Lessons in Tax Efficient Investing

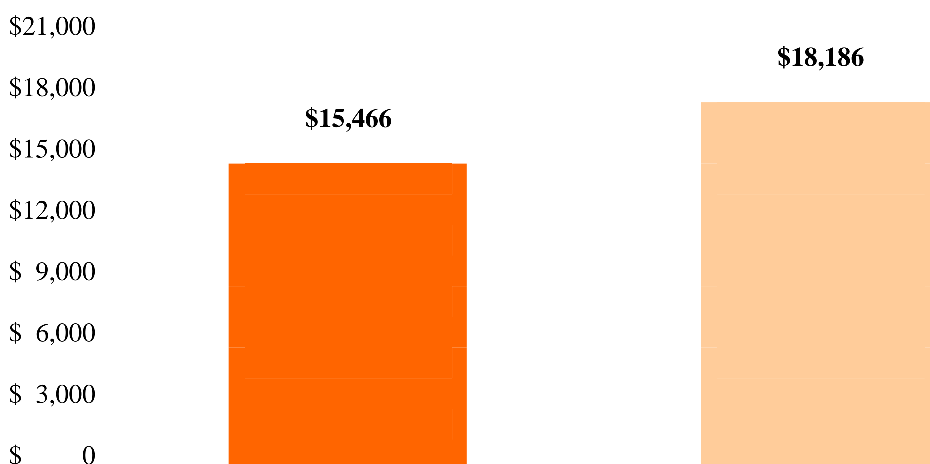
YOUR LOSS CAN BE YOUR GAIN

We all have high hopes for investments. But sometimes they drop in value. The good news is sometimes you can use these "capital losses" to your advantage. By selling a declining investment the same year in which you realize a capital gain, you can offset part or all of that gain, and thereby reduce your tax bill. Of course, you should only utilize this strategy if it makes sense to your overall financial and tax plan.

OFFSET CAPITAL GAINS WITH CAPITAL LOSSES

A hypothetical example of an investor who has a $20,000 capital gain and the potential to trigger a $12,000 capital loss to offset that gain.

Money in Pocket



	Capital loss is not triggered	**Capital loss is triggered**
Capital Gains	$20,000	$20,000
Off-setting capital losses	--	$12,000
Increase in investments	$20,000	$ 8,000
Taxable amount*	$10,000	$ 4,000
Tax rate	45.34%	45.43%
Taxes payable	$ 4,514	$ 1,834
Money in pocket	$15,466	$18,186

* The inclusion rate for capital gains in 2001 is 50%. This means that you must multiply your capital gains for the year by this rate to determine your taxable capital gain.

Assumes a marginal tax rate of 45.34% (average of the top federal and provincial marginal tax rates).

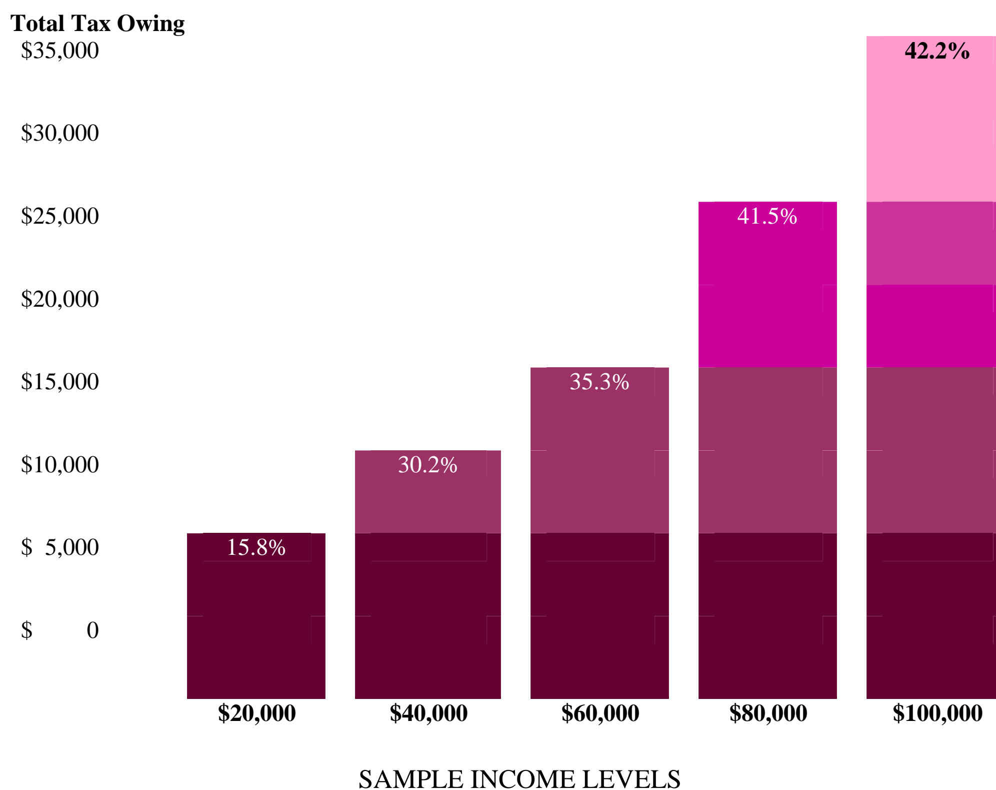
Source: Canadian Income Tax Act with Regulation, 73rd edition, 2001.
Information based on sources believed to be correct at the time of publication of this material.

