Global Asset Management

TAXES & INVESTING IN MUTUAL FUNDS

Contents

Overview

Why understanding taxes is important

This guide provides general tax information related to the purchase and sale of mutual fund investments in a non-registered account, with a specific focus on how mutual fund distributions are taxed. The goal is to help you gain a better understanding of tax considerations related to your mutual fund investments.

What is a mutual fund?

The majority of mutual funds in Canada are mutual fund trusts. Investors in mutual fund trusts receive units of the trust and are referred to as unitholders.

Alternatively, mutual funds can also be set-up as corporations. Commonly referred to as corporate class mutual funds, these structures are set up with multiple share classes. Each share class, often referred to as a "corporate class fund," represents a different mutual fund. For more information on corporate class funds, refer to page 12.

At a basic level, mutual funds use money received from unit holders or shareholders to buy securities. The securities purchased depend on the fund's investment objective, but generally include cash, bonds and stocks. These investments may generate income in the form of interest or dividends. In addition, capital gains or losses may be realized when securities held in the fund are sold.

Income earned within a fund is first used to pay its management and administration fees. When added together, the management fee and the administration fee (plus applicable taxes) make up the Management Expense Ratio (MER). The income that is left over is distributed to unitholders.

When do I pay taxes on my mutual fund investments?

Generally, the taxable events on your mutual fund investments fall into two categories:

- When you sell or switch a fund
- When you receive income from a fund through a distribution

Principles related to taxes and investing

Structure your overall portfolio to be tax efficient
Placing different types of investments in different types of accounts (e.g. inside or outside of registered plans) can reduce your tax costs and increase the tax effectiveness of your overall portfolio.

Maximize cash flow in retirement with a tax-efficient portfolio
In retirement, the after-tax cash flow that you receive from your taxable, non-registered investments becomes increasingly important. Choosing investments that benefit from favourable tax treatment can help you generate more income in retirement.

Work with an advisor
Working with a knowledgeable investment professional can help you learn about how different types of investments are taxed and how you can build a tax-efficient portfolio.

This guide discusses the impact of taxation on mutual funds in non-registered accounts. Mutual funds held within tax-sheltered plans, such as TFSAs, RRSPs, RRIFs and RESPs, are not covered in this guide.

Taxes associated with selling or switching your mutual fund

Capital gain (or capital loss)

As with any investment, there are tax considerations related to the purchase and sale of mutual funds. Here is what you need to know:

- **If you sell a mutual fund investment and the proceeds exceed your adjusted cost base, you realize a capital gain.** Realized capital gains must be reported for tax purposes in the year of sale. Capital gains are also taxed more favourably than interest, dividend and foreign income. Under current tax rules, only 50% of a capital gain is taxable.
- **If you sell a mutual fund investment and the proceeds are less than your adjusted cost base, you realize a capital loss.** Most capital losses can be applied against capital gains to reduce the amount of taxes payable. If you have no realized capital gains in the year a capital loss is realized, the capital loss can be carried back and applied against taxable capital gains from any of the previous three years. You are also allowed to carry the capital loss forward indefinitely to offset gains in future years

In general, you can calculate your capital gain or capital loss using the following formula:

Capital gain (or capital loss)	=	Proceeds from sale of an investment	–	Adjusted Cost Base*

* See page 3 for more information about the calculation of Adjusted Cost Base.

Switching between mutual funds

If you switch between mutual fund trusts in a non-registered account, you are deemed to have sold units of one fund and purchased units in another. If the units you sold are worth more than what you originally purchased them for, the switch will generate a capital gain. If the units you sold are worth less than what you originally paid, the switch will generate a capital loss.

When switching between funds, keep in mind that you are required to keep track of your capital gain and include its taxable portion in your taxable income in the year of sale. Speak to your financial advisor to understand the implications before switching your investments.

HELPFUL TIPS

In order to assist in your annual tax reporting for these transactions, your fund company or investment dealer will issue a statement of your mutual fund transactions (also known as T5008/Relevé 18) at the end of the year. This report lists any investments in your account that were sold or redeemed during the calendar year.

HELPFUL TIPS

While we recommend that you refer to your own investment records to calculate the ACB you use in determining your capital gain or loss, average cost information may be provided by your investment dealer on an ongoing basis as part of your account statement. This could be provided in addition to transaction history, account balances and a personal rate of return on your investments.

What is adjusted cost base (ACB)?

When calculating a capital gain or loss, the ACB plays an important role. It can be thought of as the average price paid for units owned. When you sell your mutual fund, it is the ACB that determines whether you have realized a capital gain or a capital loss.

How to calculate ACB

The following example shows how ACB is calculated and whether a capital gain or a capital loss results:

Jason's investments	
Jason purchases 100 units of a fund for $10 per unit	$1,000
At some point later, Jason buys 50 more units of the same fund at $12 per unit	$600
Jason has a total of 150 units and a total investment of $1,600	**$1,600**

Jason's ACB can be calculated as follows:

$$\text{ACB per unit} = \frac{\$1{,}600 \text{ total investment}}{150 \text{ units of the fund}} = \$10.6667$$

How to calculate the taxable capital gain (or capital loss)

Continuing with the Jason scenario, the following example shows whether a capital gain or a capital loss results when Jason sells his units:

- Assume Jason later sells the holdings at a unit price of $11.00. Because the ACB of each of Jason's units is $10.6667, it results in a capital gain of $0.3333 per unit:
  $11.00 – $10.6667 = $0.3333
- The total capital gain is $50.00:
  $0.3333 per unit capital gain x 150 units owned = $50.00
- Under the current rules, only 50% of the capital gain (i.e. $25.00) would be subject to tax:
  $50.00 x 50% = $25.00
- Assuming a marginal tax rate of 26%, it would result in taxes payable of $6.50:
  $25.00 x 26% = $6.50

Mutual fund distributions and taxes

Why do mutual funds make distributions?

