

 **Investment insight**

## Understanding your tax slips

### For Investors in Mutual Funds, Exchange-Traded Funds and Segregated Fund Contracts

**With investments in non-registered mutual funds, exchange-traded funds (ETFs) or segregated fund contracts, you are required to report all taxable amounts related to these investments on your tax return each year.**

To help you in completing your tax return, you will receive a tax slip that outlines the taxable amounts.

For an investment in a mutual fund trust, ETF or a segregated fund contract you will receive a T3 tax slip and for an investment in a mutual fund corporation you will receive a T5 tax slip. Residents of Quebec will also receive Relevé-16 (RL-16) and Relevé-3 (RL-3) tax slips respectively.

The following will assist you in understanding the information shown on your tax slips and in reporting the taxable amounts on your tax return.

Mutual fund trusts, ETFs and segregated fund contracts are considered flow through entities for tax purposes.

- They flow through taxable income and realized capital gains to investors. This avoids having income taxed within the trust or contract at the top marginal tax rate
- They act as a conduit in that income and capital gains retain their character as they flow through to the investors and appear on the T3 (RL-16) in the same way they were realized in the fund. In other words, Canadian dividends will be reported as dividends, interest as interest and so on

Mutual fund corporations also have flow through attributes and are considered flow through entities for tax purposes.

- A mutual fund corporation can flow through Canadian dividend income and realized capital gains to investors. Interest income and foreign source income to the extent they are taxable, are taxed within the corporation and any after-tax earnings are generally retained in the corporation
- A mutual fund corporation also acts as a conduit in that Canadian dividend income and realized capital gains retain their character as they flow through to investors and appear on the T5 (RL-3) tax slip as dividends from Canadian corporations and capital gains dividends respectively



## What types of income are reported?

### Distributions or allocations

Depending on what funds your money is invested in there may be distributions or allocations of income and capital amounts, reduced by management fees and administration expenses, that are to be included on your tax return.

**Taxable income** may consist of Canadian dividend income, interest from Canadian sources, and foreign non-business income.

- Dividends received from Canadian corporations get preferential tax treatment through the gross-up and dividend tax credit mechanism. The grossed-up amount is included on your tax return. The tax you pay is reduced by the dividend tax credit
- Interest and other income from Canadian sources is fully taxable and is considered other income. There is no preferential tax treatment for this type of income
- Foreign non-business income is fully taxable and receives no preferential tax treatment. If any foreign taxes were withheld from this income, you may also have a foreign tax credit. Note that dividends received from foreign corporations are not eligible for the dividend tax credit
- **Capital gains and losses** arise where the portfolio manager sells the underlying securities held by the fund and the fund realizes capital gains and losses. Only 50 per cent of the reported amount is taxable.
- With mutual fund trusts and ETFs, realized capital gains are first reduced by capital losses realized in the year and the net capital gain is reported on your T3 (RL-16). Mutual fund trusts and ETFs cannot flow through capital losses. Any net capital loss must be carried forward by the fund to offset against future capital gains
- With mutual fund corporations, realized capital gains are first reduced by capital losses realized in the year and the net capital gain is reported on your T5 (RL-3) as a capital gains dividend. Mutual fund corporations cannot flow through capital losses. Any net capital loss must be carried forward by the corporation to offset against future capital gains
- With segregated fund contracts, all realized capital gains are reported on your T3 (RL-16). As well, all realized capital losses are also reported on your T3 (RL-16)

**Return of capital (ROC)** may be reported as part of a distribution from a mutual fund. It represents a return of your original investment and results in a reduction of your adjusted cost base (ACB). As long as your ACB is positive, a distribution that is identified as a ROC is non-taxable. Once your ACB reaches zero (you have received the amount of your original investment back), all further distributions that are reported as ROC are taxable as capital gains. You are responsible for tracking the ACB of your units and reporting any negative balances as capital gains.

- A mutual fund trust or ETF will report the amount of the distribution that represents ROC in Box 42 of your T3 (Box M of your RL-16)
- Where a distribution from a mutual fund corporation includes an amount that is ROC, it will be identified in a footnote on your T5 (RL-3) tax slip
- Allocations from a segregated fund contract will not include a ROC

## Redemptions or withdrawals

An investment in a mutual fund corporation, a mutual fund trust, ETF or a segregated fund contract is generally considered to be capital property for tax purposes. As a result, you may realize a capital gain or loss when you dispose of

all or a portion of your investment.

