FOR REPRESENTATIVES ONLY

GUARANTEED INVESTMENT FUNDS

Taxation

Desjardins Insurance
LIFE • HEALTH • RETIREMENT

Desjardins Insurance refers to Desjardins Financial Security Life Assurance Company.

Table of Contents

Caution

This document is provided for your convenience and for information purposes only. It does not constitute advice of any kind. The general information contained herein is subject to change without notice. This information is not to be relied upon for tax planning purposes. We strongly suggest that you consult your legal and tax advisors to discuss the laws and regulations and how they apply to your particular circumstances. Desjardins Insurance will not be held responsible for any unwanted tax liability.

Unit holder / Contract Owner

For simplicity purposes, the term unit holder is used in this document, whether we are referring to Guaranteed Investment Funds or mutual funds. However, we would like to remind you that, unlike mutual funds, for Guaranteed Investment Funds, a client owns a Contract. Fund Units are attributed to the Contract, not to the client.

SECTION 1

Income Allocation

Allocation rules for Guaranteed Investment Fund income

Under the *Income Tax Act*, when the value of an insurer's life insurance reserves varies depending on the fair market value of a group of properties (commonly referred to as a Segregated Fund or Guaranteed Investment Fund), a trust is created with respect to these Funds. The properties and the income generated by these properties belong to the trust, not the insurer. The trust allocates the income and the gains it realizes over the course of a year to the Contract Owners. This income and these gains are reported on T3 tax slips (Relevé 16 in Quebec).

Unless otherwise indicated, the tax aspects and examples presented in this document refer to non-registered Contracts.

For registered Contracts (RRSPs or RRIFs), holders are taxed only when they withdraw from their investments, either partially or totally, or upon their death. However, Contracts registered as TFSAs are treated differently: income and gains aren't taxable, unless earned after the holder's death.

A. Impacts for the Contract Owner

The income from a Guaranteed Investment Fund isn't allocated in cash or in Units. The income is held by the Fund, and the Unit holder benefits in the form of changes to the value of their Units. That means the number of Units remains the same, unless more Units are purchased or some are surrendered.

The nature of the trust's income remains intact upon allocation. That means, for example, that interest income remains interest income. Interest income, dividends, foreign income, capital gains and capital losses are taxed as though they had been received directly by the Unit holder. The Units of a guaranteed investment fund trust are considered capital property for tax purposes; therefore, a capital gain or loss is calculated when Units are disposed of, taking into account their adjusted cost base.

Here's how the **adjusted cost base (ACB)** is calculated each year, for each Fund:

Purchase price of Units
+ Income allocated (interest, foreign income and dividends) by the Fund
+ Capital gains allocated by the Fund
– Capital losses allocated by the Fund
+ Additional Deposits
– Cost of withdrawal

Unrealized gains[1] have no impact on the Fund's ACB.

ACB – SO EASY TO CALCULATE!

You can obtain the ACB for Units of a Fund held by your clients on their semi-annual statement under Your Guaranteed Investment Funds section.

[1] Increase in the value of the Fund for a period with no corresponding income or capital gain at the tax level. This increase would become taxable, in the form of a capital gain, upon the liquidation of the Fund.

EXAMPLE[2]

Julia invests $100,000 in a non-registered Guaranteed Investment Fund Contract and chooses a balanced Fund. At the time of the investment, the adjusted cost base of her Units equals the value of the investment (i.e., $100,000).

At the end of the year 1

The market value of Julia's Contract is $110,000. The Fund allocated the following income to her:[3]

- $1,000 in interest
- $1,000 in dividends
- $3,500 in realized capital gains

The Fund also has $4,500 in unrealized capital gains.

Julia's ACB is now $105,500, calculated as follows: 100,000 + 1,000 + 1,000 + 3,500.

Since Julia has a non-registered Contract, she receives a tax slip allocating her portion of the Fund's income.

Tax on allocated income and gains

TAX ON INTEREST:
$1,000 × 45% = $450

TAX ON DIVIDENDS:
$1,000 × 29% = $290

TAX ON CAPITAL GAINS:
$3,500 × 50% × 45% = $788

Total Tax = $1,528

So for Year 1, Julia will have to pay $1,528 in tax on the allocated income and gains.

[2] Assuming a positive annual return for the first two years and a negative return for the third year, a marginal tax rate of 45% and a dividend tax rate of 29% (rate for eligible dividends).

[3] For more information about Fund income allocation rules, refer to Part B in this section.

Year 2[4]

At the beginning of the year

Julia redeems $4,202.50. After the partial redemption of Units of her Contract, the market value (MV) of her Units is $110,000 – $4,202.50 = $105,797.50. The ACB must also be adjusted:

ACB = ACB prior to redemption – redemption-related adjustment
= 105,500 – redemption × (ACB$^{\text{prior to redemption}}$ / MV$^{\text{prior to redemption}}$)
= 105,500 – 4,202.50 × (105,500 / 110,000)
= 105,500 – 4,031
ACB = $101,469

TAX RELATED TO REDEMPTION
Gain realized on redemption × 50% × 45%
(4,202.50 – 4,031) × 50% × 45% = $39

At the end of the year

The market value of Julia's Contract is $114,750.

The income allocated to Julia for year 2 (not including the capital gain arising from the withdrawal) is as follows:

- $1,000 in interest
- $1,000 in dividends
- $3,500 in realized capital gains

The Fund also generated $3,452.50 in unrealized capital gains.

Julia's ACB is now $106,969, calculated as follows: 101,469 + 1,000 + 1,000 + 3,500.

[4] When a Unit holder realizes a capital gain from surrendering their Units and the segregated fund trust has capital gains to allocate, the trust's capital gains are first allocated to Unit holders who have requested a surrender of Units. If there is a balance remaining to be allocated, it is allocated to Unit holders in accordance with the Fund's allocation method (explained later on in this Guide). That's why capital gains arising from surrenders are also reported on T3 slips (Relevé 16 in Quebec). For more information, see section B of this guide.

