INVESTMENT EXECUTIVE

Top yearend tax tips

Make sure to discuss tax-loss selling, tax-gain donating and RRSP strategies with clients to whom these strategies apply

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There are only just weeks to go before the end of the year. Thus, here are three tax-related tips to consider discussing with your clients before Dec. 31 approaches:

1. Tax-loss selling
Tax-loss selling involves selling investments with accrued losses at yearend to offset capital gains realized elsewhere in a portfolio. Any net capital losses that cannot be used currently may either be carried back three years or carried forward indefinitely to offset net capital gains in other years.

For a loss to be available immediately for 2018 — or one of the previous three years — the settlement must take place this year. To complete a settlement by Dec. 31, the trade date must be no later than Dec. 27.

If your client purchased securities in a foreign currency, the gain or loss may be larger or smaller than anticipated once the foreign-exchange component is taken into account. For example, let's say Jake bought 1,000 shares of a U.S.-based company in November 2012 when the price was US$10 a share and the U.S. dollar (US$) was at par with the Canadian dollar (C$). Today, the price of the shares has fallen to US$9 and Jake decides he wants to do some tax-loss harvesting to use the US$1,000 [(US$10-US$9) X 1,000] accrued capital loss against the gains he realized earlier this year.

Before knowing if this strategy will work, he'll need to convert the potential US$ proceeds back into C$. With the exchange rate of US$1=$1.30, selling the U.S. shares for US$9,000 yields $11,700. So, what initially appeared to be an accrued capital loss of US$1,000 (US$10,000-US$9,000) turned out to be a capital gain of $1,700 ($11,700-$10,000) for Canadian tax purposes. If Jake had gone ahead and sold the U.S. stocks, he would actually be doing the opposite of tax-loss selling and accelerating his tax bill by crystallizing the accrued capital gain in 2018,

2. Tax-gain donating
Dec. 31 is the last day to make a donation and get a tax receipt for 2018. Both the federal and provincial governments offer donations tax credits that could result in combined tax savings of up to 54% of the value of a gift in 2018. That's because for total donations up to $200 in a year, the federal donation credit is 15% of the donation amount. For total donations exceeding $200 in a

year, the federal donation credit jumps to 29% (33% to the extent taxable income exceeds $205,842) of the donation amount. Provincial donation credits also are available.

Gifting publicly-traded securities, including mutual funds, with accrued capital gains to a registered charity or a foundation not only entitles a client to a tax receipt for the fair market value of the security being donated, it eliminates capital gains taxes as well.

3. RRSP strategies for clients turning 71

If some of your clients turned 71 years old in 2018, they only have until Dec. 31 to make any final contributions toward their RRSP before converting it into a RRIF or registered annuity.

Making a one-time overcontribution to an RRSP before yearend may be beneficial for some clients if they have earned income in 2018 that will generate RRSP contribution room for 2019. Although these clients will pay a monthly penalty tax of 1% on the overcontribution (above the $2,000 permitted overcontribution limit) for the month of December, new RRSP contribution room will open up on Jan. 1, 2019, so the penalty tax will cease in January 2019. Clients could then choose to deduct the overcontributed amount on their 2019 — or a future year's — tax return.