IT PAYS TO KNOW YOUR TAX RATE

With Canada's progressive tax system, the more you earn, the more incremental tax you pay. That's why it's so important to understand your marginal tax rate –the amount of tax you'll pay on the next dollar of taxable income you earn. With the help of your advisor, you can learn how to minimize tax on additional income. You can make better use of tax credits and deductions. And you can determine the potential tax savings from RRSP contributions.

EARN MORE, PAY MORE

A hypothetical example that demonstrates the incremental increase in tax payable for five sample income levels (based on federal and provincial averages).



Source: Canadian Income Tax Act with Regulation, 73rd edition, 2001.

Information based on sources believed to be correct at the time of publication of this material.

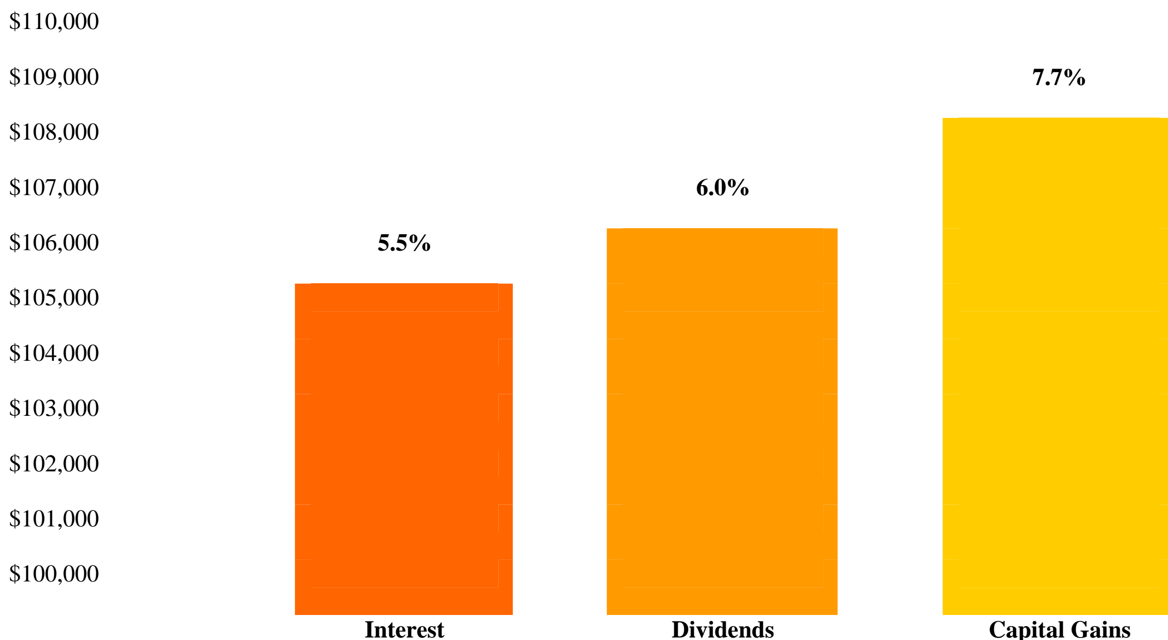
IT'S WHAT YOU KEEP THAT COUNTS

The pre-tax rate of return can be attractive for an investment. It can also be deceptive. For although investment returns – in the form of investment income, income and capital gains – are subject to tax, they're taxed differently. Knowing those differences can help you create an investment mix that is right for you and allows you to maximize your after-tax investment returns. After all, it's what you get to keep that counts.

COMPARING AFTER-TAX RATES OF RETURN

The difference in after-tax value of a $10,000 investment return, when received as interest income, dividends or capital gains.

Money in Pocket



Assumes a marginal tax rate of 45.34% (average of the top federal and provincial marginal tax rates).

Source: Canadian Income Tax Act with Regulation, 73rd edition, 2001.

Information based on sources believed to be correct at the time of publication of this material.