax efficiency.

Under normal circumstances, you'll have to pay taxes on all interest, dividends, and capital gains you earn. Of the three types of investment income you can get, interest has, by far, the worst tax implications, being fully taxable with no credit. Dividends are taxed but have a credit applied, while capital gains have a tax applied on half the total gain.



By taking advantage of the tax-deferred and tax-exempt accounts you have available, you can reduce all the taxes you'd normally owe on any type of investment.

Most likely, you're aware of the tax benefits that come with investing inside an RRSP or TFSA. What you may not know is that there are a few specific moves you can make to *amplify* the tax benefits of these accounts.

In this article, I'll outline specific actions you can take that will maximize your tax savings more than usual — all of which are A-OK, according to the Canada Revenue Agency.

## Avoid bonds (unless in an RRSP or TFSA)

Of all the common types of investment income, bond interest has, by far, the worst tax treatment. Unlike dividends, it has no standard credit. Unlike capital gains, it's 100% taxable. So, you'll pay more tax on a given amount of bond interest than on an equivalent amount of dividends or capital gains.

If you do hold bonds, you should put them in an RRSP or TFSA to enjoy the preferential tax treatment. If you have no RRSP or TFSA space left, consider holding stocks instead; not only do they get better tax treatment, but they also produce better long-term returns.

# Max out your RRSP and TFSA before buying anything outside them

Whether you're buying stocks or bonds, it's always better to hold in a TFSA or RRSP than outside of a registered account.

TFSAs give you preferential tax-treatment no matter what, and RRSPs provide a generous tax deduction along with tax-deferred growth.

If you're not sure what stocks to buy in your RRSP or TFSA, you can consider holding ETFs like **iShares S&P/TSX 60 Index Fund** (TSX:XIU).

XIU is a diversified fund made up of 60 large-cap TSX stocks.

As a large-cap fund, it's highly concentrated on blue-chip stocks with little risk. These stocks make up an outsized proportion of the TSX, so while you're not quite buying the market, you're getting pretty close.

XIU gives you enough diversification to be guaranteed roughly average returns without having to worry about the performance of individual stocks. You won't outperform with it — at least not by much — but you'll be guaranteed to do as well as the TSX 60 index. That's a feat that most active fund managers can't replicate.



Also, if you buy XIU, you'll get a little bit of dividend income on top of any capital gains you realize. With a yield of 2.83%, you'll get approximately $2,830 on every $100,000 invested. On that note: thanks to the dividend tax credit, your XIU dividends get favourable tax treatment (compared to bonds), even if you max out your RRSP and TFSA and are forced to hold any new investments in a taxable account.

## Set modest goals

A final way to reduce your tax burden is to set modest goals.

If you engage in day trading, the CRA may assess you as a business, and then it doesn't matter if you're holding investments in a TFSA or RRSP — you'll be taxed all the same.

Here, again, an index fund like XIU can come in handy.

As the ultimate passive investments, index funds help you avoid being dinged for running a trading business. Of course, the potential returns of indexing are much less than those of active trading. But actively trading is a risky proposition even in the best of times, and if it could get you taxed inside a registered account when it does go well, why risk it?

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1. Dividend Stocks
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**TICKERS GLOBAL**

1. TSX:RY (Royal Bank of Canada)
2. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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