

BMO ETFs Tax Loss Harvesting Guide 2023

Start Early, Add Value

Exchange traded funds (ETFs) are effective tools for investors to help navigate uncertain markets and can be used to help crystallize losses from a tax perspective. As 2023 year end approaches, we provide trade ideas to help clients harvest tax savings from under-performing securities.

Overview

- What is Tax Loss Harvesting?
- Beware of Superficial Losses
- Tax-Loss harvesting example
- Important Dates to Remember
- Tax Loss Equity Opportunities
- Tax Loss Fixed income Opportunities
- Individual Bonds and Preferred Shares

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.
- 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.

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.

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 original 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.

Important dates to remember:

- **December 27, 2023** – 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.

Tax Loss Equity Opportunities

Canadian Equities

Ticker	Name	Total Return YTD as of Oct 24, 2023	BMO ETF	Ticker
AP-UN	Allied Properties REIT	-34.49%	BMO Equal Weight REITs Index ETF	ZRE
CJT	Cargojet Inc	-28.99%	BMO Equal Weight Industrials Index ETF	ZIN
NTR	Nutrien	-25.56%	BMO Global Agriculture ETF	ZEAT
RCI	Rogers Communications	-18.46%	BMO S&P/TSX Capped Composite Index ETF	ZCN
REI-UN	RioCan REIT	-15.55%	BMO Equal Weight REITs Index ETF	ZRE
PPL	Pembina Pipeline	-13.78%	BMO Equal Weight Oil & Gas Index ETF	ZEO
CM	Canadian Imperial Bank of Commerce	-13.34%	BMO Equal Weight Banks Index ETF / BMO Covered Call Canadian Banks ETF	ZEB / ZWB
TRP	TC Energy	-13.32%	BMO Equal Weight Oil & Gas Index ETF / BMO Covered Call Energy ETF	ZEO / ZWEN
BEP	Brookfield Renewable Partners	-13.18%	BMO Equal Weight Utilities Index ETF	ZUT
ENB	Enbridge	-11.59%	BMO Equal Weight Oil & Gas Index ETF / BMO Covered Call Energy ETF	ZEO / ZWEN
BNS	Bank of Nova Scotia	-8.95%	BMO Equal Weight Banks Index ETF / BMO Covered Call Canadian Banks ETF	ZEB / ZWB

Source: Bloomberg October 24, 2023.

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

U.S. Equities

Ticker	Name	Total Return YTD as of Oct 24, 2023	BMO ETF	Ticker
MRNA	Moderna	-55.00%	BMO Equal Weight US Health Care Index ETF/ BMO Equal Weight US Health Care Hedged to CAD Index ETF	ZHU / ZUH
DG	Dollar General	-51.31%	BMO Global Consumer Discretionary Hedged to CAD Index ETF	DISC
PFE	Pfizer	-37.38%	BMO Equal Weight US Health Care Index ETF/ BMO Equal Weight US Health Care Hedged to CAD Index ETF	ZHU / ZUH
EL	Estee Lauder Companies Inc	-28.33%	BMO Global Consumer Discretionary Hedged to CAD Index ETF	DISC
PNC	PNC Financial Services Group	-24.81%	BMO Covered Call US Banks ETF / BMO Equal Weight US Banks Index ETF / BMO Equal Weight US Banks Hedged to CAD Index ETF	ZWK / ZBK / ZUB
BAC	Bank of America	-24.78%	BMO Covered Call US Banks ETF / BMO Equal Weight US Banks Index ETF / BMO Equal Weight US Banks Hedged to CAD Index ETF	ZWK / ZBK / ZUB
PYPL	Paypal	-22.28%	BMO NASDAQ 100 Equity Index ETF/ BMO NASDAQ 100 Equity Hedged to CAD Index ETF	ZNQ / ZQQ
AMT	American Tower Corp	-19.65%	BMO Global Infrastructure Index ETF	ZGI
KO	Coca-Cola Inc	-9.16%	BMO Global Consumer Staples Hedged to CAD Index ETF	STPL
T	AT&T	-8.40%	BMO Global Communications Index ETF	COMM

Source: Bloomberg October 24, 2023.

Tax Loss Fixed Income Opportunities

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.**

Comprehensive Fixed Income

BMO is the largest provider to split the entire fixed income spectrum by term and credit in Canada.* Depending on where you are on the yield curve or the particular issuer you hold, BMO's comprehensive 3x3 matrix can help you identify your fixed income tax loss opportunity:

CANADIAN PRECISE MARKET			
	Short-Term	Mid-Term	Long-Term
Corporate	BMO Short Corporate Bond Index ZCS <small>distributing units</small>	BMO Mid Corporate Bond Index ZCM	BMO Long Corporate Bond Index ZLC
Provincial	BMO Short Provincial Bond Index ZPS <small>distributing units</small>	BMO Mid Provincial Bond Index ZMP	BMO Long Provincial Bond Index ZPL
Federal	BMO Short Federal Bond Index ZFS <small>distributing units</small>	BMO Mid Federal Bond Index ZFM	BMO Long Federal Bond Index ZFL

Discount Bond Opportunity

Discount Bonds 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
XLB	iShares Core Canadian Long Term Bond Index ETF	-6.02	ZDB	BMO Discount Bond Index ETF
VLB	Vanguard Canadian Long Term Bond Index ETF	-6.18	ZDB	BMO Discount Bond Index ETF
VAB	Vanguard Canadian Aggregate Bond ETF	-2.13	ZDB	BMO Discount Bond Index ETF
XBB	iShares Core Canadian Universe Bond ETF	-2.11	ZDB	BMO Discount Bond Index ETF
HBB	Horizons CDN Select Universe Bond ETF	-2.62	ZDB	BMO Discount Bond Index ETF
ZAG	BMO Aggregate Bond Index ETF	-2.08	ZDB	BMO Discount Bond Index ETF

Source: Morningstar Direct, October 19, 2023.

