Canada Revenue Agency: 3 Tax-Saving Ways to Invest for Retirement

Description

Do you want to maximize your retirement savings by investing in quality stocks and ETFs?

If so, it pays to minimize your tax burden. Beating the market isn't easy, but minimizing taxes is within any investor's power.

The Canada Revenue Agency recognizes a number of tax-deferred and tax-free accounts that will leave you with less taxes than you'd normally pay on stocks.

With that in mind, here are three tax-saving principles to keep in mind when investing for retirement.

Put as much as possible in your TFSA and RRSP

It goes without saying that if the Canada Revenue Agency won't tax your holdings in a particular account, you should invest in that account.

For Canadians, there are two accounts available that have this benefit: RRSPs and TFSAs.

RRSPs give you a generous tax deduction plus tax deferred growth. TFSAs give you tax-free growth *and* withdrawals.

Used in conjunction, an RRSP and a TFSA can deliver a powerful one-two punch of tax savings. You can hold your more aggressive growth plays in your TFSA, and enjoy the freedom to withdraw the proceeds if you want to cash them out. For longer-term buy and hold plays like **Fortis Inc** (TSX:FTS)(NYSE:FTS), you can simply leave your shares untouched in an RRSP and watch the dividends pile up over a lifetime.

Avoid bonds outside of registered accounts

Of all the investments you can buy in Canada, bonds have by far the worst tax treatment. Like dividends, the income generated from them is taxed, but unlike dividends, there's no credit. For this reason, if you're going to hold bonds, you had better hold them in an RRSP.

However, over the long run, you may wish to avoid bonds entirely and hold utility stocks instead. Although bonds are pretty safe defensive plays that can hold their own in recessions, utilities like Fortis also do well in recessions, and their dividends are treated more generously than bond interest. Owing to their indispensable service, utilities usually do not see steep earnings declines during downturns. This is why, in 2008 and 2009, Fortis was able to increase its earnings and raise its dividend – even as a global recession ravaged most industries.

Although all stocks tend to fall during recessions, utility stocks typically fall less, and their dividends remain safe even as other industries cut them left and right.

Buy and hold

With stocks, there are two types of taxes you have to pay: capital gains and dividends. Dividend taxes are always payable if you hold your stocks outside of registered accounts. Capital gains taxes, on the other hand, don't become payable until you sell your shares. From this it follows that, if you hold dividend stocks for life, you can spare yourself one of the two taxes you have to contend with.

Here again, utility stocks like Fortis are some of the best picks available. As an ultra-stable industry with enormous barriers to entry, utilities tend to perform well over the extremely long term. This makes them great picks for simply buying, holding, and collecting dividends – without having to cash out.

CATEGORY

1. Dividend Stocks
2. Investing

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