



Tax advantages of Manulife Segregated Fund contracts

While the taxation of segregated fund contracts is similar in many ways to the taxation of investments in mutual fund trusts, there are some differences that are advantageous to investors.

The similarities are as follows:

- Both flow through all taxable income and realized capital gains to investors. This avoids having income taxed inside the fund at the top marginal rate
- Both act as a conduit in that income and capital gains retain their characteristics as they flow through to the investors and appear on the T3¹ in the same way they were realized in the fund. In other words dividends will be reported as dividends, interest as interest and so on

TAXATION DIFFERENCES

FLOW THROUGH OF CAPITAL LOSSES

A mutual fund cannot flow through capital losses. Rather, losses are subtracted from the capital gains within the fund and only the net capital gains will be distributed to an investor and shown on the T3.

In a year where losses are greater than gains, the excess losses cannot be distributed and are carried forward to offset gains in a future year.

Segregated fund contracts can flow through and report capital losses to investors. In a year, for example, where there are both capital gains and losses to report, investors will have an amount reported in the capital gains box (Box 21 - same as a mutual fund) and an amount in the “Insurance Segregated Fund Capital Losses” (Box 37 - only available to segregated fund contracts).

¹ Residents of Quebec will also receive a RL-16 tax slip

The advantage to the segregated fund investor

Capital losses not used in the current year can be carried back three years or carried forward to future years. In other words, the investor chooses when to claim capital losses rather than the fund.

ALL TAXABLE EVENTS REPORTED

With a mutual fund, only the distributions relating to fund activity are reflected on the investor's T3. If investors redeem any of their units, they must calculate the gain and loss themselves and report these on their tax return.

The advantage to the segregated fund investor

The insurer tracks the cost base for each investor and all taxable events are reflected on a T3. There is no additional accounting required by the investor.

ESTATE BENEFITS

Segregated fund contracts are insurance (annuity) contracts and as such a beneficiary can be named to receive any proceeds on the death of the life insured (annuitant). This means that the proceeds are paid directly to the beneficiary and do not flow through the estate and therefore will avoid legal, estate administration, as well as probate and other fees associated with the settling of an estate.

To accomplish the same benefit of bypassing the estate, mutual funds are often held in joint ownership², particularly with spouses, even though the assets may belong to only one of the owners. When one owner dies, the assets automatically become the property of the other owner. The drawback to these arrangements is that the signature of both owners is required to effect many transactions.

Under Manulife Investments segregated fund contracts, any revocable beneficiary can be named without affecting the ability of the owner to manage the account. The beneficiary can also be changed at anytime without the beneficiary's consent. The joint ownership of the mutual fund could not be changed unless both owners agreed.

CREDITOR PROTECTION

For non-registered investments, creditor protection may also be available where the named beneficiary is a member of the family class or an irrevocable beneficiary. In provinces other than Quebec, a family class beneficiary would be any of the spouse³, child, grandchild or parent of the annuitant. In Quebec, a family class beneficiary would be any of the following: the married or civil union spouse, or descendants and ascendants of the policyholder.

To discuss these advantages in detail and learn more about segregated fund contracts, please contact your advisor.

² Joint ownership does not apply in Quebec. ³ For creditor protection, the definition of spouse may include a common-law spouse or same-sex spouse, depending upon provincial legislation.

FOR MORE INFORMATION, PLEASE CONTACT YOUR ADVISOR OR VISIT MANULIFE.CA/INVESTMENTS



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