Canada Revenue Agency: 3 Ways to Avoid a Capital Gains Tax in 2020!

Description

The deadline for filing taxes is roughly a month and a half away for most Canadians. Investors may be put off on the topic of avoiding capital gains tax in this messy market, but it is worth discussing after what was a very strong year for the market in 2019. The rapid descent into a bear market is disheartening, but the Canada Revenue Agency is still owed whatever unsheltered capital gains investors generated in the previous tax year.

Today, I will look at three ways Canadians can avoid or at least mitigate the capital gains they will pay in the 2020 fiscal year.

Contribute to your TFSA

The Tax-Free Savings Account (TFSA) is the simplest and most efficient way to generate capital gains without having to pay any tax. Rewards can be massive for those pursuing a growth strategy in a TFSA . However, investors should not feel pigeonholed. This is a flexible account. The TFSA can also be a great vehicle for gobbling up tax-free income as well.

This bear market has produced cheaper options across the board. Investors can monitor growth stocks in a sharp correction like **Air Canada**. Airliners are set to take a pounding from this crisis, but the long-term outlook for the industry is still very promising. Warren Buffett has adopted this strategy by betting on the airline industry, as it has been pummeled due to the COVID-19 outbreak.

You can also pursue high-yield dividend stocks. **TransAlta Renewables** is a renewable energy company with a solid balance sheet and a promising long-term outlook. It offers a monthly dividend of $0.07833 per share, representing a strong 6.7% yield.

Invest in real estate

Canada housing has come back with a vengeance in 2019 and the first weeks of 2020. The COVID-19 pandemic could have an impact in the near term, but this may be offset by a red-hot market. The Bank of Canada recently dropped the benchmark rate by 50 basis points. The federal government has eased the stress test requirement for insured buyers.

Proceeds on the sale of your primary home is tax free. This method may be particularly useful to long-term homeowners who should have accumulated significant equity in their homes over the past decade. The CRA has no claim to those potential gains.

Time your investment asset sales

Investors with large portfolios in a regular cash account should take note of when they sell their investments. A substantial capital gain made in 2019, and subsequently sold in 2019, will be owed on your upcoming return. This tax is a tough pill to swallow in a bear market. An investor who sold in January or early February, which, coincidentally, was the peak of one of the longest bull markets in history, will not have to worry about that payment until they file for this fiscal year in April 2021.

These are all tips Canadians should keep in mind, as they get set to declare for the previous tax year. That way, they can pay as little capital gains tax as possible for 2020.

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