



As Easy as ACB

Understanding and tracking your
adjusted cost base with ETFs

Toronto, Ontario
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Why you should track your ACB

One of the most complicated and tedious tasks investors must do is calculate the adjusted cost base (ACB) for each security in their taxable accounts.

Your ACB is the original cost of your investment, adjusted upwards for any new purchases (lump-sum buys, reinvested dividends, or reinvested capital gains distributions) and downwards for any sells or return of capital (ROC) distributions.

While calculating your ACB is complex and time-consuming, it's extremely important. If you neglect to adjust your ACB upwards, you'll pay too much tax when you sell the security. If you neglect to adjust it downwards, you'll pay too little. Although the latter may sound appealing, the Canada Revenue Agency is not likely to share your enthusiasm.

Reporting your ACB would be easier if your brokerage kept the records for you. Unfortunately, they do not always do this accurately. They are not entirely to blame: because your ACB must be calculated for identical securities across all taxable accounts, no single brokerage can see the entire picture.

Because individuals are ultimately responsible for the accuracy of their ACB reporting, we've put together this white paper to make it easier for ETF investors.

We recommend you complete this task every March, before you file your personal tax return. This will allow ETF providers enough time to report the tax breakdown of their funds' distributions.

Gathering your account transactions

Your first step is compiling all the required information from your monthly or quarterly non-registered account statements. (It's not necessary to track your ACB for securities held in RRSPs and other registered accounts.)

Focus on the account activity section of each statement: this will include any buys or sells that took place during the calendar year, as well as any reinvested dividends (DRIPs).

In the sample statements below, there were three relevant transactions for the [iShares S&P/TSX Capped REIT Index Fund \(XRE\)](#) in 2012:

Account Activity

DATE	ACTIVITY	DESCRIPTION	QUANTITY	PRICE \RATE	DEBIT	CREDIT
JAN. 06	BOUGHT	Opening Balance (DEC. 30, 2011) ISHARES S&P/TSX CAPPED REIT INDEX FUND DA	3210	15.563	49,957.55	\$50,000.00
		Closing Balance (JAN. 31, 2012)				\$42.45

Account Activity

DATE	ACTIVITY	DESCRIPTION	QUANTITY	PRICE \RATE	DEBIT	CREDIT
NOV. 30	DIV REIN	Opening Balance (OCT. 31, 2012) ISHARES S&P/TSX CAPPED REIT INDEX FUND REINV@C\$16.54 REC 11/26/12 PAY 11/30/12	12		198.48	\$2,023.85
NOV. 30		ISHARES S&P/TSX CAPPED REIT INDEX FUND DIST ON 3210 SHS REC 11/26/12 PAY 11/30/12		0.062		198.67
		Closing Balance (NOV. 30, 2012)				\$2,024.04

Account Activity

DATE	ACTIVITY	DESCRIPTION	QUANTITY	PRICE \RATE	DEBIT	CREDIT
DEC. 31	SOLD	Opening Balance (NOV. 30, 2012) ISHARES S&P/TSX CAPPED REIT INDEX FUND CA	3222	16.947		\$2,024.04 54,603.23
		Closing Balance (DEC. 31, 2012)				\$56,627.27

How to obtain an ETF's tax breakdown

The next step is to obtain the tax breakdown for all ETF distributions received during the calendar year. We'll continue with our example from above using the iShares S&P/TSX Capped REIT Index Fund (XRE).

CDSinnovations.ca is an automated system that allows Canadian ETF issuers to post tax breakdowns for their distributions. You can download monthly, quarterly and annual return of capital and reinvested distribution breakdowns to assist you in calculating your adjusted cost base.

Click the link **Display T3 information for year 2012** and accept the conditions.

You will then be brought to the *Mutual Fund and Limited Partnership Tax Breakdown Posting* page. You can sort the funds in alphabetical order by clicking on the Security Name heading. Scroll until you find the ETF you're looking for and click on the Excel icon to the right of the name.



