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FINANCIAL GROUP

Understanding tax-advantaged funds

What if you could control the type and timing of the tax bill from your investments?

Tax-advantaged funds can offer a tax-effective way for investors to structure their non-registered portfolios. These funds are structured as shares in a corporation. The corporation is treated as a single entity for tax purposes and investor diversification is achieved by holding the different classes of shares - each of which represents a separate mandate.

These funds can potentially offer three key tax advantages:

1. **The ability to switch or rebalance among funds without immediately triggering capital gains and losses** because any buying and selling transactions occur within the family at the investor's adjusted cost base.

2. **The potential to lower distributions in any given year** resulting from the pooling of income and expenses, as well as investment gains and losses, across all classes of shares.

3. **Tax-effective income** because investors earn capital gains or ordinary dividend distributions.

For investors with non-registered holdings, the benefits of tax-advantaged funds can provide a tax-preferred way to build your portfolio and could make a significant difference to your long-term investment success.

Owning a corporation offers even more advantages

A private corporation's capital dividend account may be increased by the non-taxable portion of capital gains resulting from the disposition of eligible capital property. Therefore an amount equal to one-half (50%) of all capital gains realized by the corporation on the disposition of specific fund types, if any, is added to the capital dividend account. At any point in time when there is a positive balance in the capital dividend account the corporation may elect to pay a tax-free dividend to shareholders.

The same strategy cannot be used with a mutual fund trust as it is not "eligible" capital property" under the Income Tax Act.

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