

# BMO ETFs Tax Loss Harvesting Guide 2022

## Start Early, Add Value

With volatile markets, rising inflation and a potential economic slowdown, 2022 has proven to be a challenging year for investors. Exchange traded funds (ETFs) are effective tools for investors to help navigate these uncertain markets and can be used to help crystallize loss from a tax perspective. As 2022 year end approaches, we provide trade ideas to help your clients harvest tax savings from under-performing securities.

### What is tax-loss harvesting?

- By disposing of securities with accrued capital losses, investors can help offset taxes otherwise payable in respect of other securities that were sold at a capital gain. The proceeds from the sale of these securities can then be reinvested in different securities with similar exposures to the securities that were sold, in order to maintain market exposure.
- If capital gains are not available in the current year, the realized losses may be carried back for three years to shelter gains realized in those years or carried forward to reduce capital gains in upcoming years.
- The ability to recognize a capital loss for tax purposes may be restricted in certain circumstances, including where the acquired security is identical to the security that is sold. Investors should not repurchase the loss security within 30 days of the loss sale. Investors should consult their own tax advisor to ensure that restrictions do not apply.

### Tax-Loss harvesting example:

- Realized capital gains from previous transactions or capital gains distributions from mutual funds can be offset by selling securities, which are trading at a lower price than their adjusted cost base.
- Investors can then use the proceeds from the security that is sold to invest in a different security, such as a BMO Exchange Traded Fund (ETF).
- In addition to common shares, tax-loss harvesting can also be applied in respect of other financial instruments that are on capital account, such as bonds, preferred shares, ETFs, mutual funds, etc.

### Important dates to remember:

- December 28, 2022 – Last day for Canadian and U.S. tax-loss selling (with T+2 settle). Please note the tables below are used for illustrative purposes only, where losses are calculated based on year-to-date. For tax purposes, capital losses are based on the difference between price sold and book value.

## Canadian Equities

Ticker	Name	Total Return YTD as of Oct 11, 2022	BMO ETF	Ticker
SHOP	SHOPIFY INC - CLASS A	-79.20	BMO S&P/TSX Capped Composite Index ETF	ZCN
IMG	IAMGOLD CORP	-60.66	BMO Equal Weight Global Gold Index ETF	ZGD
AP-U	ALLIED PROPERTIES REAL ESTAT	-37.26	BMO Equal Weight REITs Index ETF	ZRE
MG	MAGNA INTERNATIONAL INC	-34.15	BMO Equal Weight Industrials Index ETF	ZIN
CCA	COGECO COMMUNICATIONS INC	-33.71	BMO Global Communications Index ETF	COMM
CAR-U	CAN APARTMENT PROP REAL ESTA	-31.13	BMO Equal Weight REITs Index ETF	ZRE
ASTL	ALGOMA STEEL GROUP INC	-29.87	BMO Equal Weight Industrials Index ETF	ZIN
K	KINROSS GOLD CORP	-28.70	BMO Equal Weight Global Gold Index ETF	ZGD
SNC	SNC-LAVALIN GROUP INC	-27.21	BMO Equal Weight Industrials Index ETF	ZIN
BNS	BANK OF NOVA SCOTIA	-25.05	BMO Equal Weight Banks Index ETF	ZEB
ELD	ELDORADO GOLD CORP	-24.87	BMO Equal Weight Global Gold Index ETF	ZGD
CM	CAN IMPERIAL BK OF COMMERCE	-20.39	BMO Equal Weight Banks Index ETF	ZEB
AC	AIR CANADA	-19.27	BMO Equal Weight Industrials Index ETF	ZIN
TIXT	TELUS INTERNATIONAL CDA INC	-16.67	BMO Global Communications Index ETF	COMM

Source: Bloomberg Oct 11, 2022



Do you want to get out of the equity market and park your cash for future investment opportunities? Consider **BMO Money Market Fund (ZMMK)** as a parking place, providing investors with liquidity and stability.

