

### **Tax Tips to for Investors**

- Tax Free Savings Accounts allow you to deposit \$5,000 per year and the growth is tax-free. Although you can withdraw money without penalty, these accounts are not meant for daily bank transactions. If you make withdrawals and then replace the money before the end of the year, you may exceed your contribution limit and be subject to a penalty tax.
- You have to realize a loss before you can claim it. Many Canadians experienced a drop in the value of their portfolios during the recession but unless you sold the shares or funds, it is not considered a capital loss for tax purposes.
- You cannot claim a capital loss on your Registered Retirement Savings Plan (RRSP) investments.
- A lower-income spouse should use their funds to make investments since the income earned will be taxed at a lower rate.
- Interest on loans used to buy non-registered investments, such as stocks or bonds, is tax deductible. However, interest on RRSP loans is not. You can maximize you tax advantage by using cash to buy RRSPs and borrowing to buy non-registered plans.
- Interest receives less preferential tax treatment than dividends or capital gains. Keep interest-earning investments in RRSPs so they will not be taxed and keep investments generating dividends or capital gains in non-registered plans.
- When holding mutual funds outside of your RRSP, keep a record of any distributions that are reinvested to buy more units. These are added to the Adjusted Cost Base of the units and reduce the capital gain when they are redeemed.
- If non-registered investments are transferred to an RRSP, they are considered sold for Fair Market Value. While any resulting capital gain is taxable, a special rule deems a resulting capital loss to be nil. This rule cannot be avoided by simply selling investments and having the RRSP reacquire them unless a period of at least 30 days has passed between the time of sale and the time of repurchase.
- Be diligent in reporting your capital losses each year even when you don't have a capital gain. These losses can be carried forward to future years indefinitely and should be noted on your Notice of Assessment.
- When capital losses exceed capital gains, apply the resulting net capital loss to capital gains incurred in any of the three prior years or in any future year. Assuming income levels remain the same, it will generally be more advantageous to carry them back

since tax rates were marginally higher in those years. It will be especially advantageous to carry them back to 2000 if your inclusion rate for that year was higher than 50 per cent.