

UNDERSTANDING MUTUAL FUND CORPORATIONS

How do mutual fund corporations work?

Many people spend time and effort fine-tuning their RSP by switching from one mutual fund to another. Applying these practices in non-registered (open) accounts, however, can create unwanted exposure to taxation by triggering capital gains.

But there is an investment vehicle that allows re-balancing and diversification in non-registered accounts while deferring the capital gains taxes that can eat away compounded gains: a mutual fund corporation.

A few important considerations

It is important to understand that there are benefits as well as disadvantages associated with mutual fund corporations, just as there are with other investments.

You may be able to use a mutual fund corporation to defer capital gains taxes on non-registered investments – investments held outside the tax shelter of an RSP. However, remember that any income or capital gains generated within a mutual fund corporation may still be taxable to you when paid out as distributions.

The decision to invest in a mutual fund corporation should not be based solely on tax considerations. Rather, it should be based on the merits of the investment, and its suitability to your objectives and risk tolerance.

Talk to your advisor to learn more about various mutual fund structures and the growth potential and tax considerations involved with each type of investment.

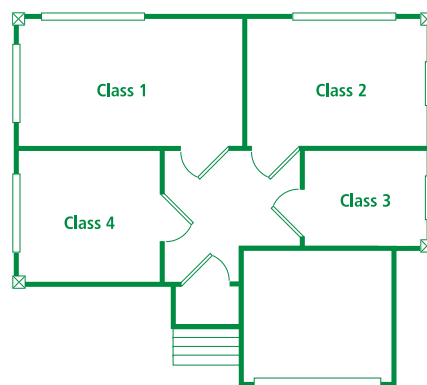
Investing within a mutual fund corporation allows you to switch your shares from one Class to another without realizing a taxable capital gain at the time of the switch. The switch is not considered to be a “disposition,” or a taxable event – as it would be when switching your investment between individual mutual funds outside the mutual fund corporation. The term “Class” may be used to indicate when mutual funds are held within a mutual fund corporation.

“There’s no place like home”

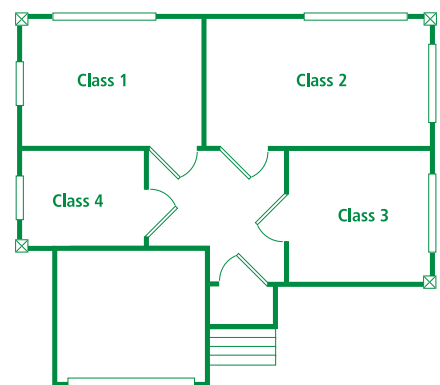
Think of a mutual fund corporation as a house, where each Class represents a different room. Within the house, investors can walk from room to room by converting shares of one Class into shares of another. Only when you leave the house – or redeem shares of a Class for cash or for an investment outside the mutual fund corporation – is a taxable disposition triggered.

Using the example below, if you switch assets within Mutual Fund Corporation A (the house on the left) between any Class, no taxes are payable. It is only when you switch assets out of Mutual Fund Corporation A to Mutual Fund Corporation B, or move outside the corporation, that there is a disposition for tax purposes.

Mutual Fund Corporation A



Mutual Fund Corporation B



The benefits of tax deferral can be significant

When you keep your investments inside a mutual fund corporation and shelter it from capital gains taxation, you stand to enjoy valuable benefits. Below, the benefits of a mutual fund corporation are demonstrated using a hypothetical comparison between an investment held outside a mutual fund corporation and an investment of equal value held within a mutual fund corporation. This example assumes the investment doubles every six years (annual compound rate of return of 12.25%) and a marginal tax rate of 40% is applied.

The power of tax-deferred compounding is readily apparent. The after-tax proceeds of \$66,000 from the mutual fund corporation clearly outweighs the \$58,320 proceeds from investments held outside a mutual fund corporation. In the first example, taxes of \$2,000[▲] in year 6 and \$3,600 in year 12 would not have been paid if the investment was held inside the shelter of the mutual fund corporation.

Outside a mutual fund corporation

Taxes are triggered by switching or redeeming an investment.

Transactions	What takes place	Today	Year 6	Year 12	Year 18
Purchase Investment A	Original investment	\$10,000			
	End of period value		\$20,000		
Switch from Investment A to Investment B^{††}	Taxes owed [◇]		\$2,000 [▲]		
	Amount re-invested into Investment B		\$18,000		
Switch from Investment B to Investment C^{††}	End of period value			\$36,000	
	Taxes owed [◇]			\$3,600	
	Amount re-invested into Investment C			\$32,400	
Redemption from Investment C[^]	End of period value				\$64,800
	Taxes owed [◇]				\$6,480
	Total after taxes				\$58,320

Within a mutual fund corporation Taking advantage of tax deferral.

Transactions	What takes place	Today	Year 6	Year 12	Year 18
Purchase Class 1	Original investment	\$10,000			
	End of period value		\$20,000		
Switch from Class 1 to Class 2[∞]	Taxes owed		–		
	Amount re-invested into Class 2		\$20,000		
Switch from Class 2 to Class 3[∞]	End of period value			\$40,000	
	Taxes owed			–	
	Amount re-invested into Class 3			\$40,400	
Redemption from Class 3[^]	End of period value				\$80,000
	Taxes owed				\$14,000
	Total after taxes				\$66,000

◇ In the hypothetical investment above, it is assumed taxes are paid from the gains of the investment before reinvesting into another investment.

▲ Taxes owed were calculated as follows: $(\$20,000 - \$10,000) \times 50\%$ (taxable capital gains) $\times 40\%$ (marginal tax rate) = \$2,000. †† A switch is considered a redemption and purchase. ^ Upon redemption an investor keeps the proceeds. ∞ A switch is considered a redemption and purchase within the same mutual fund corporation.

This is an example only. The rates of return illustrate the effects of compound growth only and are not intended to reflect future values of any funds or returns on investments in any funds offered by AIM Trimark Investments.

AIM Trimark Canada Fund Inc.

AIM Trimark Core Canadian Balanced Class
AIM Trimark Core Canadian Equity Class
Trimark Diversified Income Class
AIM Canadian First Class
AIM Canadian Premier Class

AIM Trimark Global Fund Inc.

AIM Trimark Core American Equity Class
AIM Trimark Core Global Equity Class
AIM Short-Term Income Class
Trimark Global Balanced Class
Trimark U.S. Companies Class
AIM American Mid Cap Growth Class
Trimark U.S. Small Companies Class
Trimark Select Growth Class
AIM Global Theme Class
Trimark Global Endeavour Class
AIM International Growth Class
AIM European Growth Class
AIM Global Health Sciences Class
AIM Global Technology Class

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