

Tax-loss Selling

Summarizing the Rules and Opportunities in Equities, Preferred Shares and ETFs

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Tax-loss selling is a strategy whereby investments that have declined in value are sold to generate a capital loss for tax purposes, which can be used to offset capital gains already generated during the year.

The amount of capital gains subject to tax in a taxation 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.

To the extent that a net capital loss is realized in a year, it can be accumulated and carried back to the three prior tax years (i.e., to the 2018, 2019 or 2020 tax years for a capital loss realized in 2021) or carried forward and applied against future capital gains. A capital loss that is carried back can reduce income taxes already paid in that year, which could result in a refund of taxes paid. Since October 18, 2000, the inclusion rate of capital gains and losses has been 50%. Capital losses cannot be used to offset other taxable income (except when realized in the year of death).

For example, a stock with an adjusted cost base of \$100 is sold for \$30. This would result in a \$70 capital loss, which may be used to offset capital gains. The maximum tax benefit for an Ontario resident in 2021 equals \$18.74, derived as follows:

- Capital loss = \$70
- Taxable portion = \$35 (50% X \$70)
- Top marginal tax rate (Ontario) = 53.53%
- Tax savings = \$18.74 per share (\$35 X 53.53%)

Before considering this strategy it is important to understand the relevant tax rules, including the need to determine the adjusted cost base of the security for tax purposes. This requires a calculation of a weighted average cost for identical securities held in all taxable accounts.

Superficial loss rules

It is also important to be aware of the “superficial loss” rule, which may deny a capital loss realized on a sale or disposition of an investment.

The superficial loss 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 investment; 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 investment.

An affiliated person or entity includes (among other entities): the individual and their Tax-Free Savings Account (“TFSA”), Registered Retirement Savings Plan (“RRSP”) or Registered Retirement Income Fund (“RRIF”); the individual’s spouse/common-law partner and their TFSA, RRSP or RRIF; or a corporation that the individual or their spouse/common-law partner controls.

If an individual incurs a superficial loss the loss will be denied by the Canada Revenue Agency (“CRA”) and thus cannot be used in the current tax year. However, the loss that was denied will be added to the cost base of the substituted property held by the affiliated entity. This will either decrease a future capital gain or increase a future loss when the substituted investment is later sold by a taxable entity.

Be sure to consult with your tax advisor before executing any tax-loss selling strategy.

Potential tax-loss selling opportunities for 2021

Please be advised that this article is not making a statement regarding the future prospects of the issues and/or the issuers, rather highlighting some of the weakest performing stocks and preferred shares in 2021.

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

I. Canadian and U.S. equity considerations

The following table lists Canadian and U.S. equities that have incurred losses in 2021 and may be candidates for tax-loss selling purposes. If you are considering the sale of one of these securities but would like to maintain market exposure to the sector and avoid the superficial loss rules, we have provided an applicable Exchange-traded Fund ("ETF") recommendation.¹

Potential Canadian Equity Tax-loss Candidates and BMO ETF Recommendations ²				
Ticker	Name	Loss YTD (as of Oct. 31, 2021)	ETF Recommendation	Ticker
WEED	Canopy Growth Corp.	-48.2%	Horizons Marijuana Life Sciences ETF S&P/TSX Capped Composite Index ETF iShares Global Healthcare ETF CADH	HMMJ ZCN XHC
FVI	Fortuna Silver Mines Inc.	-42.0%	NinePoint Silver Equities Class S&P/TSX Capped Composite Index ETF iShares Silver Silver Bullion ETF (CAD Hedged)	SLVE ZCN SVR
YRI	Yamana Gold Inc.	-31.2%	BMO Equal Weight Global Gold ETF S&P/TSX Capped Composite Index ETF iShares S&P/TSX Global Gold ETF	ZGD ZCN XGD
PAAS	Pan American Silver Corp.	-27.2%	NinePoint Silver Equities Class S&P/TSX Capped Composite Index ETF iShares Silver Silver Bullion ETF (CAD Hedged)	SLVE ZCN SVR
BTO	B2Gold Corp.	-25.7%	BMO Equal Weight Global Gold ETF S&P/TSX Capped Composite Index ETF iShares S&P/TSX Global Gold ETF	ZGD ZCN XGD
BLDP	Ballard Power Systems Inc.	-23.6%	BMO Equal Weight Industrials ETF S&P/TSX Capped Composite Index ETF iShares S&P Global Industrials ETF CADH	ZIN ZCN XGI
ABX	Barrick Gold Corp.	-18.9%	BMO Equal Weight Global Gold ETF S&P/TSX Capped Composite Index ETF iShares S&P/TSX Global Gold ETF	ZGD ZCN XGD
SAP	Saputo Inc.	-14.6%	iShares S&P/TSX Capped Consumer Staples ETF S&P/TSX Capped Composite Index ETF BMO Global Consumer Staples H CAD ETF	XST ZCN STPL
BEP-U	Brookfield Renewable Partners LP	-7.6%	BMO Equal Weight Utilities ETF S&P/TSX Capped Composite Index ETF iShares S&P/TSX Capped Utilities	ZUT ZCN XUT
QSR	Restaurant Brands International Inc.	-6.4%	iShares S&P Global Consumer Discretionary ETF CADH S&P/TSX Capped Composite Index ETF iShares Canadian Growth ETF	XCD ZCN XCG

