

INVESTMENT INCOME TYPES



Interest Income

- Investors can be lenders of capital. The lender receives interest income as compensation.
- Typical investments are bonds or GICs.



Dividend Income

- Investors can own shares of a business that is incorporated.
- They receive a portion of the profits of the business that can be based on a number of factors, such as a predetermined % of the value of the shares they own (preferred shares) or the number of shares they own (common shares). Generally, any money that is earned by the corporation and is distributed to shareholders is called a dividend.



Capital Gains or Losses

- When an investor owns an asset, such as real estate, shares in a corporation or units of a mutual fund, and sells the asset at a profit or loss, they realize a capital gain or loss.



Return of Capital

- Investors can receive regular distributions from an investment (for example, mutual funds, trust units, REITs or annuities), representing its expected earnings.
- At the end of the year, the sum of the distributions is compared to the total earnings of the investment; any excess is considered to be a return of capital.



Example

- David invests \$10,000 in a mutual fund that distributes \$100 per month. At the end of the year, David is advised that his share of the fund's earnings are as follows:

Interest income	= \$400
Dividend income	= \$350
<u>Capital gains</u>	<u>= \$200</u>
Total	= \$950

- Since David's total distributions are \$1,200, his return of capital is equal to
 $\$1,200 - \$950 = \$250$.
- This return of capital lowers the Adjusted Cost Base (ACB) of David's investment to \$9,750. If David sells the investment for \$12,000, he will realize a capital gain of
 $\$12,000 - \text{ACB } (\$10,000 - \$250) = \$2,250$.



Special Considerations

- Capital gains may be realized (the investment is sold for a larger amount than paid when bought) or unrealized (the investment theoretically increases in value but is not sold, so the increase is not "realized" by the investor).
- Distributions may be reinvested rather than paid out, which increases the size, \$ value and the ACB of the investment.

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