

I'll spend the

next 15 minutes
or so talking about tax loss selling.

So capital losses, superficial losses,
as well as some corporate

investing and corporate tax.

So on the next slide, I'll speak to
capital losses, kind of what they are.

Obviously
we know why we're trying to realize them.

Not because we like losing money,
but because we like saving tax.

We want to make sure the tax savings
are actually realized.

So we have to avoid or
look to avoid the superficial loss rules.

So I'll go over those at a high level.

They can get quite complex,
but we'll, we'll take

a high level
overview on the corporate investing side.

I'll just talk to us
some common tax questions.

We get, and just give you some food for
thought there, including, kind of looking

at how to focus, what investment
income to focus on in a corporate setting.

And throughout,
I will mix and match some solutions.

So if we go to the next slide,

the one after, that's fine too.

So the first thing is the basics
as far as capital losses.

So when you realize the capital loss
in a year,

it's automatically used to reduce
any capital gains.

You've realized in that same year,
if you have an excess loss of the losses

in the year or greater than the gains,
the taxpayer can carry those back

three years
or carry them forward indefinitely.

So when we're doing tax loss selling,
this is really a call out

to those procrastinators out there
who want to do it right at the 11th hour.

Most of our products
we sell have a T plus one settlement date.

So which means, the second last business
day of the year is the absolute drop

dead date, if you will, for realizing
capital losses to make sure it settles,

in the 2026 calendar year.

Fluctuates every year.

So, just make sure you're taking a look
at your calendars, each year,

to, to confirm that,

all this

commentary is going to assume you're,
you're investing just a regular investor.

You're not a day trader.

You're not carrying on a business,
which would be a totally different thing.

The other thing to keep in mind,
too, as we as we look at losses,

especially if you have, foreign
securities, US stocks, as an example,

make sure you're converting
to Canadian dollars

when you're trying to estimate
those capital gains or losses.

Especially on a loss,
because I have seen it enough times.

People realize a loss,
forget the exchange.

Then when they look at the exchange rate,
it's like, oh, I just realized the gain,

the exchange kind of completely offset
the gain completely throws the,

the the plan into the
into the kind of into the blender.

So make sure on foreign investments,
you're doing that

on a Canadian dollar basis
to make sure you have a loss.

So on the next slide we'll

get into the superficial loss rules.

So I apologize for some of the technical

wording here.

There's almost no way

to talk about superficial losses
without the technical wording,

because the actual words
themselves are important.

So you see highlighted in bold,
affiliated person and identical property.

Right.

So you or an affiliated person
must buy the identical property

during a 30 day, 30 calendar days,

before or after a settlement date.

So you'll have a timeline,
which we're going to see on the next slide

when I move ahead.

But you have a timeline.

There needs to be some sort of purchase
in that timeline, right?

There obviously needs to be a sale,
where you realize a capital loss

and then the you or
the affiliated person has to hold that

identical property beyond 30 days
after the settlement period.

So what's an

affiliated person, you or your spouse,

a partnership or corporation

that's effectively controlled by you

or your spouse or a trust where you or
your spouse is a majority beneficiary,

which includes your spouse, you
or your spouse is registered

plans Rrsps TFSA, RSP, or DSP.

Anyone you can think of.

If you or your spouse is involved with
that plan, they are affiliated to you.

So we we can't have this identical
property sitting in any of those accounts.

So if we flip to the next slide,
the downside with superficial losses

as we're transitioning
then is if I realized a capital loss,

but it's deemed to be superficial,
I don't get to claim the loss.

What happens is
that loss gets added to the ACB

of the identical property
that my me or my affiliated person owns.

All right.

So it's it's added to
and it can be a future loss potentially.

But I can't use it right now,
which is what I'm looking to do.

So with this, this time period, hopefully

you can see there's there's essentially
four things that need to happen.

Right.

So the very first thing that has to happen is I have to sell something for a loss

at that point.

Then I can figure out where it the 30 days before and 30 days after that loss,

what my 61 day time period is there then needs to be a purchase

within that time period of what's considered an identical property,

which is effectively anything that is doesn't have any material differences.

So even if there are slight differences, but there otherwise there would be

it's not enough of a difference where the investor would be

would be willing to sell.

So basically

there's an immaterial difference where you're like, now hold it either way.

I know

that's a bit fluffy, but it does introduce there's there's a few complexities

as you get go down the rabbit hole a bit, but you need that acquisition

and then you have to continue to hold that property past the 30 day after.

So you can see number four there. Right.

So let's switch go to the next slide.

So what are some scenarios to avoid.

The so one is you cannot

transfer assets with a realized loss
into registered plans.

Those losses get denied.

So you can't avoid it
just by doing an in-kind transfer.

If you're going to do that
sell, realize the loss, put the cash

in the registered plan

and either wait out the time period
or buy something completely different.

Right?

You can't transfer assets
with unrealized losses to a corporation.

Chances are you're the shareholder.

So you're you in
that corporation are affiliated.

You can't go the other way either.

So you can't realize a capital loss
in a corporation

and then try and buy
it outside the corporation.