Tax on allocated income and gains

TAX ON INTEREST:
$1,000 × 45% = $450

TAX ON DIVIDENDS:
$1,000 × 29% = $290

TAX ON CAPITAL GAINS:
$3,500 × 50% × 45% = $788

Tax = $1,528

That means **for year 2, Julia's total tax bill comes to $1,567,** i.e., $39 in tax on the withdrawal and $1,528 in tax on allocated income and capital gains. The capital gain arising from the withdrawal and the other income and capital gains allocated by the Fund will be reported on the T3 slips issued to Julia (Relevé 16 in Quebec).

Year 3

At the beginning of the year

Julia deposits $50,000.

Further to this Deposit, the market value of her Contract is $164,750 (114,750 + 50,000) and her ACB is $156,969, calculated as follows: 106,969 + 50,000.

At the end of the year

The market value of Julia's Contract is $174,750.

The only income allocated to Julia (not including the capital gain arising from the surrender below) is $10,000 in interest income. Her ACB is $166,969 (156,969 + 10,000).

Julia redeems all of her investment ($174,750).

Given the difference between the market value of the Units and the ACB (174,750 – 166,969), Julia will receive a capital gain of $7,781. Her T3 slip will show interest income of $10,000 and a capital gain of $7,781.

Tax on allocated income and gains

TAX ON INTEREST:
$10,000 × 45% = $4,500

TAX ON CAPITAL GAINS:
$7,781 × 50% × 45% = $1,751

Total tax = $6,251

After redeeming all Units in her Contract, the market value and the ACB of Julia's Fund revert to 0.

NEGATIVE RETURN, CAPITAL LOSS… AND CAPITAL GAIN

Remember, a Fund can post a negative return even while it generates income, including gains realized on transactions. Unit holders will note that losses are allocated to them on their tax slips.

In addition, **some Funds may also generate capital gains, despite a negative annual return.** Capital gains will therefore be reported on the T3 tax slips of Unit holders who invested in these Funds.

B. How does a Fund allocate its income and gains?

As mentioned in the previous example, Guaranteed Investment Fund income is allocated to the Unit holders each year as prescribed by the *Income Tax Act*. This law doesn't stipulate any income allocation method. Tax authorities assume that insurance companies will use a reasonable method.

The allocation method used by many insurance companies, including Desjardins Insurance, reflects the amount of time each Unit was held, i.e., the Units are time-weighted. An example of the calculation is given further on. The allocation takes into account all investors who held Units during the year, regardless of whether they still hold the Units at year end.

Income is allocated in two stages, based on the type of income:

- STAGE 1: **Allocation of interest and dividend income**[5]
- STAGE 2: **Allocation of capital gains and losses**

[5] We assumed that the Fund didn't earn foreign income for the year.

Here is an example of Fund XYZ, which just ended its first year of operations and which is now about to allocate the income generated during the year to Unit holders.

FONDS XYZ – ALLOCATION OF INCOME AND GAINS

Deposits – Year 1

The initial unit value is $100. In total, four individuals invested during the year and one individual redeemed all of her Units.

Unit holder	# of Units held	Initial investment	Deposit Date
Investment		**$460,000**	
Daniel	1,000	$100,000	January 1
Larry	1,000	$110,000	July 1
Lucy	1,000	$150,000	December 31
Ann	1,000	$100,000	January 1
Redemptions		**$110,000**	
Ann	– 1,000	– $110,000	July 1

Income

Fund XYZ generated income of $100,000, after expenses, from different sources.

Income from Fund XYZ after expenses:	
Interest:	$20,000
Dividends:[6]	$10,000
Realized capital gains:	$192,500
Realized capital losses:	– $100,000
Unrealized capital losses:	– $22,500
Total	**$100,000**

[6] We have assumed that all dividends received by Fund XYZ were eligible dividends.

Unit value at year end (December 31)[7]

The unit value at year end depends on Fund transactions during the year:

[Deposits ($460,000) + income ($100,000) – redemptions ($110,000)] / units outstanding (3,000) = $150.

Time-weighted Units

Lastly, the total number of time-weighted Units has to be established based on how long each holder participated in the Fund.

	Units	Days	Time-weighted Units
Daniel	1,000	365	365,000
Larry	1,000	184	184,000
Lucy	1,000	0	0
Ann	1,000	365	365,000
	– 1,000	184	– 184,000
			181,000
Total			**730,000**

[7] We have assumed that the Fund didn't have any unrealized gains at the end of year 1.

STAGE 1: INTEREST AND DIVIDEND INCOME ALLOCATIONS

Interest and dividend income are allocated to all clients who held Units during the year. Therefore, clients who redeemed Units are allocated interest and dividend income in the same way as clients who still hold all of their Units at year end. The allocation is based on the number of days during which the Units were held during the year (time-weighted Units).

INTEREST AND DIVIDENDS

On the Canada Revenue Agency T3 slip, interest income is reported in box 26 and dividend income in box 23 (for other than eligible dividends) or in box 49 (for eligible dividends).

Stage 1: Interest and dividend income allocation

DANIEL

Interest: $20,000 × 365,000 / 730,000 = $10,000
Dividends: $10,000 × 365,000 / 730,000 = $5,000

LARRY

Interest: $20,000 × 184,000 / 730,000 = $5,041
Dividends: $10,000 × 184,000 / 730,000 = $2,521

LUCY

Interest: $20,000 × 0 / 730,000 = $0
Dividends: $10,000 × 0 / 730,000 = $0

ANN

Interest: $20,000 × 181,000 / 730,000 = $4,959
Dividends: $10,000 × 181,000 / 730,000 = $2,479

Calculating adjusted cost base (ACB) after stage 1

	Daniel	Larry	Lucy	Ann
Starting ACB	100,000	110,000	150,000	100,000
Interest	10,000	5,041	0	4,959
Dividends	5,000	2,521	0	2,479
ACB after stage 1	**115,000**	**117,562**	**150,000**	**107,438**

STAGE 2: ALLOCATION OF CAPITAL GAINS AND LOSSES

Stage two of the allocation of Guaranteed Investment Fund income consists of allocating the capital gains and losses. This stage has three distinct phases.

PHASE 1 : **Gains and losses realized by Unit holders**

Capital gains and losses are first allocated to clients who redeemed their Units and correspond to the gains or losses they realized at that time.

