Canadian MoneySaver

Canadian MoneySaver magazine has provided Canadians with balanced insight into personal-finance issues since 1981. Through an exclusive arrangement with *The Costco Connection*, *Canadian MoneySaver*'s experts provide Costco members with answers to their questions about financial issues.

IMAGEZOO/RF

Donations and capital gains tax

Shares donated to a charity are, I believe, now completely free of capital gains tax. Since I still have to include the capital gain on Schedule 3, where do I claim the corresponding deduction?

—B.I., Sudbury, ON

I suggest you check out the "Gifts of publicly traded shares and stock options" section on the Canada Revenue Agency Web site. Essentially, if the full gift qualifies for the zero per cent inclusion rate, there is no tax liability. I am not sure what you mean regarding a deduction, but if you are referring to regular charitable donations, fill out Schedule 9 and claim on Line 349 on the federal side and accordingly on the provincial side.

—Neel Roberts, Tax Consultant
PTC Canada, Vulcan, AB

Since I started investing about a year ago, I am down about 25 per cent and have no offsetting capital gains. Is it to my advantage to sell and create a pool of tax losses or to just let the money ride? I realize that there will be yearly distributions and I should create at least a small pot of losses. If I sell and reinvest, I will be paying capital gains from a lower cost base. If I just let it ride, the investments will have to go past their original cost before I have to worry about paying capital gains taxes. Which method will cost less in taxes?

—F.S., Sidney, BC

Every taxpayer has his or her own set of issues, so it's important to look at any strategy from a personal perspective. Having said that, I think tax-loss selling costs little and can add a lot to your future tax-planning flexibility.

Let's say one of your stocks cost $10,000 but is now worth $7,500. You have a cost base of $10,000, as you know. If you sell the stock and buy it back after 30 days, you now have a cost base of $7,500 and a capital loss of $2,500, adding up to the same $10,000.

The point is that if you do this you can take that $2,500 loss and apply it at your discretion in any amount to any capital gain in the future at any time. On the other hand, if you hold the original stock forever (that's a long time) and it goes back to its original value of $10,000 (or higher), no loss is available to carry forward against any gains.

Even though everyone wants to be a long-term investor, there will be times when it's necessary to modify a portfolio. The capital-loss strategy should give you more flexibility.

—Ed Arbuckle
Fee-Based Family Wealth Planners
Waterloo, ON

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I receive superannuation from the UK, less UK income tax. I am given to understand that I do not pay tax twice. Therefore, when totalling up my income for payment of Canadian tax, do I simply state that I have received so much in sterling, produce evidence of tax at source in England and miss adding the balance to the taxable income here?

—M.D., Barrie, ON

Tax treaties are set up to prevent having two countries insisting that the tax be paid twice on the same income, but they do not prevent tax being payable. What you are suggesting would mean that you would be paying tax twice on the received superannuation—not what you intended!

In your case, you will report the entire amount, including the tax withholdings, in Canadian dollar equivalents on page 2 of your T1 return, then use Form T2209 to calculate the Federal Foreign Tax Credit using the non-business section. If additional credit exists, you use the remainder with the provincial forms. You provide evidence of tax paid, if requested, by providing a UK income tax return. (Yes, the UK now requires that you file a tax return. You cannot use your withholdings as proof.)

By doing this, you will have shown all income from all sources, calculated the tax, then reduced the tax payable by the allowed amount so that you do not pay taxes twice.

—Tim Parris, Tax Consultant
Ottawa, ON

Personal finance questions?

Send to: ***Canadian MoneySaver, The Costco Connection* Q&A, Box 370, Bath, ON K0H 1G0.** Or e-mail to: *questions@canadianmoneysaver.ca* (please include "*The Costco Connection* Q&A" in the subject line).

Canadian MoneySaver answers selected questions in this bimonthly column. Unpublished questions may be answered on the *Canadian MoneySaver* Web site at *www.canadianmoneysaver.ca*. Click on "Ask the Experts Q&A." Free online current issues of *Canadian MoneySaver* are available at their Web site. The opinions of the experts may not apply to Quebec residents.