Capital gains and losses in a taxable (non-registered) plan



Do you know that your investment in non-registered plan can generate capital gains and losses – even when you haven't sold your fund(s)?

Understanding how your funds work and different ways that they can generate capital gains or losses may help you to make investment and tax planning decisions.

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Segregated funds and capital gains and losses

A capital gain is the profit that you realize when you sell an investment for more than its average cost. A capital loss is the loss that you realize when you sell an investment for less than its average cost.

To understand how your investment in a non-registered plan can generate capital gains or losses, it's important to understand how the funds available in your plan(s) are structured.

The funds available in your plan are called segregated funds. Segregated funds are offered by insurance companies (like Sunlife). The assets in the segregated funds are held separately from the insurance company's assets (hence the term "segregated").

Segregated funds are very similar to mutual funds. Both types of funds combine assets from many investors and the assets are managed by a professional fund manager.

Sunlife segregated funds don't typically invest directly in stocks, bonds and other investments. Instead, a segregated fund typically holds units of an underlying pooled or mutual fund. For example, if a fund is called the XYZ Canadian Equity Segregated Fund, it invests in units of the underlying XYZ Canadian Equity fund.

There are three aspects to your investment:

1. You (the investor who holds units of the segregated fund);
2. The Sunlife segregated fund (that invests in units of the underlying fund);
3. The underlying fund (that invests in stocks or bonds).

Transactions at any (and all) of the levels described above may result in a capital gain or loss. Thus, there are three ways to incur capital gains or losses, as outlined on the following pages.

Your non-registered (taxable) plan differs from other "registered" (non-taxable) plans (like a registered retirement savings plan – RRSP – or a pension plan) in a key way – there's no tax-sheltering of investment income. This means that all of your non-registered plan investment earnings – interest, dividends, foreign non-business income and capital gains – are taxable each year.



Three ways to incur capital gains or losses

1. You sell your segregated fund units.
2. The Sunlife segregated fund sells units of the underlying fund.
3. A fund manager sells the securities within the underlying fund.

1. You sell your segregated fund units

When you sell or transfer segregated fund units and the unit value is higher than the average cost of your purchases, it generates a capital gain. If the unit value at the time of the sale or transfer is lower than the average cost of your purchases, it generates a capital loss.

2. The Sunlife segregated fund sells units of the underlying fund

If some investors leave a segregated fund at the same time, Sunlife may have to sell units of the underlying fund to pay those investors. This may happen when:

- A large number of members redeem their investment at the same time.
- A plan sponsor removes a segregated fund from their plan.
- Sunlife closes the segregated fund.

The sale of the underlying fund units can generate a capital gain or loss.

Sunlife will first allocate the gain or loss to all members who sold their segregated fund units. Then we'll allocate the remaining gain or loss to other members who hold segregated fund units as of December 31. The gain or loss allocation is based on the number of units you hold throughout the year. If you hold units for only part of the year, your share of gains or losses will be pro-rated.

3. The underlying fund has trading activities that generate a gain

The underlying fund may generate a capital gain as a result of fund manager's trading activities. The fund manager distributes this capital gain to investors in the underlying fund (including Sunlife's segregated fund). Sunlife then allocates the gain to all members who have money in the segregated fund, based on their unit holdings on the distribution date. The capital gain distribution won't have any tax impact for members in Registered (non-taxable) plan(s).

The trading activities may include sale or purchase of securities to add new holdings or adjust the allocation in existing holdings.

You may also get capital gains or losses allocation from special distributions. Fund managers may distribute one-off payment to investors in the underlying funds (including Sunlife's segregated funds). These payments/distributions are separate from regular income distributions. They usually result from extraordinary financial events, such as significant gains or changes in the underlying fund.

Special Distributions may happen under various circumstances, such as:

- A fund realizes significant capital gains from selling investments.
- During a fund restructuring where the fund manager sells a large number of securities.
- Large investors in the underlying fund redeem their investments.
- Unexpected events like mergers, acquisitions, or legal settlements involving the underlying fund's investments.

How and when will I know how much capital gain or loss I have?

Sunlife provides the applicable tax slip(s) in February or March following the end of a calendar year. Your tax slip(s) will also reflect all income generated by your non-registered plan investments (interest, dividends, foreign non-business income).

Sunlife does not communicate capital gains with members in non-registered plans throughout the year. This is because trading activities in segregated funds or their respective underlying funds happen throughout the year. Thus, we have no way of knowing the actual capital gains or losses until the year is over.



How does tax on capital gains apply?