Thus, a capital loss is reported on the tax slip of clients who realized a loss on redemption. As well, a capital gain is reported on the tax slip of a client who disposed of Units whose value increased.

The next two phases of the allocation of capital gains and losses consists of allocating these to **all clients who hold Units at December 31.** These gains and losses were generated by transactions made by the fund manager.

PHASE 2 : **Gains and losses realized by the Fund**

A gain or loss is allocated to Unit holders based on the value of their Units. For example, clients whose Units have a market value that is lower than their ACB will be allocated a capital loss.

Conversely, capital gains will be reported on the tax slip of clients whose Units have a market value that is higher than the ACB.

PHASE 3 : **Excess gains and losses**

Lastly, if gains or losses remain after the first two phases, the excess is allocated to all clients who hold Units at December 31, based on time-weighted Units. This allocation corresponds to the third and final phase for allocating capital gains and losses for the Guaranteed Investment Funds.

Stage 2: Allocation of capital gains and losses

PHASE 1 : **Gains and losses realized by the client**

Ann sold her Units for $110,000.

Her ACB was $107,438 after the allocation of interest and dividends (Stage 1).

Proceeds of disposition	$110,000
ACB	– $107,438
Capital gains	**$2,562**

Calculation of available gains for remaining Units

Realized capital gains	$192,500
Capital gains allocated to Ann	– $2,562
Unallocated available gains	**$189,938**

Calculation of available losses for remaining Units

Realized capital losses	$100,000
Allocated capital losses	$0
Unallocated available losses	**$100,000**

PHASE 2 : **Allocation of available gains and losses based on value of Units**

	Daniel	Larry	Lucy
Number of Units	1,000	1,000	1,000
Unit value	150	150	150
Market value of Units	150,000	150,000	150,000
ACB after stage 1	115,000	117,562	150,000
Allocated gains	**35,000**	**32,438**	**0**

Unallocated gains available after phase 1	$189,938
Gains allocated to Daniel and Larry	– $67,438
Excess gains to be allocated	**$122,500**

Unallocated losses available after phase 1	$100,000
Allocated losses	– $0
Excess losses to be allocated	**$100,000**

Calculating ACB after phase 2

	Daniel	Larry	Lucy
ACB after stage 1	115,000	117,562	150,000
Allocated gains	35,000	32,438	0
ACB after phase 2	**150,000**	**150,000**	**150,000**

PHASE 3 : **Allocation of excess gains and losses to current holders**

Allocation of excess gains after phase 2	$122,500
Less excess losses to be allocated after phase 2	– $100,000
Excess gains to be allocated	**$22,500**

Realized losses are only subtracted from realized gains during this phase.

> **CAPITAL GAINS AND LOSSES**
>
> On the Canada Revenue Agency's T3 slip, capital gains are reported in box 21 and capital losses in box 37.

Calculation of revised total of time-weighted Units

	Units	Days	Time-weighted Units
Daniel	1,000	365	365,000
Larry	1,000	184	184,000
Lucy	1,000	0	0
Total			**549,000**

Allocation of excess gains based on holding period

Daniel	$22,500 × 365,000 / 549,000	$14,959
Larry	$22,500 × 184,000 / 549,000	$7,541
Lucy	$22,500 × 0 / 549,000	$0
		$22,500

Calculation of ACB after phase 3

	Daniel	Larry	Lucy
ACB after phase 2	150,000	150,000	150,000
Allocated gains	14,959	7,541	0
ACB after phase 3	**164,959**	**157,541**	**150,000**

Summary

The income and gains to be allocated to each client at year end is as follows:

	Daniel	Larry	Lucy	Ann	Total
Interest	10,000	5,041	0	4,959	**20,000**
Dividends	5,000	2,521	0	2,479	**10,000**
Gains en capital nets	49,959	39,979	0	2,562	**92,500** (192,500 – 100,000)

As the above table shows, Daniel was allocated the most income and capital gains, since he held his Units for the whole year. Larry and Ann received their share of the income and gains based on the time their Units were in the Fund. In addition, a capital gain was allocated to Ann following the sale of her Units. As for Lucy, she received no income or gains, since she purchased her Units on the last day of the year.

Here is the T3 slip that will be sent to Daniel by the Fund XYZ administrator.

Canada Revenue Agency / Agence du revenu du Canada — Year / Année: 20XX

STATEMENT OF TRUST INCOME ALLOCATIONS AND DESIGNATIONS
ÉTAT DES REVENUS DE FIDUCIE (RÉPARTITIONS ET ATTRIBUTIONS) **T3**

49	Actual amount of eligible dividends / Montant réel des dividendes déterminés	5000.00
50	Taxable amount of eligible dividends / Montant imposable des dividendes déterminés	6900.00
51	Dividend tax credit for eligible dividends / Crédit d'impôt pour dividendes déterminés	1035.00
21	Capital gains / Gains en capital	49959.00
30	Capital gains eligible for deduction / Gains en capital admissibles pour déduction	
23	Actual amount of dividends other than eligible dividends / Montant réel des dividendes autres que des dividendes déterminés	
32	Taxable amount of dividends other than eligible dividends / Montant imposable des dividendes autres que des dividendes déterminés	
39	Dividend tax credit for dividends other than eligible dividends / Crédit d'impôt pour dividendes autres que des dividendes déterminés	
26	Other income / Autres revenus	10000.00

Trust year end / Fin d'année de la fiducie — Year / Année; Month / Mois

Other information (see the back) / Autres renseignements (lisez le verso) — Box / Case; Amount / Montant; Box / Case; Amount / Montant

Footnotes – Notes

Recipient's name (last name first) and address – Nom, prénom et adresse du bénéficiaire: Denis Malouin

Trust's name and address – Nom et adresse de la fiducie: Fonds XYZ

T3 (08) — Recipient identification number / Numéro d'identification du bénéficiaire (12); Account number / Numéro de compte (14): T; Report code / Code du genre de feuillet (16); Beneficiary code / Code du bénéficiaire (18)

For information, see the back.
Pour obtenir des renseignements, lisez le verso.

