

The Navigator



Wealth
Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

Boothman Private Wealth Management

RBC Dominion Securities

www.brendonboothman.com



Brendon Boothman, CFP

Vice President & Associate Portfolio
Manager

brendon.boothman@rbc.com

306-937-5011



Molly Pederson

Associate

molly.pederson@rbc.com

306-937-5022



Lauralee St. Amant

Administrative Assistant

lauralee.stamant@rbc.com

306-937-5045

Capital Losses and Tax Loss Selling

Sometimes you may realize a capital loss on the sale of your securities or you may own securities in a loss position. This article summarizes the tax rules and opportunities surrounding capital losses that you have realized or may realize in your non-registered investment portfolio.

Any reference to spouse in this article also includes a common-law partner.

Capital losses on the sale of securities

When you realize a gain or a loss on the disposition of property, you must determine whether the gain or loss is on account of income (business income or loss) or capital (capital gain or loss). A gain or loss on account of income is fully included in or deducted from your taxable income. The current inclusion rate for a capital gain or loss is 50%, meaning that 50% of the gain or loss that is on account of capital is included in or deducted from your taxable income.

For most investors, gains and losses on the sale of their investments will likely be considered capital in nature. However, it is a question of fact in each particular situation, therefore, you should speak to a tax advisor to discuss the appropriate tax treatment that applies to you. The rest of the article assumes that the gain or loss you realize on the sale of securities will be on account of capital.

When you sell a security at a loss that is on account of capital, an “allowable

capital loss” (50% of the capital loss) is used to reduce any taxable capital gains (50% of the capital gains) that you realize in the same year. Keep in mind that capital losses cannot generally be used to reduce your other income, such as employment income, for the year. As well, your ability to use the allowable capital loss in the year can be affected by the superficial loss rules, which will be explained in more detail later in this article.

Why trigger capital losses?

While purposely selling securities to realize a capital loss may sound counterintuitive, there are a number of reasons why you may wish to trigger capital losses. For example:

- A particular security no longer meets your investment criteria. You wish to sell the security and use the proceeds for another investment or other uses.
- You have realized a capital gain, potentially from the sale of securities or your business, in the current year and you wish to reduce your tax liability for the current year.

When deciding whether to carry back capital losses or which years to apply the losses, you should consider your marginal tax rate in those previous taxation years and your expectations for the future.

- You realized taxable capital gains in any or all of the previous three taxation years and wish to recoup the taxes paid in those previous taxation years.

Different ways to realize capital losses

There are certain situations where you may realize a capital loss even if you did not sell the security in the market. You are considered to have disposed of a security or other capital property at fair market value (FMV) when:

- You transfer assets to an individual other than your spouse during your lifetime; for example, to an adult child, whether by gift or sale for consideration.
- You transfer assets to any person other than your spouse or a spousal trust upon your death.
- You transfer assets to a family trust. Please note that if you or your spouse are a beneficiary of this trust, the superficial loss rules may apply which will affect the ability for you to claim the loss.
- You file an election with your tax return relating to a qualifying share or bad debt of a bankrupt corporation. If you own a security that you believe to be worthless, ask an RBC advisor for our article titled, “Worthless Securities” and speak with a qualified tax advisor to determine if you can claim a capital loss.
- In some cases, the shares you own are redeemed by the corporation.

Net capital losses

Allowable capital losses realized in a given year must first be used to offset capital gains realized in the same year. When you have no capital gains in the current year or your allowable capital losses in the year exceed your taxable capital gains, the remaining capital loss is referred to as a “net

capital loss.” Your net capital loss can be carried back to any of the previous three taxation years or carried forward indefinitely to offset future taxable capital gains.

In situations where you have realized a taxable capital gain in any of the previous three taxation years and you choose to carry back the net capital loss, you may receive a tax refund. For example, net capital losses realized in 20X4 could be applied against taxable capital gains realized in 20X1, 20X2 or 20X3. You can choose to carry the net capital loss back to any or all of the previous tax years. When deciding whether to carry back capital losses or which years to apply the losses, you should consider your marginal tax rate in those previous taxation years and your expectations for the future.

Beware of the superficial loss rules

In order to be able to claim a capital loss on the sale of a security, it’s important to ensure that the disposition is not considered a superficial loss. Otherwise, the superficial loss rules will disallow the capital loss and you will not be able to use the capital loss to offset capital gains realized in the current taxation year or the previous three taxation years.

A capital loss is considered a superficial loss where:

- During the period that begins 30 days before and ends 30 days after the settlement date of the transaction, you or a person affiliated with you acquires the same security or identical property that was sold at a loss; and
- At the end of that period (i.e. 30 days after the settlement date of the disposition), you or a person affiliated with you owns or has a right to acquire the security or identical property.



This article provides an overview of capital losses and how you can use capital losses as a tax planning strategy. Speak to a qualified tax advisor and an RBC advisor to determine if triggering capital losses before the end of the year makes sense for you.

The denied capital loss is added to the adjusted cost base of the security or identical property acquired. This will effectively allow you to claim the loss or reduce the capital gain in the future when the newly acquired property is sold, provided the superficial loss rules are not, once again, triggered.

The affiliated person definition is complex. It includes you, your spouse, a corporation controlled by you and/or your spouse, and a trust where you and/or your spouse are majority interest beneficiaries. It also extends to partnerships and combinations of all of these, so care must be taken when you or any of these individuals or other entities that you have a connection with are considering purchasing an identical property within the time-frames discussed earlier.

Due to the complexity of these rules, you should consult with a qualified tax advisor in advance a purchase where the superficial loss rules may be triggered. Keep in mind that these rules apply to all accounts held by you or an affiliated person. So you should take care if you are selling securities in one account and repurchasing in another.

For more information on the superficial loss rules, please ask an RBC advisor for a copy of our article titled “Superficial loss rules and planning strategies”.

Conclusion

This article provides an overview of capital losses and how you can use capital losses as a tax planning strategy. Speak to a qualified tax advisor and an RBC advisor to determine if triggering capital losses before the end of the year makes sense for you.

This article may contain several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax, or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal, and/or insurance advisor before acting on any of the information in this article.

Please contact us
for more information
about the topics
discussed in this
article.



This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Global Asset Management Inc. (RBC GAM), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the "Companies") and their affiliates, RBC Direct Investing Inc. (RBC DI)*, RBC Wealth Management Financial Services Inc. (RBC WMFS) and Royal Mutual Funds Inc. (RMFI). * Member–Canadian Investor Protection Fund. Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated. "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WMFS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI, Royal Trust Corporation of Canada, The Royal Trust Company, or RBC DS. Estate & Trust Services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Wealth Management Financial Services Inc. is licensed as a financial services firm in the province of Quebec. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WMFS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. © Registered trademarks of Royal Bank of Canada. Used under licence. © 2018 Royal Bank of Canada. All rights reserved. NAV0076 (07/18)