



Tax, Retirement &  
Estate Planning Services

**INVESTMENT INSIGHT**

## Comparing the taxation of mutual funds and segregated funds

DIVIDENDS	DISTRIBUTION	ALLOCATION
MUTUAL FUND CORPORATION Manulife Corporate Classes	MUTUAL FUND TRUSTS Manulife Funds	SEGREGATED FUND CONTRACTS Manulife Segregated Funds
<ul style="list-style-type: none"> <li>■ Interest and foreign income, to the extent they are taxable, are taxed within the mutual fund corporation (the "Corporation"). Any after-tax earnings are generally retained in the Corporation. Canadian dividend income and capital gains will normally be flowed through to shareholders as ordinary and capital gains dividends, respectively. The Corporation does not distribute capital losses.</li> <li>■ Capital losses are netted against capital gains in the Corporation. Any net capital loss is then carried forward to offset capital gains in future years. Any net capital gains are reduced by an approximate amount of capital gains realized on redeemed shares before they get distributed to the remaining shareholders of the Corporation.</li> <li>■ Investors may choose to receive dividends in cash or reinvest them by buying additional shares. The tax consequences are the same.</li> <li>■ The share value will decrease by the amount distributed per share.</li> <li>■ An investor does not receive any dividends if the shares are sold before the distribution date, except for a money market fund and dollar-cost averaging fund which are determined on a daily basis.</li> </ul>	<ul style="list-style-type: none"> <li>■ Funds must distribute both taxable income and realized capital gains. Funds do not distribute capital losses.</li> <li>■ Losses are netted against capital gains in the fund. Any net capital loss is then carried forward to offset gains in future years. Any net capital gains are reduced by an approximate amount of capital gains realized on redeemed units before they get distributed to the remaining unitholders.</li> <li>■ Investors may choose to receive distributions in cash or reinvest them by buying additional units. The tax consequences are the same.</li> <li>■ The unit value will decrease by the amount distributed per unit.</li> <li>■ An investor does not receive any distributions if the units are sold before the distribution date, except for a money market fund and dollar-cost averaging fund which are determined on a daily basis.</li> </ul>	<ul style="list-style-type: none"> <li>■ Funds are deemed to have distributed (called an allocation) taxable income and realized capital gains or losses.</li> <li>■ Gains and/or losses realized by the fund are first allocated to investors who redeemed units.</li> <li>■ Allocations cannot be paid in cash like distributions. A request for a partial withdrawal must be made.</li> <li>■ No additional units are purchased and there is no change in the unit value as a result of the allocation.</li> <li>■ Except for a money market fund and dollar-cost averaging fund, investors will receive capital gains and/or losses for units redeemed in the year and allocations for units held on an allocation date<sup>1</sup>. For a money market fund and dollar-cost averaging fund, allocations are determined on a daily basis.</li> </ul>
	MUTUAL FUND TRUST/CORPORATION	SEGREGATED FUND
	Day	Day
	Unit/Share Value	Unit Value
	No. of Units/Shares	No. of Units
	1	1
	\$10.00	\$10.00
	10	10
	<b>Market Value = No. of Units/Shares x Unit/Share Value 10 x \$10.00 = \$100.00</b>	
	AFTER A \$0.99 DISTRIBUTION/DIVIDEND	AFTER A \$0.99 ALLOCATION
	2	2
	\$9.01	\$10.00
	2	2
	Reinvested distribution/dividend buys 1.1 units/shares (\$9.90/9.01)	Market Value = \$100.00 (10 x \$10.00)
	2	
	Market Value = \$100.00 (11.1 x \$9.01)	

In all instances

- The investor's T3 or T5 reports \$9.90 in distributions, allocations or dividends (\$0.99 x 10)
- The investor's market value = \$100.00



REDEMPTIONS		
MUTUAL FUND CORPORATION Manulife Corporate Classes	MUTUAL FUND TRUSTS Manulife Funds	SEGREGATED FUND CONTRACTS Manulife Segregated Funds
<ul style="list-style-type: none"> <li>Investors must sell the shares in order to realize capital gains or losses.</li> <li>Capital gains or losses realized on the disposition of shares are not shown on the T5<sup>2</sup>.</li> <li>Investors must calculate the gain or loss and report it on their tax return.</li> <li>The Corporation reports both the number of shares sold and proceeds from the sale to Canada Revenue Agency and on the client statement. The Corporation, however, does not report the taxable portion.</li> </ul>	<ul style="list-style-type: none"> <li>Investors must sell the units in order to realize capital gains or losses.</li> <li>Capital gains or losses realized on disposition are not shown on the T3<sup>3</sup>.</li> <li>Investors must calculate the gain or loss and report it on their tax return.</li> <li>The fund reports both the number of units sold and proceeds from the sale to CRA and on the client statement. The fund, however, does not report the taxable portion.</li> </ul>	<ul style="list-style-type: none"> <li>Investors must make withdrawals from the contract in order to realize capital gains or losses.</li> <li>Capital gains or losses realized on disposition are shown on the T3. Box 37 of a T3 shows the realized capital losses<sup>4</sup>.</li> <li>Acquisition fees (front-end loads and back-end loads) are deemed to be capital losses and are also reported in Box 37 of the T3.</li> </ul>

<sup>1</sup> Allocations for Manulife segregated funds are determined annually as at December 31 except for Manulife PensionBuilder where allocations are determined quarterly on March 31, June 30, September 30, and December 31, each year.

<sup>2</sup> A T5 is used to report dividends distributed by the Corporation.

<sup>3</sup> A T3 is used to report distributions.

<sup>4</sup> A T3 is used to report allocations.

For more information, please contact your Manulife Investments Sales Team or visit [manulife.ca/investments](http://manulife.ca/investments)



Any amount that is allocated to a segregated fund is invested at the risk of the contractholder and may increase or decrease in value. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund and segregated fund investments. Please read the fund facts as well as the prospectus of the mutual funds, or the information folder, contract and fund facts of the segregated funds, before investing. Mutual funds and segregated funds are not guaranteed their values change frequently and past performance may not be repeated. Manulife Funds and Manulife Corporate Classes are managed by Manulife Investments, a division of Manulife Asset Management Limited. The Manufacturers Life Insurance Company is the issuer of insurance contracts containing Manulife segregated funds, and the guarantor of any guarantee provisions therein. Manulife, the Block Design, the Four Cube Design, and Strong Reliable Trustworthy Forward-thinking are trademarks of The Manufacturers Life Insurance Company and are used by it, and by its affiliates under licence.