



A MOVING TARGET

Exploring an investor's adjusted cost base

Investors who own non-registered investments in mutual funds or segregated fund contracts receive a capital gain (or capital loss), subject to tax, whenever a portion of the property is sold. The capital gain (or capital loss) is calculated as the difference between your sale price and your adjusted cost base (ACB).

Many investors believe their ACB is the amount they paid for their investment. However, there are other factors that will impact your ACB. Here are some common activities that will cause an adjustment to the ACB on your investments.

PURCHASE PRICE

You may buy and sell the same investment at different points in time. Each time an identical property is purchased or sold at a different price, the ACB of your total investment must be adjusted.

This is because the cost of all identical properties must be added together to come up with an average cost for each property you own.

Here's an example:

Fred invested \$8,000 in XYZ Fund on March 2 and received 800 units. He made an additional purchase of \$22,000 on July 12 and received an additional 2,000 units. Because he is buying the same mutual fund, the amounts are added together to determine his ACB. This means that the ACB of his total XYZ investment is \$30,000 (\$8,000 + \$22,000) and his ACB per unit is

\$10.71 (\$30,000/2,800 units). If later that year he sells 100 units for \$15.00, his capital gain will be \$429 (\$15.00 – \$10.71 x 100 units).

YEAR-END DISTRIBUTIONS AND ALLOCATIONS

It's common for mutual fund investors to receive distributions at year-end, with a corresponding tax slip. For segregated fund contracts, the year-end distribution is called an allocation.

What's important to know is that if the mutual fund distribution is reinvested or is received as an allocation from a segregated fund,



INSURANCE COMPANIES SELLING SEGREGATED FUND CONTRACTS TRACK YOUR ACB FOR YOU AND REPORT ALL TAXABLE AMOUNTS ON YOUR TAX SLIP. NO FURTHER CALCULATIONS ARE NEEDED ON THIS TYPE OF INVESTMENT.

that amount is added to the ACB (or tax paid amount) of the investment because the amount is taxable.

Insurance companies selling segregated fund contracts track your ACB for you and report all taxable amounts on your tax slip. No further calculations are needed on this type of investment.

OTHER CONSIDERATIONS

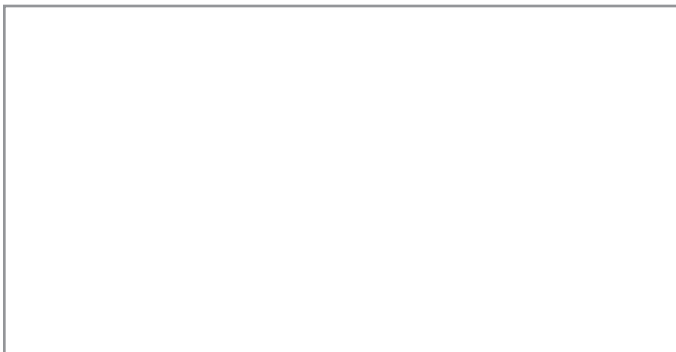
Other activities can also impact your ACB, including spousal transfers,¹ special elections, superficial loss rules and income from an investment where a portion is a return of capital.

While it would be difficult to discuss every single provision in our tax law that impacts an investor's ACB, keep this in mind: if it's possible to increase your cost for tax purposes by making adjustments to your ACB, you'll decrease a capital gain (or increase a capital loss), which in turn reduces the amount of tax you'll pay in the long run. It's all part of good tax planning.

Finally, obtain the advice of a tax professional if you have any questions about the ACB of any asset you own, and to ensure that your ACB is calculated properly. •

¹Such transfer may be affected by the attribution rules and an expert should be consulted before proceeding with such a transfer.

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