Distributing income earned by mutual fund holdings benefits unitholders by minimizing overall taxes paid by the fund. Since mutual fund trusts are taxed at a rate equivalent to the highest personal tax rate, any income retained by a mutual fund is typically subject to more tax than if it were taxed in the hands of individual investors.

Distributing income to unitholders, most of whom are taxed at a lower marginal tax rate than the mutual fund, generally results in a lower amount of total taxes paid. By reducing tax paid by the fund, more income can be distributed to investors, which improves the return on their investment.

Mutual fund corporations, however, only provide a limited flow-through, in that only Canadian dividends and capital gains can be passed on directly to investors. Interest and foreign income earned inside a mutual fund corporation are taxable first inside the corporate structure.

What do I do with distributions?

You can receive your mutual fund distributions as either:

1. A cash payment; or
2. A reinvestment in more units at the prevailing unit price.

Regardless of which option you choose, you are generally required to include distributions as part of your taxable income for the year in which you receive them if held outside of a registered plan such as a RRSP or a TFSA. The exception is return of capital (ROC) distributions, which are discussed on page 14.

HELPFUL TIPS

Distributions from your investments can be paid monthly, quarterly or on annual basis. Usually in February each year you will receive all of the information you need from the fund company to accurately report the income distributed to you for tax purposes.

- The T3 tax slip (Relevé 16 in Quebec) shows the interest, dividends, capital gains, ROC and foreign income you received during the year, as well as any foreign income taxes paid. Income that benefits from favourable tax treatment, such as dividends eligible for the enhanced dividend tax credit, is also clearly identified.
- The T5 tax slip (Relevé 3 in Quebec), or Statement of Investment Income, is issued to investors who own mutual funds in a corporate structure.

See page 17 and 18 of this guide to view examples and learn more about T3 and T5 slips.

Tax slips are still issued when returns are negative

Please note that a fund may distribute income even in years when the fund drops in value. This is similar to how a stock or bond will typically still pay dividends or interest even when markets cause the prices of those securities to decline in any given year.

What are the different types of distributions?

Here are descriptions of the different types of distributions you may receive from a mutual fund and how they are taxed.

Type of distribution	Description	Tax Treatment
Interest	Earned on investments such as treasury bills, GICs and bonds	Fully taxable at the same marginal tax rate as ordinary income
Canadian dividends	Occurs when funds invest in shares of Canadian public corporations that pay dividends	Preferential tax treatment for individuals through dividend tax credits as either eligible or non-eligible dividends
Capital gains	Realized when an investment within the fund is sold for more than the ACB	Preferential tax treatment as only 50% of a capital gain is taxable
Foreign non-business income	Earned when the fund receives dividends, interest or other types of distributions from non-Canadian investments	Fully taxable at the same marginal tax rate as ordinary income
Return of capital (ROC)	ROC is used to describe distributions in excess of a fund's earnings (income, dividends and capital gains). For tax purposes, ROC represents a return of an investor's own invested capital	Not taxable in the year received, but reduces the ACB of the fund, which generally results in a larger capital gain (or smaller capital loss) when the investment is sold

Typical income received by various mutual fund types

	Interest	Canadian dividends	Capital gains	Foreign non-business income	ROC
Fixed income	✓				
Canadian equities		✓	✓		✓
U.S. equities			✓	✓	
International equities			✓	✓	
Emerging markets equities			✓	✓	
Balanced Funds/Funds of Funds	✓	✓	✓	✓	✓
T5 Series/ RBC Managed Payout Solutions	✓	✓	✓	✓	✓

The above chart is based off historical investment characteristics and does not guarantee each type of distribution with certainty.

Interest income

Interest income is earned on securities, such as treasury bills and bonds, and is not eligible for any special tax treatment. It is taxed at the same rate as ordinary income. Interest distributions are reported as "Other Income" on the T3 tax slip.

Dividend income

Dividend income may be earned when a fund invests in shares of public companies that pay dividends. Individuals who receive eligible dividends from Canadian companies can claim a federal tax credit (a provincial dividend tax credit may also apply) to reflect the fact that the company paying the dividend has already paid Canadian tax on its profits. Because of their favourable tax treatment, dividend-paying stocks are popular with investors seeking to maximize after-tax cash flow from their investments.

For more on the federal dividend tax credit, see page 8.

Capital gains

Over the course of the year, an equity fund will buy and sell various securities within the portfolio. If this trading activity generates more realized gains than losses, the fund will distribute capital gains to investors at the end of the year. Because only 50% of a capital gain is subject to tax, these distributions are considered to be very tax efficient.

Here's an example:

Market value at time of sale	a	$1,500
Original cost of investment	b	$1,000
Capital gain on sale of investment (a – b)	c	$500
Capital gains inclusion rate for tax reporting (50% of c)	d	$250
Federal tax payable (d x 26%)	e	$65
Federal tax rate on capital gain (e ÷ c)	f	13%

The example assumes that an investor has a marginal tax rate of 26%. Note that provincial taxes would also apply and tax rates vary according to province.

