FinStart

Which investments work best where? (TFSA, RRSP, and a taxable account)

Once you have the registered and taxable accounts (because you've run out of your contribution room in the TFSA or the RRSP), you may want to consider tax rules. But don't overthink this - no perfect way to do it exists and you should not complicate things just because of taxation.

Three rules of thumb are worth remembering:

1. Place fixed income investments in your RRSP account first (and in in taxable accounts last).

- This is because interest is taxed at your marginal tax rate and there are no tax credits for fixed income.

2. Equity investments work fine in all accounts, for different reasons:

- The TFSA shelters the high return they provide in the long run (but if you have investment losses, you cannot use them to offset gains).
- The RRSP also shelters the return but it only defers the tax (and you cannot use capital losses to offset gains).
- In taxable accounts, capital gains are taxed at a lower rate than interest / dividends.

3. Within equities,

- **Canadian equities** work well in taxable accounts -Canadian dividends are taxed at a lower rate than foreign dividends (because of the tax credit).
- **US equities** work well in the RRSP (after you've use the room for all your fixed income needs), but you should buy US-listed ETFs in US dollars and this will likely require opening another RRSP account in US dollars and makes sense only if you can exchange Canadian dollars at a good rate.
- **International** (non-US) equities work well in the TFSA - foreign dividends are fully taxable otherwise and international equities tend to have higher dividends that are worth sheltering form tax.

If you want to know more practical stuff about investing and tax, try searching investment blogs, such as www.MoneySense.ca or www.CanadianCouchPotato.com (no subscription required), and The Globe & Mail and the Financial Post (subscription needed).