CRA Fines Quebec Man $500k: Is There a LEGAL Way to Avoid Taxes?

Description

Last week, *Advisor's Edge* reported that the Canada Revenue Agency (CRA) had fined a Quebec man $500,000 for tax evasion. The individual's tax scheme involved trying to shelter his "luxurious" Quebec home from taxes, through complex offshore arrangements. The man had been investigated by the CRA for years and was finally charged when he returned to Canada after a period of living overseas.

This story illustrates the dangers inherent in trying to lower your tax bill. Aggressive tax avoidance measures can get you in trouble with the law, with fines and even jail time coming as a result. If you really play it fast and loose with your taxes, you never know what the worst-case scenario could be. Fortunately, there *are* several legal ways to lower your taxes. And the best part is you can get started lowering them today.

The LEGAL way to lower your taxes

The single best legal way to lower your taxes is to hold your investments in tax-sheltered and tax-deferred accounts. There's the RRSP, which gives you a tax deduction on contribution; and the Tax-Free Savings Account (TFSA), which offers tax-free growth and withdrawals.

Between the two, the TFSA has the most obvious benefits. An RRSP could come back to bite you if you withdraw early or have too much income in retirement. A TFSA, on the other hand, will always save you taxes as long as you're realizing net gains.

An example of how much you could save

To illustrate how much money you could save with a TFSA, let's imagine that you bought $10,000 worth of **Shopify Inc** (TSX:SHOP)(NYSE:SHOP) at its IPO date, and held to today.

On the day of its IPO, SHOP closed at $34.9. Today, it's worth over $1,400. That's a return of over 4,000%. So, your $10,000 position would be worth around $400,000 now. In a TFSA, you'd pay no taxes on that gain.

Outside of a TFSA, it would be a completely different story. Of a $400,000 capital gain, half is taxable. That's $200,000. The amount of tax you'd pay on that $200,000 would depend on your marginal tax rate.

However, that's not much of an open question in this case: the gain alone would push you close to the maximum tax bracket in most provinces. So you'd likely pay about 50% on that taxable portion of the gain. The end result would be a tax bill in the vicinity of $100,000.

Foolish takeaway

As the above example shows, you can save massive amounts of money by holding investments in a TFSA. What's even better is that such tax savings are completely legal. When you try to lower employment taxes through aggressive deductions or overseas corporations, there's always the chance that the CRA will come looking for you.

Ultimately, it's not a smart thing to do. But saving money on your investments is very do-able. It all starts with a bit of savings and a TFSA.

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