Hate Paying Taxes? Do This 1 Trick With Your TFSA and RRSP

Description

No matter how much you hate paying taxes to the Canada Revenue Agency (CRA) every year, you can't be delinquent in your tax obligations. Late filing will cost you already, but not paying at all is a criminal offence. Tax evasion or intentionally ignoring Canada's tax laws has serious consequences.

However, Canadian taxpayers have ways to lessen the impact of the compulsory financial charge of the government. You can do some nifty moves or tricks using the available tax-advantaged and tax-sheltered accounts. The Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP) are excellent tools to offset tax payables.

Tax-free money growth

A TFSA is a one-of-kind investment vehicle, because you can grow money without the CRA's interference. Any interest, profit, or dividend gained from the account is non-taxable. If you can maximize your annual TFSA contributions, the more you can create tax-exempt income.

Generally, TFSA contributions are after-tax income and therefore not tax deductible at the onset. The only condition to be tax-free all the way is to follow the governing rules. Otherwise, the CRA can impose penalties or withholding taxes.

Tax-sheltered contributions

The RRSP came before the TFSA, so most Canadian taxpayers have been using the account for tax-shelter purposes. With the TFSA, you can make use of both accounts to reduce taxes. RRSP contributions are instant tax deductions, although the tax obligation is due when you withdraw the funds in the future.

Like the TFSA, unused RRSP contributions carry over to the next year or indefinitely. The only drawback is that you lose the contribution room for good once you withdraw the funds. Also, you can only maintain your RRSP until age 71. For the TFSA, you can be a user as long as you wish.

Bond-like income stock

Young and old taxpayers can purchase **Fortis** (TSX:FTS)(NYSE:FTS) shares and hold them in either a TFSA or RRSP. The utility stock is ideal for long-term and risk-averse investors. Most dividend investors liken the $25.72 billion gas and electric utility company to bonds.

Fortis's energy-delivery business is geographically diversified. Cash flows are stable and recurring as the bulk of revenues come from regulated utility rates. If you were to take a position today ($54.84 per share), the dividend yield is a decent 3.68%. Management plans to increase the dividend by 6% annually through 2024.

In case you're still doubtful about Fortis's reliability as an income provider, the stock's total return in the last 20 years is 1,085.82% (13.15% CAGR). The company has likewise raised dividends for 47 consecutive years. A Dividend Aristocrat with bond-like features will not disappoint investors, regardless of the market environment.

Neat technique

If your income will put you in a higher income tax bracket, consider moving your TFSA funds to your RRSP. The withdrawals are tax-free, and you shelter your RRSP contributions from taxes. This neat technique shows that a TFSA and RRSP are complementing, not competing accounts. You have two great tax-saving tools at your disposal.

Inversely, if you're about to max your RRSP contributions or the contribution room is limited, use your TFSA to boost tax savings. When you turn 71, convert your RRSP into a Registered Retirement Income (RRIF). More tax benefits await, because you become can split the pension with your spouse.

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