PICTON
INVESTMENTS

A SIMPLE GUIDE TO INVESTMENTS AND TAXES

WHY TAX MATTERS | TYPES OF INCOME | WHERE TO HOLD ASSETS | QUESTIONS TO ASK

Most investors know what their portfolio earns. Fewer know what it keeps — after tax. This guide explains, in plain language, how investment returns are taxed in Canada, and a few straightforward ideas that can make a real difference to your long-term wealth.

01.

WHY TAX IS WORTH THINKING ABOUT

There's an opportunity most investors may not have fully explored

For investors in higher income brackets, the tax on investment returns can sometimes be one of the largest costs in a portfolio comparable to, or even larger than, management fees and fund expenses combined.

Gross returns vs. Net returns — what's the difference?

GROSS RETURN

The return your portfolio earns before any fees or taxes are applied. This is the number most performance reports show. It's a useful starting point, but not the full picture.

8% EARNED

The number you may see on performance report

NET RETURN

The return after fees and taxes is what actually stays in your portfolio to compound. Two investors can earn the exact same gross return and end up with very different results, depending on how those returns are taxed.

4-6% KEPT

The number that builds your wealth*

The opportunity

Here's what makes this genuinely interesting: improving your after-tax return may not necessarily require taking on more investment risk, switching strategies, or making dramatic portfolio changes. It may simply involve being more intentional about how your investments are structured - the type of income they generate, where they're held, and which investment structure is used.

A Good Starting Question for Your Next Advisor Meeting:

What is the estimated after-tax return on my portfolio? Are there any straightforward ways we could improve that without changing my overall risk profile?

*same 8% earned - varies by income type. For illustrative purposes only. Actual performance results may be significantly different based on your investments.
For general educational purposes only. Not tax advice. Individual circumstances vary. Please consult a qualified professional.

02.

NOT ALL INVESTMENT RETURNS ARE TAXED THE SAME WAY

How you earn a return can matter as much as how much you earn

In Canada, different types of investment income are taxed at different rates. This may be one of the most important and most underappreciated aspects of building long-term wealth. Understanding the spectrum is the starting point for any tax-smart conversation with your advisor.

The main types of investment income in Canada

Income Type	Common Examples	Approx. Effective Rate (average across Canada)	Tax Efficiency
Interest & Foreign Income	GICs, savings accounts, bonds, foreign dividends	~44.50% up to ~54.80%	Lower
Non-Eligible Dividends	Dividends from private Canadian corporations	~36.82% up to ~50%	Moderate
Eligible Dividends	Dividends from public Canadian corporations	~28.33% up to ~46.20%	Good
Capital Gains	Growth from selling investments (only half is taxed)	~22.25% up to ~27.40%	Most Efficient

For illustrative purposes only. Rates are approximate, based on top Ontario marginal rates as of 2026. Individual circumstances may vary. Please consult a qualified tax professional.

What this means in practice

Two portfolios with the same gross return can produce very different after-tax results - simply because one generates more **capital gains** and the other generates more **interest income.**

THE COMPOUNDING EFFECT

Tax saved today keeps working for you

Capital that isn't paid in tax stays invested uninterruptedly and continues to compound in your portfolio. Over a long period, this effect can be one of the most powerful levers for investors.

