CRA: 2 Key Ways to Pay Less Taxes on Your Investments

Description

Paying taxes is inevitable — you pay taxes when you bring money in through income tax, you pay money when it goes out through sales tax, you pay money to own land through property tax. It seems that everywhere you look, you are being taxed on your hard-earned money.

When it comes to investments, for the most part it's no different; however, due to tax-advantaged accounts like the Tax-Free Savings Account (TFSA) and other smart tax planning, you can aim to minimize the taxes you pay, keeping more money in your pocket to invest, grow and compound.

As most RRSP or TFSA investors are aware, tax-free money compounds a lot faster than money that's having a large chunk taken from it each year.

So here are two different ways for investors to focus on in order to structure your investments to pay minimal taxes, which will ultimately lead you to thousands of dollars more in your portfolio when all is said and done.

Maximize your registered accounts first

Buying an income property or any other investments is great, but this should only be done after you have maxed out your tax-advantaged accounts.

When looking at buying an income property for example, there are a number of high-quality substitutes, residential real estate companies that will earn you money doing the same thing, albeit with a number of advantages.

None of this however, is as important as the fact that you can gain exposure to these securities through your TFSA.

Consider a company such as **Northview Apartment REIT**. Northview gives investors exposure to residential real estate assets, pays out a dividend that yields more than 5%, has plenty of capital gain potential and is managing new growth projects for investors to grow the value of your shares.

Plus, it's managed by a team of professionals and there are thousands of units, meaning that your investment is extremely diversified when compared to one income property with an occupancy rate of either 100% or 0%.

As well, the income you make — whether through capital gains or the dividend you receive each month — will be completely tax free, which is a major advantage and capable of increasing your returns substantially.

Better long-term investments

The goal is always to find the best long-term investments so that you can maximize the return on the capital you've invested, so how can investing in better long-term investments help you to pay less taxes?

When you have strong long-term investments building up your TFSA or RRSP and they're powering the rapid growth in value, none of that is being taxed.

Thus, each year, as you earn more income, the taxes you pay will be slim to none, on a growing portfolio value, essentially allowing you to pay less taxes as a percent of your income.

In addition, when you own the highest quality long-term stocks, you'll be less inclined to rapidly move in and out of positions as you would if you owned poorer investments with a lot more volatility, thereby keeping your investments eligible for registered accounts and saving on the tax if you invested outside a registered account.

Bottom line

As long as you stick to maximizing your registered accounts first and employing a long-term investing strategy, you'll be on the right track to the successful growth of your hard-earned capital.

Taxes can be a huge burden, so plan your finances accordingly to minimize your exposure and use the money you save to help grow your investments even faster.

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