3 Tax-Saving Tricks You Can Learn From the Top 1% of Canadians

Description

Canadians with an income of approximately $9,000,000 will land in the top 1% of the country's wealthiest people in 2021. Statistics Canada published the high-level data findings. Also, three income brackets comprise the rich in the country: the wealthy, the very high net worth (VHNW), and the ultra-high net worth individuals (UHNW).

Meanwhile, any extensive study by Wealth-X lists Canada as the country with the fifth-highest number of UHNW (US$30 million plus wealth). The Canada Centre for Policy Alternatives (CCPA) proposes imposing a wealth tax on the super rich. If the government does impose a 1% tax on Canadians with wealth over $20 million, it will result in about $10 billion in revenue.

According to CCPA, the tax revenues could finance key public investments in the wake of COVID-19. But setting aside the wealth tax, wealthy people have tricks to lessen the Canada Revenue Agency's (CRA) take on their income. Ordinary taxpayers could learn a lesson or two.

1. Shelter investment income

Wealthy Canadians are Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA) account users, too. The purpose of using the two investment accounts is to enable them to save money and shelter incomes from the tax agency. Regular taxpayers can save and invest in assets like bonds and stocks.

2. Incorporate a business

The rich put up their own business or run a side business then incorporate. This route could lower tax rates. Other benefits include business write-offs and tax-deductible individual pension plans.

The 2019 small-business deduction (SBD) tax rate, for example, is 9% after the federal tax abatement. Thus, you'd pay a much lower corporate tax rate on your income. The claimant must be earning active business income to qualify. However, decide first if it's worth spending for incorporation costs.

3. Split taxable income

Average Canadians can shift taxable income like what the wealthy practice. A spouse in a higher tax bracket can transfer some taxable income to another family member, including children. Furthermore, when you extend a loan to a spouse or child who doesn't earn income, the CRA will tax your money at the lowest tax bracket.

Financial cushion

TFSA and RRSP users, regardless of the income tax bracket, have the same contribution limits. If finances allow, invest in a high-yield stock like **TC Energy** (TSX:TRP)(NYSE:TRP). The $57.4 billion energy infrastructure company pays a 5.88% dividend.

$20,000 in available contribution room produces $1,176 in tax-free TFSA income and tax-sheltered RRSP income. The energy stock has recovered from its COVID low. Its year-to-date gain is 15.06%. TC Energy's natural gas transmission and gas storage business are vital to North America's oil and gas midstream industry.

Natural gas in particular should be in high demand in the coming years, as the goal is to transition away from coal-fired power production. TC Energy has a secured capital program worth $20 billion. Expect the company to have steady cash flow and revenue growth through 2024. Management plans between 5% to 7% average annual dividend increase over the next few years.

Equal footing

The rich are the smart when it comes to holding money and preserving wealth. Effective tax planning also contributes to their financial success. Regular taxpayers can learn and adopt the same practices. The CRA doesn't prohibit Canadians from using them, because they do not violate the country's tax laws.

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