02/14/2013 13:21:26	46431E101	ISHARES S&P/TSX CAPPED MATERIALS INDEX FUND	T3	
02/14/2013 13:50:13	46431D103	ISHARES S&P/TSX CAPPED REIT INDEX FUND		
02/14/2013 14:02:57	46431M103	ISHARES S&P/TSX CAPPED UTILITIES INDEX FUND	T3	

Statement of Trust Income Allocations and Designations

On this statement, there are three key pieces of information you'll need in order to calculate and track your ACB:

1. Record Date
2. Total Non Cash Distribution (\$) Per Unit
3. Return of Capital

We recommend printing a copy of this spreadsheet for your records.

Statement of Trust Income Allocations and Designations – XRE (2012)

			Distribution 1	Distribution 2	Distribution 3	Distribution 4	Distribution 5	Distribution 6		
T3 Box No.	R16 Box No.	1	Total Distribution (\$) Per Unit	0.06204	0.06204	0.06250	0.06150	0.06150	0.06150	
		Record Date	2012/01/27	2012/02/24	2012/03/27	2012/04/25	2012/05/25	2012/06/26		
		Payment Date	2012/02/01	2012/02/29	2012/03/30	2012/04/30	2012/05/31	2012/06/29		
		2	Total Cash Distribution (\$) Per Unit	0.06204	0.06204	0.06250	0.06150	0.06150	0.06150	
		Total Non Cash Distribution (\$) Per Unit								
		Total Income (\$) per unit being allocated	0.06204	0.06204	0.06250	0.06150	0.06150	0.06150		
		21	A	Capital gain	0.05028	0.05028	0.05065	0.04984	0.04984	0.04984
		49	C1	Actual Amount of Eligible Dividends	0.00062	0.00062	0.00062	0.00061	0.00061	0.00061
		23	C2	Actual Amount of Non Eligible Dividend						
		24	E	Foreign Business Income						
25	F	Foreign Non-Business Income	0.00207	0.00207	0.00208	0.00205	0.00205	0.00205		
26	G	G- Other Income (Investment Income)	0.00749	0.00749	0.00754	0.00742	0.00742	0.00742		
OTHER INCOME										
42	M	3	Return of Capital	0.00158	0.00158	0.00161	0.00158	0.00158	0.00158	
X	X		Non Reportable Distribution							
30	H		Capital gains eligible for deduction							
33	K		Foreign business income tax paid							
34	L		Foreign non-business income tax paid							
Total Income Allocation (check figure)			0.06204	0.06204	0.06250	0.06150	0.06150	0.06150		

			Distribution 7	Distribution 8	Distribution 9	Distribution 10	Distribution 11	Distribution 12		
T3 Box No.	R16 Box No.	1	Total Distribution (\$) Per Unit	0.06150	0.06150	0.06150	0.06168	0.06168	0.15140	
		Record Date	2012/07/26	2012/08/28	2012/09/25	2012/10/26	2012/11/26	2012/12/28		
		Payment Date	2012/07/31	2012/08/31	2012/09/28	2012/10/31	2012/11/30	2013/01/03		
		2	Total Cash Distribution (\$) Per Unit	0.06150	0.06150	0.06150	0.06168	0.06168	0.06168	
		Total Non Cash Distribution (\$) Per Unit							0.08972	
		Total Income (\$) per unit being allocated	0.06150	0.06150	0.06150	0.06168	0.06168	0.06168	0.15140	
		21	A	Capital gain	0.04984	0.04984	0.04984	0.04998	0.04998	0.13970
		49	C1	Actual Amount of Eligible Dividends	0.00061	0.00061	0.00061	0.00062	0.00062	0.00062
		23	C2	Actual Amount of Non Eligible Dividend						
		24	E	Foreign Business Income						
25	F	Foreign Non-Business Income	0.00205	0.00205	0.00205	0.00206	0.00206	0.00206		
26	G	G- Other Income (Investment Income)	0.00742	0.00742	0.00742	0.00744	0.00744	0.00744		
OTHER INCOME										
42	M	3	Return of Capital	0.00158	0.00158	0.00158	0.00158	0.00158	0.00158	
X	X		Non Reportable Distribution							
30	H		Capital gains eligible for deduction							
33	K		Foreign business income tax paid							
34	L		Foreign non-business income tax paid							
Total Income Allocation (check figure)			0.06150	0.06150	0.06150	0.06168	0.06168	0.15140		