USING CAPITAL LOSSES STRATEGICALLY

With GIFs, unlike mutual funds, capital losses that exceed realized capital gains can be allocated and used strategically. Unit holders can choose the best time to apply their losses (net of realized gains in the current taxation year) in order to offset their other capital gains, either:

- for one of the last three fiscal years; or
- for a subsequent fiscal year, indefinitely.

Mutual fund income distribution

Mutual funds regularly distribute their income (interest, dividends, foreign income, capital gains (net of losses)) in the form of cash or units. This income is distributed according to the number of units outstanding at the time of distribution. For example, a fund comprised of 2,000,000 units which generates $100,000 in income for a full year distributes $0.05 per unit to all unit holders at December 31. Therefore, income of $100 will be reported on the tax slip of investors who purchased 2,000 units on September 1, and this, in the same way as an investor who held the same number of units since January 1. **No difference is made between a client who held units for a short period of time only and a client who held units since the beginning of the year.**

THE FOLLOWING EXAMPLE SHOWS THE DIFFERENCE BETWEEN INCOME DISTRIBUTION (MF) AND INCOME ALLOCATION (GIF).

	Guaranteed Investment Fund	Mutual Fund
Interest income generated by ABC fund	$100,000	$100,000
Total number of outstanding ABC fund Units	2,000,000	2,000,000
Number of Units purchased by the client	2,000	2,000
Date Units purchased by the client	September 1	September 1
Period during which the client held the Units	122 days out of 365	No difference between a client who held units for a short period of time only and a client who held units since the beginning of the year
Income **distributed** to the client at December 31 and reported on the client's tax slip	n.a.	100,000 / 2,000,000 × 2,000 = **$100**
Income **allocated** to the client at December 31 and reported on the client's tax slip	$100,000 × 2,000 / 2,000,000 × 122 / 365 = **$33**	n.a.

SECTION 2

Taxation of Guarantees

Tax treatment of GIF Contracts[8]

Except for how income and/or capital gains/losses are allocated, the main difference between mutual funds and GIFs is that GIFs are sold as Contracts that include Maturity and Death Benefits.

These Contracts offer a minimum Maturity and Death Benefits equal to 75% of the Deposits made in the Contract. In addition to Maturity and Death Benefits, GIF Contracts also offer options that guarantee the payment of a stable income.

Even though the specific features of one Contract may vary from the next, the basic tax principles remain the same.[9]

[8] The examples in this section assume a marginal tax rate of 45%.
[9] Please refer to the Contract and Information Folder for Contracts issued by Desjardins Insurance for more information about the Maturity and Death Benefits provided under these Contracts.

TAX INFORMATION DOCUMENT

For holders of **non-registered** Contracts, any gains or losses not reported on a T3 slip (Relevé 16 in Quebec) will be detailed in a tax information document.

Tax information documents include the details of various gains and/or losses not allocated by the Fund in relation to the following:

A. **Guarantee payments**
B. **Sales charges**
C. **Surrender charges**
D. **Guarantee fees (Additional Guarantee Fees)**

Tax information documents are only sent to Unit holders who have gains or losses related to one or more of the items above for a given fiscal year. They'll receive the document along with their T3 slips (Relevé 16 in Quebec). Holders of registered Contracts won't receive one, since the tax treatment of their Contracts is different.

A. Guarantee payments

Important

Tax authorities haven't yet ruled on the tax treatment of Guaranteed Lifetime Withdrawal Benefits (GLWBs), Guaranteed Minimum Withdrawal Benefits (GMWBs) or similar Guarantee payments made under GIF Contracts after all units in Contract have been surrendered. We believe our proposed tax treatment is appropriate. However, Unit holders are responsible for ensuring that any such payments are properly reported on their income tax returns and that all associated taxes are paid. Desjardins Insurance cannot be held liable for any consequences relating to the tax treatment of these payments should the authorities decide on a different treatment. Please consult your tax advisor.

Guarantee payments include any payments made by the Company in relation to a guarantee offered under a Contract. They must be reported on the Unit holder's income tax return, even if a T3 slip (Relevé 16 in Quebec) isn't issued for them.

Any non-GLWB Guarantee payments made in the Unit holder's lifetime[10] (e.g., benefits paid under a 75/100 i or 100/100 r Guarantee or fee refunds for the 100/100 r Guarantee) will affect the adjusted cost base (ACB), just like any other Deposit.

[10] The assumption is that the Contract Owner and the Annuitant are the same person.

Unless otherwise indicated, the examples in this guide are based on the following:

Unit holder	**Mary, age 65**
Contract	**Helios2**
Guarantee	**Helios2 – 75/100 GLWB**
Deposit amount	**$100,000**
Contract type	**Non-registered**
Beneficiary	**Her husband, Thomas**
Fund	**DFS GIF – Balanced**

MATURITY BENEFIT

As a general rule, the Maturity Benefit of a Contract (or a Deposit) is a percentage of the initial value of each Deposit made into the Contract. It is paid out at a time specified in the Contract. For Helios 2 – 75/100 GLWB, the Maturity Benefit is 75% of the initial value of each Deposit on the Annuitant's 105th birthday.

The Maturity Benefit is paid to the Contract Owner in the form of a top-up (Units added to their Contract), thereby increasing the Contract value and the ACB of the Units.

If the Contract is **not registered,** the top-up must be treated as a capital gain (subject to a 50% tax rate) for the fiscal year in which it was received. For example, if the market value of Mary's Contract was $65,000 at maturity, Desjardins Insurance would add additional Units equaling to $10,000 [($100,000 × 75%) – $65,000] to her Contract. Mary would receive a tax information document reporting this capital gain, which she would need to include in her income for the year. As you will see later, the tax information document will also indicate a capital loss resulting from the Additional Guarantee Fees that Mary paid and which will then be deductible against this capital gain.

However, if the Contract is **registered** (as an RRSP or RRIF), the top-up wouldn't have an immediate tax impact, since taxation only occurs if funds are withdrawn or at the time of death. For a Contract registered as a TFSA, the top-up wouldn't be taxable.

