Equitable®

Insurance | Investments | Group Benefits

Insights into non-registered taxation

When you put money into non-registered segregated funds, you will likely receive a T3 tax slip* each year. This slip shows how much taxable income you earned from your investment last year. Sometimes, people find this tax slip confusing.

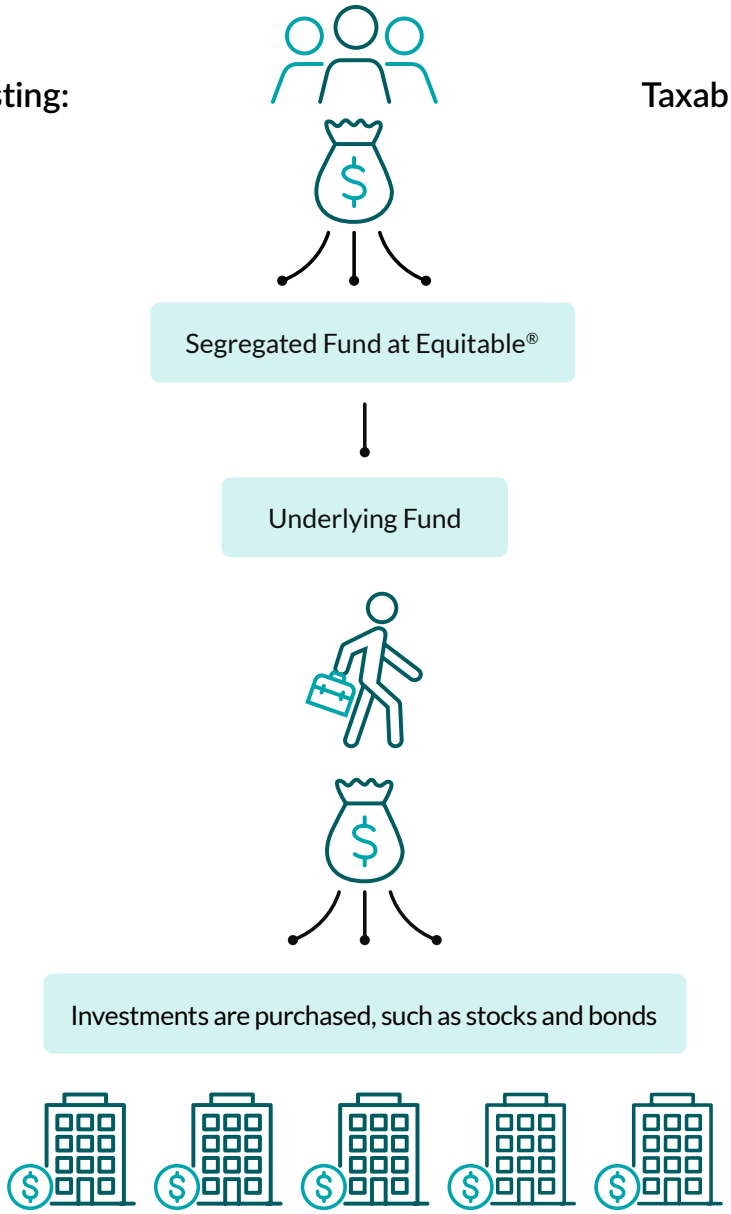
Segregated fund investing and taxation

To understand how segregated funds are taxed, it can be helpful to imagine how investing in these funds works. In this example, we've shown a mutual fund as the underlying investment, which is commonly the case for segregated 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.

The professional fund manager of the underlying fund will strategically buy and sell a variety of investments (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.

Be mindful when buying non-registered funds just prior to the end of the year. The investment income from the underlying fund is based on how many units you have on December 31. If you buy units late in the year, you might have to report investment income earned within the fund before you bought it. This might seem like extra tax, but it is really about timing. This extra reported income increases your adjusted cost base, which means you will pay less tax when you sell the units.

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

Investment income on segregated funds

There are three kinds of income you can earn from an investment fund, including a segregated fund. If the fund earns any of these types of income, you will get a tax slip.

1. Dividends

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

2. Interest

Bonds and other investments held in the underlying fund generate interest. This is proportionally allocated to all 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 sell units of your segregated fund

b. When you sell units of your segregated fund by making a cash withdrawal or a switch to another fund, this will produce either a realized gain or loss. This depends on whether the units were sold for more or less than the purchase price**.

c. 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. This depends on whether the investments were sold for more or less than the purchase price.

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 investment income has been earned.

The increases or decreases 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.

When you earn income from investments in a fund, you must pay taxes on it. Equitable keeps track of the taxes you have already paid so you do not have to pay them again when you take your money out of the 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. Segregated fund values change frequently, and past performance does not guarantee future results. Refer to the Contract Provisions 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 contractholder and may increase or decrease in value.

About Equitable

At Equitable, we believe in the power of together. This is how we focus on our clients. It's how we support advisors and give back to our communities.

Partnered with advisors we offer insurance, investments and group benefit solutions to help our clients protect today and prepare tomorrow. We believe the world is better when we work together.

Equitable®

Insurance | Investments | Group Benefits

® or ™ denotes a trademark of The Equitable Life Insurance Company of Canada.

1675 (2026/10/15)