

Reduce the pain of a losing equity

A popular expression goes something like, “when you’re stuck with a lemon, make lemonade”. This philosophy can apply somewhat to a losing stock. If you’re stuck with a loser, a strategy called “tax loss selling” can help turn your lemon into lemonade.

Here’s how.

If you’re holding securities that are down in price, and . . .

If you feel that prospects for their price to recover are not good, and . . .

If you have capital gains to report this year, or . . .

If you have reported taxable capital gains within the past three years . . .

. . . then you may be able to

Avoid some capital gains tax this year or. . .

Recover some of the taxes you paid on capital gains within the last three years.

Tax loss selling involves disposing of securities that are down (and you feel are not coming back soon) to trigger capital losses to offset your capital gains.

You must first apply them to any capital gains in your current year. However, if your losses are larger than your gains, or if you have no gains in the current year, you can apply them to capital gains in any of the last three years.

Be careful not to break the superficial loss rules

The government has created “superficial loss” rules to prevent you from creating an artificial tax loss. Let’s say you’re planning to take a tax loss on your shares in Lemons Inc. and you’ve decided to sell them on December 15.

There is a 30-day period both before and after that date in which you may not buy shares in Lemons Inc. If you do, the tax loss will be disallowed. It will also be disallowed if you, your spouse or a corporation you control still holds Lemons Inc. 30 days after the tax loss sale.

However, the superficial loss rules do not apply to children, so you can sell your Lemons Inc. and have your child immediately buy it. You get to claim the loss and any future capital gain will be taxed in your child’s hands, not yours. However, keep in mind that attribution rules make this quite complicated so you should seek expert advice.

And there is one last caution. Keep in mind that most security transactions take three business days to settle after the trade is entered. So if you want to do any last minute tax loss selling, remember this three-day period to be sure you complete the trade before the new year. To be safe, check with your broker.

If you’d like to speak to someone personally, click [here](#) to find the CPA financial planning professional closest to you.