CRA Allows You to Pay Less Taxes: How to Keep More Money and Invest

Description

The Canada Revenue Agency (CRA) is not all bad. It actually provides multiple ways for Canadians to pay less taxes *legally*! Here are two simple tips anyone can apply to save tremendous taxes.

Dividends

Every year, public Canadian corporations pay out billions of dollars of eligible Canadian dividends. And they're all up for grabs!

For example, **Enbridge** stock generously paid out more than $3.8 billion of dividends last year, while **TD** stock paid out more than $5 billion in the trailing 12 months.

What's even more incredible is that they tend to increase their payouts over time. While they offer dividend yields of about 5.7% and 3.9%, respectively, investors can expect their dividend income to grow.

Enbridge's dividend increased by 74% in five years, while TD's rose 57% in the same period. You can imagine that dividend income can be super nice passive income without you having to lift a finger once you buy the shares.

More good news is that these eligible Canadian dividends are taxed at lower rates than your job's income. For instance, if you live in Alberta and expect to earn taxable income of $100,000 from your job, you'd land in the 36% tax bracket (combining the Federal and Alberta tax rates) for taxable income over $97,069 and up to $131,220.

So, you'd pay about $1,055 of taxes on about $2,931 of your hard-earned income, which would be taxed 36% at that bracket. However, if you earn, say, another $2,931 of taxable income from eligible Canadian dividends, you'd only pay 15.15% taxes (about $444, or tax savings of $611) on it, because they are taxed at a lower rate.

These are tax savings you wouldn't have gotten if you worked a part-time job that earned you the

$2,931.

Not enough people are taking advantage of the potential passive income that eligible Canadian dividends bring! So, spread the word, tell your friends, and start researching quality dividend stock ideas.

TFSA

Of course, if you're taking advantage of dividends, you must take advantage of the Tax-Free Savings Account (TFSA). Beginning in 2009, Canadians 18 years or older with a valid social insurance number could have saved and invested a set amount in their TFSA for tax-free returns.

Yes! So, instead of getting 15% of your dividends taxed, you would get *zero* taxes on your dividend. Actually, any investment returns you earn inside your TFSA are tax free! For example, other than dividends, it applies to capital gains when you profit from selling your stocks.

And it gets better. All TFSA withdrawals are tax free as well.

So, you can use your TFSA to save up for anything — your vacation, your mortgage, your car, your wedding, your emergency fund, your retirement, etc. You name it!

Make sure you find out how much your TFSA contribution room is. It's different for everyone, as any contributions or withdrawals in the past can affect your TFSA contribution room for this year. (You don't want to be surprised by nasty tax penalties for over contributing to your TFSA and defeat the tax-free purpose of the account!)

Investor takeaway

Find quality dividend stocks and buy them when they trade at good valuations.

Invest in your TFSA for income and growth with purpose and goals in mind. Set strict withdrawal rules, so you only withdraw what's needed. Generally, you'd want to invest as much money in your TFSA for as long as possible for long-term, tax-free returns.

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