



Insights into Non-Registered Taxation

Segregated Funds,
Savings and Retirement



Segregated fund taxation

Non-Registered Funds

When you invest in non-registered segregated funds you may receive a T3 tax slip* that reports the income that was allocated to your contract in the previous tax year. Many investors find the income reported on their tax slip confusing.

Keep reading to learn how segregated funds earn income, how this income is taxed, and what to expect on your tax slip.



*In Quebec the contract holder will also receive a Relevé 16. A non-resident will receive a NR4.

Segregated Fund Investing and Taxation

To understand segregated fund taxation, it can be helpful to visualize how segregated fund investing works. It is important to note that segregated funds generally invest in an underlying mutual fund or funds.

Segregated fund investing:

When you invest in a segregated fund your money is pooled with the money of all the other people who have invested in that segregated fund.



Segregated Fund at Equitable®



Underlying Fund

The professional fund manager of the underlying fund will strategically buy and sell a variety of investments (such as stocks and bonds).



Investments are purchased, such as stocks and bonds



Taxable investment income:

Realized capital gains and losses occur when you surrender units of your segregated fund by making a withdrawal or a switch.

Realized capital gains and losses occur when the fund manager sells investments in the underlying fund.

Dividends can be paid from stocks held in the underlying fund.

Interest can be paid from bonds and other investments that are held in the underlying fund.

Caution should be exercised when investing in non-registered funds late in the year. Investment income from the underlying fund is allocated based on the units held on December 31st. If a client purchases units late in the year, they may have to report investment income earned within the fund earlier in the year, prior to their purchase. Although it may feel like over-taxation, it's more an issue of timing. This allocated income increases the client's Adjusted Cost Base, which reduces the tax burden when the units are sold.



Investment Income on Segregated Funds

There are three types of investment income that could be generated within a segregated fund. If any of the following types of income are generated, a tax slip is produced and sent to the investor.



1. Dividends

Stocks held in the underlying fund may declare dividends, which are proportionally allocated to all of the segregated fund unit holders at the end of the year.



2. Interest

Bonds and other investments held in the underlying fund generate interest, which is proportionally allocated to all of the segregated fund unit holders at the end of the year.



3. Realized Capital Gains and Losses

Gains and losses are only taxable when they are realized, which occurs when:

a) You surrender units of your segregated fund

When you surrender units of your segregated fund by making a cash withdrawal or a switch, this will produce either a realized gain or loss depending on whether the units were surrendered for more or less than the purchase price**.

b) The fund manager sells an investment in the underlying fund

When the fund manager sells one or more of the investments in the underlying fund, this will produce either a realized gain or loss, depending on whether the investments were sold for more or less than the purchase price.

What does this mean?

- You are likely to receive a tax slip every year even if you did not make a withdrawal, switch, or a new deposit. This is because the underlying fund will generate a combination of interest, dividends, as well as realized gains or losses.
- It is possible for the market value of your segregated fund to have decreased, but still have capital gains and income to declare. Your segregated fund value is not an indicator of whether or not investment income has been earned.
- The gains or losses that you see in your segregated fund value will not be the same as the realized gains and losses that are declared on your tax slip. This is because gains and losses only become realized (and therefore taxable) when units of the segregated fund are surrendered or when investments in the underlying fund are sold.
- Investment income that is allocated to you from the underlying fund is taxable. Equitable tracks the portion that you have already been taxed on so that you are never double-taxed on investment income when you surrender units of your segregated fund.

** Referred to as the Adjusted Cost Base, which is a calculation used to determine the cost of the investment for tax purposes.

Let's look at an example

In January, Sue made an initial deposit of \$1,500 into a segregated fund. At that time, the underlying fund held the following investments:

- \$400 of stocks from Sunshine Company
- \$400 of stocks from Starlight Company
- \$400 of bonds from Windstorm Company
- \$300 of stocks from Moonbeam Company

The chart below shows the underlying fund investment activity, as well as any investment income that was generated throughout the year.

Underlying Fund Investments	Purchased in January	Market Value (before investment income is declared)	Investment Income (portion allocated to Sue)	Market Value on December 31	Taxable Income
Sunshine Company (stocks)	\$400	\$275	\$20 of dividends declared (deposited to cash)	\$275	\$20 dividends
Windstorm Company (bonds)	\$400	\$380	\$10 of interest generated (deposited to cash)	\$380	\$10 interest
Starlight Company (stocks)	\$400	\$450	In December the fund manager sells all stocks resulting in a \$50 gain	\$0	\$50 realized gains
Moonbeam Company (stocks)	\$300	\$340	No activity	\$340	None
Cash	None	None	Deposits: \$20 dividends \$10 interest \$450 from stocks sold	\$480	None

Total segregated fund value

\$1,500
January



\$1,475
December

Even though Sue's segregated fund value decreased by \$25, her tax slip will report the following investment income:



\$20 of dividends



\$10 of interest



\$50 of realized gains

For more detailed information on segregated fund taxation or for tax advice, we encourage you to speak to a tax professional.

For illustration purposes only. The example does not include management fees and expenses which would be deducted from Sue's investment. This information is provided for general use only and does not constitute legal, tax or other professional advice. Professional advice should be sought before an investor proceeds on any investment strategy. Investors do not purchase an interest in the underlying securities or funds, but rather, an individual variable insurance contract issued by Equitable Life of Canada. Segregated fund values change frequently, and past performance does not guarantee future results. Refer to the Contract and Information Folder for a complete description of the product features and guarantees. Any amount that is allocated to a Segregated Fund is invested at the risk of the contract holder and may increase or decrease in value.

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At Equitable we believe in the power of working together. This guides how we work with each other. How we help our clients and partners. And how we support the communities where we live and work.

Together, with partners across Canada, we offer Individual Insurance, Group Insurance and Savings and Retirement solutions. To help our clients protect today and prepare tomorrow.

We believe the world is better when we work together to build an Equitable life for all.



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