

INVESTMENT EARNINGS & TAXES



Let's talk simply about your investment earnings!

Capital Gains are the earnings when the value of something you own increases over time. The gain is realized when the item is sold for a higher price than what was paid for it. There is also the potential for loss if the item has depreciated in value when it's sold, (capital loss).

Dividends are profits from a company that are paid to its shareholders.

Interest is payment for borrowing money.

Investments could be paying one, all, or any combination of capital gains, dividends, and interest. Why is it important to know how earnings are made?

Because they are all taxed differently and depending on your goals one may be more suitable to your needs than another.

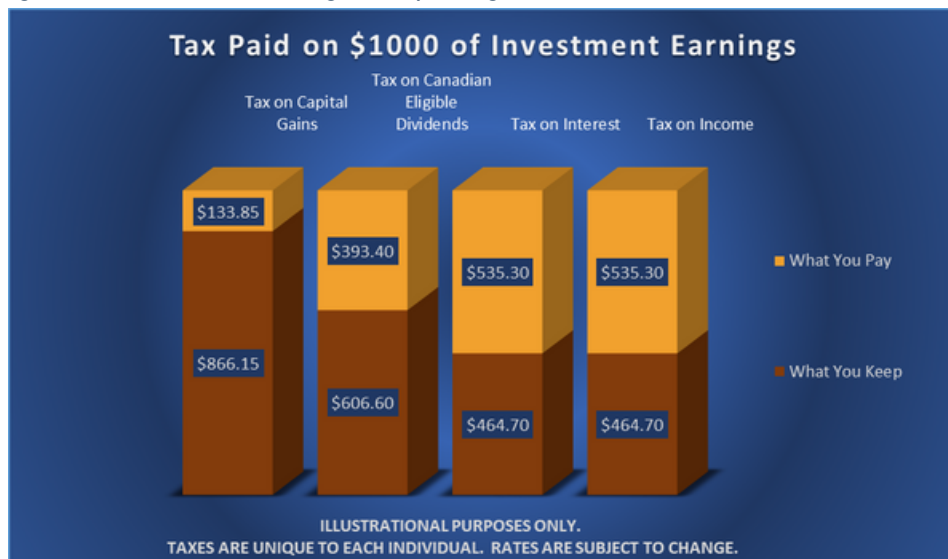
Let's focus on the taxes for this article.

Capital gains are taxed on 50% of the gain.

Dividends are a little more complicated, in a nutshell, for the purpose of calculating the tax, the government multiplies what you earned (called a "gross up") and then calculates a credit, (calculations depend on the province you live in), to offset your eligible Canadian dividends.

Interest is taxed as if it were income. There are no benefits or calculations other than your regular income tax calculations.

The following example illustrates how much earnings are taxed using an investment earnings of \$1000 and assuming the top marginal tax rate in Ontario.



Let's add more balls in the air as we juggle this information...

The taxation calculations above apply when earnings are in an open or unregistered plan.

If you have an RRSP, RRIF, LIF, pension, or retirement plan with investments paying capital gains, dividends, and/or interest, the taxation changes; it is all taxed as income at the time of withdrawal.

If investments are held in a Tax Free Savings Account plan then NO taxation on any earnings at any time.

If you are interested in learning more or would like a review of your portfolio to assess if you're positioned efficiently for tax purposes please contact our office. Come and experience the Lewkowitz difference!

A SIMPLE PERSPECTIVE

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