Hate CRA Taxes? 2 Stellar ETFs to Buy and Hold Forever

Description

Canada Revenue Agency (CRA) taxes can be a huge pain in the neck for self-guided Canadian investors who haven't allocated their investments across accounts in a tax-efficient manner. For young investors who desire to hold onto their investments for the next 10, 20, or even 30 years, there are trivial ways to improve one's tax efficiency without worrying about not optimizing for capital gains taxes or investment income.

Of course, there's the TFSA (Tax-Free Savings Account), which is a one-stop-shop solution to shield one's gains and dividends from the CRA legally. But for those who hold investments in non-registered accounts, there are stellar ETFs that can allow investors to delay capital gains taxes for years, if not decades, down the road.

If you're like Warren Buffett and desire to hold an investment forever (or at least for many decades at a time), Horizons has a suite of index ETFs that don't pay distributions, thus eliminating the insidious effects of investment income taxation.

Designed for the young and the passive

Consider **Horizons S&P TSX 60 Index ETF** (TSX:HXT) and **Horizons S&P 500 Index ETF** (TSX:HXS), two stellar options for buy-and-hold investors that want an easy way to improve their tax efficiency outside of their TFSA accounts. Both ETFs have 0% yields and aim to mirror the performance of their respective market indices.

One of the benefits of not having taxable distributions is, the investor won't be on the hook for annual investment income taxes in one's non-registered accounts. ETF distributions are typically taxed at one's marginal income tax rate, and for Canadians in higher-income brackets, it's well worth having distributions reinvested automatically, courtesy of the folks managing an ETF.

The automatic reinvestment of the ETF's constituent distributions allows for continuous (and more efficient) compounding. Most investors reinvest distributions (or interest and dividends) monthly, quarterly, semi-annually, or even annually. With the HXT or HXS, distributions are reinvested without requiring investors to do anything on their part.

Once the investor decides to take profits in either the HXT or HXS, they'll record a capital gain that's taxable at a lower rate (typically 50% of their marginal income tax rate). That's tax efficiency made easy, especially for those who look to sell after they've hung up the skates on the labour force. And for young investors who wish to buy and hold forever? They'll feel the full effects of the power of long-term compounding with taxes taken out of the equation.

Foolish takeaway: The perfect set-and-forget investment for passive investors

For set-and-forget investors who want the full effects of compounding outside of a TFSA over the extremely long term, Horizon's line of tax-efficient index ETFs are well worth the price of admission. The management expense ratio (MER) is ridiculously low, at 0.1%. Given how much you'll save in CRA taxes and the added effects of more frequent compounding made possible by automatic reinvestment of each ETF's constituent distributions, the 0.1% MER, which is higher than the MER of many other index ETFs, is worth paying up for.

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