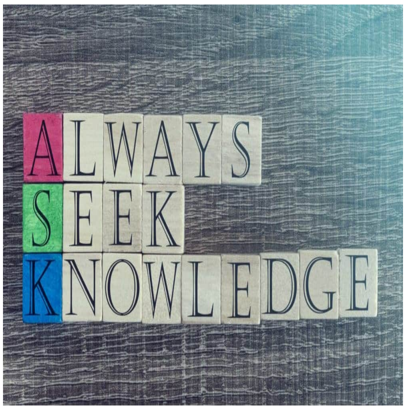

Canada Revenue Agency: This Tax Tip Could Save You Thousands in 2021 and Beyond

Description

We live in unique times, and the Canada Revenue Agency has responded by making taxpayers' lives a little easier.

Canadian taxpayers have until June 1 to file their taxes this year, essentially giving them an extra month to get their taxes in. Small businesses will also get extra time to pay any owed GST or HST. And any Canadians who owe installment payments will have more time to get those into the Canada Revenue Agency, too.

The Canada Revenue Agency will also play a big part in getting Canadians some of the benefits promised from the various relief packages just passed by the federal government. The Emergency Care Benefit, a program that pays anyone who is quarantined (or caring for someone who is sick), will be administered by the Canada Revenue Agency. In fact, taxpayers who plan to access that relief are being told to sign up for a MY-CRA account now.

These programs are great news for many Canadians, but there's a certain tax strategy that can save investors a lot more. Let's take a closer look at this lesser-known tax gambit — something that could easily save you thousands of dollars over the next few years.

Explaining capital losses

Canadian taxpayers who make a profit on an investment outside a registered account must pay taxes on any gains. Everybody knows this. And, conversely, any losses can be used to offset these gains.

This is hardly high-level stuff. Even an accounting newbie knows about these rules.

But many Canadians don't know you can hold capital losses and use them to offset capital gains taxes owed in the future. You can also use these losses to offset any capital gains taxes you've paid in the past, but only over the last three years.

So, if you sell loser stocks today, you can use those losses against gains you've already locked in from 2017-19.

The timeline gets even better if you carry these losses forward. You can do so indefinitely. Even if you pass away with unused capital losses, your heirs can use them to minimize the taxes owed by your estate. I wouldn't recommend waiting quite that long, since you run the risk of forgetting about these powerful tax credits.

The Canada Revenue Agency-approved strategy

The crux of this powerful tax strategy is relatively simple. The market crash has decimated certain stocks, names that aren't likely to come back soon. You would then sell out of these positions, lock in the capital loss, and put your capital to more productive uses.

You then use the capital gains credit to offset a gain you might have sometime in the future.

One note of caution, however: some folks might take this strategy a step further and lock in losses on certain stocks. They then will go out and buy the exact same stock a week later. This is known as a superficial loss and is against Canada Revenue Agency rules.

To avoid this, investors have to wait a minimum of 30 days to repurchase the same stock. But in today's turbulent markets, that might be too late. You could miss out on a lot of upside.

There's a simple Canada Revenue Agency-approved solution to the superficial loss rule. You can purchase a company's competition and get exposure to the same sector (and likely similar returns) while locking in your capital losses.

The bottom line

Say you have a six-figure portfolio and your stocks are down 25%. With just a little bit of thought put into the strategy, selling some of those stocks and buying a loosely similar portfolio could generate a lot of tax savings.

This could be especially powerful if you think stocks rebound quickly.

But don't delay. We don't know where stocks will go tomorrow. The market could rally and this Canada Revenue Agency-approved tax avoidance opportunity could be gone forever.

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