One Important Tax Tip For Investors During The Holiday Season

Description

Here at The Motley Fool, we advocate buy-and-hold investing. However, there are occasions when the portfolio needs to be adjusted, and this is the time of year to start thinking about some of those moves.

Let's take a look at one strategy Canadian investors can use to reduce the taxes they have to pay on their big winners for 2014.

Tax-loss selling

It's beginning to feel a lot like…..tax-loss season.

Well, that's not exactly how the song goes but for Canadian investors who took the opportunity to lock in some big gains this year in their non-registered accounts, it's important to think about selling your duds to minimize your tax hit.

Here's how it works. When you sell an investment such as a stock or fund that has dropped in value, you trigger a capital loss. That loss can be used to reduce any capital gains you have realized on the sale of equities that increased.

A capital loss can also be used to offset gains in any of the preceding three years, or carried forward indefinitely, but only after the loss is applied against the gains in the current year.

Ideally, you would never sell a stock for a loss, but most investors have one or two companies in their portfolios that just haven't performed as expected.

One catch with tax-loss selling is that you can't repurchase the same shares for at least 30 days. A way to partly get around this would be to buy an exchange traded fund (ETF) for the same industry.

For example, if you bought **Barrick Gold Corporation** (TSX: ABX) (NYSE: ABX) when it was much higher and want to sell it to apply the loss against some gains for the year, you could immediately reinvest the proceeds in a gold miner ETF that holds Barrick and the other large gold producers. If Barrick makes a big move higher in the month after you sell the shares, the ETF would likely move also, as long as the price gain is industry-related. Be careful about trying this with like-for-like ETFs. The CRA won't let you do it.

Another way to trigger a tax loss is to gift your shares to your children. For example, you might have bought **BlackBerry Ltd.** (TSX: BB) (NYSE: BBRY) back when it was a superstar stock, but now want to solidify some losses to compensate for a big gain in **Canadian Natural Resources Ltd.** (TSX: CNQ) (NYSE: CNQ) that you locked in during the summer.

You can gift the BlackBerry shares to your kids. This way, you get to use the loss to reduce your taxable capital gains, and your children get to enjoy the rewards if BlackBerry manages to succeed in its turnaround efforts.

In order to have a loss qualify for 2014, the settlement date has to be December 31, or earlier. That means the last trade date to trigger a tax loss in 2014 will be December 24.

Investors have been reminded this year that stocks can be volatile, and some income investors have seen sharp drops in their favourite dividend stocks. If you are interested in dividend-growth and capital appreciation but don't like the risks tied to commodity markets, take a look at the free report discussed below about one top Canadian stock.

CATEGORY

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2. NYSE:BB (BlackBerry)
3. NYSE:CNQ (Canadian Natural Resources)
4. TSX:ABX (Barrick Mining)
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