This is actually slightly worse
because the corporation will have a loss.

It will not be added to your ACB.

It's stuck in the corporation
until that investment is,

that identical property is sold off
and that superficial loss period elapses.

Right.

So even worse going that way.

So don't do that.

Simply buying or selling and buying the
same fund with a different fee structure.

So going from like an AA series to an F
series, it's the same fund.

That fee structure is not material.

CRA is very clear.

That is an irrelevant
that's not relevant in this case.

Also selling and buying.

I say an ETF that tracks
the same index like CRA doesn't care

that Blackrock might have a TSX and
and horizons may have a TSX index fund.

They're both the it's the same index.

It's identical.

So changing providers doesn't get you
out of that out of that rule.

So on the next

slide should be some solutions.

So what can you do.

One thing when clients want to
they want to sell,

they want to realize the loss,
but they still want the exposure.

That's that's ultimately

what the superficial loss
rules are trying to curb or reduce.

So what you could do is
if you're selling, say, an,

a specific stock like Bell Canada shares,
maybe you pick up an ETF

that covers that sector or covers
dividend paying Canadian stock.

So it it have Bell Canada in it.

But not exclusively Bell Canada.

So you can kind of keep
some exposure to the sector.

In the meantime

we have some information about
so there are mutual funds

where some have an active hedge strategy,
some do not hedge, with respect

to currency, so that hedging can change
sort of the investment

kind of dynamics of the fund
so that that's an opportunity,

to potentially get around the,
the identical property.

And then the last one
there is moving from, say,

a mutual fund trust to a mutual fund
corporation or a SAG fund contract

into a mutual, you know, a mutual fund corporation, which you're ultimately

doing is moving from a trust structure into a corporate structure, or vice versa.

These are two different legal structures, different kind of rights and,

and, obligations for the shareholder or the unit holder.

So these can be, a way of being I being not identical properties.

The last one is just simply to wait out the clock, sell

and wait for the 30 days to elapse.

So corporate investing, if we go to the next slide,

one of the big, you know, we kind of I'm going to go through

is that almost like top three overarching questions.

So the first one is usually how should my business owner pay themselves.

Should it be salary.
Should it be dividends.

Right.

Without going into the analysis on the numbers,

which really should be done with the accountant,

it's often just reminding people you can actually do both.

There's, there is a hybrid third option of doing both.

By doing both, you kind of open the door for the most options

on the investment side, right?

With salary you have CPP contributions.

Some business owners see that as a as a future indexed guaranteed

kind of income stream.

They see that as a benefit.

Others just see it as a cost.

So where does the client stand on that spectrum RSP room.

You need earned income to contribute to Rrsps.

Then if you combine that with dividends,

you can kind of get your tax savings on more efficient, on a more efficient

income stream for other living expenses and so on.

And then finally, if there's still access for, retained earnings,

those can stay inside the corporation and continue to grow

or be reinvested back in the business, whatever the the need is there.

So you're just giving the investor the maximum amount of choice, if you will,

personal as well as on the corporate side

for investment

for the future.

So on the next slide,
the other question we get is,

you know, what's the big tax
benefit of incorporating?

And the ultimately the benefit is tax

deferral,
and specifically deferral of personal tax.

So when you have retained earnings,

the shareholder does not need
in personally

if you keep those within the corporation
and grow,

and reinvest even though it will be taxed
along the way.

You can see on this slide here
I'm starting say

with \$1 million in the corporation,
and it grows at 5% versus

paying that full million dollars out
as a taxable dividend

and as a non-registered on the
my non-registered personal side,

I'm starting out with about 522,000
and growing that at 5%.

So over just a ten year horizon, I mean,
you could stretch it out if I wanted.

I could go
as long as I want until these break even.

But the ultimate problem is
it takes the personal side

a long time
to catch up to the corporate side.

So even at the end,
when I pay all the personal taxes,

I'd have as a shareholder in this example,
an extra 200,000 in my pocket

by using reinvesting retained earnings
in the corporation and pulling them out

at the end of the time
horizon when they're needed.

So we'll go to the next slide.

Not sure if that's frozen.

There we go.

The capital dividend account.

So there are times in a corporation
like with us as individuals

where we realize amounts
that are nontaxable,

and the capital dividend account
in the corporation is meant

to track these nontaxable amounts
because there could be a timing difference

between when that amount is realized
or received or available,

and when it actually would get paid out,
potentially to the shareholder.

So we need some way to track it,

because we don't want to tax
as much as we might think

the government's out to get
all their money. They're not they're not.

The goal is not to taxes
two and three times in most cases.

I'll leave some of that.

What is it?

Postmortem tax planning for another day.

But I will focus on capital gains.

I'm going to assume
the shareholders alive.

So we don't have any death

benefits being paid in,
which would be a big credit to the CDA.

So the nontaxable half of a capital gain
when it's realized.

And that means we have a positive balance

or an amount that we can pay out
to the shareholder tax free.

So when we're doing tax loss selling,

this actually adds maybe an extra step
or an extra thought in the process.

So I let's say in this example,
I've realized \$100,000 in capital gains.

