RBC Guaranteed Investment Funds

Tax Impacts

Insurance

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Tax impacts of changes and transactions

The tax impacts of events in or changes to a segregated fund policy vary with the type of transaction and whether the policy is registered or non-registered. This document covers the basic differences between registered and non-registered policies. It also covers the tax impact of various policy changes or events that may occur in a policy.

This document provides a basic overview and is not meant to provide comprehensive tax advice.

Registered policies

All investment growth accrues tax-deferred in the policy. There is no tax impact on a registered policy unless funds are withdrawn from the plan. Funds withdrawn from a registered policy are fully taxable as ordinary income in the year they are withdrawn.

The owner and the annuitant must be the same person for the registered policies. When the owner dies, the balance in any Retirement Savings Plan or Retirement Income Fund (RSP/ RIF) can be rolled over to a spouse/common-law partner or dependent child who is physically or mentally infirm. If there is no qualifying survivor to transfer the account to, the full policy value is reported on the deceased's final tax return.

If a recipient spouse/common-law partner takes the RSP/RIF balance in cash, the amount is taxed as ordinary income. A spouse/common-law partner can, however, choose to deposit the proceeds into their own RSP/RIF up to 60 days after the calendar year of receipt and receive an offsetting tax deduction. Funds are fully taxed as ordinary income when withdrawn.

The deceased's RSP/RIF can also be transferred to a minor child who is financially dependent. The RSP/RIF balance is taxable in their hands unless they elect to purchase an annuity to age 18, thereby deferring some of the tax impact. RSPs/RIFs transferred on death to children who are financially dependent and either mentally or physically infirm receive the same rollover options that are available to a spouse.

Non-registered policies

Non-registered policies are generally subject to the following tax treatment:

- The income allocated retains its character. Any interest, dividend, foreign income, capital gain or loss allocated is taxed as such in the hands of the policy owners. The adjusted cost basis (ACB) of the policy also increases based on the amount allocated.

Type of income	Type of investment/ event	How it is taxed
Interest income	Bonds, T-bills, mortgages	100% is taxable as ordinary income.
Dividend income	Canadian equity	Dividend is grossed up and the tax payable is reduced by a dividend tax credit.
Capital gains or losses	A fund selling its underlying securities (equities), or when you are selling your interest in the fund	$50% of net capital gains are taxed; 50% of net capital losses can be carried forward/ back to reduce taxable capital gains in that year.
Foreign income	Foreign securities	100% is taxable as ordinary income.

- The owner and the annuitant can be different people under a non-registered policy. In such a case, the tax implications differ depending on whether the owner or annuitant has died. This is a key factor to consider when setting up a non-registered policy where the owner and annuitant are not the same person.
  - If the owner of a policy dies and the annuitant is alive, a transfer of ownership occurs. This will result in a taxable disposition of the policy, unless it can be rolled over to a spouse/common-law partner. Since the annuitant is alive, the contract continues. So, the beneficiary will not receive the proceeds at this time.
  - If the annuitant of a policy dies and there is no successor annuitant, the policy will terminate. The death benefit, if any, will be paid to the beneficiary. A death benefit is not taxable in the hands of a named beneficiary, but unreported accrued gains are taxable to the owner.

The following table describes the tax impact of various events or changes in a non-registered segregated fund policy.

	Event or transaction	Taxable	Details
Changes to funds	Switches between funds	Yes	Difference between the fair market value (FMV) and the ACB of units disposed is taxable as a capital gain or loss.
	Investment growth	Yes	Subject to annual tax. Income retains tax characteristics: dividends, interest, capital gains.
	Guaranteed top-up of death benefit or maturity benefit	Yes	Taxed as a capital gain.
	Reset	No	No tax impact.
Withdrawal, surrender or death of policy owner	Partial/full surrender of the fund policy	Yes	Difference between the FMV and the ACB of units disposed is taxable as a capital gain or loss.
	Policy owner dies, there's no successor owner and annuitant is alive	Yes	Difference between the FMV and the ACB of units held at death is reported as a taxable capital gain or loss in the deceased owner's final tax return. The ACB for the estate is the FMV.
	Policy owner dies and owner was the annuitant	Yes	Contract terminates. Lump sum benefit is paid to the beneficiary. Lump sum benefit less the ACB is reported as a taxable capital gain or loss in the deceased owner's final tax return.
	Policy owner dies, successor owner is the spouse/ common-law partner and annuitant is alive	No	No tax impact. Contract passes to the spouse on a rollover basis at the ACB.
	Policy owner dies, successor owner is a non-arm's length person and annuitant is alive	Yes	Difference between the FMV and the ACB of units held at death is reported as a taxable capital gain or loss in the deceased owner's final tax return. The ACB for the successor owner is the FMV.
Death of annuitant	Annuitant dies, successor annuitant has been appointed and policy owner is alive	No	No tax impact.
	Last annuitant dies, there's no successor annuitant and policy owner is alive	Yes	Contract terminates. Lump sum benefit is paid to the beneficiary. Lump sum benefit less the ACB is taxable as a capital gain or loss to the owner.

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