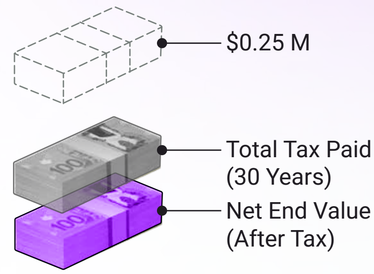
Shifting the mix can add up over time

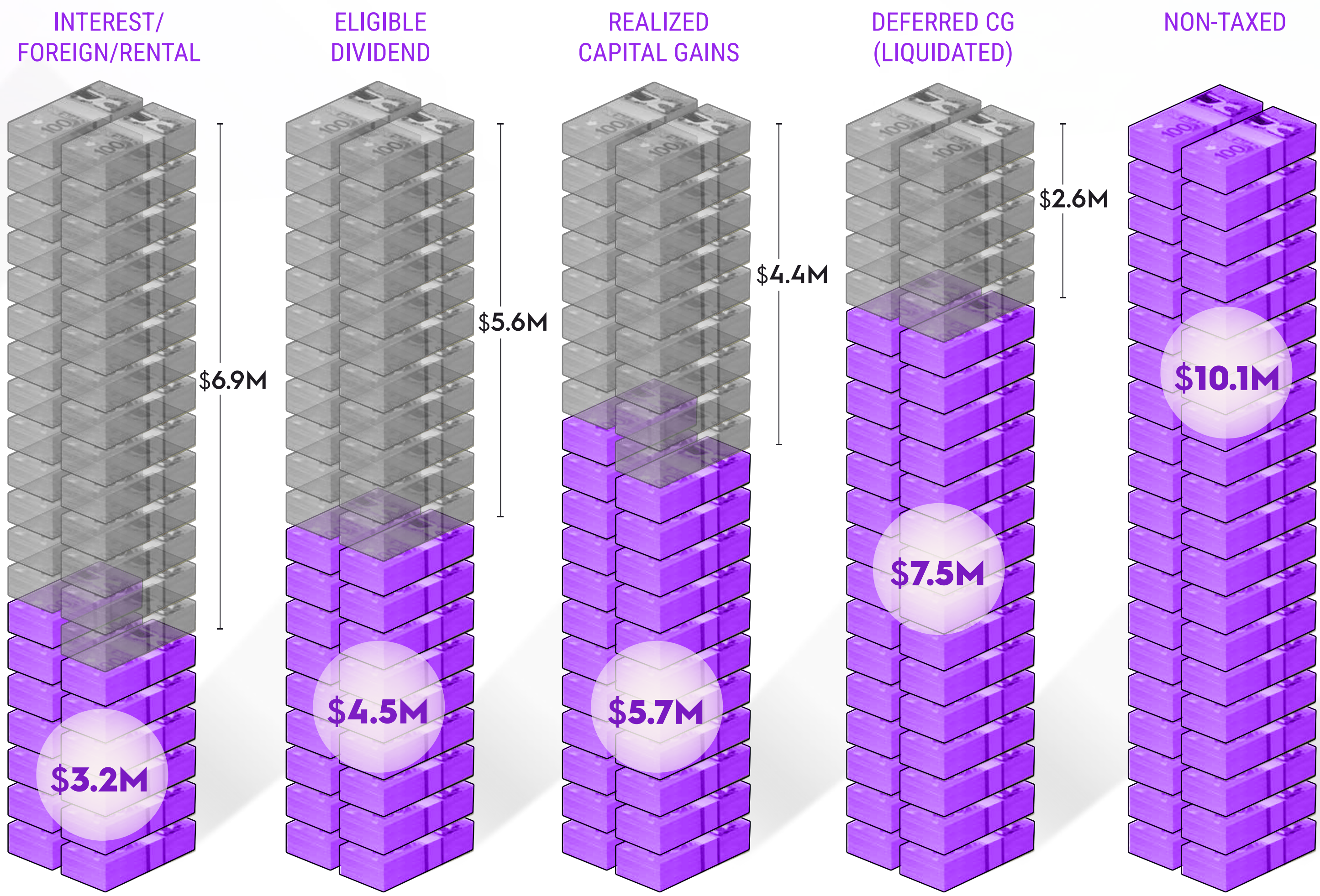
Working with your advisor to shift toward more tax-efficient income types - where it makes sense for your goals - can potentially improve your after-tax outcome meaningfully over a longer-term horizon.

INVESTMENTS & TAXES XPLAINED:

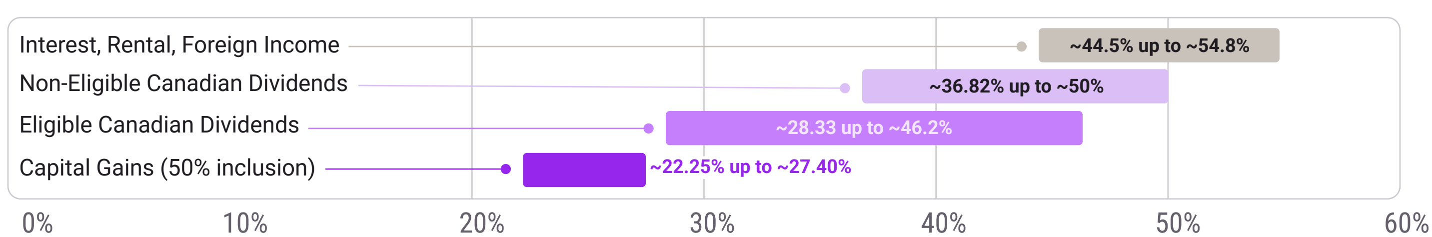
WHAT HAPPENS TO $10 MILLION OF INVESTMENT GAINS WHEN TAXES ERODE COMPOUNDING?

