CRA: Avoid This Simple Investing Mistake to Save Thousands in Taxes

Description

Investing can be complicated at times, from understanding what each company does to knowing why its shares move the way they do.

It can also be complicated from an administrative perspective, trying to figure out how much to allocate where and what the best ways are to avoid paying as much taxes as possible.

Thankfully, the Tax-Free Savings Account (TFSA) makes it simple for investors on the tax side of things.

As long as the company is a qualified investment, you can essentially guarantee there will be no taxes on your capital gains, dividends, interest income, or when you withdraw your money eventually.

And while you can own American stocks in a TFSA, if the stock pays a dividend, you will be on the hook for a withholding tax.

For this reason, if you want to invest in American stocks in your TFSA, you are better off only investing in stocks that don't pay dividends and that reinvest all of the money back in the growth of the business.

This way, if you want income-generating stocks, you can stick to high-quality Canadian stocks such as **Shaw Communications** (TSX:SJR.B)(NYSE:SJR).

Shaw is a telecommunications company that provides wireless and wireline services. Its focus as of late has been to grow its business to put itself in the conversation with the Big Three.

Its wireless business has the most room to grow, as Shaw has been investing a lot of resources into growing its Freedom Mobile brand.

Although its network doesn't cover a large area, like some of the Big Three, Shaw has been strategic about the regions it's chosen, and more than 18 million Canadians live within its current network service area.

Its wireline business serves both consumers and business in British Columbia, Alberta, Saskatchewan, Manitoba, and northern Ontario.

Shaw has shown great initiative, taking it upon itself to launch a total business transformation in the wake of what it sees as a shift in the needs and expectations of consumers.

The transformation will ideally bring a better experience to consumers while also cutting costs for the company.

In addition to the business transformation, Shaw is also focused on maintaining its rock-solid financials.

The company aims to keep the net debt leverage ratio to around 2.5 to three times.

The dividend Shaw pays yields roughly 4.5% today and is attractive, as Shaw is able to maintain the dividend and return a tonne of cash to shareholders at the same time that it invests large sums in the growth of its business.

The stock has come down off its highs and now trades at an enterprise value to earnings before interest, taxes, depreciation, and amortization ratio of less than nine times, making this an ideal entry point for long-term investors.

Analysts have an average one-year target price above $30.50 for Shaw, meaning the stock has roughly 17% upside from here, plus, if you include the 4% dividend, Shaw could potentially earn you more than 20% just in the first year of your investment.

While there are a number of high-quality, dividend-paying, Canadian stocks, if you do really want exposure to an American company that does pay a dividend, you'd be better off investing in your RRSP, where the foreign dividend would be exempt from withholding tax.

This way, you can still own the same companies and have the same portfolio exposure; you'll just be doing it in a more tax-advantaged way.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:SJR.B (Shaw Communications)

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