How to Save on Taxes During a Market Crash

Description

Losses from stocks or any other capital assets are inevitable during a market crash. The sad thing is that the said losses are capital losses. It won't decrease your income from other sources except only when you die. However, if you experience a loss in the current tax year, know the ways to recover the loss in some way.

Timely reporting

In case of a net capital loss in 2020, for example, you can carry it back to 2019, 2018, and 2017. Use it to reduce your taxable capital gains and choose where to apply them in any of three years. Since the amount of losses can be significant, don't hesitate to report them.

In order to apply a 2020 net capital loss to any of the previous years, complete Section III – net capital loss for carryback on Form T1A, Request for Loss Carryback. You don't need to file an amended income tax and benefit return for the chosen year. Also, be sure the request is before the end of the current calendar year.

Be tax-efficient

Whether a bull or bear market, it's a must to be tax-efficient. During the working years, you're likely to be in the higher tax brackets. To defer or reduce the income tax due, make contributions to the Registered Retirement Savings Plan (RRSP) during this period.

A blue-chip stock like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is ideal for the RRSP. This largest banking institution in Canada pays a high 4.83% dividend. You'll defer paying income tax while your money grows.

Come retirement, when you're in a lower income tax bracket, you'll be paying lower taxes on your RRSP withdrawal.

Last Friday the 13, RBC made a resounding rally. The bank stock jumped 14.9% to lead advancers a day after the biggest TSX plunge happened. The Canadian government is moving tirelessly to stave off the ill-effects of the epidemic, boosted investor confidence.

Finance Minister Bill Morneau assures the investing public the country will use its fiscal strength to ensure the economy stays healthy. In the face of any uncertainty, RBC is a safe asset to own.

While you’re in the higher tax bracket, the practical recourse is to place your money in a Tax-Free Savings Account (TFSA). This time, you’re not just saving tax but paying zero taxes. A Dividend Aristocrat like **BCE** (TSX:BCE)(NYSE:BCE) is a tax-free option.

Your TFSA balance can grow faster with the telecom giant’s 5.82% dividend. Assuming you have an available contribution room of $17,500, the $1,018.50 dividend earnings are tax-free. If you withdraw the entire amount of $18,518.50 after one year, no tax is due on the money.

BCE also displayed resiliency on March 13, 2020. The stock climbed 11.78% to $55.82. Analysts are predicting a further capital gain of 23.6% in the next 12 months. The latest buzz about BCE is its commitment to donate an additional $150 million to support mental health and wellness services in Canada.

Don’t freeze

Rather than freeze and absorb the losses in a market crash, however, know the steps to recover them and still save on taxes. Make an effort to visit the CRA website for proper guidance.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:BCE (BCE Inc.)
4. TSX:RY (Royal Bank of Canada)

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