Source: Bloomberg as of October 31, 2021

Potential U.S. Equity Tax-loss Candidates and BMO ETF Recommendations ²				
Ticker	Name	Loss YTD (as of Oct. 31, 2021)*	ETF Recommendation	Ticker
GPN	Global Payments Inc.	-38.4%	iShares Expanded Tech Sector ETF BMO S&P 500 ETF (USD) iShares Global Tech ETF	IGM ZSP.U IXN
LVS	Las Vegas Sands Corp.	-31.7%	Invesco S&P 500 Equal Weight Consumer Discretionary ETF BMO S&P 500 ETF (USD) iShares US Consumer Discretionary ETF	RCD ZSP.U IYC
CTXS	Citrix Systems Inc.	-25.8%	iShares Cybersecurity and Tech ETF BMO S&P 500 ETF (USD) First Trust Cloud Computing ETF	IHAK ZSP.U SKYY
VRTX	Vertex Pharmaceuticals Inc.	-23.2%	iShares Biotechnology ETF BMO S&P 500 ETF (USD) First Trust Nasdaq Pharmaceuticals ETF	IBB ZSP.U FTXH
FIS	Fidelity National Information Services	-22.2%	Global X Fintech ETF BMO S&P 500 ETF (USD) iShares US Industrials ETF	FINX ZSP.U IYJ
WYNN	Wynn Resorts Ltd.	-18.9%	Invesco S&P 500 Equal Weight Consumer Discretionary ETF BMO S&P 500 ETF (USD) iShares US Consumer Discretionary ETF	RCD ZSP.U IYC
DISCA	Discovery Inc.	-18.4%	Invesco Dynamic Leisure & Entertainment ETF BMO S&P 500 ETF (USD) iShares Evolved U.S. Media and Entertainment ETF	PEJ ZSP.U IEME
CLX	The Clorox Company	-16.1%	Invesco S&P 500 Equal Weight Consumer Staples ETF BMO S&P 500 ETF (USD) iShares U.S. Consumer Staples ETF	RHS ZSP.U IYK
ATVI	Activision Blizzard Inc.	-15.9%	Global X Video Games & Esports ETF BMO S&P 500 ETF (USD) iShares Evolved U.S. Media and Entertainment ETF	HERO ZSP.U IEME
CPB	Campbell Soup Company	-13.8%	Invesco S&P 500 Equal Weight Consumer Staples ETF BMO S&P 500 ETF (USD) iShares Evolved U.S. Consumer Staples ETF	RHS ZSP.U IECS

Source: Bloomberg as of October 31, 2021
*All losses of stocks quoted in U.S. dollar terms.

II. Preferred Share considerations

As 2021 comes to a close, it is time to consider tax-loss selling strategies to offset some of the gains investors made during the year. The following summarizes a few of the catalysts that pushed preferred prices higher and highlights a short list of preferred shares that either lagged or continue to trade at a significant discount to their issue price. Issues that continue to trade at a discount to their issue price can be considered tax-loss selling candidates.

2021 proved to be a banner year for both equity and preferred share investors. Preferred shares have enjoyed a year-to-date return of approximately 14% at the time of this publication. These gains can be attributed to a few different events, including the introduction of a new security issued by Canadian companies – hybrids for non-financial institutions and Limited Recourse Capital Notes (“LRCN’s”) for financials. These new securities allow corporations to issue a more tax efficient and cheaper form of capital while also retiring more expensive preferred shares with high coupons that were paid in after tax dollars. Moreover, 2021 saw central banks like the Bank of Canada and the U.S. Federal Reserve pivot on their policy stance from lower rates for longer to higher rates sooner than expected. This shift in the narrative helped push variable rate preferred shares like rate reset shares

and floating rate shares higher. In addition, investors looking for yield turned to Canadian preferred shares in 2021 pushing prices higher. In short, the shrinking supply of preferred shares, a proposed change regarding interest rate policy and an increase in demand for alternative and higher-yielding fixed income securities all helped push preferred prices higher in 2021. While a number of preferred shares enjoyed a rally in share prices, some preferred shares lagged the broader preferred market.

Preferred shares that failed to retrace their price levels back to the issue price of \$25 included issues with lower coupons, lower reset spreads, and issues of lower credit quality. These securities may continue to lag if rates remain range bound; variable rate securities tend to underperform in a low interest rate environment. As well, if credit spreads widen this may also put additional pressure on preferred prices. Below is a short list of preferred shares that may have unrealized losses for some investors and are therefore issues that can be considered for tax-loss selling purposes. Securities trading at a discount to their issue price may trade higher or lower on changing fundamentals, and on changes in the supply and demand for preferred issues. As such, it's important to take a total portfolio view when selecting tax-loss selling securities and when rebalancing your portfolio. Please note that coupons are subject to change on fixed rate reset and floating rate preferred shares.

