2017 YETP – Part 1

A (political) party of one – and the tax advantages of taking the time to know all the little rules.

When it rains in Vancouver, much like this fall in PG, it is drenching, windy, warmishly-frigid, and squishy underfoot. Such days are reminiscent of the SFU parking lot, where precipitation was a constant companion. And oddly, right there in the far reaches of the mammoth Lot B, a strange fellow had figured out a tax loophole which, in the small circles of SFU finance geeks, was a bit of a legend.

The Peak, our student newspaper, did a story on this young man. Although the exposure brought him a measure of fame – it probably led to his downfall. He had studied our tax law carefully, and found that the criteria for setting up a political party in Canada was very broad. No doubt designed with open democracy in mind, the tax advantages for, and the restrictions on setting up a political party, meant that Rhino's, and other meaningless philosophies could gain a foothold and call themselves a tax-sheltered party.

And so he became a party of one. I don't recall his platform – it doesn't really matter. He spouted campaign speeches, presumably just to himself, and gained tax advantages by donating his meagre income back to himself. He also lived in a tree fort somewhere near the edge parking lot of the school all year long. He had several degrees, and no apparent intentions of leaving school.

This is the sort of thing we just shrugged off in Vancouver, where people raced bathtubs in January across the ocean strait to Nanaimo. The old wild Left Coast still popped up then, as it does today. Eventually the tax laws and criteria for political parties were tightened, and I would assume that this adventurous vagrant eventually got a real job, but who knows?

Tax Stuff:
As year-end approaches, we once again explore tax planning opportunities for investment portfolios, reflecting current tax legislation and 2017-specific deadlines. Due to space restrictions, this topic must be treated over a few weeks.

Opportunities to reduce your 2017 tax bill – Part 1

Tax loss selling
If you have realized capital gains during the year, and you are holding securities with unrealized losses, consider selling those securities to realize the losses. This is known as tax loss selling.

This should not be a make-work project, so measure roughly whether or not the exercise is worth it before triggering the fees associated with the strategy. Review your portfolio to determine if any investments are in a loss position and no longer meet your investment objectives. If the investment still has strong fundamentals and meets your investment needs, you might want to keep it, rather than trigger the fees and lock-in the losses.

When disposing of a security, the sale for Canadian tax purposes will be deemed to have taken place on the settlement date. Assuming a two-day settlement period, in order to utilize the tax loss selling strategy for the 2017 tax year, transactions must be initiated by December 27, 2017 for both Canadian and U.S. securities in order to settle during 2017 (but trying to get trades done on December 27th is like ordering a wedding dress from China the week before the wedding. Just don't. Start well in advance of the deadline. You should be eating leftovers and watching hockey on December 27th, not talking to your advisor).

Superficial loss rules
In order to ensure that your capital loss can be claimed, you must be aware of the superficial loss rules. A superficial loss will occur when a security is sold at a loss and both of the following occur:

i) During the period that begins 30 days before and ends 30 days after the settlement date of the disposition, you or a person affiliated with you acquires the identical property that was sold at a loss, and;

ii) At the end of that period (i.e., on the 30th day after the settlement date of the disposition), you or a person affiliated with you owns or has a right to acquire the identical property.

You need to look at your holdings across all accounts when determining if the superficial loss rules apply.

Carry forward and carry back of capital losses
A capital loss must first be applied against any capital gains you realize in the current year. However, once the capital gains of the current year have been offset, the balance of the loss can be either carried back three years (to capital gains realized in 2014, 2015, or 2016) or carried forward indefinitely to offset future years' capital gains. When you carry back a net capital loss to a previous year's taxable capital gain, it will reduce your taxable income for that previous year. However, your net income, which is used to calculate certain credits and benefits, will not change.

Note: This is the last year in which you can carry back your losses to 2014 and offset them against your 2014 capital gains. If you plan on triggering a capital loss in a corporation, you should speak to your qualified tax advisor as it may be advantageous to pay out a capital dividend if your capital dividend account is positive, prior to triggering the loss.

Mark Ryan is an Investment Advisor with RBC Dominion Securities Inc. (Member–Canadian Investor Protection Fund), and these are Mark's views, and not those of RBC Dominion Securities. This article is for information purposes only. Please consult with a professional advisor before taking any action based on information in this article. Mark can be reached at mark.ryan@rbc.com.