What you need to know about investing and tax

1. Registered accounts

TSFA: There is no tax on the amount you take out of the account ('withdraw').

RESP and RRSP: In the year when you withdraw the money, the entire withdrawal will be taxed.

- The amount you withdraw will be added to other income you'll have that year and taxed at the same rate as all your other income (for example, employment income).
- It makes sense to withdraw when your other income is low - for the RESP, when you're a student, and for the RRSP when you've retired.

2. Taxable accounts

How much income tax you pay (tax rate, or percentage) and when you have to pay it depends on what kind of investment income it is – interest, dividends, or capital gains.

	What tax rate you'll pay	When you'll pay tax
Interest (on fixed income)	Highest	Every year
Dividends (on equities)	Dividends from foreign companies are taxed at the same rate as interest Dividends from Canadian companies are taxed at a lower rate than foreign dividends	Every year
Capital gains (on both)	Lowest	Only when you sell the investment

Interest is the small, regular payment you get from your savings account, GICs (guaranteed investment certificates), and bonds (also when you invest in bond mutual funds or ETFs).

Dividends are small, regular payments you get when you invest in some (not all) stocks (also when you invest in stock mutual funds and ETFs).

Capital gain is the difference between the price you sell at and the price at which you bought, both minus transaction costs – for example, if you paid commission.

- You can have capital gains on both equity and fixed income investments (but those on equity will be bigger).
- Only half of capital gains are taxed at your marginal tax rate.
- In addition, capital losses reduce your gains (and the tax you pay) – and you can use excess capital losses from any year for up to 3 years back (by restating your tax filing) or indefinitely into the future.

You'll know when you have to pay tax on your investment income because the financial institutions where you have your accounts have to send tax slips to you and the CRA (Canadian Revenue Agency).