As we approach tax-loss selling season, it may be a good time to contact your BMO financial professional to review your portfolio. Most of these securities are particularly sensitive to changes in yields on the 5-Year Government of Canada Bond, 90-day Treasury Bill and the Canadian Prime Rate. If rates remain lower for longer, or are at risk of moving lower, these securities are excellent candidates for tax-loss selling.

Potential Preferred Share Tax-loss Candidates for 2021								
Name	Symbol	Series	Coupon	Reset Spread	Price	DBRS Rating	S&P Rating	Coupon Type
Brookfield Office Prop.	BPO.PR.W	W	1.72	70% Cdn Prime	\$12.00	Pfd-3L	P-3M	floating
Brookfield Office Prop.	BPO.PR.Y	Y	1.72	70% Cdn Prime	\$12.40	Pfd-3L	N/A	floating
Brookfield Office Prop.	BPO.PR.X	V	1.72	70% Cdn Prime	\$12.45	Pfd-3L	P-3M	floating
Bombardier Inc.	BBD.PR.B	B	2.45	100% Cdn Prime	\$13.65	NR	CC	fixed rate reset
Brookfield Asset Man Inc.	BAM.PR.C	4	1.72	70% Cdn Prime	\$14.49	Pfd-2L	P-2M	floating
Brookfield Asset Man Inc.	BAM.PR.B	2	1.72	70% Cdn Prime	\$14.65	Pfd-2L	P-2M	floating
TC Energy Corp.	TRP.PR.H	4	1.41	128	\$14.80	Pfd-2L	N/A	floating
First National Financial	FN.PR.A	1	2.90	207	\$14.93	Pfd-3	N/A	fixed rate reset
First National Financial	FN.PR.B	2	2.21	207	\$15.00	Pfd-3	N/A	floating
Brookfield Asset Mgmt.	BAM.PR.K	13	1.72	70% Cdn Prime	\$15.00	Pfd-2L	P-2M	floating
TC Energy Corp.	TRP.PR.B	3	1.69	128	\$15.00	Pfd-2L	P-2L	fixed rate reset
Thomson Reuters Corp.	TRI.PR.B	B	1.72	70% Cdn Prime	\$15.98	Pfd-3H	P-3H	floating
Bombardier Inc.	BBD.PR.D	3	3.98	N/A	\$16.15	NR	N/A	fixed rate reset
Capstone Infrastructure	CSE.PR.A	A	3.70	271	\$16.24	N/A	NR	fixed rate reset
RF Capital Group Inc.	RCG.PR.B	B	3.73	289	\$16.34	Pfd-4H	N/A	fixed rate reset
Transalta Corp.	TA.PR.D	A	2.88	203	\$16.45	Pfd-3L	P-4H	fixed rate reset
TC Energy Corp.	TRP.PR.I	6	1.67	154	\$16.50	Pfd-2L	N/A	floating
Cenovus Energy Inc.	CVE.PR.B	2	1.87	173	\$16.60	N/A	N/A	floating
Transalta Corp.	TA.PR.E	B	2.17	203	\$16.60	Pfd-3L	N/A	floating
TC Energy Corp.	TRP.PR.C	5	1.95	154	\$17.00	Pfd-2L	P-2L	fixed rate reset
Capital Power Corp.	CPX.PR.A	1	2.62	217	\$17.00	Pfd-3L	P-3M	fixed rate reset
Cenovus Energy Inc.	CVE.PR.A	1	2.58	173	\$17.40	Pfd-3	N/A	fixed rate reset
Power Financial Corp.	PWF.PR.Q	Q	1.74	160	\$17.50	Pfd-2H	N/A	floating
Great-West Lifeco Inc.	GWO.PR.N	N	1.75	130	\$17.75	Pfd-2H	P-1L	fixed rate reset
Power Financial	PWF.PR.A	A	1.72	70% Cdn Prime	\$17.83	Pfd-2H	P-1L	floating

Source: Bloomberg, as of October 31, 2021. Note: Coupons on floating rate issues are subject to change at specified intervals; rate reset issues are subject to change every 5(five) years.

Please contact your BMO financial professional if you have any questions about tax-loss selling. It is important to consult with your tax advisor prior to implementing any tax-loss selling strategy to ensure that it is appropriate for your situation and implemented properly.



¹ Please note the tables are used for illustrative purposes only, where losses are described by reference to the year-to-date decline in the market value of the security. For tax purposes, capital losses are based on the difference between the price sold and the adjusted cost base. Please note that some of the BMO ETFs recommended are currency hedged, whereas the underlying securities are not. Please be reminded that ETF record dates and projected capital gains distributions should be reviewed and factored into tax-loss selling decisions.

² Please note the considerations are based on realizing the loss on the stocks in a tax-loss harvesting strategy, rather than a recommendation on the future performance of the security.

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