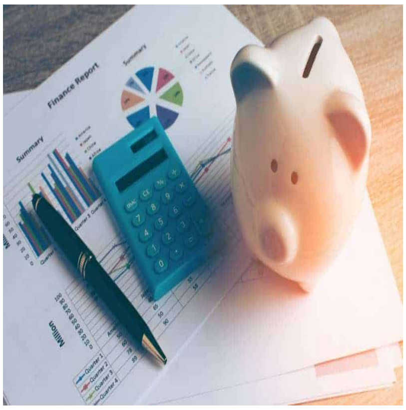

Got Savings? Then You Need to Know These 3 CRA Tax Breaks

Description

If you have some savings lying around, you might be wondering how to make the most of them. With savings accounts paying next to nothing in interest, you'll need to find something better than cash. Generally, the way you do that is by investing.

There's a whole universe of investments — stocks, bonds, ETFs, real estate, etc. — promising to deliver steady returns that can grow your wealth. By investing in a diversified portfolio of these assets, you can put your savings to work for you.

But *getting* returns is only half the battle. Once you have assets that you're confident will deliver solid returns, you need to make sure that you *keep* the returns you get on them. That's where tax efficiency comes into the picture. By making full use of the CRA's tax breaks, you can lower your taxes on investments and take more money home at the end of the day. The following are three types of tax breaks that you can claim when you file.

RRSP/TFSA tax breaks

The RRSP and TFSA are two tax-advantaged accounts available to Canadians. With an RRSP, you get a tax break when you contribute, then get to grow your investments tax free. With a TFSA, you pay no tax on your investments or on withdrawals.

We can illustrate the tax-saving power of RRSPs by looking at the effects of holding a dividend stock like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) in one. If you contribute $10,000 to an RRSP and have a 33% marginal tax rate, that saves you $3,300 on taxes. You can use the tax refund to buy more RY shares later, or if you're self-employed, simply adjust your tax calculations to include the contribution. Either way, that's more shares in RY you can buy.

Additionally, the RRSP lets you grow your position in RY tax-free. This is a big advantage. As a dividend stock, RY makes regular cash payouts that you have to pay taxes on. You can't avoiddividend taxes by just not selling — normally, that is. But by holding your position in an RRSP, youavoid the taxes on both dividends *and* capital gains — whether you cash out or not.

You do have to pay taxes on the final withdrawals when you retire, but you avoid all the dividend and capital gains taxes that would normally accrue along the way. The TFSA is similar, except that withdrawals aren't taxed.

Tax breaks on securities

Even when you're holding investments in taxable environments, there are many tax breaks you can claim. Dividends get a 15% credit on a "grossed up" (increased) value, while half of a capital gain is tax exempt. Bonds have no such tax breaks, so they may be best held in tax-sheltered accounts.

Real estate tax breaks

If you're investing in real estate, there are countless tax breaks you can take advantage of. Operating a rental property is a business, and you can deduct expenses accordingly. These expenses include bank charges, maintenance fees, office expenses, home renovation costs, and even property taxes. You can't claim these on an entire house if you're only renting out part of it, but you can claim the percentage allocated to the rental unit.

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