

Tax loss selling: Tis the season



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Executive summary

Tax Loss Selling is a strategy that employs selling losing securities in order to trigger allowable capital losses that can then be used to offset your taxable capital gains. The losses must first be applied to any capital gains in the current tax year, but anything left over can be used to offset any gains you had in the previous three years, or you carry them forward indefinitely. Tax loss selling is only a valid strategy for non-registered investments, any gains realized within a registered investment (such as an RRSP), you cannot use it for a tax loss.

What you need to know

Tax loss selling is a strategy that should be implemented only when you have losing stocks that you do not see recovering any time soon. It is important to truly value the stock before you sell it for the loss. Investment principles should come into play before tax considerations. The CRA has strict rules on selling and rebuying securities. In order for the loss to be deemed allowable, you are not permitted to buy back the securities within 30 days of selling it it is deemed a superficial loss. Superficial losses will be denied by the CRA come tax time.

When working with registered investments, tax loss is not a workable strategy. Any shares that are transferred into a registered investment are deemed to have been transferred at Fair Market Value (FMV). This can often result in a capital gain, but the CRA does not allow any capital losses to be claimed. In these circumstances it may be best to sell the shares and contribute the cash to the registered investment, in which case a loss would be allowed. You could purchase a similar security or re-purchase your sold security after 30 days.

For a loss to count in the current year the trade must be settled on or before December 31st. The settlement date is three days after the trade, and because of Christmas and Boxing Day, the last day to for selling stocks this year is December 24th. Any stocks sold after this date will be counted towards the next tax year.

The bottom line

The end of the calendar year may provide the incentive needed to dump some stocks that could have or should have been sold earlier. Tax Loss Selling is one way to do what needs to be done. Feel free to contact me directly to learn more about this investment strategy.

For more information contact:

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