



January 2016

## **PASSIVE FOREIGN INVESTMENT COMPANY (PFIC)** Annual Information Statements Available From RBC Global Asset Management for the 2015 Tax Year

To help investors who file U.S. tax returns, RBC Global Asset Management (RBC GAM) will provide PFIC Annual Information Statements for more than 80 funds for the 2015 tax year. For the full list of funds that will have PFIC reporting, please see the table on the following page. PFIC Annual Information Statements will be available in early 2016.

The PFIC reports to be issued by RBC GAM will allow U.S. taxpayers to elect to treat certain RBC GAM funds as Qualified Electing Funds (QEFs) on their U.S. tax returns. This election allows U.S. investors access to capital gains tax rates on their holdings of these funds and prevents the application of certain amounts of tax deficiency interest.

Please note that the PFIC Annual Information Statements from RBC GAM will be made available at the fund level, rather than the individual account level. To file a QEF election, investors will need the PFIC Annual Information Statement for each fund they own, plus their account statements for the appropriate tax year. U.S. investors in RBC GAM funds should consider seeking the help of a qualified U.S. tax professional for advice on the decision to make a QEF election for each fund held in 2015 and for assistance in preparing the required reporting forms to include with their U.S. tax returns.

## RBC GAM funds with 2015 PFIC reporting

Fund Name	
<b>RBC Funds</b>	<b>RBC Funds - cont'd</b>
RBC Asian Equity Fund	RBC QUBE Low Vol U.S. Equity Fund
RBC Asia Pacific ex-Japan Equity Fund	RBC QUBE U.S. Equity Fund
RBC Balanced Fund	RBC Select Aggressive Growth Portfolio
RBC Balanced Growth & Income Fund	RBC Select Balanced Portfolio
RBC Bond Fund	RBC Select Conservative Portfolio
RBC Canadian Dividend Fund	RBC Select Growth Portfolio
RBC Canadian Equity Fund	RBC Select Very Conservative Portfolio
RBC Canadian Equity Income Fund	RBC U.S. Dividend Fund
RBC Canadian Index Fund	RBC U.S. Equity Fund
RBC Canadian Money Market Fund	RBC U.S. Mid-Cap Equity Fund
RBC Canadian Short-Term Income Fund	RBC U.S. Mid-Cap Value Equity Fund
RBC Canadian Small & Mid-Cap Resources Fund	RBC U.S. Monthly Income Fund
RBC Emerging Markets Bond Fund	RBC U.S. Small-Cap Core Equity Fund
RBC Emerging Markets Dividend Fund	<b>PH&amp;N Funds</b>
RBC Emerging Markets Equity Fund	PH&N Absolute Return Fund
RBC Emerging Markets Small-Cap Equity Fund	PH&N Balanced Fund
RBC European Equity Fund	PH&N Bond Fund
RBC Global Balanced Fund	PH&N Canadian Equity Fund
RBC Global Bond Fund	PH&N Canadian Equity Value Fund
RBC Global Corporate Bond Fund	PH&N Canadian Growth Fund
RBC Global Dividend Growth Fund	PH&N Canadian Income Fund
RBC Global Energy Fund	PH&N Dividend Income Fund
RBC Global Equity Focus Fund	PH&N High Yield Bond Fund
RBC Global Equity Fund	PH&N Monthly Income Fund
RBC Global High Yield Bond Fund	PH&N Overseas Equity Fund
RBC Global Precious Metals Fund	PH&N Short Term Bond & Mortgage Fund
RBC High Yield Bond Fund	PH&N Total Return Bond Fund
RBC International Dividend Growth Fund	PH&N U.S. Equity Fund
RBC International Equity Fund	PH&N U.S. Multi-Style All-Cap Equity Fund
RBC Japanese Equity Fund	<b>RBC Private Pools</b>
RBC Managed Payout Solution	RBC Private Canadian Bond Pool
RBC Managed Payout Solution - Enhanced	RBC Private Canadian Corporate Bond Pool
RBC Managed Payout Solution - Enhanced Plus	RBC Private Canadian Dividend Pool
RBC Monthly Income Bond Fund	RBC Private Canadian Equity Pool
RBC Monthly Income Fund	RBC Private Canadian Mid-Cap Equity Pool
RBC North American Growth Fund	RBC Private Income Pool
RBC North American Value Fund	RBC Private International Equity Pool
RBC O'Shaughnessy All-Canadian Equity Fund	RBC Private O'Shaughnessy U.S. Growth Equity Pool
RBC O'Shaughnessy Canadian Equity Fund	RBC Private Short-Term Income Pool
RBC O'Shaughnessy International Equity Fund	RBC Private U.S. Equity Pool
RBC O'Shaughnessy U.S. Value Fund	RBC Private U.S. Large-Cap Core Equity Pool
RBC QUBE Canadian Equity Fund	<b>BlueBay Funds</b>
RBC QUBE Global Equity Fund	BlueBay Emerging Markets Corporate Bond Fund
RBC QUBE Low Volatility Canadian Equity Fund	BlueBay Global Convertible Bond Fund
RBC QUBE Low Volatility Global Equity Fund	BlueBay Global Monthly Income Bond Fund

### **What is a PFIC?**

A PFIC is a “Passive Foreign Investment Company,” as defined under U.S. tax rules. In this context, “Passive” means stocks and bonds are used to generate income and capital gains, as opposed to operating an active business. “Foreign Investment Company” applies in this case because the U.S. Internal Revenue Service (IRS) classifies Canadian mutual fund trusts and mutual fund corporations as foreign corporations for U.S. tax purposes.

