Canada Revenue Agency: How to Pay ZERO Taxes

Description

Do you want to pay *zero* taxes to the Canada Revenue Agency?

If the answer is "yes," then I have some good news and bad news for you.

The bad news is that, unless you're unemployed long term, you probably can't avoid being taxed on your employment income. Federal taxes at even the lowest income levels are 15% in Canada, and there are provincial taxes on top of them. There's no realistic, legal way to totally avoid these taxes.

If you're talking about *investment* taxes, though, it's a different story. Depending on how much savings you have, it's possible to pay *zero* taxes on all of your investments. In this article, I'll explore how this can be done.

Invest in a TFSA

If you have less than $69,500 in total savings, then you can pay zero taxes on investments by holding them in a TFSA.

The TFSA is a special tax-free account recognized by the Canada Revenue Agency. You pay no taxes on investments held in it, nor do you pay taxes on withdrawals. The tax treatment inside a TFSA is similar to an RRSP. The difference is that the TFSA doesn't have the withdrawal penalty.

Why the TFSA bests the RRSP

Most Canadians who want to save on taxes contribute to RRSPs. You get a big tax break for contributing, after all — potentially thousands of dollars a year.

But the RRSP comes with a big catch: you have to pay taxes on all your investments when you cash them out later. Up to 30% can be withheld at source, and if your marginal tax rate is higher than 30%, then you have to pay even more come tax time.

The TFSA doesn't have this "gotcha," making it a much more straightforward tax-saving account, with unambiguous net benefits.

Solid TFSA investments to consider

If you want to start investing in a TFSA, there are many types of investments to consider.

One category of investments worth looking at is bank stocks like **Royal Bank of Canada** (TSX:RY)(NYSE:RY). These investments are uniquely suited to take advantage of the TFSA's benefits.

Royal Bank stock has a very high yield (4.3%), meaning that a lot of your return comes from automatic dividend payments. Outside of a TFSA or RRSP, dividend taxes are nearly impossible to avoid. You pay taxes on dividends no matter how they are issued. Even if you re-invest in Royal Bank shares automatically, you have to pay the cash equivalent to the Canada Revenue Agency.

With growth stocks, you can avoid taxation by not selling. With dividend stocks like RY, there's no such option, making them perfect candidates for holding in a TFSA.

Another prime candidate is index funds like the **iShares S&P/TSX Capped Composite Index Fund**. Like dividend stocks, these also offer cash distributions. Unlike individual stocks, though, they don't require particular financial expertise to begin buying them. Index funds reduce risk through diversification, eliminating the need to actively time the markets. This makes them great "beginner" investments for those just getting their feet wet with investing.

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andrewbutton