

Types of Losses

While we are hopeful that all of our investment decisions result in a higher income or realizing a gain, there are times where business losses or investment losses occur. Effectively utilizing losses is always important to ensure your affairs are as tax efficient as possible. This tax tip will outline the various types of losses and how to apply them to minimize your income tax bill.

Capital losses

Capital losses occur when an investment is when the proceeds of an investment is less than the adjusted cost base + expenses to dispose/acquire the investment. Capital losses can be claimed against capital gains only and they will normally net off against any gains earned within the year. A capital loss is only possible if you sell an investment and remain out of that investment for greater than 30 days. If you repurchase an investment within 30 days, you have generated a superficial loss and the capital loss will be denied. Capital losses greater than capital gains can be carried back three tax years or forward indefinitely. Capital losses can only be utilized against other sources of income in an individual's final tax return.

Allowable Business Investment Losses

There is another form of capital loss that gets a little more favorable tax treatment. An allowable business investment loss (ABIL) is a loss on an investment that was made into the shares of a small business corporation or debt of a small business corporation that is bankrupt and was a small business corporation at time of bankruptcy. The main difference between a regular capital loss and an ABIL is that an ABIL can be claimed against all sources of income, not just capital gains. The loss is still subject to the 50% inclusion rate as a regular capital loss.

Non-Capital Losses

Non-capital losses can result from rental losses, business losses, partnership losses and farming losses. These losses can be claimed against all sources of income (employment, investment income, capital gains etc.). Non-capital losses in excess of all sources of income for the tax year can be carried back three years and can be carried forward up to a maximum of twenty years. Claiming the losses all in one year is optional and can be voluntarily carried back or forward if the taxpayer deems they will need the losses in years of higher income.

Restricted Farming Losses

One other unique loss is a restricted farming loss. This is a loss that is related to farming activities, but farming is not the individual's main source of income. The farm loss is limited to the lesser of the following amounts; the net loss for the year; $\$2,500 + \frac{1}{2}$ of the farm less $\$2,500$ and an annual limit of $\$17,500$.

Any unused restricted farming losses can be claimed against only farming income in the previous three years or can be carried forward for a period of ten years.