Question
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YOUR MONEY

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Tax Loss Decisions Require Careful Thought

Taxes. Taxes. Taxes. I'm sure you're wondering why I bring up the topic – when summer is just around the corner and they're probably the last thing on your mind. However, prudence throughout the year saves you (and your accountant) a lot of time and frustration when tax season arrives.

If you've realized capital gains in your non-registered investments, you may want to consider triggering some tax losses. By selling losing positions, investors have the potential to offset capital gains and reduce their tax bill. Depending on your situation, you may even be eligible for a refund from the Canada Revenue Agency on taxes paid in previous years.

Most tax loss selling is left until the very end of the year, often resulting in a bit of market volatility. Sellers try to trigger losses, while bargain hunters search for deals. Instead of trying to time the market and battle the seasonal volatility, you are wiser to apply a disciplined approach *throughout the year.*

As an example, let's think about stocks in a particular sector. If you bought technology stocks during the height of the high-tech boom, it could well be that you are now sitting on a loss or losses. If you are, and don't feel that a losing position is going to return to its previous stature, you might consider selling.

When considering your choices, remember that you shouldn't sell a stock just to trigger a tax loss. All your investment decisions must be based on careful analysis and thorough evaluation. You will want to ensure that you have no reason to hold the stock any longer. If you think there is a possibility that the stock can recover, you may want to make a different decision.

If you feel that the sector is due for a rebound in the near future and still want to take part in the action, you must be sure that you abide by the superficial loss rules. In order to crystallize your capital loss, you cannot buy back the same stock within 30 days of selling it. To maintain your exposure to the sector, you can substitute the stock by buying either a technology-focused fund or shares in a different technology company.

Key points:

- Tax losses in non-registered accounts can be applied against capital gains incurred over the last three years and can also be carried forward indefinitely to offset future capital gains.
- Be mindful of superficial loss rules – wait at least 30 days before repurchasing the same security.
- Consult with your accountant and/or tax lawyer to see if any alternative strategies apply.

Please note that the information I've provided cannot be construed as specific tax advice. I strongly encourage you to contact your accountant and/or tax lawyer to make sure any tax loss selling fits with your particular situation. If you are not currently using either of those, I would be pleased to introduce you to a qualified professional.

Kim Inglis is an Investment Advisor. The views in this column are solely those of the author. www.kiminglis.ca