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Tax-Loss Selling: 2024 Guide

We are almost at the end of the calendar year, which means that investors should start thinking about potentially selling their losing positions to offset capital gains, as allowed by the Canadian tax law.

The **last trading date** for Canadian and U.S. publicly traded stocks will be December 30 to record the gain or loss in the 2024 taxation year. Anything purchased or sold afterwards is settled in 2025. Please note that the Canadian stock markets close at 1:00 pm ET on December 24 and will remain closed on December 25-26. The U.S. stock exchanges are not closed December 26 but will be closed on the 25th for Christmas Day.

Money managers often clean up their portfolio holdings before the end of the tax year. In general, tax-loss selling tends to be concentrated at the end of November and the first two weeks of December.

Keep in mind that capital loss selling **cannot be applied to registered accounts**, such as Tax-Free Savings Accounts (TFSA), Registered Retirement Savings Plans (RRSP), Registered Retirement Income Fund (RRIF), Registered Educational Savings Plans (RESP), or First Home Savings Accounts (FHSA). Note: If you transfer a losing position from a non-registered account into a registered account, you cannot claim capital losses either.

If you are selling stock at a loss, you (and your spouse/common-law partner in case of a shared account) must wait at least 31 calendar days before repurchasing the same securities to avoid Canada Revenue Agency's (CRA) **"superficial loss" regulations**. Otherwise, you will be denied the benefits of the transaction. The same rule applies to the period that begins 30 days before the settlement date of the disposition.

Always consult your Investment Advisor and tax professional before considering any tax-loss related strategies.

2024 Changes to Capital Gains Taxes in Canada

The Canadian government has announced an increase in the capital gains inclusion rate (from 50% to 66.67%) affecting all corporations, most types of trusts, and individuals if their capital gains exceed $250,000, starting June 25, 2024.

For capital gains realized on or after June 25, 2024, a higher portion of the gain will be subject to tax. **Corporations and most trusts** will see their capital gains taxed at the 66.67% inclusion rate. **Individuals** will be taxed at the 50% inclusion rate on the first $250,000 of capital gains realized in a given year, but any amount above $250,000 will be taxed at the higher 66.67% inclusion rate.

For professionals operating through a corporation (such as a legal or medical practice, for example), the increased inclusion rate will result in higher taxes on capital gains realized after June 25, 2024.

The basic rules for carrying forward and back capital losses remain unchanged. You can carry back net capital losses three years and carry them forward indefinitely. The difference is in the calculation of the tax benefit derived from these losses.

When **carrying back** a net capital loss to a previous year with a lower inclusion rate, the loss will be deducted at the lower rate, and you'll receive a larger tax refund. When **carrying forward** a net capital loss to a future year with a higher inclusion rate, the loss will be deducted at the higher rate. This means the tax benefit from the loss will be smaller.

The Budget 2024 has introduced an increase in the **Lifetime Capital Gains Exemption (LCGE)** to cover up to $1.25 million, an increase from the current $1,016,836, of capital gains realized on the disposition of qualified small business corporation shares and qualified farm or fishing property. This enhanced limit will apply to dispositions on the sale of a business occurring on or after June 25, 2024.

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