Case study: Helios Contract with a Guarantee 100/100 r[11]

With the Guarantee 100/100 r, a portion of the Maturity Benefit fees will be refunded if the Deposit's market value exceeds its guaranteed value at maturity. The refund is paid to the holder in the form of Units added to the Contract. However, if the market value is lower than the guaranteed value, a benefit will be paid at maturity. For more information about this Guarantee, please consult webi.ca.

a. If the market value is lower than the guaranteed value

Date	Transaction	Market value before transaction	Market value after transaction	ACB before transaction	ACB after transaction	Capital gains (losses) arising from withdrawals made to pay additional Guarantee fees	Accumulated additional Guarantee fees	Capital gains arising from Guarantee payments
20XX-08-31	$110 in additional Guarantee fees	$110,000	$109,890	$120,000	$119,880	($10)	$11,110	**$0**
20XX-09-30	$100 in additional Guarantee fees	$100,000	$99,900	$119,880	$119,760	($20)	$11,210	**$0**
20XX-10-12	Maturity benefit of Guarantee 100/100 r ($27,318 in the form of a Deposit)	$102,682	$130,000	$119,760	$147,078	$0	$0	**$27,318**
20XX-10-31	$135 in additional Guarantee fees	$135,000	$134,865	$147,078	$146,931	($12)	$135	**$0**
20XX-11-30	$132 in additional Guarantee fees	$132,000	$131,868	$146,931	$146,784	($15)	$267	**$0**
20XX-12-31	$130 in additional Guarantee fees	$130,000	$129,870	$146,784	$146,637	($17)	$397	**$0**

Capital gain for 20XX arising from the Guarantee payment (taxable capital gain of $13,659)		**$27,318**
Capital loss for 20XX arising from additional Guarantee fees (net capital loss of $5,605)		**($11,210)**
Capital loss for 20XX arising from withdrawals to pay additional Guarantee fees (net capital loss of $37)		**($74)**

For 20XX, the Unit holder has to include the $27,318 capital gain arising from the Guarantee payment. However, as will be explained later, he can deduct from this gain the $11,210 capital loss arising from additional Guarantee fees and the $74 capital loss ($10 + $20 + $12 + $15 + $17) arising from the withdrawals made to pay these fees.

b. If the market value is higher than the guaranteed value

Mark invested $100,000 in a non-registered Helios Contract. He chose the Guarantee 100/100 r, which gives him a guaranteed value of $100,000 at maturity.

After 10 years, the market value of his Contract is $120,000 and his ACB is $110,000. He has paid $11,000 in fees related for this guarantee. Since his Contract's market value exceeds the guaranteed value, Mark is entitled to a 30% refund of the 100/100 r Guarantee's Maturity Benefit fees (50% of the total fees).

As a result, $1,650 ($11,000 × 50% × 30%) worth of Units is added to his Contract, bringing the market value of his Contract to $121,650 and his ACB to $111,650.

Mark will receive a tax information document reporting a $1,650 capital gain and a $1,650 capital loss related to a portion of the Guarantee fees he's paid since his Contract was first set up (discussed later). **Even though he'll need to report both of those amounts on his income tax return, Mark won't have to pay any tax on the fee refund.**

DEATH BENEFIT

In addition to the Maturity Benefit, GIF Contracts also include a guaranteed value that is paid to the Beneficiary upon the Annuitant's death. The Helios2 – 75/100 GLWB Death Benefit is 100% of the initial value of each Deposit. Up to the Annuitant's 80th birthday, the Death Benefit is also reset every three years to the higher of the market value or the initial value of the Deposits.

Under the *Income Tax Act*, the deceased is deemed to have disposed of their Contract at its fair market value at the time of their death. The value of the disposition is the higher of the Contract's market value at death or the guaranteed Death Benefit. The gain arising from the disposition is taxed in the hands of the Unit holder,[12] and the Contract is closed.

Let's assume that when Mary dies, the market value of her Contract is $80,000, her guaranteed Death Benefit is $110,000[13] and the ACB of her Contract is $90,000. Because the market value of the Contract is lower than its guaranteed value, the $110,000 Death Benefit is paid to the Beneficiary.[14]

Mary's final income tax returns will need to include the impact of the presumed disposition of her Contract at fair market value, which breaks down as follows:

A capital loss attributable to the decrease in the market value of the Contract when the Units were surrendered[15] will be reported on T3 slips (Relevé 16 in Quebec) along with the other income and capital gains/losses allocated by the Fund. The amount of the loss will be $10,000, which is the Contract's market value less its ACB ($80,000 – $90,000).

The capital gain attributable to the Guarantee payment will be reported on the tax information document. It will be $30,000, which is the amount of the guaranteed Death Benefit less the market value of the Contract ($110,000 – $80,000).

[11] This example does not take into consideration income and other capital gains and losses that could have been allocated by the funds in the year.
[12] It is the Unit holder, not the designated Beneficiary, who is taxed. It is assumed in this case that the Unit holder and the Annuitant are the same person. Any income generated by the Contract between when the Unit holder dies and when the Units are surrendered is taxable in the hands of the Beneficiary.
[13] Please refer to the Contract and Information Folder for more information about the Death Benefit under Helios2 – 75/100 GLWB.
[14] Note that the market value ($80,000) and the guaranteed value ($30,000) of the Contract are paid separately to the Beneficiary. If there are multiple Beneficiaries, each will receive two payments.
[15] Any income generated by the Contract after the Unit holder's death has to be reported in the Beneficiary's income.

DEATH BENEFIT (CONTINUED)

As will be explained later, the tax information document will also include a capital loss arising from the additional Guarantee fees that Mary paid, which will be deductible. This is assuming that Mary paid $10,000 in additional Guarantee fees that she hadn't previously deducted.

That all boils down to a net capital gain of $10,000 (–$10,000 + $30,000 – $10,000). The tax owed by Mary on that net capital gain is calculated as follows:

TAX = $10,000 × 50% × 45% = $2,250

However, there will be no tax impact for her Beneficiary, Thomas, apart from taxes owed on any income generated by the Contract after Mary's death.[17]

Registered Contracts

The example we just looked at involved a non-registered Contract. What about registered Contracts?

The Guarantee works the same way and the Death Benefit is paid to the Beneficiary.

