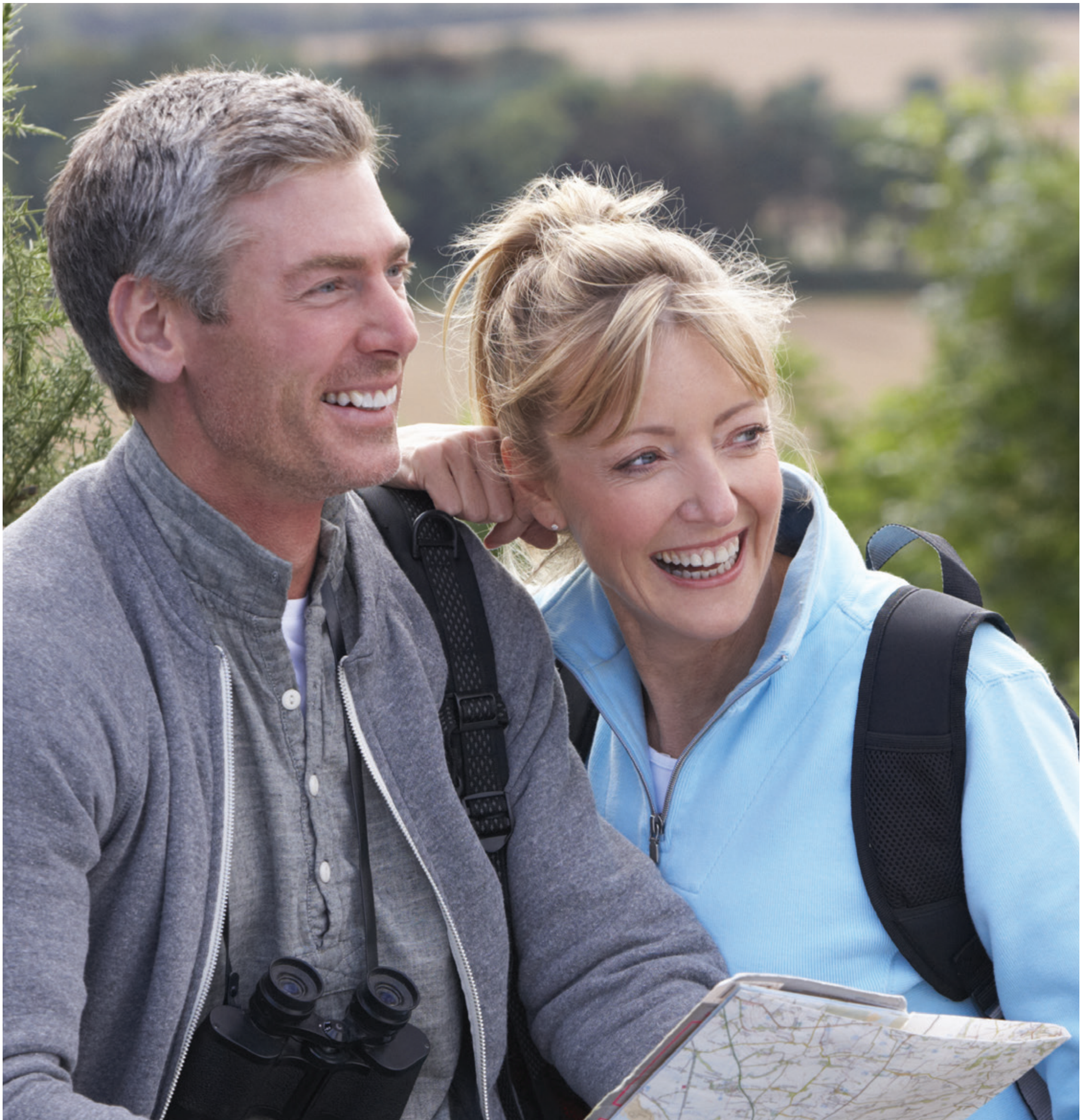

Tax, Retirement & Estate Planning Services

TAX MANAGED STRATEGY 1

Capitalizing on capital losses

Manulife

Capitalizing on capital losses

If you or your spouse[1] have realized capital gains in the last three years, consider selling an investment that has dropped in value to recover the taxes paid on those gains.

Stock market volatility may cause investors to worry about their investments. Many want to take action and reorganize their portfolios, even if they are in a loss position. Once the decision is made to crystallize losses, our capitalizing on capital losses strategy can be used to gain maximum tax benefit on portfolio losses. This strategy is based on carrying back any losses that exceed current year capital gains, to a previous year with net capital gains.

An in-depth look at the issue… and the opportunities

The *Income Tax Act* (Canada) requires capital losses to be first applied against capital gains realized in the current year. If there is any remaining balance, the net capital losses can be used to either reduce taxable capital gains in any of the three preceding years, or in any other future year.

The best strategy is to carry the losses back to the earliest year in which you have capital gains before it falls out of the three year window. For example, the earliest date allowed to carry back 2017 losses is 2014.

Transferring capital losses between spouses

If you don't have capital gains this year or the previous three years, but your spouse does, it is possible to transfer capital losses to them.

First, the investment is sold to crystallize the capital loss. Immediately afterwards your spouse buys the exact same amount of the identical investment.

Your spouse then sells the investment after waiting at least 31 days. The capital loss realized on your sale will be denied under the superficial loss rules and instead added to your spouse's adjusted cost base, thereby transferring the capital loss.

A CLOSER LOOK AT THE TAX SAVINGS

John has a net capital loss of $20,000 realized this year that he either carries back to a previous year or transfers to his spouse.

Here's how the tax savings stack up.

Type of income	(50% INCLUSION RATE)
Loss amount	**$20,000**
Tax savings at a 46 per cent marginal tax rate*	
(loss amount x inclusion rate x 0.46)	**$4,600**

Carrying back John's loss to a previous year or transferring them to his spouse results in a recovery of $4,600 in taxes previously paid.

*Rates may vary by province

[1]Includes a spouse or common-law partner as defined by the Income Tax Act (Canada).

Ideal candidates

Investors who:

- Are selling their investments at a loss, and who have little or no capital gains in the current year
- Had capital gains, or their spouse had capital gains, in the past three years

Take action

To apply for a loss carry back, investors need to:

- Complete Part 3 of Form T1A, Request for Loss Carryback
- Attach it to this year's return

Canada Revenue Agency (CRA) will then automatically apply the losses to the previous year(s) requested on the form.

NOTE

If you or your spouse repurchase property identical to that sold within the period that begins 30 days before and ends 30 days after the disposition, and still hold it on the 30th day after the disposition, then the capital loss on the original sale will be denied under the superficial loss rules. The denied loss is added to the adjusted cost base of the acquired property.

TIP

A trust version of a mutual fund is not identical to the corporate class version of the same mutual fund. Therefore, capital losses realized by the sale of a mutual fund trust will not be denied under the superficial loss rules if the same fund is purchased in a mutual fund corporation as you are purchasing a different legal structure.

For more information, please contact your advisor or visit manulife.ca/investments

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