### **Who is affected by PFIC rules?**

Investors who own Canadian mutual funds and who file U.S. tax returns will be affected by PFIC rules. Note that all U.S. citizens and green card holders are required to file a U.S. tax return even if they are residents of Canada or another country. Other Canadian residents with significant ties to the U.S. may also be required to file U.S. tax returns. To assess their status in this respect, investors should consult with a qualified U.S. tax professional.

### **Why do PFIC rules exist?**

PFIC rules are intended to prevent U.S. taxpayers from securing preferential tax treatment, such as tax deferral, from investing in foreign securities in comparison with U.S. domestic securities.

### **What are the tax implications of owning a PFIC?**

Each year, U.S. taxpayers must report each PFIC on a separate IRS Form 8621. On this form, taxpayers may make the Mark-to-Market election or the Qualified Electing Fund (QEF) election. There are also various supplementary elections that are beyond the scope of these materials. Annual IRS Form 8621 reporting is required for each PFIC that is directly or indirectly held by the investor, regardless of which election is made.

### **What is the Mark-to-Market election?**

Under the Mark-to-Market election, investors report all income and gains (both realized and unrealized) each year. The total amount is taxed as regular income. Under this election, capital gains do not receive favoured tax treatment.

### **What is the Qualified Electing Fund (QEF) election?**

Under the Qualified Electing Fund (QEF) election, investors report their pro-rata share of the mutual fund's earned income for U.S. tax purposes. The QEF election allows investors to defer taxes on unrealized capital gains and to receive more favourable tax treatment on their share of capital gains that were realized within the fund. Investors also receive an increase in their tax basis in units of the funds to correspond with amounts included in income under the QEF election.

The QEF election is frequently advantageous because it allows for more tax-efficient treatment of capital gains. The PFIC reporting from RBC GAM will provide investors with information required to file a QEF election. In certain situations, such as cases where units of a fund decline in value during a tax year, other elections may be more advantageous. Investors should consult with a qualified U.S. tax professional for guidance on which election is most advantageous for each fund, taking into account statutory restrictions on revoking elections in subsequent tax years.

### **What is the alternative to filing the annual Mark-to-Market or QEF election?**

If a U.S. taxpayer does not make either of these elections, the Excess Distribution Method applies. Under this method, gains recognized on disposition and certain distributions received from a PFIC are taxed as ordinary investment income. These amounts are also allocated back to prior tax years, are subjected to U.S. tax at the

highest marginal rate, and additional amounts of tax deficiency interest are also charged. In cases where the value of the PFIC has increased during the investor's holding period, the Excess Distribution Method is frequently the most costly form of tax treatment for a PFIC.

### **How are PFICs treated in Registered Accounts?**

PFIC rules are expected to apply to PFICs held in non-registered accounts, as well as Tax-Free Savings Accounts (TFSA), Registered Education Savings Plans (RESPs) and other non-retirement registered plans.

For PFICs held in retirement savings accounts such as Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs), the PFIC rules should not apply. RBC GAM suggests that investors consult with a qualified U.S. tax professional on this matter.

### **Why is PFIC reporting available on certain funds and not others?**

Our goal is to provide PFIC reporting on a wide range of funds in a cost effective manner. To accomplish this, RBC GAM will provide PFIC reporting on our largest and most widely held funds. Several smaller funds will also have PFIC reporting when those funds are held in larger fund-of-fund products or programs. This is because each underlying fund in a fund-of-fund investment must have PFIC reporting to allow for the top fund to provide PFIC reporting as well.

With PFIC reporting on more than 80 funds at RBC GAM, investors can choose from a wide range of options across investment strategies, asset classes and geographies. This selection of funds also represents 90% of the total assets under management at RBC GAM. We are confident that investors seeking a PFIC solution will find ample opportunities at RBC GAM.

### **Why is PFIC reporting provided at the fund level, rather than the individual account level?**

Recordkeeping systems from our internal and external service providers do not offer the ability to provide individual account level PFIC reporting. RBC GAM decided to offer PFIC reporting at the fund level so that investors will have all of the information they need to file more tax-efficient QEF elections for the 2015 tax year.

### **How do I calculate my account level PFIC factors for the QEF election?**

For each PFIC, your U.S. tax preparer will require the following: 1) the PFIC Annual Information Statement for the fund provided by RBC GAM and 2) your account statements for the tax year provided by your investment dealer.

The PFIC Annual Information Statement (AIS) will provide the pro-rata share of the fund's ordinary earnings and net capital gain per unit per day.

To calculate your individual amounts for a QEF election, you will multiply the number of unit days you held the fund by the pro-rata amounts on the AIS.

To calculate the number of unit days, you will multiply the number of units held by the number of days those units were held for the tax year. For example, for an account that held 100 units of a fund for the full year (i.e. 365 days), the number of unit days would be  $100 \times 365 = 36,500$ . If those units were held for 180 days, the number of unit days would be  $100 \times 180 = 18,000$ . This value would then be multiplied by the pro-rata values on the AIS and reported on IRS Form 8621.

If the number of units changes over the course of the year, the unit days calculation should be adjusted accordingly. For example, consider an account that starts the year with 100 units then, 65 days into the year, another 100 units are purchased (increasing the total number of units to 200). If no other changes are made for the remaining 300 days of the year, the unit days calculation would be:  $(100 \text{ units} \times 65 \text{ days}) + (200 \text{ units} \times 300 \text{ days}) = 66,500 \text{ unit days}$ .

For help with these calculations, RBC GAM suggests that investors consult with a qualified U.S. tax professional.