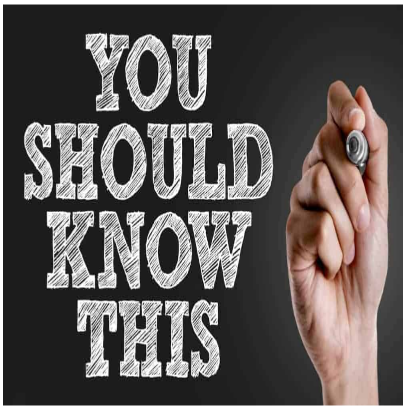

Canada Revenue Agency: How to Pay ZERO Taxes on Stock Market Gains!

Description

Did you know that the easiest way to maximize stock market gains doesn’t involve picking stocks at all?

Studies show that the vast majority of mutual fund managers fail to outperform the market, and if that holds for professionals, it probably holds for the average Joe. In light of this, trying to maximize gains by beating the market may be a difficult feat to pull off.

However, there’s one way to maximize your stock market returns that’s so easy anybody could do it:

Minimizing your tax burden.

By holding your stocks in registered accounts, you dramatically reduce the taxes you ultimately pay on them. As a result, you ultimately realize a higher return. While it may sound hard to believe, there’s one way to actually pay *zero* capital gains taxes on your entire portfolio.

This strategy does leave you with dividend taxes (assuming you have more than $6,000 a year to invest), but it can completely eliminate the need to realize capital gains.

Max out your TFSA portfolio and buy and hold the rest

Tax-free savings accounts (TFSAs) are the only totally tax-free accounts available to Canadian investors.

Offering both tax-free growth and withdrawal, they give you a double whammy of tax savings. Granted, the TFSA contribution limit ($6000 for 2019) is fairly low.

If you have a fair amount of disposable income you won’t be able to put *all* of your investments in a TFSA. However, you can minimize your non-TFSA tax burden too by buying and holding dividend stocks for your non-TFSA portfolio, so you never cash out a capital gain. That way, the only tax you have to pay is the dividend tax, which has a generous credit applied to it.

Two solid investments for this strategy

If you want to implement the TFSA plus dividends strategy outlined above, we can consider two solid investments: **Shopify Inc** (TSX:SHOP)(NYSE:SHOP) and the **iShares S&P/TSX 60 Index ETF** (TSX:XIU).

These investments may seem like polar opposites, but in fact, they can work together nicely in a diversified portfolio.

Shopify is an aggressive growth stock that has out-performed the market by leaps and bounds since its 2015 IPO. With revenue growth of 45% year over year, it's generated a lot of excitement from investors, who have driven it up more than 160% this year.

SHOP is precisely the type of stock where you might realize a quick, dramatic gain, and want to cash it out. It's therefore a perfect holding for a TFSA.

With aggressive growth stocks like this, the capital gains tax can be steep if you hold them outside of registered accounts.

So, to protect your gains, you can hold all of your SHOP (or whichever growth stock you prefer) in your TFSA, while leaving your more defensive dividend plays outside of it.

It's in the defensive part of your portfolio that XIU comes into the picture. As an ultra-diversified, low risk index exchange-traded fund (ETF), it's the exact type of investment you could conceivably hold for life.

If you do hold it for life, you'll never pay a capital gains tax on it, because you need to sell before capital gains taxes apply.

That doesn't mean you'll never generate income by holding XIU, however. On the contrary, you could generate quite a bit. According to **BlackRock's** website, XIU has a trailing yield of 2.88% and a forward yield of about 3.04%.

Doing our calculation with the forward yield, you'd generate about $3,040 worth of dividends a year by simply holding $100,000 worth of XIU and never selling.

While $3,000 might not seem like a huge amount, remember that companies can increase their dividends over time–and of course, you can always add to your position.

Additionally, in Canada, dividends benefit from a generous tax credit, so you'll take home a nice chunk of that income even if your XIU is not held in a registered account.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)
3. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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