Foreign non-business income

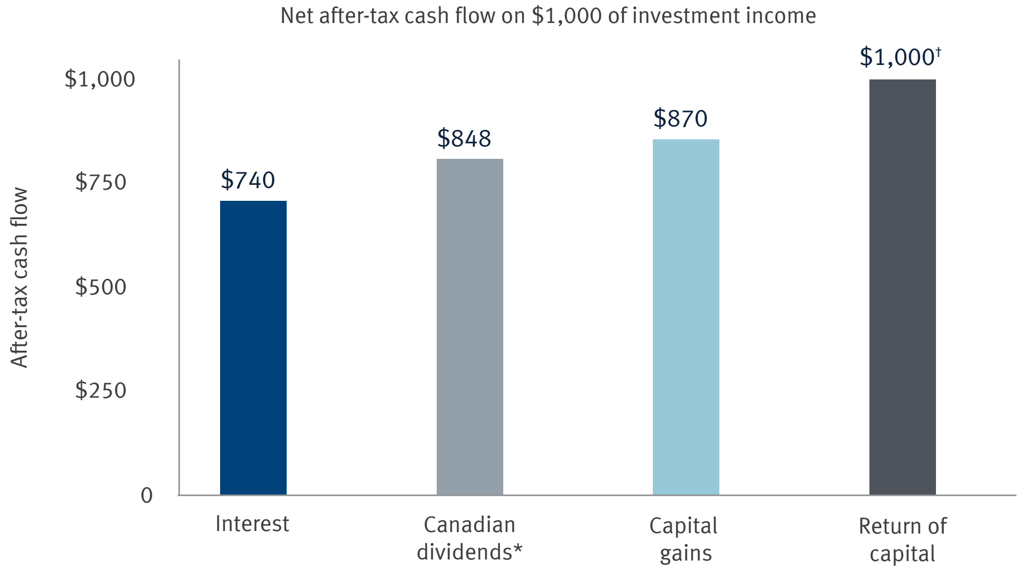
Foreign non-business income may be earned by mutual funds that invest in foreign securities. While you must report 100% of income earned from foreign sources on your tax return, you may be able to claim a foreign tax credit for income taxes already paid to foreign jurisdictions. If applicable, both of these amounts will be shown on your year-end tax slips.

Return of capital (ROC) distributions

ROC represents a return to the investor of a portion of their own invested capital. ROC often occurs when a fund's objective is to pay a fixed monthly distribution to unitholders.

Since ROC represents a return to the investor of a portion of their own invested capital, payments received are not immediately taxed as income. However, ROC distributions reduce the ACB and impact the capital gains tax an investor is required to pay when they eventually sell their investment. At that future date, the deferred taxes will cause the capital gain to be larger (or the capital loss to be smaller). See the detailed explanation on page 13.

It's not what you earn – it's what you keep: An example of the impact of taxes on your investment income



For the purposes of this example, a marginal tax rate of 26% is used. Please note that rates are unique to the tax circumstances of each individual and are provided herein for illustrative purposes only. In addition to the federal taxes noted in the example, provincial taxes are required to be paid. The amount of provincial taxes will vary according to province (provincial dividend tax credits also apply). When combined, the total of the federal and provincial taxes equals the taxes owing on taxable Canadian dividends.

[*] Represents eligible Canadian dividends with a federal tax credit of 15.02%.
[†] ROC distributions are not taxable in the year they are received, but do lower your ACB, which could lead to a higher capital gain or a smaller capital loss when the investment is eventually sold.

Note: All figures are rounded to the nearest whole number. Tax rates are subject to change.

HELPFUL TIPS

A summary of eligible dividends received during the year will be provided for mutual fund investors on their tax slips. This information makes it easy for you to determine the amounts eligible for the federal dividend tax credit and the enhanced federal dividend tax credit.

What is the federal dividend tax credit?

The dividend tax credit reduces the amount of tax you pay on dividend income. Dividends are classified as either "eligible" or "non-eligible" to reflect whether the issuing company paid tax at the high corporate rate (eligible) or the small business rate (non-eligible), respectively. Non-eligible dividends receive the federal dividend tax credit and eligible dividends receive the enhanced federal dividend tax credit.

How are dividends taxed?

Below are the steps required to calculate federal taxes payable on eligible dividends. For more specific information regarding the enhanced federal dividend tax credit and eligible dividends, please speak with your advisor or a qualified tax specialist.

Example

2016		Eligible Dividends
Dividend	a	$1,000
Dividend gross-up	b	38%
Grossed-up dividend (a x (1 + b)) (This amount reported as taxable income)	c	$1,380
Federal taxes payable (c x 26%)	d	$358.80
LESS federal dividend tax credit of 15.02% (Federal tax credit x c)	e	$207.28
Net federal tax payable (d – e)	f	$151.52
Federal tax rate on dividend (f ÷ a)	g	15.15%

1. The example assumes that an investor has a 26% marginal tax rate.
2. In addition to the federal taxes noted in the example, provincial taxes are required to be paid. The amount of provincial taxes will vary according to province (provincial dividend tax credits also apply). When combined, the total of the federal and provincial taxes equals the taxes owing on taxable Canadian dividends.

Understanding the impact of mutual fund distributions

Why does a fund's price go down when it pays a distribution?

Most investors do not keep track of unit prices or the number of units they own. Instead, they focus on the dollar value of their portfolio. For this reason, investors who reinvest distributions often do not even notice that distributions have been paid.