However, for an RRSP or RRIF, if the Beneficiary isn't an eligible Beneficiary (the Spouse or Common-Law Partner or a dependent child or grandchild of the Contract Owner), the higher of the market value of the Contract at death[17] or the guaranteed Death Benefit will be added to the taxable income reported on the deceased's final income tax return.

Example: Taxes owing upon death on an RRSP or RRIF

Market value of the RRSP at death = $300,000
Guaranteed Death Benefit = $250,000
Marginal tax rate = 45%

- **Scenario 1: Death with no eligible Beneficiary**

  Since an eligible Beneficiary wasn't designated, the market value of the RRSP at death is added to the deceased's taxable income.

  TAX OWING BY THE DECEASED
  45% × the market value of the RRSP at death
  45% × $300,000 = $135,000

- **Scenario 2: Death with a Spouse or Common-Law Partner as the sole Beneficiary**

  The deceased's RRSP is transferred tax-free to the Spouse or Common Law Partner's RRSP.

  TAX OWING BY THE DECEASED = $0

Example: Taxes owing upon death on a TFSA

There is no tax payable on the higher of the market value of the Contract at death[18] or the guaranteed Death Benefit. Where the Spouse or Common-law partner is the Beneficiary of the Contract, the fair market value at the time of death may be transferred to a TFSA without reducing the contribution room, provided the prescribed conditions are met and the CRA's form is completed.

[16] Any income generated by the Contract after the Unit holder's death has to be reported in the Beneficiary's income.
[17] Any income generated by the Contract after the Unit holder's death is taxable in the hands of the Beneficiary. For registered Contracts, tax slips will be issued for this income.

[18] Any income generated by the Contract after the Unit holder's death is taxable in the hands of the Beneficiary. The necessary tax slips will be issued.

GUARANTEED LIFETIME WITHDRAWAL BENEFIT

In addition to the Maturity and Death Benefits, Helios2 – 75/100 GLWB offers a Guaranteed Lifetime Withdrawal Benefit.

As a general rule, with non-registered Contracts, a withdrawal made under a guaranteed withdrawal benefit is considered a regular withdrawal from the Contract. That means it's necessary to determine whether it generates a capital gain or a capital loss.

However, bear in mind that the Fund's income and gains will continue to be allocated annually to Contracts to which a guaranteed withdrawal benefit has been added.

Mary, age 65, chose the Helios2 – 75/100 GLWB precisely for the guaranteed withdrawal benefit. When her Contract was set up, the GLWB Protected Value, the GLWB Bonus Base and her ACB were all $100,000. She made no withdrawals in Year 1 of her Contract.

December 31 (Year 1)

The market value of Mary's Contract is $110,000. The Fund allocated the following income to her:

- $1,000 in interest
- $1,000 in dividends
- $3,500 in realized capital gains

The Fund also has $4,500 in unrealized capital gains.

Mary's ACB is now $105,500, calculated as follows: $100,000 + $1,000 + $1,000 + $3,500.

Since Mary made no withdrawals, she's entitled to a GLWB Bonus equal to 2.5% of the GLWB Bonus Base, or 2.5% of $100,000, which raises the GLWB Protected Value to $102,500. Since Mary's Contract isn't registered, she'll receive T3 tax slips (Relevé 16 in Quebec) allocating her share of income from the Fund.

WILL A BONUS TRIGGER A TAX PAYMENT?

Adding a bonus to the protected value or **resetting** the protected value has **no tax impact** at the time the event occurs.

Tax on allocated income and gains

TAX ON INTEREST:
$1,000 × 45% = $450

TAX ON DIVIDENDS:
$1,000 × 29% = $290

TAX ON CAPITAL GAINS:
$3,500 × 50% × 45% = $788

Total tax = $1,528

Year 2

January 1

Mary wants to make her first withdrawal. The market value of Mary's Contract is still $110,000. She recently turned 65, and her annual GLWB Withdrawal Percentage is 4.1%. Mary decides to withdraw her full GLWB Maximum Amount: $4,202.50 (4.1% × $102,500). Mary will have to include the gain realized on the withdrawal in her income tax return.[19]

TAX RELATED TO THE WITHDRAWAL
Gain realized upon withdrawal × 50% × 45%
= $4,202.50 × (1 – $ACB^{\text{prior to withdrawal}}$ / $MV^{\text{prior to withdrawal}}$) × 50% × 45%
= $4,202.50 × (1 – $105,500 / $110,000) × 50% × 45%
= $39

The market value of Mary's Contract is now $105,797.50 and its GLWB Protected Value remains $102,500.

The withdrawal means a change to her ACB:

ACB = ACB prior to withdrawal – withdrawal-related adjustment
= $105,500 – withdrawal × ($ACB^{\text{prior to withdrawal}}$ / $MV^{\text{prior to withdrawal}}$)
= $105,500 – $4,202.50 × ($105,500 / $110,000)
ACB = $101,469

[19] When a Unit holder realizes a capital gain from surrendering their Units and the segregated fund trust has capital gains to allocate, the trust's capital gains are first allocated to Unit holders who have requested a surrender of Units. If there is a balance, it is allocated to Unit holders in accordance with the Fund's allocation method (explained earlier on in this guide). That's why capital gains arising from withdrawals are also reported on T3 slips.

At year-end

The market value of Mary's Contract is $114,750.

The income attributed to Mary for Year 2, in addition to the capital gain arising from the withdrawal, is as follows:

- $1,000 in interest
- $1,000 in dividends
- $3,500 in realized capital gains

The Fund also has $3,452.50 in unrealized capital gains. Mary's ACB is now $106,969, calculated as follows: $101,469 + $1,000 + $1,000 + $3,500.

Tax on allocated income and gains

TAX ON INTEREST:
$1,000 × 45% = $450

TAX ON DIVIDENDS:
$1,000 × 29% = $290

TAX ON CAPITAL GAINS:
$3,500 × 50% × 45% = $788

Tax = $1,528

So for Year 2, Mary's total bill comes to $1567 ($39 in tax on the withdrawal and $1528 in tax on allocated income and capital gains).

The capital gain arising from the withdrawal and the other income and capital gains allocated by the Fund will be reported on the T3 slips (Relevé 16 in Quebec) issued to Mary.

