DANGER: One Wrong Move Could Wipe Out 50% of Your RRSP or TFSA!

Description

Did you know that one wrong move is all it takes to wipe out *half* of your RRSP or TFSA?

While it may not be common knowledge, it's true.

There are several ways to get taxed in either an RRSP or TFSA, but there's one mistake common to both of them that will hit you with a 50% tax on your holdings.

Although it's not likely you'd ever make this mistake by accident, it could happen, and if it does, you'll be taxed far more heavily than you ever would be in a non-registered account.

Holding prohibited investments

If you hold non-qualified investments in your RRSP or TFSA, you'll be taxed a whopping 50% of their fair value.

Prohibited investments for RRSPs and TFSAs generally include shares in companies you control or influence. Shares in a private company you run would be prohibited; a small stake in a company where you have influence over management might be, too.

You might think that neither of these conditions could ever apply to you, but it's still a good idea to err on the side of caution when picking RRSP and TFSA investments.

One easy solution

If you're concerned about getting hit with a massive tax for prohibited RRSP or TFSA investments, there's one simple solution:

Invest in ETFs.

ETFs are some of the most common investments in registered plans, and are generally accepted in both RRSPs and TFSAs. By holding ETFs in your registered plans, you avoid the possibility of direct share ownership in a company you don't deal with at arm's length.

One solid ETF for Canadian investors is the **iShares S&P/TSX 60 Index ETF** (TSX:XIU).

A diversified index fund consisting of the largest 60 TSX stocks, it has it all: diversification, low fees, dividend income, and more.

The 60 stocks that make up XIU's portfolio are the largest publicly traded Canadian companies, meaning that the fund is composed of relatively safe blue chips. This, along with the fund's considerable diversification, helps minimize risk.

The fund also has low management fees, which helps you keep your returns. With funds in general, hidden management fees are a huge concern–a major drain on performance that can eat into your returns. XIU's MER is low, at 0.18%, so you don't need to worry about expenses killing your gains.

Finally, with a dividend yield of about 2.8% based on current prices, the fund produces a fairly solid amount of income. This is all thanks to the fact that the fund invests in Canadian large caps, which are well known for producing solid dividends.

With XIU's 2.8% dividend yield, you'd generate about $2,800 a year with just $100,000 invested. The yield-on-cost could increase over time if the stocks that make up the fund increase their payouts.

If you want to make sure that your RRSP and TFSA holdings are on the level, XIU is exactly the type of fund you should consider. Diversified, safe and high in income, it's exactly the type of investment that registered accounts were designed to hold.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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