For segregated fund investors, all capital gains and losses that are realized on a withdrawal from your contract will be reported on your T3 (RL-16) tax slip. This means that your tax slip contains both allocations of gains and losses realized by the fund as well as your gains and losses realized on withdrawals. Acquisition fees (sales charge options) are considered to be capital losses and are also reported on your T3 (RL-16). Note that capital gains and losses on segregated fund withdrawals can be reported directly to you because the insurer tracks the ACB for each investor.

For mutual fund and ETF investors, a capital gain or loss realized on a disposition of units or shares is not reported on your tax slips. You must calculate the gain or loss that is to be reported on Schedule 3 (Quebec Schedule G) of your tax return. The fund company or your dealer prepares a form T5008 (RL-18 for residents of Quebec) to inform CRA (and Revenu Quebec) of both the number of units or shares sold and proceeds of the sale but does not report your capital gain or loss. The information that is on the T5008 (RL-18) can be found on your statements and you should receive a copy of the tax slip. Note that you are responsible for tracking and validating the ACB of your units (including any ROC adjustments) for purposes of reporting a capital gain or loss on their disposition.

## T3 – Statement of Trust Income Allocations and Designations

### Mutual Fund Trusts, Exchange-traded Funds and Segregated Fund Contracts

Mutual Fund Trusts/ETFs	Segregated Fund Contract	Box on Tax Slip	Line on Tax Return	
<b>Dividends from Taxable Canadian Corporations</b>				
✓	✓	49 23	Actual amount of dividends	The actual amount of dividend income received. These amounts are not entered on your tax return.
		50 32	Taxable amount of dividends	The taxable (grossed-up) amount of dividend income. Include the total of these amounts on Schedule 4 and on line 120 of your tax return. Also include the taxable amount shown in Box 32 on Schedule 4 and on line 180 of your tax return.
		51 39	Dividend tax credit	The federal dividend tax credit. Include the total of these amounts on line 425 of Schedule 1. (You may also qualify for a provincial or territorial dividend tax credit. Use the provincial/territorial worksheet and Form 428)
<b>Interest from Canadian sources</b>				
✓	✓	26	Other income	This is the total amount of interest and other income distributed or allocated and is classified as “other income”. Include on line 130 of your tax return.
<b>Foreign income</b>				
✓	✓	25	Foreign non-business income	This is the gross amount of foreign non-business income. Include in Part II of Schedule 4 (Income from foreign sources) and on line 121 of your tax return. Also include on line 433 of Form T2209.
		34	Foreign non-business income tax paid	This is the non-business income tax paid to a foreign country and is used to calculate your foreign tax credit. Include on line 431 of Form T2209. Enter your foreign tax credit from Form T2209 onto line 405 of Schedule 1.
<b>Capital Gain</b>				
✓	✓	21	Capital gains	This is your net capital gains related to distributions from mutual fund trusts, ETFs and your total capital gains related to allocations from your segregated fund contracts. It also includes any gains realized on dispositions and withdrawals from your segregated fund contracts. Include this amount on line 176 of Schedule 3. Only 50% of this amount is taxable. A taxable net capital gain is included on line 127 of your tax return.
<b>Capital Loss</b>				
N/A	✓	37	Insurance Segregated fund capital losses	This is your total segregated fund capital loss realized for the year. It includes allocated losses as well as any losses realized on dispositions and withdrawals. Include on line 176 of Schedule 3.
<b>Return of Capital</b>				
✓	N/A	42	Amounts resulting in cost base adjustment	This amount represents a return of capital and results in a reduction of your ACB. It is not reported on your tax return as long as your ACB is positive. Once your ACB reaches zero, this amount is to be treated as a capital gain