Recap

Let's compare with the example in section 1, where Julia made a withdrawal from a Contract that didn't have a GLWB.

	Julia (withdrawal without GLWB)	Mary (withdrawal with GLWB)
Amount withdrawn	$4,202.50	$4,202.50
Tax on withdrawal	$39	$39
Tax on allocated income and gains	$1,528	$1,528
Total tax	$1,567	$1,567

Julia and Mary will have the same tax bill for Year 2.

B. Sales charges[20]

Some Contracts come with a negotiable sales charge option.[21] Unlike mutual fund fees, these charges won't increase the ACB of the Units in a GIF Contract. They're deductible as capital losses in years where the Unit holder makes a withdrawal from their Contract.[22]

THE CAPITAL LOSS IS THE LESSER OF:

1. **Accumulated sales charges × (withdrawal/market value prior to withdrawal)**
2. **Sales charges not deducted prior to the withdrawal (in other words: accumulated sales charges – deductions for previous withdrawals)**

For 20XX, the Unit holder can deduct the $3,403 capital loss arising from sales charges from the $7,632 capital gain ($1,182 + $6,450) realized on the withdrawals.

Date	Transaction	Market value before transaction	Market value after transaction	ACB before transaction	ACB after transaction	Capital gains (losses) arising from withdrawals	Sales charges not deducted prior to transaction	Sales charges not deducted after transaction	Accumulated sales charges	Capital losses arising from sales charges
20XX-01-01	$100,000 initial Deposit Negotiated rate of 3%	$0	$97,000	$0	$97,000	$0	$0	$3,000	$3,000	**$0**
20XX-05-05	$10,000 withdrawal	$110,000	$100,000	$97,000	$88,182	$1,182	$3,000	$2,727	$3,000	**($273)[25]**
20XX-06-06	$20,000 Deposit Negotiated rate of 3%	$110,000	$129,400	$88,182	$107,582	$0	$2,727	$3,327	$3,600	**$0**
20XX-09-09	$100,000 withdrawal	$115,000	$15,000	$107,582	$14,032	$6,450	$3,327	$197	$3,600	**($3,130)[26]**

Capital loss for 20XX arising from sales charges (net capital loss of $1,702)	**($3,403)**
Capital gain for 20XX arising from withdrawals (taxable capital gain of $3,816)	**$7,632**

C. Surrender charges[23]

Surrender charges paid by the Unit holder on withdrawals are deductible as capital losses at the time of surrender.[24]

Date	Transaction	Market value before transaction	Market value after transaction	ACB before transaction	ACB after transaction	Capital gains (losses) arising from withdrawals	Surrender charges	Capital losses arising from surrender charges
20XX-01-01	$100,000 initial Deposit	$0	$100,000	$0	$100,000	$0	$0	**$0**
20XX-05-05	$10,000 withdrawal (No surrender charges due to the "up to 12% of Units" exemption)	$110,000	$100,000	$100,000	$90,909	$909	$0	**$0**
20XX-09-09	$100,000 withdrawal ($4,900 in surrender charges)	$115,000	$15,000	$90,909	$11,858	$20,949	$4,900	**($4,900)**

Capital loss for 20XX arising from surrender charges (deductible capital loss of $2,450)	**($4,900)**
Capital gain for 20XX arising from withdrawals (taxable capital gain of $10,929)	**$21,858**

For 20XX, the Unit holder can deduct the $4,900 capital loss arising from surrender charges from the $21,858 capital gain ($909 + $20,949) realized on the withdrawals.

[20] This example does not take into consideration income and other capital gains and losses that could have been allocated by the Funds in the year.
[21] Series 5A, 3A and 1A.
[22] Capital losses are deductible only against capital gains.
[23] This example does not take into consideration income and other capital gains and losses that could have been allocated by the Funds in the year.
[24] Capital losses are deductible only against capital gains.

[25] Lesser of 1) $3,000 × ($10,000 / $110,000) = $273 or 2) $3,000 – $0 = $3,000
[26] Lesser of 1) $3,600 × ($100,000 / $115,000) = $3,130 or 2) $3,600 – $273 = $3,327

D. Guarantee Fees (additional Guarantee fees)[27]

Tax authorities haven't yet ruled on the tax treatment of Additional Guarantee Fees payable under GIF Contracts. We believe our proposed tax treatment is appropriate. However, Unit holders are responsible for ensuring any such fees are properly reported on their income tax returns. Desjardins Insurance cannot be held liable for any consequences relating to the tax treatment of these fees should the authorities decide on a different treatment. Please consult your tax advisor.

Additional Guarantee fees paid by the Unit holder after December 31, 2014, should be deductible as capital losses when a guarantee payment is made or when the Contract terminates.[28]

Furthermore, additional Guarantee fees paid by surrendering Units may generate capital gains or losses and will have an impact on the ACB, just like any other withdrawal.

For 20XX, the Unit holder will need to report a capital gain of $45 ($10 + $15 + $20) and a capital loss of $5 arising from the withdrawals made to pay Additional Guarantee Fees.