Source: [CDS Innovations Inc.](http://CDSInnovations.com)

Adjusted Cost Base.ca

Now that you've armed yourself with all the necessary information to calculate your ACB, it's time to turn to a free online resource that will do the heavy lifting.

[Adjusted Cost Base.ca](#) allows you to set up an account with only your email address. You can then input and track all buys, sells, reinvested dividends, reinvested capital gains distributions, return of capital, unit splits, and U.S. dollar transactions. You can also export this info to Microsoft Excel (we recommend doing so after each annual update so you have a backup).

Step 1: Register

The first step is to read and agree to the *Terms of Use*, and then register with your email address.

Register	
It is recommended that you use your e-mail address as you username. However, you are free to choose a username that is not your e-mail address. Please be advised that if you forget your password it cannot be reset unless you have selected your e-mail address as you username.	
E-Mail Address/Username	<input type="text" value="johnsmith@gmail.com"/>
Confirm E-Mail Address/Username	<input type="text" value="johnsmith@gmail.com"/>
Password	<input type="password" value="....."/>
Confirm Password	<input type="password" value="....."/>
I have read and agree to the disclaimer below	<input checked="" type="checkbox"/>
<i>By registering, you must read and agree to the Terms of Use</i>	
<input type="button" value="Register"/>	

Step 2: Add a New ETF

You will need to add the name of each ETF in your non-registered accounts. To do this, click *New Security* at the top of the page:



From there, you will be brought to a separate screen where you can input the ETF name and ticker symbol. We've entered the **iShares S&P/TSX Capped REIT Index Fund** in the *Name* field and **XRE** in the *Ticker Symbol* field. You can leave the rest of the fields blank. Click the *Add Security* button to complete the process.

New Security	
Name	<input type="text" value="iShares S&P/TSX Capped"/>
Ticker Symbol (optional)	<input type="text" value="XRE"/>
Initial share and ACB information is optional. Instead, you can add a buy transaction for this security.	
Initial share information will apply to the current portfolio only: My Default Portfolio	
Initial Shares (optional)	<input type="text"/>
Initial Adjusted Cost Base (optional)	\$ <input type="text"/> Total <input type="button" value="v"/>
<input type="button" value="Add Security"/> <input type="button" value="Cancel"/>	

Step 3: Input buys

Buying shares of an ETF increases the ACB by the cost of the shares, plus any trading commissions. To input all of your share purchases, click New Transaction at the top of the page:



You will be brought to a separate screen that will allow you to input your transactions.

Select the **iShares S&P/TSX Capped REIT Index Fund** from the *Security* drop-down menu. Choose the transaction type (in this example, select **Buy**). Select the settlement date of the trade: this particular trade settled on **January 6, 2012**.

Now enter **\$49,957.55** in the *Price* field: this was the total cost of the buy transaction, including commissions. This amount can be found under the Debit column in the account activity section of your account statement. You also have the option of selecting *Total or Per Share* – choose **Total** for any buy transactions. You can skip the *Commission* field, as the commission (if any) has already been included in the total cost of the trade.

Finally, input the total number of shares (in this example, we purchased **3,210** shares), and then click *Add Transaction*.