If an investor does reinvest their distributions, it is important that they understand how distributions affect the unit value of their mutual fund and what it means for their investment. The following example shows why:

The scenario

- Amy purchases 100 units of a fund at $10 per unit, for a total investment of $1,000.
- When the fund is purchased, it is set up to automatically reinvest distributions.
- During the year, interest and dividend income, as well as growth in the value of securities in the fund, increase the value of each unit from $10 to $11, thus increasing the value of the investment to $1,100.
- At year-end, the fund pays out a distribution of $0.50 per unit.

The impact

- Amy holds 100 units, so the distribution of $0.50 per unit results in a total distribution of $50.
- The $0.50 per unit distribution results in the unit price falling to $10.50 from $11.00.
- Amy's $50 distribution is automatically reinvested in additional fund units. At the new unit price of $10.50, she buys 4.7619 units ($50 ÷ $10.50 = 4.7619).
- Amy now owns 104.7619 units.

The result

- The original 100 units Amy purchased are now worth $1,050 (100 x $10.50).
- The additional 4.7619 units purchased with the distribution are worth $50 (4.7619 x $10.50).
- The total dollar value of the portfolio has not changed. It is still $1,100: (original 100 units worth $1,050) + (4.7619 new units worth $50) = $1,100.

In summary, when you automatically reinvest distributions, you will see your mutual fund's unit value decline, but the number of units you own goes up. As a result, the total dollar value of your portfolio does not change.

How do reinvested distributions affect ACB?

Reinvested distributions cause the ACB of your investments to increase. In the example on the previous page, we saw how reinvesting distributions did not affect the total dollar value of the investment: the unit price fell to $10.50 from $11.00, but the number of units increased to 104.7619 from 100.

Let us continue with Amy's scenario to demonstrate that, despite the fact the total value of the investment did not change, the ACB did.

Recall that Amy originally owned 100 units purchased for $10 per unit. When the $50 distribution was automatically reinvested at the new unit price of $10.50, she acquired an additional 4.7619, for a total of 104.7619 units.

The ACB per unit for Amy can be calculated as follows:

$$\textbf{ACB} = \frac{\text{(Total cost of original 100 units) + (Total cost of \$50 reinvested from distribution)}}{\text{Total number of units owned}}$$

$$\text{ACB} = \frac{(100 \text{ units x } \$10 \text{ per unit}) + (4.7619 \text{ units x } \$10.50 \text{ per unit})}{104.7619}$$

$$\text{ACB} = \frac{\$1{,}000 + \$50}{104.7619}$$

$$\text{ACB} = \$10.02$$

In this example, reinvesting the distributions caused the ACB to increase to $10.02 from $10.

What happens when distributions are not reinvested?

If you choose to receive your distributions in cash instead of having them reinvested, the ACB will not be affected. Referring back to Amy's example, if she had taken the distribution in cash instead of reinvesting it, the ACB would remain at $10 per unit. She would receive $50 in cash and would have 100 units worth $10.50 each.

Considerations when purchasing a fund close to year-end

The net asset value of the units of a fund may include income and/or capital gains that have been earned but not yet distributed. If you buy units of a fund just before it makes a distribution, such as near year-end, you become entitled to receive that distribution, and you will be taxed on that distribution payment even though it may have been reflected in the price you paid for your units.

Example: How the tax liability for an investor can change when investing before or after a year-end capital gains distribution

RBC Fund has an upcoming capital gain distribution of 5% on December 19th. Jason would like to invest $100,000 in the fund and is considering whether to invest before or after the distribution date. For simplicity, the unit price is $10, and there will be no change in unit price in this example.

Scenario 1

Jason purchases on December 18th
(one day before the distribution)

- Purchase 10,000 units – total $100,000
- On December 19th, $0.50 (5%) distributed – total $5,000. Unit price drops to $9.50
- Investment breakdown: 10,000 units at $9.50, $5,000 buys additional 526.32 units at $9.50
- Jason has 10,526.32 units worth $100,000 and taxable income of $5,000

Scenario 2

Jason purchases on December 20th
(one day after the distribution)

- Unit price is now $9.50 post distribution
- Purchase 10,526.32 units at $9.50
- Jason has 10,526.32 units worth $100,000 but no taxable income

Depending on your circumstances, you may want to wait until a distribution has been made before investing. Please speak with your advisor or a tax specialist if you plan on purchasing units of a mutual fund close to year-end.

Corporate Class Funds

What is a corporate class fund?

Corporate class funds are set up as mutual fund corporations with multiple share classes. Each share class, often referred to as a “corporate class fund,” represents a different mutual fund. For example, Class A may be a Canadian balanced fund; Class B, a U.S. equity fund; Class C, an international equity fund; and so on.

Tax deferral with corporate class funds: Reduced taxable distributions

Compared to standard mutual fund trusts, corporate class funds offer the opportunity to pay less tax on income earned inside of a fund. A corporate class fund can manage the taxable income and deductions generated by all of the funds under its corporate umbrella. This way, the losses or expenses in one fund can be used to shield taxable income in another. This is how corporate class funds can help reduce the taxable distributions you may receive.

Corporate class fund distributions

At year-end,* mutual funds of all types generally distribute taxable income to avoid the high rate of taxation on that income if it were taxed inside of the fund. While mutual fund trusts permit all types of income and any realized capital gains to flow through to investors and retain their tax characteristics in investors’ hands, mutual fund corporations can only distribute Canadian dividends and capital gains to investors. Interest and foreign income earned inside of a mutual fund corporation are taxable first inside the corporate structure. After that, any remaining income can be retained inside the corporation or distributed to investors as a taxable Canadian dividend. Distributions from corporate class funds are reported on a T5 tax slip (Relevé 3 in Quebec).