Two Canadians that invested $1 million and earned the same 8% annualized returns over 30 years could end up with vastly different results depending on how their investments are taxed. Despite identical **gross returns**, their net returns after taxes vary significantly depending on the type of income.





TAX RATE RANGE BY INCOME TYPE



Source: Source: Picton Mahoney Asset Management. For illustrative purposes only. Based on tax rates for an Ontario resident in the highest marginal tax bracket in 2026. This content is for informational purposes only and is not intended to provide specific financial, investment, tax, legal or accounting advice specific to any person, and should not be relied upon in that regard. Tax, investment and all other decisions should be made, as appropriate, only with guidance from a qualified professional.

Note: Effective tax rate on capital gains has accounted for the 50% inclusion for taxable incomee.

03.

WHERE YOU HOLD YOUR INVESTMENTS CAN MAKE A DIFFERENCE

Sometimes it's not what you own, but also where you hold it

If you hold investments across different account types such as a TFSA, RRSP, and a non-registered account, the account you put each investment in can affect how much tax you pay on the returns.

A simple framework — matching investments to account types

	Potentially a good home for
Tax-Free Growth **TFSA** Withdrawals are always tax-free	Your highest-growth investments. Because all growth and income comes out completely tax-free, the more an investment grows, the more valuable this shelter becomes.
Tax-Deferred Growth **RRSP/RRIF** Tax deferred until withdrawal	Investments that generate regular income such as bonds or interest-paying strategies. Holding these inside an RRSP shelters the income from annual tax, so more of it compounds. You pay tax later, at withdrawal.
Taxable Each Year **NON-REGISTERED** Income taxed as earned	Investments that already generate tax-efficient returns such as Canadian equities (eligible dividends) or capital gains-focused strategies. Since tax applies regardless, prioritize assets here that are naturally tax-efficient.
Where Applicable **CORPORATE ACCOUNT** Subject to corporate rules	Tax-efficient strategies - the right approach depends on your corporate structure and income levels. Your advisor and accountant can help determine what works best for your specific situation.

Something Worth Knowing

You don't necessarily need to change what you invest in to improve your after-tax outcome. Sometimes, moving an existing investment to a more appropriate account type can make a meaningful difference. It's a practical topic worth discussing with your advisor.

04.

WHAT TO LOOK FOR IN A TAX-SMART INVESTMENT STRATEGY

A few good questions can help you understand what you're really getting

Is this strategy tax-efficient, tax-aware, or both?

A tax-aware strategy actively manages for tax outcomes and may be personalized to your situation. A tax-efficient strategy naturally produces lower tax drag due to how it's structured but may not actively optimise for your specific circumstances. The best strategies can do both.

What investment structure does it use, and what does that mean for my taxes?

The legal structure of an investment matters. The four main options in Canada include mutual fund trusts, mutual fund corporations, limited partnerships, and separately managed accounts. They handle gains, losses, and income differently. Some allow tax benefits to flow through to you personally; others keep them inside the fund.

What tax assets does the strategy generate? Can I use them?

Some strategies are able to generate tax losses that can be used to offset gains on your personal tax return. Others keep those losses locked inside the fund. Understanding the difference with your advisor and tax professional can help you get the most from every strategy you hold.

Is the strategy long-only or long-short? And why does that matter?

A long-only strategy can only generate tax losses when the market falls. A long-short strategy holds both long and short positions, which creates more consistent opportunities to harvest losses across different market environments. This can help sustain that advantage over a longer period of time.

Good to Keep in Mind

These questions aren't about finding the most complex strategy - they're about making sure the approach you choose is genuinely designed to help you keep more of what you earn. Your advisor can walk you through how any specific strategy addresses each of them.

TALK TO YOUR ADVISOR

Is your portfolio as tax-smart as it could be?

How is my portfolio income characterized?

What percentage of my returns comes from interest income versus capital gains? Is there an opportunity to shift that mix toward more tax-efficient sources?

Are my assets held in the most tax-efficient accounts?

Could any of my current investments be better placed? For example, moving interest-generating assets into my RRSP, or growth assets into my TFSA?

Does my investment structure let tax benefits flow to me?

Are the tax losses generated by any of my strategies available to me personally? Or are they locked inside the fund where I can't use them?

What could a more tax-smart approach mean for me?

Over 10, 20, or 30 years - what might a modest improvement in my after-tax return mean for my overall wealth? Can we model what that looks like?

A Final Thought

Most investors may have more control over their after-tax outcomes than they realise. The ideas in this guide are not complicated. They are meant to be conversation starters with your financial advisors to help achieve better net returns and greater certainty for your investments.

Disclosure

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