New Transaction	
Security [New Security]	iShares S&P/TSX Capped REIT Index Fund
Transaction	Buy
Date	Jan 6 2012
Memo	
Price	\$ 49957.55 Total
Price in Foreign Currency?	<input type="checkbox"/>
Shares	3210
Commission	\$
<input type="button" value="Add Transaction"/> <input type="button" value="Cancel"/>	

Step 4: Input reinvested dividends

If you have set up a dividend reinvestment plan, or DRIP, most of your ETF distributions will be paid in the form of new shares (since only whole shares can be purchased, some will also be paid in cash). New shares received through reinvested dividends increase your initial cost base and **lower** your future capital gains tax liability.

Recall from our sample account statements that a reinvested dividend resulted in **12** new shares being purchased on **November 30, 2012** for **\$198.48**. If you neglect to add this amount to your ACB, your future capital gains tax liability will be inflated and you might pay more in tax than you need to.

New Transaction	
Security [New Security]	iShares S&P/TSX Capped REIT Index Fund
Transaction	Reinvested Dividend
Date	Nov 30 2012
Memo	
Reinvested Dividend Amount	\$ 198.48 Total
Additional Shares Purchased/Received	12
<input type="button" value="Add Transaction"/> <input type="button" value="Cancel"/>	

Step 5: Input sells

Selling shares of an ETF **decreases** the ACB by the number of shares sold multiplied by the ACB per share. In our example, all **3,222** shares were sold on **December 31, 2012** for total proceeds of **\$54,603.23**.

New Transaction	
Security [New Security]	iShares S&P/TSX Capped REIT Index Fund
Transaction	Sell
Date	Dec 31 2012
Memo	
Price	\$ 54603.23 Total
Price in Foreign Currency?	<input type="checkbox"/>
Shares	3222
Commission	\$
<input type="button" value="Add Transaction"/> <input type="button" value="Cancel"/>	

Step 6: Input reinvested capital gains distributions

From time to time, ETFs sell stocks or bonds and replace them with new securities. This can occur, for example, when a company is removed from the index and supplanted by another. When this happens, the fund may realize a capital gain.

ETFs have a unique structure that is effective at minimizing capital gains—and even when they are realized they can sometimes be offset with capital losses that have been carried forward. However, occasionally the ETF manager has no choice but to pass along this gain to you, the investor, at year-end.

The term “capital gain distribution” is a bit misleading, since you are not receiving any cash: the proceeds from the sale of the securities have already been reinvested in the fund. Therefore these reinvested distributions increase your ACB, which in turn decreases your future capital gains tax liability.

In order to calculate the capital gain accurately, each reinvested distribution must be multiplied by the number of shares held on the record date and then added to the ACB.

In this example, the ACB would increase by **\$289.08** (3,222 shares × 0.08972 reinvested capital gains distributions per unit = \$289.08). If you fail to make this adjustment, you will pay some unnecessary tax.

In the *Statement of Trust Income Allocations and Designations* you downloaded from CDS Innovations, find the row labeled **Total Non Cash Distribution (\$) Per Unit**. This is also known as the fund’s reinvested capital gains distribution per share.

Now add a new transaction for XRE, this time selecting **Reinvested Capital Gains Distribution**. Enter \$0.08972 in the **Amount** field (ensure that you select **Per Share** from the drop-down menu). For the **Date** field, input the *Record Date* of the distribution (not the *Payment Date*).

New Transaction	
Security [New Security]	iShares S&P/TSX Capped REIT Index Fund
Transaction	Reinvested Capital Gains Distribution
Date	Dec 28 2012
Memo	
Reinvested Capital Gains Distribution Amount	\$ 0.08972 Per Share
Additional Shares Purchased /Received	
<input type="button" value="Add Transaction"/> <input type="button" value="Cancel"/>	

Step 7: Input return of capital

When a fund pays a return of capital (ROC) distribution it is essentially giving you back a portion of your initial contributions. It's common with income-oriented ETFs, especially those that pay a fixed distribution every month. ROC is not taxable in the year you receive it. However, return of capital distributions decrease your ACB, which in turn increases your future capital gains tax liability.

