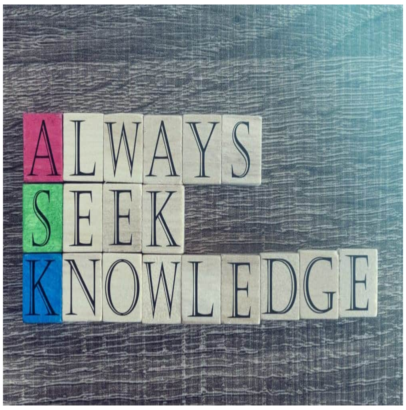

Canada Revenue Agency: 1 Investment Method for Reduced Retirement Taxes

Description

Taxes are a sad but inevitable reality of life. Whether you are at the prime of your life or living off your savings in retirement years, the CRA will take its bite out of your earnings. Higher tax bills don't annoy you as much when you are in your 40s or 50s. But in your retirement years, when you are dependent upon your savings, investments, and government pensions (CPP and OAS), large tax bills means faster depletion of your reserves.

The CPP pension is taxable, and so is the OAS pension. And if you are earning more than a set sum, you may even get subjected to OAS clawbacks. And one thing that can push you above that OAS income limit can be your mandatory RRIF withdrawals. In short, most of what you will earn in your retirement years will be taxable, except for your TFSA income.

Investment method

Diversification is a smart idea for non-institutional or retail investors to protect their capital. It's a good idea to stay in your circle of competence and primarily invest in the companies you understand, but that might limit your chances of growth. The alternative is to diversify. It may hold back your growth a bit, but it will also help keep your hard-earned money safe.

But diversification isn't going to help you with your tax bill. In fact, the larger you grow your RRSP (which will be converted to an RRIF), the larger your tax bill may be in retirement. Diversification with proper asset allocation can be the answer, primarily between your TFSA and RRSP.

The method that I am proposing is simple. If you usually diversify your stocks based on growth and dividends, then you can allocate more dividend stocks in the RRSP for slow, steady, and relatively dependable wealth growth. And you can put your growth stocks in your TFSA. No matter how wildly they grow and how much capital gains you achieve with them, it won't affect your tax bill.

A growth stock

One growth stock that you might want to check out is **InterRent REIT** (TSX:IIP.UN). It's an Ottawa-based REIT that has a diversified portfolio of residential properties. The company has been growing like clockwork for over 10 years. And it's also a Dividend Aristocrat, which increases its credibility and chances of stability, even as a growth stock.

Currently, the $3.11 billion company is trading at $18.1 per share, which is the result of a 240% increase in the market value (dividend-adjusted), of the company. But, like any other growth stock, Interrent also carries a risk. In its case, the risk is the housing market itself. Even if it doesn't crash, many experts believe that the housing market is due for a correction.

Foolish takeaway

Thanks to a higher contribution limit, chances of growing your RRSP into millions are always much higher than growing your TFSA with the $6,000 per year contribution limit. But if you align your diversification strategy (growth and dividend stocks) with your asset allocation, it might help you receive a reduced tax bill in your retirement years.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:IIP.UN (InterRent Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
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1. Dividend Stocks
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