

Adjusted cost base service can save time, money



**MICRO
MONITOR**

**By
Alan
Salmon**

Calculating an adjusted cost base (ACB) for tax reporting when an income trust or closed-end fund is sold can be a time-consuming and challenging task. A large percentage of funds pay monthly distributions that include an amount that is a tax-deferred return of capital (ROC). These ROC amounts reduce the ACB of the investment and must be accumulated to arrive at the accurate ACB used to calculate the capital gain or loss upon disposition.

ACB Tracking Inc. has developed a unique web-based, adjusted cost based calculator that can save accountants and financial advisors time and aggravation when they are preparing tax returns. The ACB Tracking web site quickly calculates the adjusted cost bases of income and royalty trusts, closed-end funds, split share corporations, and exchange traded funds.

The company's database has the distribution and ROC data on over 700 income trusts and closed-end funds, and they are adding new funds as they are created. Data is entered and checked within 24 hours after this information has been released by each fund or trust.

To do an ACB calculation you enter the total number of fund or trust units; the total buy and sell settlement amounts, including commission costs; and the settlement dates of the transactions. The ACB Tracking Calculator then automatically calculates the ACB of the security, as well as the resulting gain or loss and produces a report.

Reports produced with each calculation provide in summary and detail form all transactions, splits, consolidations, mergers, and distributions as well as the ACB of the position that has been sold, the capital gain or loss, and the ACB of the remaining position, if any. The final product is a clear, comprehensive PDF report that details all of the return of capital data used to arrive at the ACB and the capital gain or loss of the position that has been sold.

A challenge for accountants and financial advisors is the constantly changing trust and closed-end world. In 2007, over 50 trusts and closed-end funds were either acquired or terminated, all of which will require adjusted cost

base calculations. Many, such as TransAlta Power, LP and Legacy Hotels REIT were very widely held among individual investors.

Most funds pay their distributions in cash. However, in order to preserve cash, a fund may elect to declare distributions in the form of additional units of the fund and then do an immediate unit consolidation.

While the distribution of units is a taxable event as of the record date of the distribution, the unit holder receives no cash or additional units (thus the term 'phantom' distribution) however, the ACB of the position is increased by the amount of the unit distribution. This is another benefit of using the calculator, as phantom distributions are often missed.

Every year, beginning in mid-January, income trusts, closed-end funds, split shares and ETFs report the previous year's distribution data, including return of capital information. This information is immediately entered into the ACB Tracking database and registered users can make use of the company's Tracking Advise Service to be alerted when the data becomes available.

Two accountants in public practice were asked to review ACB Tracking. Ray Desjardins, the founding partner of Desjardins & Company, a chartered accountant in St. Paul, Alta. provided the fol-

lowing analysis:

"We track the ACB of our clients' income funds using a template in Jazz-It and we still struggle as a result of the information we have to work with from the brokerage firms. Not all brokerage firms show the ACB adjustment on trust distributions, and, even those who do don't record them on a consistent basis during the same periods.

So, each calculation involves entering at least 12 distributions and making an ACB adjustment either from data supplied by the brokerage firm, or, alternatively making an estimate of our own. That usually takes 15 to 20 minutes. At a technician rate of \$75 per hour, that is from \$18.75 to \$25 per ACB calculation. Since an ACB report costs from \$3 to \$8.50, depending on how many you buy, this is a substantial saving."

On rare occasions, a trust or fund will revise its distribution information subsequent to initial release. Consequently, a recalculation may be required to obtain an accurate ACB. The name of the trust and the date the revision occurred is summarized in a table that may be accessed through the data revision summary tab. All revised data is entered into the database immediately upon its receipt by ACB Tracking Inc., and users will be advised of any material changes.

Even though income trusts are being phased out, ACB Tracking is not a one-year wonder and there will still be a need for such a service in the future. This has been dramatically confirmed by the number of trust takeovers (nearly 50) in 2007 that are being treated as taxable dispositions. Furthermore, most REITS are currently exempt for the change in taxation of these products, and presumably anyone selling an income trust after the deadline will still need to calculate an adjusted cost base for the holding period before 2011.

John Shamash, a senior partner in the 40-person Montreal CA firm of Ruby Stein Wagner LLP said: "The service is quick, accurate and not expensive. It avoids the need for a detailed cost build-up schedule. This is a valuable tool for any size firm that is responsible for client write-up and tax return preparation."

ACB Tracking is a unique niche service that can save accounting and financial advisory firms both time and money.

Alan Salmon is the CEO of K2 Enterprise Canada, a North American consulting firm providing technology training to accountants. He is also the chairman of the Accounting Technology for the 21st Century seminar series. He can be reached at: asalmon@salmon.ca, or visit his website at: www.salmon.ca