## U.S. Equities

Ticker	Name	Total Return YTD as of Oct 11, 2022	BMO ETF	Ticker
NFLX	NETFLIX INC	-63.58	BMO Covered Call Technology ETF	ZWT
NVDA	NVIDIA CORP	-60.23	BMO Covered Call Technology ETF	ZWT
MRNA	MODERNA INC	-51.00	BMO Equal Weight US Health Care Hedged to CAD Index ETF BMO Equal Weight US Health Care Index ETF	ZUH ZHU
INTC	INTEL CORP	-49.77	BMO Covered Call Technology ETF	ZWT
NKE	NIKE INC -CL B	-47.14	BMO MSCI USA High Quality Index ETF	ZUQ
CSCO	CISCO SYSTEMS INC	-34.92	BMO Covered Call Technology ETF	ZWT
WBA	WALGREENS BOOTS ALLIANCE INC	-34.44	BMO Global Consumer Staples Hedged to CAD Index ETF	STPL
JPM	JPMORGAN CHASE & CO	-32.53	BMO Equal Weight US Banks Index ETF BMO Equal Weight US Banks Hedged to CAD Index ETF	ZBK ZUB
GOOGL	ALPHABET INC-CL A	-32.01	BMO MSCI USA High Quality Index ETF	ZUQ
MSFT	MICROSOFT CORP	-31.74	BMO MSCI USA High Quality Index ETF	ZUQ
BAC	BANK OF AMERICA CORP	-31.37	BMO Equal Weight US Banks Index ETF BMO Equal Weight US Banks Hedged to CAD Index ETF	ZBK ZUB
PFE	PFIZER INC	-26.99	BMO Equal Weight US Health Care Hedged to CAD Index ETF BMO Equal Weight US Health Care Index ETF	ZUH ZHU

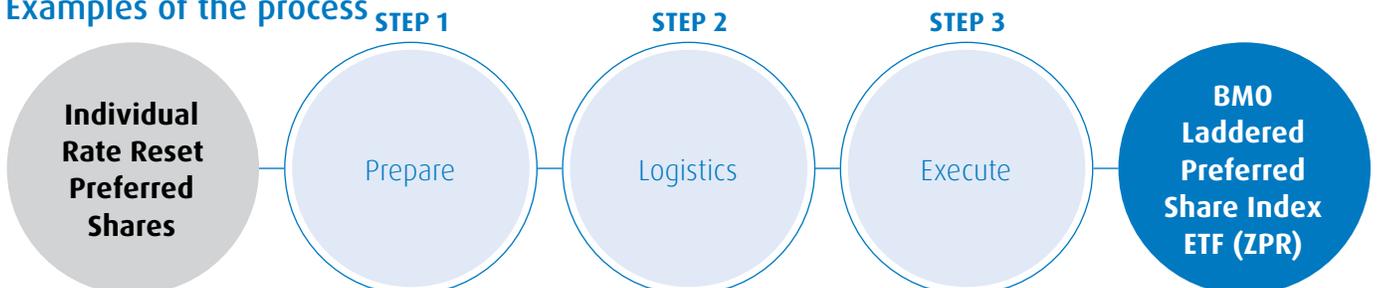
Source: Bloomberg Oct 11, 2022

# Exchange Individual Bonds & Rate Reset Preferred Shares to Utilize the Benefits of ETFs and Tax-Loss Harvesting

## What is the advantage?

- As the calendar year comes to an end, investors may be looking to crystallize losses on individual bonds or rate reset preferreds for tax-loss harvesting.
- BMO Exchange Traded Funds (ETFs) has introduced a process in which an investor can convert their individual Canadian bonds or rate reset preferred shares for shares in a corresponding ETF. For example, Canadian short corporate bonds can easily be converted directly into shares of BMO Short Corporate Bond Index ETF (ZCS). This process enables an investor to utilize the benefits of ETFs, while providing standardization, transparency, and diversification, across client accounts.
- Relative to individual bonds and rate reset preferreds, ETFs provide significant benefits to investors. ETFs provide the ability to achieve instant diversification through a single trade. As well, ETFs provide significant liquidity benefits for investors that are looking to manage a specific allocation or model across several client accounts. ETFs, at worst, will trade at bid-offer spreads that are equal to the underlying fixed income bonds or rate reset preferreds, but generally trade at significantly tighter spreads, due to the secondary liquidity that is available on the exchange. ETFs provide investors with a cost-efficient, diversified, and scalable solution for fixed income and preferreds.

