RBC Investments

Financial Planning Quick Tip

May 12, 2004

SUBJECT: ADJUSTED COST BASE CHECKLIST

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Many individuals go through the exercise of determining an accurate Adjusted Cost Base (ACB) for reporting their capital gains or capital losses on the sale of securities. The following represents a checklist of some common rules that you should be aware of in trying to arrive at an accurate ACB for Canadian income tax purposes (this is not an exhaustive checklist):

- In general, the weighted-average cost method must be used to determine the ACB per share of all identical property held in all of the taxpayer's non-registered accounts. Therefore, to determine the accurate weighted average ACB, one must consider <u>all identical property</u> in all of the taxpayer's non-registered accounts held at full service brokerage firms, discount brokerage firms, employee stock purchase plans and in certificate form. Ask your advisor for the *FAST Quick Tip* called "Identical Shares Purchased Before and After 1972" for an exception to the weighted-average cost rule for identical securities purchased before and after January 1, 1972. As well, ask your advisor about the Bulletin article "Taxation of Employee Stock Options", for exceptions to the weighted-average cost rule for stock acquired through qualifying stock options.

- Those individuals that disposed of limited partnership units or income trust units must ensure that the amount of any non-taxable Return of Capital distributions received in any year is subtracted from the ACB. Note that certain mutual funds can also distribute Return of Capital distributions that must also be subtracted from the ACB.

- Those individuals that reinvest their mutual fund distributions to purchase more units of the fund must add the total amount of reinvested distributions to the ACB. If this is not done, the individual will end up paying double tax – once on the receipt of the distributions and again on the redemption of the fund units. Those in stock dividend reinvestment plans (DRIPs) must also add the actual amount of reinvested dividends to their ACB.

- If an individual disposed of property that was owned since February 22, 1994 it is always wise to check the 1994 income tax return (CRA T664) to see if a final election was made at that time to crystallize any remaining $100,000 capital gains exemption for the disposed security. If there was adequate general $100,000 capital gains exemption remaining at that time, this election could have "bumped up" the ACB of the security at that time to its February 22, 1994 fair market value. Ask your advisor for a copy of the *FAST Quick Tip* called "Mutual Funds and the $100,000 Capital Gains Exemption" for different rules that apply to mutual funds.

- If an individual disposed of limited partnership units (i.e. oil and gas, mutual fund, film, etc.) or flow through shares for which they have taken large deductions in the first few years of ownership, then the amount of the tax deductions taken should be subtracted from the ACB.

- If an individual triggered a "superficial loss" then the amount of the denied superficial loss is added to the ACB of the identical property last purchased. Ask you advisor for the Bulletin article called "Superficial Loss Rules" for the definition of a superficial loss.

- If an individual owned securities before becoming a Canadian resident, then they are deemed to acquire the security at an ACB equal to the Fair Market Value of the property immediately before becoming a Canadian resident. This means that gains accruing prior to Canadian residency will not be taxed in Canada on these securities.

- If an individual disposed of foreign corporation shares that went through a spin-off (i.e. disposed of either the foreign parent corporation or the foreign corporation that was spun –off from the parent) then ask your advisor for the Bulletin article "Foreign Spin-Offs" for details on how the ACB may have to be calculated.

If you have any questions or require clarification of any of the issues discussed in this document, do not hesitate to discuss these with your advisor.
