MAKING YOUR INVESTMENTS WORK HARDER

Tax-Efficient Income Strategies

When it comes to investment income in a non-registered account, not all dollars are taxed equally. A dollar of interest income can cost you over 53 cents in tax at the highest bracket in Ontario — while a dollar characterized as return of capital is generally not taxable in the year you receive it.

THE TAX DIFFERENCE — WHY IT MATTERS

Type of Income Received	Approx. Tax Rate (Ontario, Top Bracket)	Tax on $10,000 Received	You Keep
Interest income	53.5%	$5,350	$4,650
Canadian eligible dividends	39.3%	$3,930	$6,070
Capital gains	26.8%	$2,680	$7,320
Return of Capital (ROC)	0% (deferred)	$0	$10,000*

**Return of Capital reduces your Adjusted Cost Base (ACB). Tax is deferred — not eliminated — and becomes payable as a capital gain when you eventually sell your investment.*

STRATEGY 1: T8 SYSTEMATIC WITHDRAWAL PROGRAMS

What is a T8 series fund? A T8 is not a different type of investment — it is a special **distribution series** of a regular mutual fund (balanced, equity, or income). The underlying portfolio is the same as any other series of the same fund. What's different is how cash is paid out to you.

The "8" refers to a **targeted annual cash distribution rate of 8% of the fund value** — paid monthly, so roughly 0.67% per month. In a non-registered account, a significant portion of these cash payments is often characterized as ROC, which means **tax may be deferred on that portion in the year you receive it**. The final tax breakdown may also include dividends, capital gains, interest, or other income depending on the fund’s results for the year.

What about dividends and capital gains? Separately from the regular cash distributions, the underlying fund may also earn investment income — dividends from the stocks it holds, and realized capital gains when positions are sold. These amounts can be distributed to you in addition to the 8% target cash flow, and are taxable — but at the preferential rates shown in the table above (approximately 39.3% for eligible dividends and 26.8% for capital gains). These additional distributions will appear on your annual T3 or T5 slip, depending on the fund’s structure.

The ACB — one thing to keep in mind: Each ROC payment gradually reduces your **Adjusted Cost Base (ACB)** — your original purchase price for tax purposes. Over time, a lower ACB means a larger capital gain when you eventually sell. This is tax **deferral**, not tax avoidance, and it is entirely expected.

T8 FUND — 5-YEAR ILLUSTRATION: $500,000 AT 10% AVERAGE ANNUAL RETURN

The example below assumes **$500,000 invested in a T8 fund** with a 10% average annual gross return. The fund pays out a targeted 8% annual cash distribution (the T8 distribution), which is assumed to be ROC for illustration purposes in a non-registered account. Because the fund earns **more than it pays out**, your investment **still grows over time** even as you receive monthly cash flow. The table below also shows how ACB declines over time as ROC is received, and how that can affect the eventual capital gain on sale.

Year	Investment Value (Start)	T8 Distribution (ROC)	Tax Payable	Investment Value (End)	ACB Remaining
Year 1	$500,000	$40,000	$0	$510,000	$460,000
Year 2	$510,000	$40,800	$0	$520,200	$419,200
Year 3	$520,200	$41,616	$0	$530,604	$377,584
Year 4	$530,604	$42,448	$0	$541,216	$335,136
Year 5	$541,216	$43,297	$0	$552,041	$291,839

Investment value grows at 10% gross return less the 8% annual distribution, resulting in approximately 2% net annual growth. For illustration purposes, the T8 distributions are shown as having $0 of current tax each year because the distributed amount is assumed to be ROC. ACB declines by the amount of each ROC payment.

Over 5 years: You received **$208,161** in total distributions. These amounts are shown as non-taxable in the year received because they are assumed to be ROC. Your investment grew from **$500,000 to $552,041**. If you sold at that point, your capital gain would be **$260,202** (sale price of $552,041 less ACB of $291,839), with tax of approximately **$69,656** at the capital gains rate — representing the deferred tax effect of the ROC received, plus any appreciation.

Compare to interest income: Earning **$208,161** entirely as interest would have generated approximately **$111,366** in tax over the same 5 years — paid annually, with no deferral benefit and no portfolio growth (still $500,000).

STRATEGY 2: DYNAMIC PREMIUM YIELD PLUS FUND

A high-income fund with a different engine. The Dynamic Premium Yield PLUS Fund is a **liquid alternative fund** that generates income through an active **options-writing strategy** with a portfolio of large U.S. equities. This approach generates regular premium income while also providing U.S. equity participation with **reduced portfolio volatility** compared to simply owning those stocks outright.

The fund currently pays a fixed monthly distribution in the range of **8–10% annually (currently 11.4%)**, but that distribution is not guaranteed and may be adjusted by the fund manager. These distributions may include a blend of income, capital gains, and return of capital — all of which can be more tax-efficient than fully taxable interest.

Calendar Year	Fund Return (Series F)	Notes
2025	+12.8%	Strong income in a volatile year
2024	+12.0%	Strong equity + options income
2023	+27.6%	Exceptional year
2022	+0.2%	Resilient in down market
2021	+21.9%	Participation in strong markets
5-Year Annualized	+11.5%	As at Feb 28, 2026

Source: Dynamic Funds / 1832 Asset Management L.P. as at February 28, 2026. Past performance is not indicative of future results.

Why this complements a T8 fund:

T8 funds pay you from your own capital base in a tax-deferred way. The Dynamic Premium Yield PLUS Fund generates income from options activity — an independent source — with potential for the fund's value to grow while still paying a high monthly distribution. Together, they create a diversified, tax-efficient income stream from two distinct sources.

BMO Private Wealth is the brand name for a business group consisting of Bank of Montreal and certain of its affiliates, including BMO Nesbitt Burns Inc., in providing wealth management products and services.