## Quebec RL-16 – Trust Income

### Mutual Fund Trusts, Exchange-traded Funds and Segregated Fund Contracts

Mutual Fund Trusts/ETFs	Segregated Fund Contract	Box on Tax Slip	Line on Tax Return	
<b>Dividends from Taxable Canadian Corporations</b>				
✓	✓	C1 C2	Actual amount of dividends	The actual amount of dividend income received. Include the amount in Box C1 on line 166 and the amount in Box C2 on line 167 of your Quebec tax return.
		I	Taxable amount of dividends	The taxable (grossed-up) amount of dividend income. Include on line 128 of your Quebec tax return.
✓	✓	J	Dividend tax credit	The Quebec dividend tax credit. Include on line 415 of your Quebec tax return.
<b>Interest from Canadian sources</b>				
✓	✓	G	Other income	This is the total amount of interest and other income distributed or allocated and is classified as “other income”. Include on line 130 of your Quebec tax return.
<b>Foreign income</b>				
✓	✓	F	Foreign non-business income	This is the gross amount of foreign non-business income. Include on line 130 of your Quebec tax return.
✓	✓	L	Foreign non-business income tax paid	This amount gives entitlement to the foreign tax credit with regard to non-business income. Complete form TP-772-V Foreign Tax Credit.
<b>Capital Gain</b>				
✓	✓	A	Capital gains	This is your net capital gains related to distributions from mutual fund trusts, ETFs and your net capital gains related to allocations from your segregated fund contracts. It also includes any net capital gains realized on dispositions and withdrawals from your segregated fund contracts. Include this amount on line 22 of Schedule G. Only 50% of this amount is taxable.
<b>Capital Loss</b>				
N/A	✓	A	Insurance Segregated fund capital losses	Where this amount is indicated in parentheses, it is your net segregated fund capital loss realized for the year. It includes allocated losses as well as any losses realized on dispositions and withdrawals. Include on line 22 of Schedule G.
<b>Return of Capital</b>				
✓	N/A	M	Cost base adjustment of capital	This amount represents a return of capital and results in a reduction of your ACB. It is not reported on your tax return as long as your ACB is positive. Once your ACB reaches zero, this amount is to be treated as a capital gain.

## T5 Tax Slip – Statement of Investment Income

### Mutual Fund Corporations

Box on T5 Tax Slip		Line on Tax Return	
<b>Dividends from Taxable Canadian Corporations</b>			
24	10	Actual amount of dividends	The actual amount of dividend income received. These amounts are not entered on your tax return.
25	11	Taxable amount of dividends	The taxable (grossed-up) amount of dividend income. Include the total of these amounts on Schedule 4 and on line 120 of your tax return. Also include the taxable amount shown in Box 11 on Schedule 4 and on line 180 of your tax return.
26	12	Dividend tax credit	The federal dividend tax credit. Include the total of these amounts on line 425 of Schedule 1. (You may also qualify for a provincial or territorial dividend tax credit. Use the provincial/territorial worksheet and Form 428).
<b>Capital Gain</b>			
18		Capital gains dividends	This is your net capital gains related to distributions from mutual fund corporations. Include this amount on line 174 of Schedule 3. Only 50% of this amount is taxable. A taxable net capital gain is included on line 127 of your tax return.
<b>Return of Capital</b>			
Footnote		Amounts resulting in cost base adjustment	This amount represents a return of capital and results in a reduction of your ACB. It is not reported on your tax return as long as your ACB is positive. Once your ACB reaches zero, this amount is to be treated as a capital gain.

## Quebec RL-3 Tax Slip – Investment Income

### Mutual Fund Corporations

Box on RL-3 Tax Slip		Line on Quebec Tax Return	
<b>Dividends from Taxable Canadian Corporations</b>			
A1	A2	Actual amount of dividends	The actual amount of dividend income. Include the amount in Box A1 on line 166 and the amount in Box A2 on line 167 of your Quebec tax return.
B		Taxable amount of dividends	The taxable (grossed-up) amount of dividend income. Include on 128 of your Quebec tax return.
C		Dividend tax credit	The Quebec dividend tax credit. Include on line 415 of your Quebec tax return.
<b>Capital Gain</b>			
I		Capital gains dividends	This is your net capital gains related to distributions from mutual fund corporations. Enter on line 22 of Schedule G of your Quebec tax return.
<b>Return of Capital</b>			
Footnote		Cost base adjustment of capital	This amount represents a return of capital and results in a reduction of your ACB. It is not reported on your tax return as long as your ACB is positive. Once your ACB reaches zero, this amount is to be treated as a capital gain.





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