Tax Loss Selling Fact Sheet

What is a Capital Loss?

You have a capital loss when you sell, or are considered to have sold, a capital property for less then its adjusted cost base plus the outlays and expenses involved in selling the property.

What is a Capital Gain?

You have a capital gain when you sell, or are considered to have sold, a capital property for more then its adjusted cost base plus the outlays and expenses involved in selling the property.

When are Capital Losses applicable?

If you have a capital loss in a year, you have to apply it against your capital gains for that year. If you still have a losses, you can use them to reduce your capital gains in any of the three preceding years or in any future year.

What is the Inclusion Rate?

The rate used to determine "taxable capital gains" and "net capital losses"

Hasn't the Inclusion Rate changed over the Years?

Yes it has,

Before 1972	0%
In 1972 to 1987	50%
In 1988 and 1989	66.67%
From 1990 to Feb 27, 2000	75%
From Feb 28, 2000 to Oct 17 2000	66.67%
After Oct 17, 2000	50%

How do you adjust current Capital Gains to past years, aren't the inclusion rates different?

If you have a net capital loss in 2001 that you wish to carry back to a year where your inclusion rate is an amount other than 50%, you must adjust the amount of the net loss to match the inclusion rate in effect in the previous year. To determine this adjustment factor, you must divide the inclusion rate for the year to which the loss is applied by the inclusion rate for the period in which the loss was incurred.

Example:

David realized the following capital gains in the past 3 years:

Year	Amount
Jan 12, 2000	$2,000
Aug 25, 1999	$1,500
Oct 15, 1998	$1,000

The inclusion rate for all 3 situations is 75%, and therefore the taxes David would have paid (assuming a 50% marginal tax rate) are:

Capital Gain	Inclusion Rate	Taxable Amount	Tax Rate	Taxes Paid
$2,000	75%	$1,500	50%	$750
$1,500	75%	$1,125	50%	$563
$1,000	75%	$750	50%	$375

On Sept 30, 2001 David switched mutual funds and realized a Capital Loss of $5000.

However, the inclusion amount for this period is 50%, therefore, to recover the taxes paid on the capital gains he realized in the past, he will have to adjust his net capital loss to reflect the different inclusion rates from the past years. This is done as follows:

Capital Loss	Inclusion Rate	Net Capital Loss
$5,000	50%	$2,500

Inclusion adjustment formula:

(Past inclusion amount/current inclusion amount) x Net Capital Loss

(75%/50%) x $2,500 = $3,750

Therefore, $3,750 will be available to be carried back to offset past taxable capital gains. In most cases losses should be carried back as far as possible, as they may not be available for carry-back to in future years.

Year	Capital Gain	Taxable Amount	Taxes Paid	Net Capital Loss Carry Back ($3,750)	Taxable Gain Offset	Taxes Recovered
2000	$2,000	$1,500	$750	$1,500	$1,500	$750
1999	$1,500	$1,125	$563	$1,125	$1,125	$563
1998	$1,000	$750	$375	$750	$750	$375
Totals			$1,688	$3,375		**$1,688**

By realizing $5000 in capital losses by switching mutual funds, David was able to recover $1,688 in past paid taxes. David also has $500 in capital losses ($250 net capital loss) available to offset capital gains in the future.

What is a superficial loss?

It is a loss that the government denies because during the period starting 30 days before and ending 30 days after the sale, you, your spouse, or a corporation you control buys the same or an identical property and continues to hold it at the end of the 30 day period. Basically, if you do not fully divest of a property for 30 days, the government deems your loss to be nil and adds the amount of the loss to your adjusted cost base.

FRANKLIN TEMPLETON INVESTMENTS