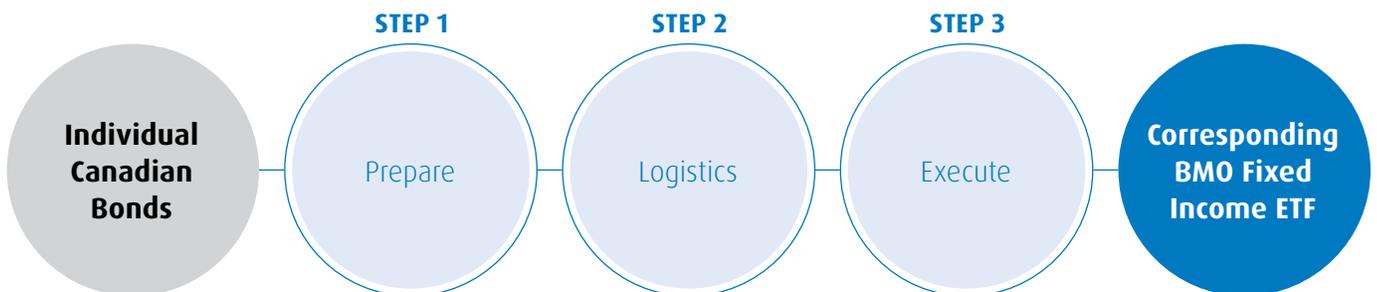
## Examples of the process



Send your list of individual Canadian bonds to: [BMOETFIndexEquity@bmo.com](mailto:BMOETFIndexEquity@bmo.com)  
 Be sure to include the ticker, SEDOL or CUSIP and the number of units you are holding.  
 Minimum list size for conversion is a combined \$500,000 CDN.

BMO ETFs will determine which ones can be purchased and the amount. BMO ETFs will contact you to confirm.  
 Logistics will be worked out between the ETF market maker and your retail trading desk.  
 Confirm logistics with your trading desk.

BMO ETFs will buy the preferred shares at the closing price and deliver units of ZPR at net asset value (NAV) plus transaction costs (approximately \$0.005 to \$0.01 to the market maker). All regular commissions apply.



Send your list of individual Canadian bonds to: [BMOGAMCANADAETFFixedIncomePMs@bmo.com](mailto:BMOGAMCANADAETFFixedIncomePMs@bmo.com)  
 Be sure to include the name of issue, CUSIP and the number of units you are holding.  
 Minimum list size for conversion is a combined \$500,000 CDN.

BMO ETFs will determine which ones can be purchased and the amount. BMO ETFs will contact you to confirm.  
 Logistics will be worked out between the ETF market maker and your retail trading desk.  
 Confirm logistics with your trading desk.

BMO ETFs will buy the bonds at the closing price and deliver units of the corresponding BMO Fixed Income ETF at net asset value (NAV) plus transaction costs (approximately \$0.005 to \$0.01 to the market maker). All regular commissions apply.

# Tax Loss & Discount Bond Opportunity

Fixed income prices have fallen largely due to inflation concerns, which have caused central banks to be more hawkish on expected overnight interest rates and has also shifted the interest rate curve higher across the maturity spectrum as markets adjust.

Fixed income still plays an important part in a portfolio, providing long-term portfolio protection and diversification. Fixed income ETFs continue to magnify the general benefits of ETFs; **higher liquidity, better diversification, cost efficiency, and tax efficiency.**

## The Opportunity

There is an opportunity to take advantage of a tax loss selling strategy and move your non-registered fixed income positions into more tax efficient discount bond ETFs (tax loss selling is not applicable in registered plans).

ZDB, ZSDB and ZCDB can help investors reduce taxable interest income relative to traditional bond funds with similar exposures. BMO's Discount Bond ETFs invest in bonds where the current yield is near or below par value. By investing in lower coupon bonds, and ensuring coupon and yield to maturity (YTM) are more aligned, helps improve tax efficiency. In a taxable account the higher the coupon, the higher tax the investor will pay. This does not impact the before tax total return, where coupons and price movement generally equal yield to maturity over time. [Click here](#) to learn more about the advantages of Discount Bond ETFs.

Sell			Buy	
Ticker	Name	YTD Return (%)	Ticker	Name
VAB	Vanguard Canadian Aggregate Bond ETF	-11.88	ZDB	<a href="#">BMO Discount Bond Index ETF</a>
XBB	iShares Core Canadian Universe Bond ETF	-11.89	ZDB	<a href="#">BMO Discount Bond Index ETF</a>
HBB	Horizons CDN Select Universe Bond ETF	-12.02	ZDB	<a href="#">BMO Discount Bond Index ETF</a>
ZAG	BMO Aggregate Bond Index ETF	-11.87	ZDB	<a href="#">BMO Discount Bond Index ETF</a>
CACB	CIBC Active Investment Grade Corp Bond ETF	-11.20	ZCDB	<a href="#">BMO Corporate Discount Bond ETF</a>
XCB	iShares Core Canadian Corp Bond ETF	-10.94	ZCDB	<a href="#">BMO Corporate Discount Bond ETF</a>
VCB	Vanguard Canadian Corporate Bond ETF	-10.09	ZCDB	<a href="#">BMO Corporate Discount Bond ETF</a>

Source: Morningstar Direct, September 30, 2022.

## Beware of "Superficial Losses"

While executing a tax loss strategy where the two securities (in this case, ETFs) are considered "identical properties" a capital loss on the sale of one followed by an immediate re-purchase (or re-purchase within 30 days) of the other would be considered a "superficial loss" for tax purposes. A best practice to avoid this is to ensure the two ETFs do not track the same index.



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