INITIATIVE

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Tax Loss Selling

When it comes to selling investments, the old saying goes BUY LOW, SELL HIGH! Tax loss selling is one of the very few reasons you may consider actually selling low.

Tax loss selling is a tax strategy to minimize capital gains realized from other sources. It can include losses from the sale of assets such as segregated and mutual funds, stocks and property including rental property or family cottages, but not principal residences. Tax loss selling only applies to investments outside your RRSP or TFSA.

You can offset your capital gains against capital losses. While no one likes selling a stock at a loss, it can make sense when the stock no longer meets your investment objectives – and you can use the loss to reduce your taxes. It is important to identify which assets are suitable candidates for tax loss selling.

Tax loss selling usually takes place at year-end, when an investor knows his or her net taxable capital gains for the year. Capital losses realized during the year offset capital gains realized during the year for a net capital gain or loss. A net capital gain is taxable in the year. A net capital loss may be carried back 3 years or forward indefinitely to apply against net capital gains.

With tax loss selling, the selling transaction must settle before the last business day of the calendar year (given a three business day settlement period, the deadline for 2012 is about Thursday, December 20th). In addition, you should be aware of the "superficial loss rules" (e.g. do not purchase or repurchase the losers within 30 days before or after the sale). You may want to consider buying similar but not identical securities.

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The Initiative is a monthly case study and information brief for distribution partners of The Empire Life Insurance Company (Empire Life). Details are edited to illustrate relevant financial, tax & estate planning principles, generally using the Federal context. This material is current to the year and month of issue (Vol. yy, No. mm) but is not a tax or legal opinion. Retained professional advice should be engaged in relation to any actual Client matters.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides broker support, including seminar education, advanced concept illustrations & Client case consultations.

Marilyn deRooy is a member of STEPUP. She focuses on legal, tax & estate planning concepts, and guidance for related product strategies.

Ready to discuss estate planning and client wealth strategies that matter to you and to your clients, please contact your Account Manager

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Superficial Loss Rules

If you sell a security to trigger a loss, and you or an affiliated person (for example your spouse or a corporation you control) purchases an "identical security" within 30 calendar days before or after the sale date, and that person still owns that security 30 days after the sale date, then the capital loss is denied to you and added to the cost base of the affiliated person who bought it. This rule also applies if you or the affiliated person buys an option or right to buy the security that was sold.

Shares of competing companies within an industry should not be considered "identical securities" for purposes of the superficial loss rules, while index funds, which track the same index, would be considered "identical securities" under the superficial loss rules.

Tax loss selling can be complicated and is a somewhat sophisticated strategy. If some of these examples apply to you, seek some input from either a financial advisor or the STEUP UP team to discuss how to make the strategy work for you.

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