
FineAnswers

Answers to questions on tax and finance

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Capital Losses, Terminal Losses, Superficial Losses-LOSSES LOSSES

Losses are not necessarily a bad thing when it comes to taxes. At least the government shares in some of your losses.

The year is getting close and one should be thinking of utilizing losses this year rather than next year or the year after. After all tax deferral is one very sought after tax planning tool. So why not realize your losses before the year is over and take the tax benefit sooner.

You must however watch for pitfalls. Not all losses are docile and friendly.

So may be some of the answers to the questions below may help clarify some of the seemingly friendly losses; but hostile in reality.

So here are the Questions:

I have losses on some of stocks which I still hold. Is there any point in selling them and utilizing my losses?

The losses on your stocks may, in all likelihood, be considered capital losses. Unless you are a dealer in stocks. Also if your trade heavily and dedicate a lot of time to your stock dealings you may be considered a trader. As far as capital losses are concerned you can only deduct it against your capital gains. You cannot deduct capital losses against your other income. Even under certain circumstances you may not be able to deduct your capital losses against your capital gains.

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I have losses on some stocks which I still hold. I have realized my gains on my other stocks. I don't want to sell these stocks because I believe they will come back again. Can I sell them realize the loss and buy them back up again?

Assuming your gains are capital gains and your losses capital losses, you can sell them and realize the loss and reduce your capital gains. However, you cannot buy them back within the next thirty days and own them at the end of the thirty day period. Well, you can; but if you do your capital losses are denied. These losses are commonly referred to as superficial losses.

In the above situation, is the capital loss completely lost?

No if you sell them the second time and do not buy them back within thirty days, the old losses become deductible capital losses. What this means is that the losses are added to the cost of those stocks.

What if I sell the stocks at a loss; to my spouse, my RRSP or a corporation controlled by me?

It does not work. The loss is denied.

What if I sold it in the stock market and then I, my spouse, or a corporation controlled by us bought it back immediately?

This would be caught by the same rules concerning superficial losses.

Can, in the above situation, my RRSP buy it back immediately?

Yes! this seems to be the case for now.

**What if in the same situation
back the stock I bought the
stock? Continued../2**

Unfortunately new legislation has closed this loophole also.

**What if the same situation applied to a rental
property I owned?**

Now you are talking about capital loss as well as a terminal loss on the sale of the building. The situation is different in the case of a terminal loss. It may be deductible from your other whether capital gains or not.

Before taking any steps seek professional advice. The above comments are only general in nature