RRSP Deadline 2020: Which Dividend Stocks to Invest?

Description

The RRSP contribution deadline is fast approaching in less than a month! Specifically, Canadians have until March 2 to make RRSP contributions for the 2019 tax year.

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Should you make RRSP contributions before the deadline?

Depending on your unique financial situation, you would have different reactions for the approaching RRSP deadline.

If you were in a low tax bracket for 2019, you can let your RRSP contribution room accumulate so that you can contribute more and save more taxes in the future when you're in a higher tax bracket.

However, if you've already maxed out your Tax-Free Savings Account (TFSA), you may wish to contribute to your RRSP for the tax-advantaged (specifically, tax-deferred) compounding of your investment returns.

Any RRSP contributions that you make until March 2, 2020 can be used to reduce your taxable income for 2019 or 2020. Of course, if you plan to make RRSP contributions for the 2020 tax year, you don't need to rush because you have the rest of the year and about two months to do so.

If you were in a high tax bracket for 2019 and you haven't made RRSP contributions for the 2019 tax year yet, you should definitely consider doing so to reduce your 2019 income tax.

Where to invest?

There may be foreign withholding tax on dividends you receive from foreign stocks. For example, if you receive U.S. dividends in a TFSA, RESP, or non-registered account, there will be a 15% foreign withholding tax. Thus, you'll only get a 3.4% yield from a 4% yield stock.

However, there's a tax treaty between Canada and the U.S. By holding U.S. stocks and receiving U.S.

dividends in RRSPs (or RRIFs), there will be no 15% foreign withholding tax.

Many Canadian stock portfolios have over concentration in Canadian stocks. RRSPs provide a great opportunity for Canadian investors to diversify into U.S. dividend stocks, of which many have underlying international businesses that offer exposure to markets outside Canada.

For example, holding high-yield stocks like **Simon Property**, RRSP investors can pocket a yield of 6.3% and expect the dividend income to grow over time. While Simon Property is primarily a U.S. retail REIT, it also has some properties abroad.

Simon Property stock has been breaking multi-year lows lately. For an international company with better momentum, consider **Mondelez**, which generates annual revenues of more than US$25 billion, including over 70% outside North America.

You'd probably recognize many of Mondelez' brands including names like Cadbury, Oreo, and Toblerone. The stock has run up more than 40% since 2019. So, it'd be wise to buy the stock on a pullback.

And of course, there are many quality U.S. tech companies like **Apple** and **Microsoft** that pay growing dividends.

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Investor takeaway

When building your investment portfolio across various accounts, including RRSPs, TFSAs, RESPs, and non-registered accounts, remember to diversify across industries and sectors in great businesses that are growing their profitability in the long run. Simultaneously, think about where to invest what to save you the most taxes.

Particularly, in the case of RRSPs, you can reduce your immediate taxable income and potentially save tonnes of taxes by contributing to it strategically before the March 2 deadline for the 2019 tax year.

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Date
2025/07/30
Date Created
2020/02/04
Author
kayng

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