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DID YOU KNOW?

(A publication for the clients and contacts of Gary S. Aslett, Chartered Accountant)

CA$H IN YOUR CAPITAL LO$$E$

Selling shares with accrued capital losses may put cash in your pocket! This is the time of year you should be taking inventory of your realized capital gains and losses and taking steps to reduce the tax you will pay in April. That may include selling some of your losers before the end of the year and using the capital losses to offset capital gains.

Capital losses must first be applied against capital gains in the current year. If capital losses exceed capital gains in 2001, they can then be carried back to offset capital gains in the prior three years. Alternatively, the capital losses can be carried forward indefinitely. [Capital losses can only be used to offset capital gains – they cannot be applied against other sources of income.]

Generating capital losses that can be applied to prior years is an attractive strategy for 2001 as the inclusion rate for prior years was higher than the 50% rate for 2001. In 1998 and 1999, 75% of all capital gains were included in income. In 2000, inclusion rates ranged from 50% to 75% based on a complex formula. Marginal tax rates were also higher in prior years.

Be careful of the “superficial loss” rule which will deny a loss on the sale of a share if you, your spouse or a corporation you control buys similar property 30 days before to 30 days after the sale *and* still owns the property 30 days after the sale.

Remember that the tax benefits of selling shares should be considered along with your investment strategy. Growth opportunities may be missed if you are out of the market therefore, you shouldn’t let the tax benefits be your only consideration in selling. Consultation with your investment advisor is recommended to discuss the selection of candidates for this strategy.

So take stock of your gains and losses! You will also need an estimate of capital gains from mutual fund distributions. Most stocks and bond transactions “settle” several days after the trade has been entered, therefore, trades will likely have to be completed before Christmas. Be sure to check the “settlement date” with your investment advisor.

{Also note that December 31 is the deadline for paying the following to benefit from a 2001 tax deduction: donations, medical expenses, child care, investment counsel fees and interest, alimony and maintenance payments, moving costs, political contributions, tuition fees, professional fees and dues, and deductible legal fees. RRSP payments must be made by March 1, 2002.}

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