STEPUP
Sales Tax Estate Planning Underwriting & Product Newsletter

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, but not a principal residence or a family cottage. Tax loss selling only applies to investments outside your Registered Retirement Savings Plan (RRSP) or Tax Free Savings Account (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). For example, the deadline for 2016 is Friday, December 23rd. In addition, you should be aware of the "superficial loss rules" (e.g. do not purchase or repurchase the assets on which you had lost money on sale within 30 days before or after the sale). You may want to consider buying similar but not identical securities.

Vol. 12, No. 11

Peter A. Wouters,
Director, Tax Retirement & Estate Planning Services, Wealth

Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He annually provides 100's of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As a Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

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

Peter can be reached at peter.wouters@empire.ca

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Tax Loss Selling

Superficial Loss Rules

If you sell a security to trigger a loss, and you or an affiliated person (for example your spouse, a corporation you control or a trust of which you are a majority interest beneficiary, including a Registered Retirement Savings Plan (RRSP) or a Tax Free Savings Account (TFSA) whether as a contribution or as an asset swap.) 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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