* RBC Funds and PH&N Funds (mutual fund trusts) have a year-end of December 31st. RBC Corporate Class Funds have a year-end of March 31st.

DID YOU KNOW?

New tax rules that came into effect on January 1, 2017 eliminated the benefit of tax-free switching between corporate class funds in the same fund corporation.

Return of capital (ROC) distributions

What is ROC?

ROC is a tax term used to describe distributions in excess of a fund's earnings (i.e. income, dividends and capital gains). For tax purposes, ROC represents a return to investors of a portion of their own invested capital. However, the inclusion of ROC in a distribution does not indicate whether a fund has gained or lost value, since it may have unrealized capital gains that have not yet been paid out.

ROC distributions typically occur when a fund's objective is to pay a regular monthly distribution. If interest, dividends and realized capital gains earned by the fund are less than the regular distribution, a ROC distribution is added to make up the remainder. ROC distributions help stabilize the amount of cash flow you receive on a regular basis from a particular investment.

RBC Funds and PH&N Funds that typically have ROC distributions include:

- PH&N Monthly Income Fund
- RBC U.S. Monthly Income Fund
- RBC Managed Payout Solutions
- T-Series of RBC Funds

ROC distributions reduce your ACB. You should not confuse this type of cash flow distribution with mutual fund rates of return or yield.

What are the main benefits of ROC?

ROC distributions offer a solution for investors who require a regular cash flow stream from their investments. They provide three main benefits:

- **Tax efficiency:** Unlike interest, dividends and capital gains, income classified as ROC is not taxable in the year it is received.
- **Cash flow stability:** Funds that distribute ROC are particularly appealing for investors seeking regular cash flow from their portfolios. ROC is used to help fund managers distribute predictable monthly cash flow.
- **Tax deferral:** Any capital gains on amounts distributed as ROC can be deferred until your investment is sold, helping maximize your current cash flow and giving you added control over when you pay tax.

It is important to understand the long-term tax impact of ROC distributions. While ROC is not taxable in the year it is received, it reduces the ACB of your investment, which will typically result in a higher taxable capital gain (or a smaller capital loss) when you eventually sell your mutual fund. If the ACB reaches zero, any future ROC distributions will be taxed as capital gains, since the amount distributed as ROC will have exceeded the amount initially invested.

ROC and Old Age Security (OAS) benefits

OAS benefits and other government income are typically reduced if your income exceeds a certain threshold. Amounts that affect government income-tested benefits typically include employment income, investment income and capital gains. However, ROC distributions are not considered taxable income, so your OAS benefits will not be affected by them. When you do decide to sell your investment, OAS benefits and any other income-tested amounts, such as tax credits and other allowances, could be impacted by the potentially larger capital gain.

How ROC affects your adjusted cost base

The following example illustrates how ACB is calculated when ROC is introduced:

Jason's investments

Jason purchases 100 units of a fund that has a regular monthly distribution of $0.05 per unit ($0.60 per year) for $10 per unit.

By the end of year, the unit value increased by $1.60 to $11.60 after the fund distributed the $0.60 per unit to investors.

However, the fund only earned $0.40 in interest and dividend income over the course of the year to support the $0.60 payout.

Since the fund earned $0.40 in interest and dividend income but distributed $0.60 , the remaining $0.20 is characterized as a ROC to make up the difference:

$0.40	→	Interest and dividend income earned by securities in the fund
+ $0.20	→	ROC required to maintain a consistent monthly payout rate of $0.05 per unit ($0.60 per year)
= $0.60	→	**Total annual distribution per unit**

Now let's consider the impact to ACB after ROC has been taken into consideration:

$10.00	→	Original cost per unit
- $0.20	→	ROC paid
= $9.80	→	**The new ACB ($9.80 per unit)**

If at the end of the year Jason sells his 100 shares at the current market price of $11.60, because the ACB of each unit is now $9.80, it results in a capital gain of $1.80 per unit:

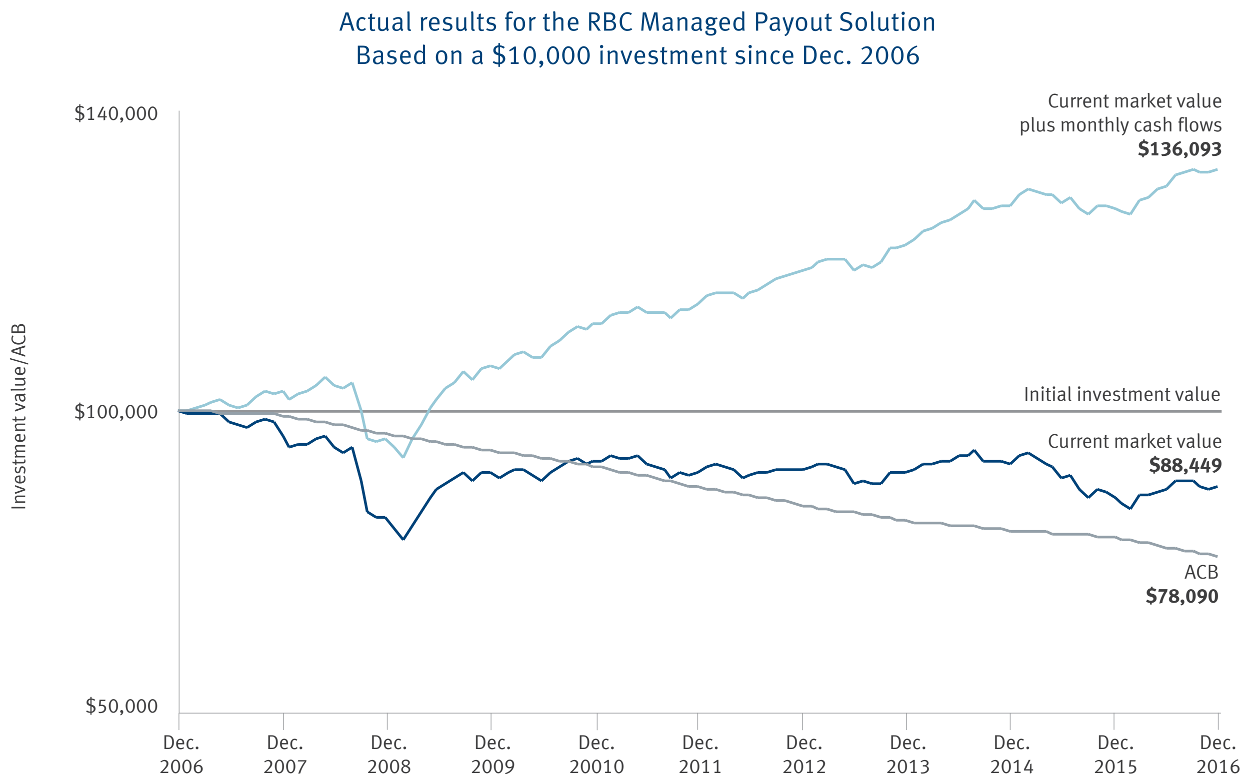
$11.60 - $9.80 = $1.80

The total capital gain is $180:
$1.80 per unit x 100 units owned = $180

The long-term impact of ROC distributions

Assume you invested $100,000 in RBC Managed Payout Solution in December 2006. Every month, the Fund paid its regular monthly distribution, a portion of which was ROC. Over time, the ROC distribution has reduced the ACB of your units. At the end of 2016, you decide to sell your investment. The chart below shows how ROC distributions reduce the ACB, resulting in a higher taxable capital gain.

The Impact of Return of Capital Distributions



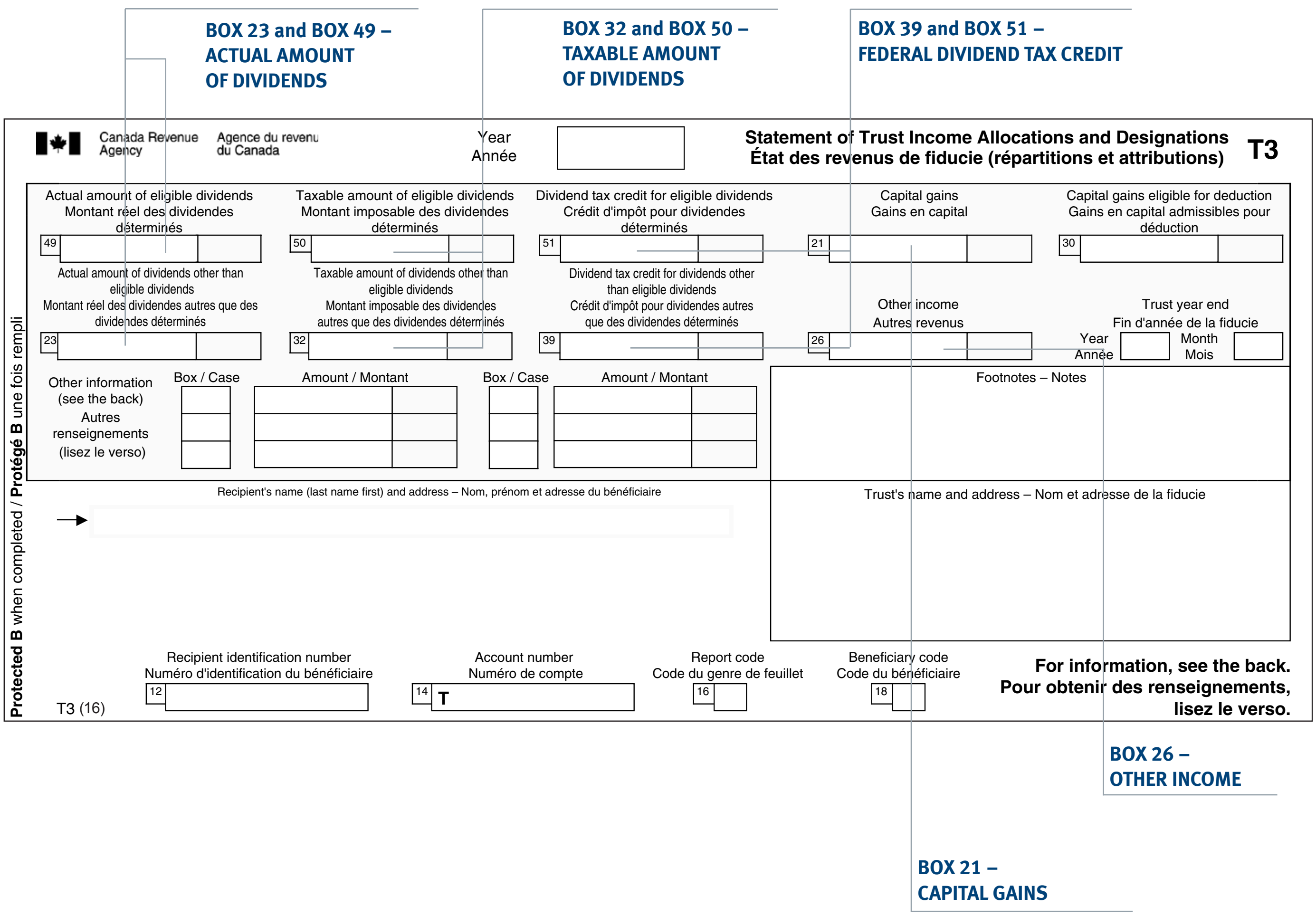
Key points:

- Over the holding period, the current market value plus monthly cash flows amounted to **$136,093**, providing a total benefit of **$36,093**.
- Total monthly cash flow payments of **$47,644** include ROC distributions of **$21,910**, which reduce your ACB to **$78,090** ($100,000 – $21,910).
- The remaining cash flow of **$25,734** consists of a combination of interest, dividends, and capital gains ($47,644 - $21,910).
- If all units were sold on December 31, 2016, the difference between the market value and the ACB would generate a capital gain of **$10,359** ($88,449 - $78,090 = $10,359)

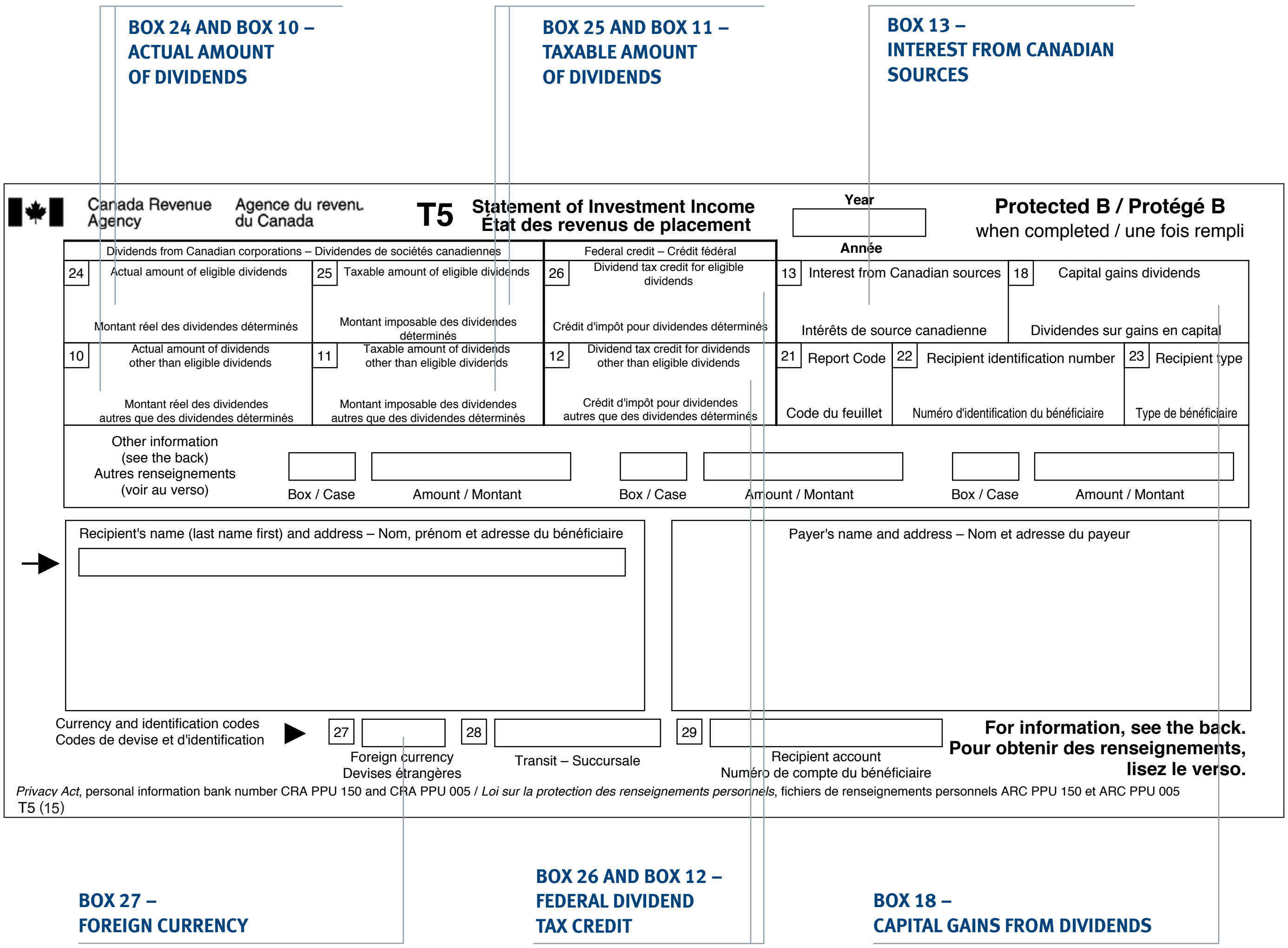
Understanding your year-end tax slips

If a mutual fund you hold in a non-registered account distributes any form of income, you will receive a T3 or T5 tax slip identifying the amount and type of income. In addition, if you sell or switch a mutual fund in a non-registered account, you will receive a T5008 tax slip summarizing your transactions for the year to assist in the reporting of your capital gain/loss information on your tax return. These slips are sent to you early the following year.

