NATIONAL POST
FINANCIAL POST

APRIL 22, 2014

Kim Inglis, BCom, CIM, PFP, FCSI, AIFP

Corporate class funds offer tax efficiency

ETFs now offering the structure

As Benjamin Franklin said, "in this world nothing can be said to be certain, except death and taxes." Fortunately for some Canadian investors, the latter can be controlled. For those investing outside their registered plans, corporate class funds offer a tax efficient means of investing.

Many mutual fund companies offer two versions of their funds: traditional and corporate class. Generally speaking both are managed in the same fashion and hold the same investments but they are structured differently, with the corporate class structure offering greater tax efficiency.

Standard mutual funds are structured as trusts but corporate class funds are corporations. The difference is that the corporate class structure can hold different funds as a part of a single corporate tax entity, whereas a mutual fund trust generally contains a single fund. The corporate structure enables tax-free switching, tax-efficient distributions, and flexible rebalancing; ultimately enhancing the power of compounding.

Under the corporate class structure, investors can switch between funds without triggering capital gains or losses. Investors are only subject to taxable dispositions when they sell their position in the corporation. Those with large gains can control realization of the gain or loss to fit their personal tax planning. The ability to switch also means investors can rebalance regularly without concern for tax consequences.

From a tax efficiency standpoint the corporate class structure allows capital gains or losses to be spread across all funds in the corporation, which tends to minimize the need for distributions. When distributions are paid, they are classified as capital gains and/or dividend income, both of which offer preferential tax treatment over interest income. Ultimately the tax deferred structure lends itself to better compounding.

Corporate class funds best serve those who truly require the tax efficiency, and are often employed by incorporated business owners or high net worth investors who have maximized their registered plans. Seniors concerned with OAS clawbacks are another common group.

It is important to choose carefully among the corporate class providers. Investors should look for companies with a solid selection of funds and, since a key feature of the corporate class structure is the tax-free switching, investors should be sure they actually want to hold the funds under the structure. In terms of product offerings, CI Investments is the largest of its kind in Canada, with over 60 funds and $20 billion in assets.

One disadvantage of corporate class funds is a generally higher price tag than their traditional mutual fund trust counterparts. However, the corporate class structure is now available through low cost exchange-traded funds (ETFs). Purpose Investments recently brought out a corporate class

Corporate class funds offer tax efficiency

Continued from Page 1

structure for its ETFs, the first of its kind in Canada. Although Purpose currently has only a handful of product offerings, they are a growing company that will likely have more in the future.

Investors need to weigh the pros and cons of corporate class mutual funds versus the new corporate class ETFs and, in addition to product offerings and cost, consider whether any corporate class funds are even suitable for their personal tax situation. An investment should never be based purely on tax merits.

Kim Inglis, CIM, PFP, FCSI, AIFP is an Investment Advisor & Portfolio Manager. The views in this column are solely those of the author. www.kiminglis.ca