Boosting The After-Tax Return On Your Investments

A recent article in The Globe and Mail offered "Five ways to boost after-tax returns on your investments." While most investors are likely already familiar with these tax saving ideas, with April 30 fast approaching they bear repeating.

As the article points out, "If you happen to be an investor, you're no doubt looking for ways to increase your returns. Look no further than your own tax return. If you can achieve tax savings related to your investments, this will increase your after-tax returns."

Below we've included 4 or the 5 tips ways the article suggests to boost your after-tax returns on your investments:

1. Claim interest costs

This is kind of a no-brainer for most investors. Nonetheless it's an important reminder that if you borrow money with the purpose of earning income, the interest costs are generally tax deductible.

The article includes this information in response to "What about capital gains?"

> ***"The federal government generally takes the view that an investment without a stated interest or dividend rate – such as most common shares or mutual funds – will typically give rise to interest deductibility on the basis that there is an expectation of dividends or interest in the future.***
>
> *If you invest in something that has absolutely no opportunity to provide income – just capital growth – you may run into a problem deducting interest costs if you've borrowed to make the investment.* ***When it comes to deducting interest, don't forget to check your brokerage statements for any eligible interest you might have paid."*** *(emphasis added)*

2. Allocate fees to non-registered accounts

Fees paid on registered plan accounts (RRSP, RRIF, TFSA) are not deductible, but fees paid on your non-registered accounts generally are. The article suggests the following:

> *"If your adviser spends much more time and effort to manage your non-registered accounts, he may be able to allocate a greater portion of his fee to those accounts."*

3. Report your spouse’s dividends on your return

The article suggests that if your spouse has little or no income, and has received dividends from Canadian securities, there may be a benefit to having the spouse with the higher income report the dividends on their tax return. “You’ll be entitled to a higher spousal tax credit because your lower-income spouse will now have less income to report.” As always, talk a professional advisor to determine what is the best option in your situation.

4. Consider Consider capital versus income treatment.

Where you have the option on how to report your investment profits, as business income or capital gains, the article suggests that when it comes to profits “you’ll general prefer capital gains treatment if you have profits because just 50 per cent of capital gains are taxable.” When it comes to losses, “business losses can be applied against any type of income while capital losses must be applied against capital gains.”

“You can’t simply report your profits as capital gains and your losses as business losses. The taxman expects consistency,” the article points out. It goes on to include seven questions to ask yourself to help determine whether “the taxman may consider income rather than capital treatment to be appropriate.”

To read the full article in The Globe and Mail click here.

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