I have 50,000 that could be paid out
tax free.

Now maybe I'm looking at saying I okay,
I want to do some tax loss selling.

I want to realize \$100,000 in capital loss.

The downside with a loss is that would negative.

That would impact the CDA as well, but it would decrease the balance.

So if I realized \$100,000 capital loss,

I would actually reduce the CDA down to zero,

right?

But if I wait.

So I've realized \$100,000 capital gain, I pay the \$50,000 capital dividend.

You do have to work with the accountant.

There is a special specific election.

There is a whole calculation that has to be done.

But let's just say those ducks are in a row.

We pay the \$50,000 capital or capital dividend out.

Then I realize the capital loss, my CDA balance would be negative.

That's fine.

I just can't pay a capital dividend until it's positive again.

But I've gotten that 50,000 out and I've done the tax

loss selling to offset the tax liability

on that gain.

So doing that extra step can help us
extract just a little more,

tax free amount out of the corporation.

So when you're tax law selling, make sure
you're working with the accountant to see

what the CDA is
looks like before you go, realizing,

significant losses on the portfolio.

So on the next slide, I will I apologize.

This is probably a little cruel

without going over
how corporate tax works on investments.

It's a little different than personal.

And I'm skipping some steps in my math,
but hopefully, the template here.

Well, then the message will still hold.

And that being in the blue,
I have different sources of income,

all of which are subject
to different kind of tax rate.

It's at the corporate level.

So that's kind of row
one, with the part one tax

and that's skipping out
refundable versus nonrefundable.

I'm just skipping right to the

nonrefundable or permanent part of the tax

on those sources of income.

The net amount would be
what would be available to pay out

as a dividend to the shareholder.

Okay.

When I do pay out a dividend, there's
different types of dividends that go out.

You see in the first column there,
there's a non eligible dividend related

to the taxable portion of the capital gain
versus a capital dividend of 50,000.

So there's two possible dividends
associated with the capital gain.

Eligible dividends are paid out
as eligible dividends.

Nothing really fancy or changes there.

And then all the rest are non
eligible dividends

in the white below.

This is where the personal tax rates
come into effect on those income sources.

I'm assuming the shareholders in the top

personal tax bracket,
and I'm assuming they're in Ontario.

So those rates are the non eligible
dividend rate

and the eligible dividend rate 39.34.

So then below the green line would be
what would the shareholder

have in their checking account
personal checking account

on that original 100,000 after we've paid
corporate and personal tax.

So then the combined
rates and bold is kind of just essentially

taking the pretax income minus
the net amount

in the checking account
divide by the pretax income.

So what you notice here is
if I earn income source

like investment income in a corporation
and pay it out immediately

in the same year,
the combined corporate personal

tax rate is actually higher
on every source of income,

with the exception of eligible dividends,

because there's effectively
no corporate tax, it's fully refundable,

than there would be if I just earned them
personally in the top bracket.

So it's trying to emphasize the point
that it's the tax deferral.

That's the benefit, that there's no real
tax savings at the corporate level.

The two income sources
we really would like to avoid, in

a perfect world,
would be, interest in foreign dividends.

So you can see
the interest is you think 58 is high.

Look at the next column over at 64%.

That's in part

because there isn't a full refund
of the foreign withholding tax.

So that actually increases the net,

corporate tax rate
or taxes, relative to interest income.

A perfect solution in a perfect world
is corporate class

mutual funds or SEG funds
that hold corporate class mutual funds

because interest in foreign dividends
cannot be distributed from those,

those funds only capital gains
and eligible dividends return a capital.

So it happens to be a perfect solution.

From that perspective, they still

our funds still have a number of,
exposures to different foreign markets.

So you can still get some diversification

that you might be looking for
just without the bad income.

So that anything that will focus
on the first three sources of income

is, is an ideal option
in, in a corporate setting.

So on the next slide,

it should be just the key takeaways.

So just don't forget with capital losses,

they first reduce capital gains
in the current year.

And then the excess can be carried back
three forward indefinitely.

So avoid superficial loss rules
by either purchasing something

that's not identical to what you just sold
or waiting out the period.

That's ultimately

what all the strategies boil down
to on the business owner compensation.

Ultimately, this is something that
should be done on a case by case basis.

The analysis we should probably stay away

from kind of rules of thumb
or general ideas.

Just don't forget that a mix of salary
and dividends,

can also be a viable solution for our
for our clients corporations.

The biggest advantage is tax deferral.

So retained earnings
that aren't needed for the shareholders

personal lifestyle needs ideally
if we keep those in the corporation

and invest but and defer personal tax
until the future, we can

and we can help our clients and earn even more on their money long term after tax,

the CDA takes care of nontaxable portions or tracks or nontaxable amounts

like the nontaxable amount of a capital gain or sorry, the tax free amount.

So make sure if you have a positive amount before realizing capital losses,

check the check with the accountant

and get any capital dividends paid before we realize those losses.

And then finally look for investments that are going to be tax efficient.

So capital gains, eligible dividends, and return of capital

are the most efficient sources of income to earn in a corporate setting.