If you don't adjust for return of capital, you will pay less tax than you owe, and the Canada Revenue Agency will not be impressed.

Continuing with the example above, let's adjust the cost base by taking into account the return of capital for each year. Again, this information can be found on the Statement of Trust Income Allocations and Designations, in the row labeled *Return of Capital*.

In the example using XRE, there were 12 monthly return of capital distributions in 2012. Each of these must be entered as a separate transaction to be as accurate as possible. Use the *Record Date* and select *Per Share* from the drop-down menu. For simplicity, we'll only illustrate the January 2012 return of capital input:

New Transaction	
Security [New Security]	iShares S&P/TSX Capped REIT Index Fund
Transaction	Return of Capital
Date	Jan 27 2012
Memo	
Return of Capital Amount	\$ 0.00158 Per Share
<input type="button" value="Add Transaction"/> <input type="button" value="Cancel"/>	

When you have finished inputting all of your transactions, your results should be identical to those shown below:

All Transactions

Security	Date	Transaction	Amount	Shares	Amount/Share	Commission	Capital Gain (Loss)	Share Balance	Change in ACB	New ACB	New ACB/Share	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-12-31	Sell	\$54,603.23	3,222	\$16.95	-	\$4,219.10	0	-\$50,384.13	\$0.00	-	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-12-28	Reinvested Capital Gains Distribution	\$289.08	-	-	-	\$289.08	3,222	+\$289.08	\$50,384.13	\$15.64	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-12-28	Return of Capital	\$5.09	3,222	\$0.0016	-	-	3,222	-\$5.09	\$50,095.05	\$15.55	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-11-30	Reinvested Dividend	\$198.48	12	\$16.54	-	-	3,222	+\$198.48	\$50,100.14	\$15.55	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-11-26	Return of Capital	\$5.07	3,210	\$0.0016	-	-	3,210	-\$5.07	\$49,901.66	\$15.55	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-10-26	Return of Capital	\$5.07	3,210	\$0.0016	-	-	3,210	-\$5.07	\$49,906.74	\$15.55	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-09-25	Return of Capital	\$5.07	3,210	\$0.0016	-	-	3,210	-\$5.07	\$49,911.81	\$15.55	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-08-28	Return of Capital	\$5.07	3,210	\$0.0016	-	-	3,210	-\$5.07	\$49,916.88	\$15.55	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-07-26	Return of Capital	\$5.07	3,210	\$0.0016	-	-	3,210	-\$5.07	\$49,921.95	\$15.55	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-06-26	Return of Capital	\$5.07	3,210	\$0.0016	-	-	3,210	-\$5.07	\$49,927.02	\$15.55	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-05-25	Return of Capital	\$5.07	3,210	\$0.0016	-	-	3,210	-\$5.07	\$49,932.09	\$15.56	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-04-25	Return of Capital	\$5.07	3,210	\$0.0016	-	-	3,210	-\$5.07	\$49,937.17	\$15.56	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-03-27	Return of Capital	\$5.17	3,210	\$0.0016	-	-	3,210	-\$5.17	\$49,942.24	\$15.56	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-02-24	Return of Capital	\$5.07	3,210	\$0.0016	-	-	3,210	-\$5.07	\$49,947.41	\$15.56	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-01-27	Return of Capital	\$5.07	3,210	\$0.0016	-	-	3,210	-\$5.07	\$49,952.48	\$15.56	Edit
iShares S&P/TSX Capped REIT Index Fund	2012-01-06	Buy	\$49,957.55	3,210	\$15.56	-	-	3,210	+\$49,957.55	\$49,957.55	\$15.56	Edit

Unit splits

Although unit split adjustments occur infrequently, it is important for investors to understand how they work.

In August of 2008, for example, iShares [announced](#) a unit split on the iShares S&P/TSX Capped Composite Index Fund (XIC) using a ratio of 4:1, meaning investors received four shares of XIC for each share they held on the date of record. The price per share was then divided by four to maintain the same overall net asset value.

