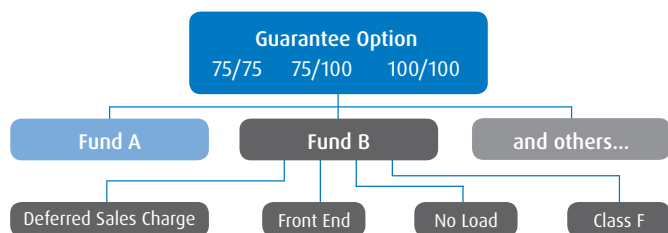


# Guaranteed Investment Fund Taxation Basics

A BMO GIF is a Segregated Fund Contract (SFC) and is considered a life insurance policy for tax purposes. Unlike other life insurance policies, a SFC is considered to be capital property and taxed accordingly. SFCs provide minimum guarantees in case of maturity or death. BMO GIFs are offered as three different contract series based on the guarantee option selected (75/75, 75/100 or 100/100 for maturity /death guarantees).

Within each BMO GIF contract, policyholders invest in different Segregated Funds (SF) that provide access to different types of investment returns, diversification, and investment risks. These underlying segregated funds are taxed as trusts (although not legal trusts for commercial purposes).

The diagram below depicts the structure of a BMO GIF based on a 100/100 guarantee series. Similar breakdowns apply to the other BMO GIF guarantee options.



## Adjusted Cost Base, (ACB)

The ACB of the BMO GIF policy is important in determining whether the owner realizes a capital gain or a capital loss upon the disposition of the contract. It is important to note that the fund administrator will track and calculate each unit holder's ACB and report resulting gains and losses on a T3 each year.

### Deposits into the contract

- + Sum of all amounts reported on T3 slips
- Any capital losses allocated to the client
- The portion of the ACB allocated to a partial disposition

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= Adjusted Cost Base (ACB)

## BMO GIF Transaction Taxation

### Annual Income Allocations

A SF is deemed to be a trust with a December 31<sup>st</sup> year end for income tax purposes. As a trust, it has the ability to flow its net income out to the unit holders with the same characteristics as the income that was received. This means that if the trust realizes interest income, dividend income, net capital gains, net capital losses, or foreign business income, the trust will then be able to allocate to each unit owner their proportionate share of each type of income. The SF administrator will report to the policy owner their share of these different types of income annually on a T3 slip based on the calendar year.

### Guarantee Top Ups

The maturity and death benefit guarantee payments reflect top ups offered by the insurer to offset a decline in net deposits as defined in the BMO GIF contract. These guarantees, when applicable, are paid by the insurer from their general funds and do not impact the calculation of the policy owner's adjusted cost base in the SFC. As such, pursuant to our current interpretation of the Income Tax Act the payment of any maturity benefit guarantee or death benefit guarantee top up will be considered a capital gain and such amount will be reported on the owner's annual T3 slip in the year of receipt.

### Disposition

Upon the disposition, partial disposition or maturity of a BMO GIF contract, the owner may realize a capital gain if the proceeds of disposition are greater than their ACB or a capital loss if the proceeds of disposition are less than their ACB. It should be noted that the fund administrator will report any resulting capital gain or capital loss to the owner on the annual T3 slip.

A disposition of the SFC will occur under all of the following scenarios:

- a **full surrender** of the SFC by the owner for its market value
- a **partial surrender** (or withdrawal) from the SFC by the owner
- the **maturity** of the SFC (the death of the annuitant will trigger the maturity of the SFC, or upon the death of the successor annuitant if one has been named)
- the **death of the owner** (It should be noted that the gain under this scenario can be deferred if the policy is transferred to the owner's surviving spouse.)
- the **transfer of ownership** of the SFC (It should be noted that if the owner transfers the ownership of the SFC to his/her spouse or common law partner, a tax-free rollover will occur, in which case, the receiving spouse or common law partner would take over the first spouse's tax attributes.)

### Fund Switches

Switches between SFs within the SFC can trigger a capital gain or a capital loss that will be reported to the segregated fund owner by the fund administrator on a T3 slip. A capital gain would be realized if the market value of the fund that is being disposed is in excess of the owner's ACB of that fund. A capital loss would be realized if the market value of the fund is less than the owner's ACB of that fund.



Any amount that is allocated to a segregated fund is invested at the risk of the policyowner and may increase or decrease in value. Details of BMO GIF are contained in the policy provisions and information folder.



### Taxation Summary Chart

Transaction	Contract Terminology	Potential Impact on Policy Guarantees	Taxable Event
Removing funds or terminating SFC	Disposition, partial disposition or maturity	Yes, triggered if applicable and related to maturity or death	Yes, capital gain or loss (income for registered policies)
Annual Income	Allocation	No	Yes, income, gains, and losses retain their character (non-registered only)
Moving between SFs within SFC	Switch	No	Yes (non-registered only)
Changing fund class within the same SF*	Reclassification of units. Some exceptions apply.*	No*	No*
Changing sales charge option within same SF	Sell & Buy (administrative disposition)	Yes	Yes (non-registered only)
Changing from RRSP to RRIF	Change in Registration (i.e. same SFC)	No	No
Moving funds from non-registered to registered	Transfer	No	Yes, capital gain or loss
Moving to same fund in different non-registered SFC	Sell & Buy	Yes	Yes, capital gain or loss

\*A switch from Class F to Class A under the no-load or deferred sales charge option is processed as a sell and a buy and as such will result in a taxable disposition in a non-registered contract that may result in a capital gain or loss. It will also trigger a guarantee reset.

### Let's connect

For more information about BMO Insurance or our products, please consult with your insurance advisor or contact us:



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