

# wealth planning

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## Understanding fund distributions

Mutual funds make distributions at year-end. Many investors find those payments confusing. Here's a simple explanation.

### What they are

Year-end distributions occur when the earnings a mutual fund received during the year exceed its tax-deductible expenses and capital losses. To avoid being taxed on these earnings, many fund companies distribute them to unit holders at year-end.

### How they work

For mutual funds held within registered accounts, tax on distributions is deferred until the earnings are withdrawn. However, for non-registered accounts, taxes apply in the year in which the distributions are received.

Although it may seem surprising, a fund that lost money may still pay a taxable distribution. While the fund as a whole may have reported a loss, it may have sold individual securities that showed gains. The distributions to unitholders reflects those gains.

### Why they matter

If you are buying a mutual fund for your non-registered portfolio at the end of the year, and the fund pays out a distribution, you will be taxed even though you didn't own the units when the gains were earned. Distributions are taxable even if they are automatically reinvested in additional fund units rather than received as cash.

**If you have further questions regarding fund distributions or any other financial matter, we're here to help. Give us a call or email today.**

At DundeeWealth, we believe that having a financial plan forms the foundation necessary to grow, protect and transfer wealth from one generation to the next. We are committed to provide information on a variety of financial planning topics so our clients are able to make informed decisions.

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