Sample T3 Tax Slip



Sample T5 Tax Slip



Sample T5008 Tax Slip

T5008 Canada Revenue Agency / Agence du revenu du Canada

Statement of Securities Transactions
Etat des opérations sur titres

Protected B / Protége B
When Completed / Une Fois Remoli

Name and Address of Trader or Dealer in Securities
Nom et adresse du négociant ou courtier en valeurs

Re Account/Re compte: 999999999999

Year - Année	10 Report Code - Code du feuillet	11 Recipient Type - Type de bénéficiaire	12 Recipient Identification Number - Numéro d'identification du bénéficiaire

14 Date MMDD - MMJJ	16 Quantity of securities - Quantité de titre	17 Identification of securities - Désignation des titres	13 Foreign Currency - Devises étrangères	15 Type Code of Securities - Code de genre de titres	20 Cost or book value - Coût ou valeur comptable	21 Proceeds of disposition or settlement amount - Produits de disposition ou paiements	18 ISIN/CUSIP Number - Numéro ISIN/CUSIP

BOX 16 - NUMBER OF MUTUAL FUND UNITS

BOX 17 - NAME OF MUTUAL FUND

BOX 20 - ACB OF UNITS

Common mutual fund questions for tax season

If I reinvested the distributions from my non-registered investments, are they still taxable?
Yes. Distributions from your non-registered investments are taxable, whether you receive them in cash or reinvest them in additional units of the fund. Unless you advise us otherwise, distributions on RBC Funds, PH&N Funds and RBC Corporate Class Funds are automatically reinvested in additional units of the fund. All distributions, whether reinvested or paid out to you, are reported on your T3 or T5 tax slip.

I sold some mutual funds during the year and realized some capital gains. Do these capital gains appear on my tax slips?
Yes. The capital gains reported on T3 or T5 tax slips include gains that were realized within a mutual fund and distributed to unitholders. T3 or T5 tax slips do not indicate capital gains you may have realized by selling your own mutual fund units. Instead, these capital gains or losses are captured on your T5008 slip.

Is there any way of knowing in advance how much interest, dividends, capital gains or ROC will be paid by a mutual fund in a given year?
Mutual fund distributions are not known until the end of the year when a fund accounts for the income generated by the various securities. As a result, it is not possible to specify in advance what the income breakdown of distributions will be. However, estimates based on the long-term averages of interest, dividends, capital gains and ROC paid in previous years may be available. Investors in RBC Funds, PH&N Funds and RBC Corporate Class Funds are provided with a breakdown of each type of income paid to them each year on their tax slips. RBC Funds and PH&N Funds have a December 31st year-end, while RBC Corporate Class Funds have a year-end of March 31st.

Are tax slips issued for mutual funds held in my Tax-Free Savings Account?
No. A Tax-Free Savings Account (TFSA) is a registered account in which all investment earnings – interest, dividends and capital gains – are tax-free, even when withdrawn. Since withdrawals from a TFSA are tax-free, they will not impact your taxable income.

Triggering a capital loss before year-end may reduce taxes

If you are considering selling a mutual fund investment that has declined in value, you may want to do so in time for the sale to settle by December 31st. Any capital loss triggered by the sale can be used to offset taxable capital gains earned on other investments, which may help reduce your overall taxes payable. If you have no net capital gains in the current year, you can use the capital loss to reduce taxable capital gains in the three preceding years or carry it forward indefinitely for use in future years.

The superficial loss rule

If you are planning to sell your mutual funds to trigger a capital loss, be mindful of the “superficial loss rule.” Under this rule, if you or someone affiliated with you (such as your spouse or your company) acquires the same funds in the period beginning 30 days before, and ending 30 days after, the date of the sale on which you are claiming the loss, your capital loss may be disallowed.

Taxes and U.S.-dollar mutual funds

You should know that Canadian tax reporting must be done in Canadian dollars (CAD), even when you own a fund that is denominated in U.S. dollars (USD). This has two main consequences.

First, whenever you redeem a USD fund in a taxable account, you'll need to calculate your purchase and redemption amounts in CAD to report an accurate capital gain or loss. Here's an example to show how that works:

On March 31:

- Investor buys 100 units of RBC U.S. Equity Fund (US$)
- Fund's Net Asset Value (NAV) = $10 USD
- U.S./Canada exchange rate on date of purchase: $1.10 USD/CAD
- Cost in Canadian dollars: $1,100 (100 X $10 X $1.10)

On September 30:

- Investor sells 100 units of RBC U.S. Equity Fund (US$)
- Fund's NAV = $10 USD
- U.S./Canada exchange rate on date of sale: $1.30 USD/CAD
- Proceeds of sale in Canadian dollars: $1,300 (100 X $10 X $1.30)

In this example, the investor would report a capital gain of $200 ($1,300 - $1,100) on their tax return. For simplicity, please note that the $200 gain is due to currency fluctuation and not a change in the value of the Fund.

Second, if you receive a taxable distribution from a USD fund, you'll receive a T3 or T5 tax slip for reporting that income on your tax return. The amounts reported on a T3 or T5 slip are in Canadian dollars and do not require currency conversion when filing your tax return.

Summary

An effective investment plan is tax efficient

Structuring your investments to be tax efficient can help you achieve your long-term financial goals sooner. Investing in mutual funds offers several advantages, including diversification, flexibility and professional management. And being aware of possible tax implications associated with mutual fund investing will help you choose the right investments for your individual needs and specific situation. Talk with your advisor today about the different types of investments available and which ones can help you structure a tax-efficient portfolio.

Notes

For more information about the taxation of investments, please speak with your advisor or a qualified tax specialist.

Global Asset Management

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