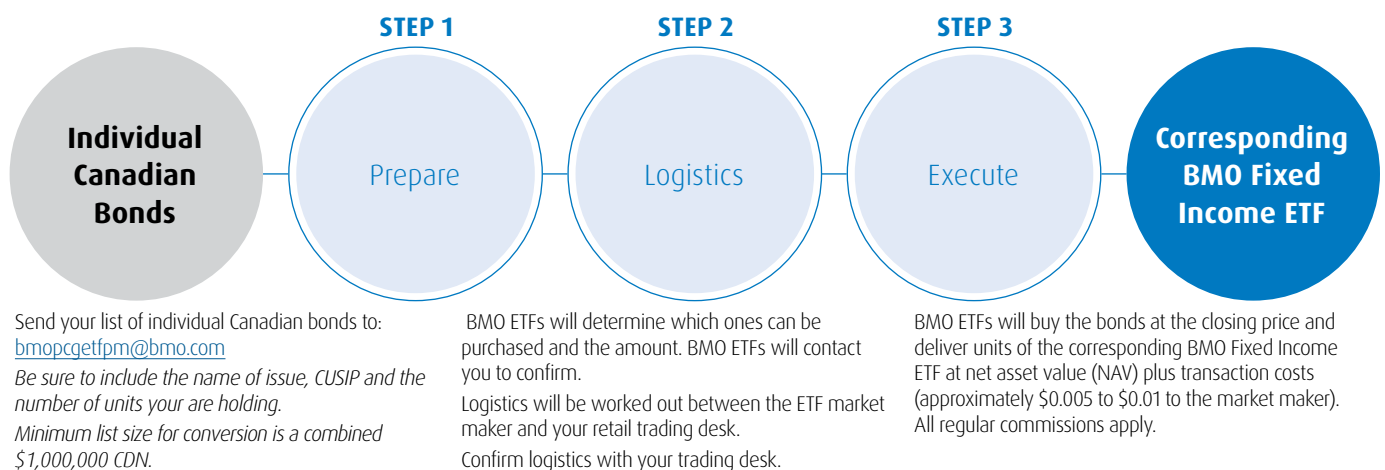
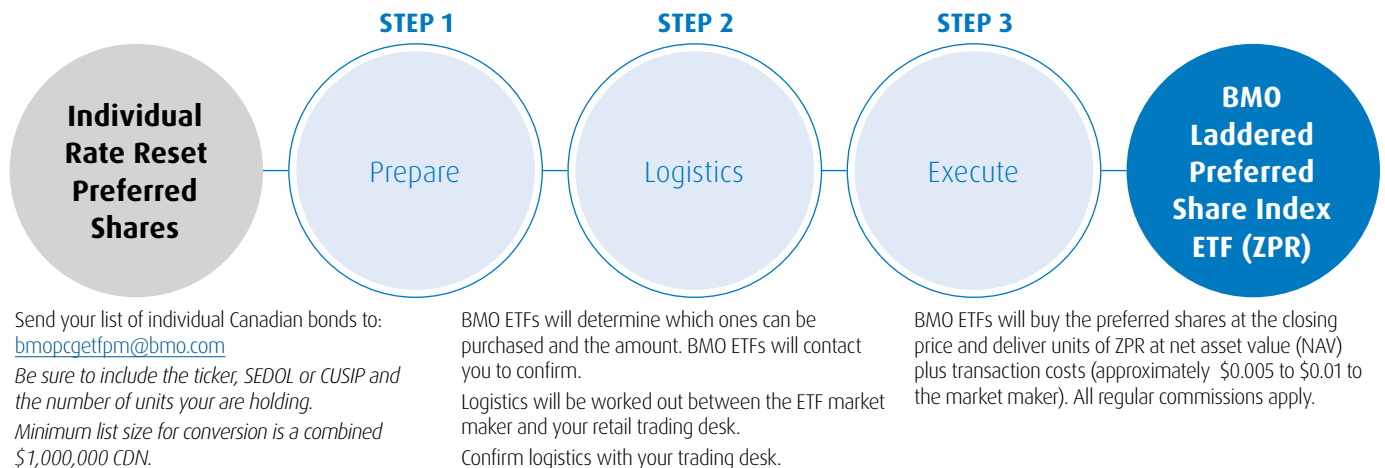
* Source: NBF Bloomberg October 2023

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 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. In addition, 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





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Visit bmo.com/etfs or contact Client Services at 1-800-361-1392.

[What to Expect During Tax Season: FAQs](#)

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