Example 1
When you have a capital gain, you only include 50% of the gain in your taxable income. So, if you sold your segregated fund and had a capital gain of $1,000 in 2026, you would include $500 of this amount in your taxable income. If you had a marginal tax rate of 40%, the tax on your capital gain would be $200 (40% of $500).

What is my taxable capital gain?	
Capital gain	$1,000
Taxable income, 50%	$500
Tax you pay on your capital gain	**$200**
Assuming a marginal tax rate of 40%	

Example 2
You can also have a capital gain even when you don't sell your investment, as highlighted above. Here's an example of what might happen:

- A large number of investors left a Sunlife segregated fund in 2026. The segregated fund sold underlying fund units to pay these investors. If you still invested in the segregated fund as of December 31, 2026, Sunlife allocates your proportionate share of capital gains for 2026. In February/March 2027, you receive a tax slip that shows a capital gain of $20,000 to be reported on your 2026 income tax return. ***Remember – you didn't sell any units in 2026. This capital gain was solely from the segregated fund selling units of the underlying fund for a gain***.
- You must pay tax on $10,000 (50% of the $20,000 gain). If your highest marginal tax rate is 40%, then you'll pay $4,000 in taxes (40% of $10,000).

What do I do if there are capital losses?

You can reduce the capital gains tax if you have capital losses. You can use capital losses to:

- Offset capital gains realized during the year;
- Offset capital gains that you have reported in the past three years; or
- Reduce future capital gains.

While no one wants to take a loss on their investments, the tax laws recognize that it's your **net** position that matters in terms of capital gains and losses. Therefore, you can use capital losses to offset capital gains.

The Better News - You will likely pay less tax later

- The tax reporting of the capital gains or losses is essentially a timing issue. When you have a capital gain, your Adjusted Cost Base (ACB) increases by the amount of the gain. Think of your ACB as cost or 'book value' of your investment. The higher ACB will reduce the size of the capital gain and the tax you would otherwise incur in the future. ***You have in effect "pre-paid" tax on these gains now, so you will pay less tax when you ultimately sell your investments later***.

Let's assume that:

- The ACB of your segregated fund units on December 31, 2026 was $50,000, and the market value was $60,000.
- You had a capital gain of $20,000 in 2026.
- Your new ACB is $70,000 because the capital gain is added to your ACB ($50,000 + $20,000 = $70,000), while your market value remained at $60,000.

This means you have a $10,000 of unrealized capital loss position for tax purposes, even though they are actually worth more than you bought them for.

If you sell your segregated fund units in the future at $60,000 (assuming the market value of your investment remains unchanged), you would incur a capital loss of $10,000. You can use this capital loss to offset any capital gains in the previous three years or offset any future capital gains.

If we didn't allocate the $20,000 capital gain to you in 2026, your ACB would remain at $50,000. As a result, you will incur a capital gain of $10,000 when you sell your investment for $60,000 ($60,000 - $50,000).

Questions?

We recommend you talk with a tax professional for advice specific to your situation and taxable investments.

For other queries, you may contact Sunlife 's Customer Care Centre from 8 a.m. to 8 p.m. ET Monday to Friday.

- If you are in an employer group plan, call: **1-866-634-4840**
- If you are in a Choices plan, call: **1-877-805-9303**

Determining what your cost is – the Adjusted Cost Base (ACB)

The ACB is the method for determining your average "cost" for tax purposes when you sell an investment, and for determining whether you've incurred a gain or loss on that investment. In many cases (but not all), the ACB is simply the average price you paid for your investment.

For example, if you bought 100 units of a fund at $10 per unit, your ACB is equal to your total cost ($1,000) divided by the number of units you purchased (100). So the ACB per unit would be $1,000 ÷ 100 = $10.

100 X $10 = $1,000 (Total cost) ÷ 100 = $10 (ACB per unit = your average cost per unit)

If you later bought 100 units of the fund at $12 per unit (for a cost of $1,200), this would change your ACB. You now have 200 units, but with a total cost of $2,200. So the ACB per unit would be $2,200 ÷ 200 = $11.

100 X $10 = $1,000

100 X $12 = $1,200

New ACB per unit = $2,200 ÷ 200 = $11

Other events, such as the allocation of income by the fund, can also impact your ACB. For this reason, Sunlife tracks the ACB of your investments, so this calculation is done for you. You can find the ACB on mysunlife.ca (go to "Check on Account" then select "Balances"). The ACB is available next to the fund(s) you have in the Non-Registered plan.

In addition, we report all income generated by your non- registered plan investments – interest, dividends, foreign non-business income and capital gains – on the appropriate tax slip that you should receive in February and March.

