

## **Tax Tip**

**Week of August 8, 2011**

### **RRSP Investments**

Income within a RRSP is not taxable, but the amounts are fully taxable when withdrawn. Thus, dividends and capital gains lose their favourable tax status within the RRSP. The following guidelines suggest the most favourable tax treatment, but the goal is to maximize the size of the RRSP. Thus, owning stock within a RRSP would result in the dividends and capital gains being fully taxable, but if the stock appreciates 20% in value, it is still a better after tax investment than holding other assets that only increases 3% in value, but are more tax effective. Guidelines to consider when structuring a RRSP portfolio:

*Maintain Strip Bonds in RRSP's* – Although the bondholder does not receive cash until the bond matures the increase in the value of the bond is taxable each year. This is an ideal investment for RRSP's

*Capital Gains* – Fully taxable within the RRSP, but 50% taxable if the investment is held by an individual. All other factors being equal, assets generating capital gains should be held outside of the RRSP

*Canadian Dividends* – Since the dividend tax credit cannot be claimed within the RRSP, the preferential tax treatment is to hold Canadian stocks outside the RRSP

*Labour Sponsored Venture Capital Corporations* – These investments, especially when contained within an RRSP, provide generous tax incentives. However, as investments many of these ventures have provided a very poor

return, while being charged a high level of fees. Many taxpayers have found these investments use RRSP contribution room, while decreasing in value. These are high-risk investments that should be avoided by unsophisticated individuals.