

Capital Gains

The majority of taxpayers only encounter capital gains in two possible scenarios: (1) they sell mutual funds, shares or bonds as part of their investment portfolio or (2) they sell a cottage. The taxpayers must pay income tax on the gain they realized – the difference between the selling price and the amount they paid to acquire the capital property.

In both cases, you can add some costs to the acquisition cost of the equation. If you paid a stock broker to buy or sell the investments, these costs reduce the amount of your gain. If you paid for additions and improvements to the cottage, these will reduce your capital gain too. Repair and maintenance expenses are not included in this adjustment to the purchase price.

Also in both cases, after you calculate the capital gain you only include half of that figure in your taxable income. For this reason, people are often tempted to invest in capital property.

You do not have to actually sell capital property to recognize a capital gain – there are many examples of cases when you are considered to have disposed of it and need to include that in your tax return: you give it away, you exchange or transfer it, it is stolen or destroyed, you leave Canada or you pass away.

If you want to donate money to a charity and you know you have shares, for example, that have increased in value, you would be better to donate the shares than write a cheque. The government has deemed that the disposition of the investments to a qualified done does not result in any capital gain. As a result, the net cost to you of the shares will be less than the equivalent amount in cash.

Naturally, there are many investments that do not perform so well. When you sell a capital property and have lost money, that loss can only be applied against any capital gains you realize in that same year, the three preceding years, or any future years.

As always, keep records of these transactions. Happy investing!

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