Seg Funds and Taxation...the finer points

Many are familiar with the basic similarities and differences between Segregated Funds and Mutual Funds. Both offer the investor diversification opportunities, access to professional money management and economies of scale. And of course Segregated Funds provide capital guarantees and estate planning features that Mutual Funds do not.

But when it comes to taxation, is a Segregated Fund better than a Mutual Fund? Both tax investment income is the same, **however, there are a few areas where Segregated funds can provide a more advantageous tax benefit to your clients.**

Capital Loss Flow-Through-Capital losses incurred as a result of trading activities within a Segregated Fund must retain their character and "flow-through" to policyholders. These losses can be used by the policyholder to offset capital gains incurred on their other investments, providing a further opportunity for tax savings. Capital losses incurred within a Mutual Fund must be retained to offset future capital gains within the fund.

Time Weighting-Any investment income generated by a Segregated Fund is allocated to policyholders on a "time-weighted" basis (the amount of time they were invested in a fund). For example, if a Segregated Fund is purchased in December and the fund pays out investment income allocations. In contrast a Mutual Fund investor would be responsible for reporting an entire years worth of income even though they were only invested for the month of December. Segregated Funds can reduce the need for year-end tax loss selling to avoid hefty income allocations.

Simplified Record Keeping-Investors are responsible for tracking the ACB of their investments and reporting any gains and losses for tax purposes. With Segregated Funds, gains and losses as a result of allocations or dispositions are tracked by Equitable Life and sent to your clients annually on a T3. This eliminates the need for complicated and time-consuming calculations.