Canada Revenue Agency: 2 Huge Mistakes Canadian Investors Make That Can Cost You a Fortune

Description

You can strategically reduce your income taxes by taking advantage of tax-loss harvesting. Let's use **Transcontinental** (TSX:TCL.A) as an example.

The high-yield dividend stock has been thrown in the dumps lately, having fallen more than 28% year to date. No doubt it has been a candidate of tax-loss selling.

Essentially, in non-registered or taxable accounts, you can book capital losses to offset capital gains and reduce the amount of income taxes Canada Revenue Agency will get from you.

The capital loss can be used to offset capital gains within the past three years, for this year, or future years.

However, there's a rule that you may not know or be clear about.

A big mistake Canadian investors are making

One huge mistake that investors are making is buying the stock within 30 days before or after the sale. This means that if you are selling Transcontinental at a loss in your taxable account, you'd better not have bought the shares within 30 calendar days before or buy it back within 30 days in any account, including your non-registered account, TFSA, or RRSP.

Losses are also disallowed if you transfer the shares from your non-registered account to a TFSA or RRSP at a loss. (This is essentially buying the shares back at a loss in a TFSA or RRSP.)

What's more? Your spouse or common-law partner, a company controlled by you, your spouse, or your common-law partner, and a trust for which you, your spouse, or your common-law partner is a beneficiary also can't buy the shares within 30 days before or after the sale.

The key idea is that you can't claim a tax loss on the capital loss if you or a person affiliated with you still holds the shares.

Another huge mistake for Canadian investors to avoid

Another huge mistake that investors make is selling during tax-loss harvesting season. Investors tend to sell their losers late in the year. However, this is when most other investors are doing the same thing, thereby pushing the stocks to even more depressed levels. Simply put, it’s the wrong time to sell.

As of writing, Transcontinental trades at roughly $13.80 per share, a dirt cheap valuation of about 5.7 times earnings.

The stock is so cheap because it’s a transforming company with a legacy printing business that weighs down the stock. Since 2010, the company has made acquisitions to expand into flexible packaging.

Today, it has more than half of its revenues in packaging but is still the largest printer in Canada.

Transcontinental has a dividend-paying DNA. It is a Dividend Aristocrat with 17 consecutive years of dividend growth and a five-year dividend growth rate of 7.4%.

Currently, it provides a yield of 6.4%, which is very well protected by its free cash flow with a recent payout ratio of about 31%. The value stock will likely rebound nicely into the new year.

Summary for investors

Buy stocks that you took a capital loss for after 30 calendar days to avoid disallowing your losses. This applies to your spouse or common-law partner as well.

Many “losers” with stable fundamentals that are booted out of investors’ portfolios should see a strong rebound by early 2020. It’d be a huge mistake to sell these losers now during tax-loss selling season if you own them in your non-registered accounts.

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