Video transcript

Solutions

Understanding Investment Income

A man carries a heavy portfolio

So, you've built a diversified investment portfolio. It contains lots of different mutual funds, ETF's, stocks and bonds.

He drops the portfolio and it rolls away. Another man picks it up.

But, when it comes to taxation, not all investment accounts are created equal. It's important to know that there's a difference between registered and non-registered investments accounts.

He throws it in the air and it lands on a microscope. The portfolio is inspected.

Examples of registered accounts in Canada include RRSP, RESP, TFSA, and RRIF – these have tax-deferred or tax-sheltered status. Income and gains on investments in a non-registered account are subject to taxes annually when earned or realized.

The tax man points to two columns that appear on the wall. Non-registered and Registered. The names of the accounts all appear on the wall. He holds up an umbrella as it starts to rain. The tax sheltered accounts are protected from the rain. The non sheltered asseds asre subject to taxes.

Knowing your marginal tax rate, the rate of tax you pay based on your last dollar of income, will also help put your tax puzzle together. Then you will want to consider the different types of investment income.

The tax man holds up the mans T4 and points to it. A giant number pops up on the wall. 30%. He throws the T$ to the man and picks up a globe and begins spinning it. The globe stops on Canada.

Canadian interest income: Interest earned on Canadian fixed income investments generates the largest tax hit. Interest is taxed at your **marginal tax rate**. Keep in mind that mutual funds and ETFs can generate this income and pass it on to you, the investor.

The globe spins slowly shoing a wide range of countries.

Foreign income: There is no special treatment for foreign income. It's all taxed at your **marginal tax rate**. Except for foreign dividends. Some tax is withheld by the company's country of residence. This creates a credit that can reduce your Canadian tax owing.

Both chracters fall out of scene and land in a city. Small dollar signs pop up from the buildings as they generate dividend income.

Dividend Income: Dividends are funds paid by corporations to shareholders with after-tax income. Canadian dividend income is subject to a preferential tax treatment making it more efficient than interest income. Speak to your advisor to find out more about the tax treatment of dividend income.

The character grabs a dividend and throws it to the other character. As he catches it, they both fall into the next scene.

Capital gains: Capital gains come with the ownership of capital property. Investments like real estate and shares in a company can be subject to capital gains. Capital gains are only realised when an asset is sold. The good news is that only 50 per cent of this growth is included in your taxable income.

A house pops up on the wall followed by a building representing common stock. A sold sign appears on the lawn and some scissors swoop in and cut them in half.

Another feature of capital gains is that they can be offset with capital losses from other investments. Speak to your advisor for more information on offsetting capital gains.

The half house and half building move into a table that shows one as a gain and one as a loss. They offset each other.

As always, when it comes to your investments and the tax implications, consider your financial goals, the amount of time you will invest and your tolerance for risk. Want to learn more? Your advisor can help you make sense of the best tax strategy for your investments.

The tax man spins the portfolio and stops it. He throws a cell phone to the other man to call his advisor.

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