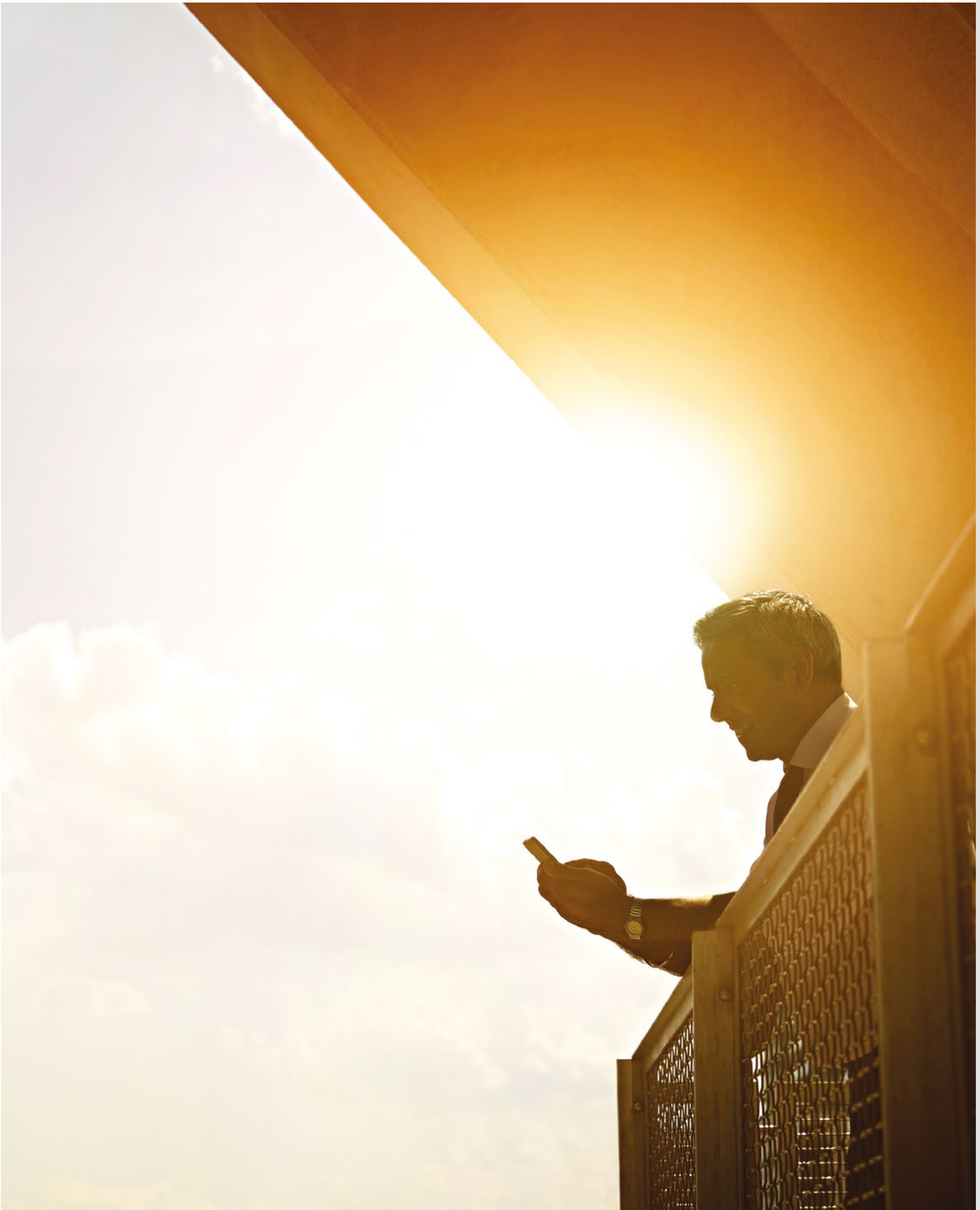
For 20XY, they will be able to deduct a capital loss of $640 ($630 + $10) arising from the Additional Guarantee Fees and the withdrawals made to pay these fees from the capital gain of $600 on the surrender of the Contract and any other capital gains from the year. The balance of the capital losses can then be deducted from the net capital gains either in any of the preceding three years or in any future year.

Date	Transaction	Market value before transaction	Market value after transaction	ACB before transaction	ACB after transaction	Capital gains (losses) arising from withdrawals, including those made to pay additional Guarantee fees	Accumulated additional Guarantee fees	Capital losses arising from additional Guarantee fees
20XX-01-08	$100,000 initial Deposit	$0	$100,000	$0	$100,000	$0	$0	**$0**
20XX-08-31	$110 in Additional Guarantee Fees	$110,000	$109,890	$100,000	$99,900	$10	$110	**$0**
20XX-09-30	$115 in Additional Guarantee Fees	$115,000	$114,885	$99,900	$99,800	$15	$225	**$0**
20XX-10-31	$120 in Additional Guarantee Fees	$120,000	$119,880	$99,800	$99,700	$20	$345	**$0**
20XX-11-30	$100 in Additional Guarantee Fees	$100,000	$99,900	$99,700	$99,600	$0	$445	**$0**
20XX-12-12	$95 in Additional Guarantee Fees	$95,000	$94,905	$99,600	$99,500	($5)	$540	**$0**
20XY-01-31	$90 in Additional Guarantee Fees	$90,000	$89,910	$99,500	$99,400	($10)	$630	**$0**
20XY-02-22	Contract end	$100,000	$0	$99,400	$0	$600	$630	**$630**

Capital gain for 20XX arising from withdrawals made to pay Additional Guarantee Fees (taxable capital gain of $23)		**$45**
Capital loss for 20XX arising from withdrawals, made to pay additional guarantee fees (net capital loss of $295)		**($5)**

Capital loss for 20XY arising from Additional Guarantee Fees (net capital loss of $315)		**($630)**
Capital loss for 20XY arising from withdrawals made to pay Additional Guarantee Fees (net capital loss of $5)		**($10)**
Capital gain for 20XY arising from surrender of the Contract (taxable capital gain of $300)		**$600**

[27] This example does not take into consideration income and other capital gains and losses that could have been allocated by the Funds in the year.
[28] Capital losses are deductible only against capital gains.



Choosing Desjardins...

is choosing Desjardins Group, the largest cooperative financial group in Canada whose financial stability is recognized by the following credit ratings which are comparable, if not superior to those of the five largest Canadian banks and insurance companies:

- Standard and Poor's A+
- Moody's Aa2
- Dominion Bond Rating Service AA
- Fitch AA-

desjardinslifeinsurance.com

Desjardins
Insurance
LIFE • HEALTH • RETIREMENT

The Contract and Information Folder contains important information on the DFS Guaranteed Investment Funds. Please note that our defined terms can be found in the Contract and Information Folder. Please read it carefully before investing. DFS Guaranteed Investment Funds is a registered trademark owned by Desjardins Financial Security Life Assurance Company. DFS Guaranteed Investment Funds are established by Desjardins Financial Security Life Assurance Company.

DFS stands for Desjardins Financial Security.

Desjardins Insurance refers to Desjardins Financial Security Life Assurance Company.

100% This document is printed on Rolland Enviro paper.

15200E (2017-12)