Canada Revenue Agency: Book a Loss and Trim Your Tax Bill Substantially

Description

Stock markets recovered remarkably in the last few months, despite the dreadful pandemic. Driven by the epic rally, many Canadians must be sitting on hefty capital gains this year.

When you sell some investments, real estate, or shares at a profit, you have to declare it as a capital gain, and it is added to your regular income. If these gains are out of the TFSA or RRSP, they might attract a significant tax burden. So, how can one reduce this tax liability?

Canada Revenue Agency: Book a capital loss and save tax dollars

Selling stocks lower than what you paid for is not always displeasing, especially when it comes to tax liability. One can offset these losses against the capital gains to reduce the tax outgo.

For example, let's consider a person who had a fabulous year financially, and many of their stock investments reached all-time highs. Suppose they sold those stocks and reported a capital gain of $20,000 in a financial year.

The capital gain would be taxable based on an individual's tax bracket. However, if they sell some loss-making securities and report, say, $20,000 in capital loss, it would offset the gain and save on the tax outlay.

One can consider selling the loss-making securities on or before December 29, 2020, for tax-loss selling — sometimes called tax-loss harvesting. One can use capital losses in mutual funds or stocks to offset capital gains in real estate or bonds and vice versa.

Pick loss-making stocks wisely

However, one should not just dump loss-making stocks to avoid the tax burden. Many TSX stocks are currently trading close to their multi-year lows but could recover substantially next year or beyond in the post-pandemic world.

Some could have lower growth prospects but offer handsome dividend payouts. Investors should consider avoiding selling those, too. But there are a few TSX stocks that offer little value addition to our portfolios and should be ideal for tax-loss selling.

Investors can consider **Vermilion Energy** (TSX:VET)(NYSE:VET) stock for tax-loss selling if you are sitting on an unrealized capital loss. It has plunged 72% so far this year. It suspended dividends early this year when cash retention became vital for the company.

More worryingly, its dividends might remain suspended for a prolonged period amid a gloomy outlook for energy markets. The opportunity cost of staying with Vermilion seems high at the moment. Investors can consider it for tax-loss selling and invest the proceeds in some high-quality TSX stocks.

Rebuild the sold position after 30 days

One should note that a stock sold for tax-loss selling cannot be bought back within 30 days of selling if you want to offset the capital gains.

Another stock that's trading notably lower is the theatre and media company **Cineplex** (TSX:CGX). The stock is down 70% so far this year. The vaccine news cheered investors in the last few weeks. But underlying uncertainties might weigh on the stock in the short to medium term.

If you are sitting on a big unrealized loss with Cineplex stock, you can consider selling it to offset the capital gains in your portfolio. If you are confident about its recovery post-pandemic, you can re-create the position after 30 days of selling.

By selling weaker stocks in your portfolio, you can reduce your tax liability and save on additional potential loss.

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TICKERS GLOBAL

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3. TSX:VET (Vermilion Energy Inc.)

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