CRA: 3 Ways Not to Pay Taxes on Your Investments

Description

Every percentage point makes a difference when you're trying to build wealth. Yet, the Canada Revenue Agency (CRA) extracts several percentage points from both your income and capital gains every year. Over time, this amount could add up to a colossal and tragic loss of wealth for you and your family.

Thankfully, the CRA has provided some loopholes to help you reduce, delay or completely eliminate taxes on your investment returns. Here are the top three ways to never pay taxes on investments ever again.

TFSA

The Tax-Free Savings Account (TFSA) is by far my favourite CRA tool for mitigating taxes. The best thing about it is its simplicity. You can invest the TFSA amount every year into nearly any asset class and never pay taxes on capital gains or dividends. In fact, this tax-free wrapper is so powerful, the CRA has to put annual contribution limits on it.

Maximizing this TFSA contribution limit every single year is probably the best way to create wealth without a tax burden.

Retirement savings to retirement income

I like to think of the Registered Retirement Savings Plans (RRSPs) as inverted-TFSAs. Rather than putting after-tax income into the account, you can use the RRSP to lower your income tax bill right away. In return, you pay regular income tax on the withdrawal when you turn 71.

However, there is a way to avoid this hefty tax bill at 71. Instead of taking the entire amount as a lump sum withdrawal, you could convert your RRSP into a Registered Retirement Income Fund (RRIF). Based on your age and size of the account, the CRA recommends a minimum amount you can withdraw every year. If you're retired by that age and this is your only income, the tax bill could be negligible.

Pass it on

The most extreme, yet effective way to eliminate taxes forever is to never sell. If you hold investments in an unregistered account, your capital gains and dividend income are subject to taxation. However, you can eliminate these by implementing a dividend reinvestment program with the company that you own.

You can also hold onto the stocks forever. Since there's no inheritance tax in Canada, your children or dependents could get access to your wealth tax-free, effectively avoiding any capital gains you would have been liable for if you sold.

Now, holding stocks for eternity isn't for everyone. After all, most investors hope to use their wealth to retire. But if you're savvy and wealthy enough, this is certainly a strategy you can hope to deploy.

Bottom line

They say you can't avoid death and taxes. I agree. However, the CRA does allow you to reduce or indefinitely delay paying taxes on your investments. The three strategies I've outlined above could help you significantly boost your wealth over the long-term simply by keeping control of more of your own money.

In my view, every dollar saved is better than a dollar earned.

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