For example, suppose you held 2,000 shares of XIC before the unit split and each share cost \$50, for an initial ACB of \$100,000. After the split, you would own 8,000 shares (2,000 shares \times 4), and the ACB per share would fall to \$12.50 ($\$50 \div 4$). Your overall ACB would not change, but ACB per share would be reduced by a factor of four.

This type of transaction is straightforward to input: just choose the security, the record date, the split ratio, and click Add Transaction.

New Transaction	
Security [New Security]	iShares S&P/TSX Capped Composite Index Fund
Transaction	Split
Date	Aug 8 2008
Memo	
Split Ratio	4 -for- 1
<input type="button" value="Add Transaction"/> <input type="button" value="Cancel"/>	

U.S. dollar transactions

Canadian investors are required to calculate their adjusted cost base for US-listed ETFs in Canadian dollars. You must use the exchange rate on the date of settlement, not the trade date. The Bank of Canada publishes [daily noon exchange rates](#) going back 10 years.

Suppose you purchased 740 shares of the US-listed Vanguard Total Stock Market ETF (VTI) on May 30, 2012. The trade settled on June 4, 2012 (T+3). You check the noon exchange rate on June 4, 2012, and note that 1 CAD = 0.9599 USD.

Even though your total cost was \$49,974.75 USD, your adjusted cost base for tax purposes must be converted to Canadian dollars. Your total cost is therefore \$52,062.45 CAD ($\$49,974.75 / 0.9599$). This procedure must be done for any subsequent buys or sells as well.

Daily noon exchange rates: 10-year lookup

Specific Date or Range

Start (or single date) 2012-06-04 to

Date Format: yyyy-mm-dd

Quick Date:

Latest 1 day for daily series.

Daily noon exchange rates: 10-year lookup

View or save this data in: [SDMX](#), [XML](#), [CSV](#)

U.S. dollar (noon)

Date	1 USD -> CAD	1 CAD -> USD
2012-06-04	1.0418	0.9599

In order to input this type of transaction, everything should be completed just like the examples from above. There are only a couple of additional steps:

1. Check the *Price in Foreign Currency* box.
2. Enter the *Exchange Rate*. You will be asked how much 1 Canadian dollar is worth in the foreign currency: type in **0.9599**.

After you have added the transaction, the program will automatically convert the U.S. dollar transaction to Canadian dollars.

Sample U.S. dollar buy transaction

New Transaction	
Security [New Security]	Vanguard Total Stock Market ETF
Transaction	Buy
Date	Jun 4 2012
Memo	
Price	\$ 49974.75 Total
Price in Foreign Currency?	<input checked="" type="checkbox"/>
Exchange Rate	CDN\$1 = 0.9599
Shares	740
Commission	\$ <input type="text"/> <input type="checkbox"/> In foreign currency
<input type="button" value="Add Transaction"/> <input type="button" value="Cancel"/>	

Transactions for Vanguard Total Stock Market ETF

Date	Transaction	Amount	Shares	Amount/Share	Commission	Capital Gain (Loss)	Share Balance	Change in ACB	New ACB	New ACB/Share	Edit
2012-Jun-04	Buy	\$52,062.45	740	\$70.35	-	-	740	+\$52,062.45	\$52,062.45	\$70.35	Edit

Identical property

The Canada Revenue Agency requires investors to calculate their adjusted cost base for each identical security they hold across all accounts. In other words, if you own 1,000 units of the iShares S&P/TSX Capped Composite Index Fund (XIC) in a taxable account with Brokerage A, and 500 units of the same fund in a taxable account at Brokerage B, you will be required to calculate your adjusted cost base on the combined number of units. Even if both brokerages have ensured the accuracy of their information, they have no idea whether you hold the same security elsewhere, so their book value will be meaningless to you for tax purposes.