CRA Delays Tax Deadline: 1 Reason to Rethink Your Asset Allocation

Description

The RRSP and TFSA are two amazing tools created by the Canadian government. They allow Canadians to enjoy tax-deferred and tax-sheltered growth of their investments. If used right, these accounts not only help investors provide themselves with a well-funded and cozy retirement, but they can also be used to achieve short-term financial goals.

Both accounts have their merits and limitations. And many people get confused about which one they should choose. Ideally, you should have enough put aside to fill both these accounts to the brim, but we don't live in an ideal world.

Let's say you only have $6,000 a year to invest. Should you put your money in a TFSA, for tax-free growth and income, or in an RRSP for tax-sheltered growth until you retire?

Now that the CRA has delayed the deadlines to file and pay y0ur taxes, you can use that extra time to consider your asset allocation choices. That's in addition to researching the tax breaks you can qualify for.

One reason

Many investors believe that the TFSA is a better investment tool because it's completely tax-free. They argue that with an RRSP, you ultimately have to pay taxes on what you have accumulated, which cancels out the benefit. That's a wrong assumption.

Unless your yearly income is fairly low, say south of $50,000, chances are that you will be in a lower tax bracket once you retire. The tax you will have to pay on your RRSP assets then will be much lower than what you would have to pay on that income now.

if you have $6,000 to invest, you can save $889 (assuming you live in Ontario and have an annual income of $70,000) in taxes by directing half of it ($3,000) to your RRSP. In 25 years, you will save over $22,000 in taxes if you keep following this investment allocation strategy.

On the other hand, if you invest all $6,000 in your TFSA, you will do so after paying taxes on it, probably at a much higher rate than you would pay in retirement.

One stock

After making wise decisions about your investment allocation, you should also think about where you will invest your money. One candidate could be the $4.68 billion IT company **Descartes** (TSX:DSG)(NASDAQ:DSGX). The company provides a variety of IT solutions, but its forte is logistics software, supply chain management software, and cloud-based services for logistics.

It caters to businesses in manufacturing, retail, distribution, business services, and the public sector. Descartes owes its remarkable growth mostly to strategic acquisitions. The company has been growing like clockwork since 2004, the year it truly hit rock bottom. After that, the company's growth has been very consistent. The 10-year compound annual growth rate of the company is almost 24%.

The company grew its quarterly earnings by 44.9% on a year-to-year basis. Also, its total liabilities and debt are minimal compared to its assets. Currently, it's trading at $54.5 per share, which is a 12% discount. If the company can sustain its growth pace for the next decade, it could turn your $20,000 investment into $171,000. It might seem overly ambitious, but at this growth rate, the company could make you a millionaire in 19 years.

Foolish takeaway

Picking the right stocks is only part of the picture. The full picture appears when it's time to pay the piper (taxes to the CRA). Your portfolio management requires more than just a good combination of stocks. It also requires smart asset allocation.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. TSX:DSG (The Descartes Systems Group Inc)

PARTNER-FEEDS

1. Business Insider
2. Msn
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