2021 Tax Season: This 1 Awesome Tax Trick Will Save You Thousands

Description

It's almost tax season, so what better time to start thinking about how to get the most out of your investments? The government has a number of fantastic investment tools that Canadians can use to grow our bank accounts, and even lower our taxes. Of course, you likely already know about the Tax-Free Savings Account (TFSA), but you can even lower your taxes using the Registered Retirement Savings Plan (RRSP)!

So let's get right into this tax trick.

First, the TFSA

Ideally, investors should try and max out their TFSA contribution each and every year. However, for some that might not be possible. As of Jan. 1, 2021, the total contribution room is $75,500. That's a lot to put aside. But if you've been maxing out since 2009, that means this year you'll only have $6,000 of contribution room. You can always check by either calling the Canada Revenue Agency (CRA) or checking your CRA My Account.

After you have the amount available figured out, the next step is to choose the right stocks. The TFSA is amazing, as you can take on any capital gains, interest and dividends tax free! So that's why it's a great idea to choose a stock that will continue to offer strong returns and dividends for years to come.

A perfect option is a stock like **Royal Bank of Canada** (TSX:RY)(NYSE:RY). The bank is the largest of the Big Six Banks by market capitalization. It's been expanding into emerging markets and into the wealth and commercial management sectors, bringing in solid and lucrative returns. It also has a long history of dividend payouts, with a current yield of 4.09%.

The bank might see downturns during moments of economic crisis, but it'll bounce back as it has for over 100 years, making it a strong and safe bet. For example, if you had invested $10,000 in Royal Bank 10 years ago, today you would have around $74,460.83 today!

Transfer it to your RRSP

Yes, this is the tax trick. Let's say you started up your TFSA when you were around 30. Now, it's been a decade and you're making far more income. That income is taxed, so you'll want to use every method you can to bring down your tax bracket. Even the smallest bit can take you from one tax bracket into another lower one after all.

So, if you find yourself in a higher tax bracket and have room in your RRSP, and have a TFSA with a solid amount invested, you could choose to take some TFSA cash and put it into your RRSP. By doing this, you'll get a tax refund or bring down your owing balance. This could be huge if you're in a higher tax bracket, and could save you thousands if used in the long run.

Let's look at Ontario's federal and provincial tax rates for example. If you make under $48,535, like many 30-year-olds, your tax rate will be at around 15%. But if you make between $97,069 up to $150,473 that's suddenly 26%! If you're able to drop that $97,069 to even just $96,000, suddenly your tax rate is 20.5%! That $1,069 contribution just saved you $5,824.14 in taxes!

Bottom line

It's your money. While our taxes provide us with a great lifestyle, you also deserve every penny you can manage. By using this tax trick, you'll be able to keep as much as you can, and invest in solid companies like Royal Bank that will continue paying you for decades.

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Author
alegatewolfe