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# Year-End Planning Strategy – Consider Tax-Loss Selling

With assistance from your BMO Nesbitt Burns Investment Advisor, it is a good idea to periodically review your investment portfolio to consider possible investment reallocations. If it makes sense to sell an under-performing security from an investment perspective, it may be beneficial to review your 2012 tax situation to consider the possibility of engaging in a 'tax-loss selling' strategy before the end of the year to reduce your overall tax liability or receive a refund of previously paid taxes.

Briefly stated, under this strategy investments that have declined in value are sold to generate a capital loss for tax purposes to offset capital gains already generated in the year. Alternatively, an aggregate net capital loss in the year can be carried back to be applied against net capital gains realized in the three preceding years.

The amount of capital gains subject to tax each year is based on the calculation of net capital gains, which is the sum of all capital gains less all capital losses realized in the year. Therefore, to the extent an investor realizes capital losses in the same taxation year that a significant capital gain is triggered, the tax liability on the capital gain can be reduced (or eliminated).

Accordingly, it may be worthwhile to review your portfolio with your BMO Nesbitt Burns Investment Advisor to consider the sale of certain investments with unrealized losses, provided a sale makes sense from an investment perspective.

## Before using this tax strategy, consider the following:

- Since capital losses can be applied in the current year and then any unapplied net capital losses can be carried back for up to three years, you should review your 2012 capital gains and losses realized to-date and review your tax returns from 2009, 2010 and 2011 to determine if you reported net capital gains in any of these years. If so, check with your tax advisor to understand the possible tax benefit of applying net capital losses to offset these gains.

- Remember that capital gains or losses on foreign securities denominated in another currency are generally calculated in Canadian dollars so that fluctuations in the foreign currency relative to the Canadian dollar over the period of ownership will also factor into the analysis.

- Speak to your accountant or other tax advisor to ensure that you are aware of the actual tax cost base of your investments. The tax cost will often be different from the original purchase price as a

result of corporate re-organizations, tax elections, distributions such as return of capital, or the requirement to calculate a weighted average cost for tax purposes with other identical securities held in all non-registered accounts.

- Be aware of the superficial loss rule which may deny a capital loss realized on a sale or disposition of an investment property. The rule generally applies if: i) during the period that begins 30 days before the disposition and ends 30 days after the disposition, you (or any person or entity considered to be affiliated with you for tax purposes) acquired the same or identical property and ii) at the end of the period you (or an affiliated person or entity) owned or had a right to acquire the same or identical property.
- Since it is the settlement date which is relevant for tax purposes, ensure that there is sufficient time remaining after the trade date to allow the transaction to settle in 2012.

Be sure to consult with your tax advisor prior to implementing a tax-loss selling strategy to ensure that the strategy is appropriate for your situation and is implemented properly.

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