

How you receive income is a key tax issue

In an earlier section, we looked at some of the factors you should consider in evaluating an investment, such as risk, potential for appreciation, liquidity, time horizon, and of course, the potential of the investment to provide us with income.

The ultimate goal for every investment is to eventually provide us with income – either interest income, dividend income or capital gains.

But some forms of income are better than others – at least from a tax point of view. Some types of income receive favourable tax treatment.

This means when you're building your portfolio and considering an investment, you have to consider the after-tax returns. And you have to evaluate it in light of your marginal tax rate and any other relevant tax issues.

Here are some figures illustrating the different tax treatments.

-If you're in the top tax bracket, the numbers below show how much you would get to keep of \$1,000 in investment income:

-If dividends from Canadian corporations - \$683

-If capital gains - \$768

-If interest or foreign income - \$535

This means if you are in a top marginal tax rate, \$100 of dividend income is the same after tax to about \$130 in interest income. This can have an enormous impact on your planning and how you want to receive your income.

Part of your investment planning should be to determine how much you will receive of these three forms of income and what the tax implications might be.

You have to weigh the pros and cons and you have to consider your own situation and your tolerance for risk. For example, although dividend income is taxed less, it is generally not as secure and reliable as interest income.

Important: This brief section has merely scratched the surface of the complex world of tax efficient investing. To make the most of your situation and to take advantage of the opportunities that may be available to reduce your taxes and keep more of your money, you are strongly advised to seek professional assistance.

If you're not sure who to call, why not click [here](#) to find the CPA financial planning professional closest to you. Although they may not be able to provide you with tax advice, they can help put you in touch with a tax expert who can.