RBC Global Asset Management

Taxes & investing in mutual funds

Contents

Overview

Why is understanding taxes 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.

At a basic level, mutual funds use money received from unitholders 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, foreign income 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 taxable income that is left over is distributed to unitholders.

What events trigger 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 (ACB), you realize a capital gain.** Realized capital gains must be reported for tax purposes in the year of sale. Capital gains are taxed more favourably than interest and foreign income, and sometimes dividends as well. Under current tax rules, only 50% of a capital gain is taxable.[1]
- **If you sell a mutual fund investment and the proceeds are less than your ACB, you realize a capital loss.** Most capital losses can be applied against capital gains to reduce the amount of taxes payable. If your realized capital gains in a given tax year are less than your realized capital losses, the net capital loss[1] can be carried back and applied against taxable capital gains from any of the previous three years. You are also allowed to carry the net capital loss forward indefinitely to offset taxable capital 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	-	ACB[*]

[*] See page 3 for more information about the calculation of ACB.

Switching between mutual funds

If you switch between mutual fund trusts in a non-registered account, you have actually sold units of one fund and purchased units in another. If the units you sold are worth more than your ACB, the switch will generate a capital gain. If the units you sold are worth less than your ACB, 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 securities transactions (also known as T5008/Relevé 18). This tax slip lists any mutual fund units which were disposed of, or redeemed during the calendar year. See page 15 of this guide to view an example of a T5008 slip.

[1] The 50% of a capital gain that is taxable is known as a taxable capital gain. A net capital loss is what is left when allowable capital losses (generally 50% of capital losses) are greater than taxable capital gains.

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, ACB 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 total price paid for units owned. When you sell your mutual fund, it is the difference between the market value and the ACB that determines whether you have realized a capital gain or a capital loss.

How to calculate ACB
The following example shows how the 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 in this example is $1,600.

ACB per unit can also be useful in determining whether or not you will have a capital gain and 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.

Market value at time of sale	a	$11 x 150 units = $1,650
Original cost of investment method 1	b	$1,000 + $600 = $1,600
Original cost of investment method 2	b	$10.667 x 150 units = $1,600
Capital gain on sale of investment (a - b)	c	$50
Taxable capital gain (50% of c)	d	$25
Federal tax payable (d x 26%)	e	$6.50
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 and territorial taxes would also apply and tax rates vary according to province or territory.

Mutual fund distributions and taxes

Why do mutual funds make distributions?

Mutual funds may earn four types of income from the securities they hold: interest, foreign income, dividends and capital gains.

The income earned may be offset, wholly or in part, by certain deductions. Management fees, operating expenses and their applicable taxes can be used to offset all four types of income. Capital losses can only be used to offset capital gains. The mutual fund will then distribute what's left to investors.

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, investors will generally see an improvement on the return of their investment.

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 inside a non-registered account. The exception is return of capital (ROC) distributions, which are discussed on page 12.

HELPFUL TIPS

Distributions from your investments can be paid monthly, quarterly or annually. 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.

See page 14 of this guide to view examples and learn more about T3 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 generally 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 distributions 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	✓	✓	✓	✓	✓
T-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 (Relevé 16 in Quebec).

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 7.

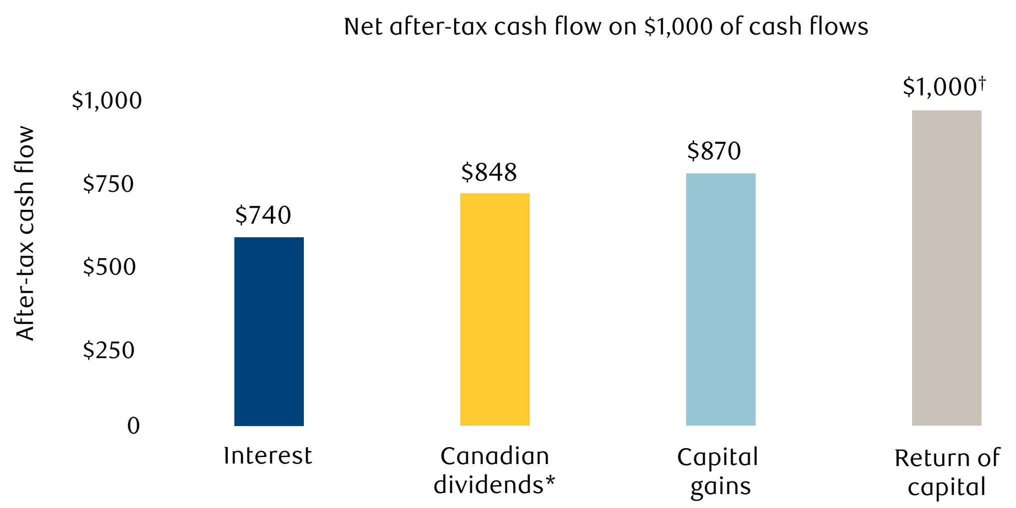
Capital gains
Over the course of the year, a fund will buy and sell various securities within the portfolio. If this trading activity generates more realized gains than losses, the fund will distribute capital gains to investors at the end of the year.

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 generally 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 reduced ACB 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 cash flows



For the purposes of this example, a marginal federal 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 income. All figures are rounded to the nearest whole number. Tax rates are subject to change.

* Represents eligible Canadian dividends with a federal tax credit of 15.02%.
† ROC distributions are not generally 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.

HELPFUL TIPS

Income-tested benefits and dividends

Dividend income is generally tax-efficient for most investors. However, for those with income dependent government benefits, such as Old-Age Security (OAS) or the Guaranteed Income Supplement (GIS), it's important to be aware of the dividend gross-up.

The gross-up for eligible dividends, currently at 38%, means that for every dollar in dividend income earned, your taxable income is reported 38% higher (for example, $100 in dividends, is reported as $138 of taxable income). As such, the dividend gross-up may result in an unexpected partial or complete loss of a benefit. If this were the case, your dividend income would effectively lose some of its tax-efficiency.

If you're receiving any type of benefit that depends on, or is affected by your income level, talk to a tax advisor about how to ensure you maintain or maximize those benefits.

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 the tax rate paid by the issuing company. 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

		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 when a distribution is paid.

How do reinvested distributions affect ACB?

Reinvested distributions cause the ACB of your investments to change. 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:

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

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

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

$$ACB = \$10.02$$

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

If you choose to receive your distributions (excluding ROC) 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 starts at $10, and the only change in unit price will be due to the $0.50 distribution.

Scenario 1

Jason purchases on December 18th (one day before the distribution) and elects to reinvest 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
- His ACB is now $105,000

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
- His ACB is $100,000

In Scenario 1 in the example above, by purchasing just prior to the distribution, Jason is unnecessarily generating taxable income from an investment that has not produced any gains from his standpoint.

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.

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 stated regular monthly distribution. If interest, dividends and realized capital gains earned by the fund (after offsetting expenses are taken into account) 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, distributions classified as ROC are generally not taxable in the year 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:** Rather than regularly selling a portion of your investment to generate steady cash flow, ROC helps you generate regular, non-taxable cash flow from your investment. In effect, this may help you defer taxes and provide added control over when you pay tax.

It is important to understand the long-term tax impact of ROC distributions. While ROC is not generally taxable in the year 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 units. Therefore, any ROC received in prior years and in the year you sell your investment would effectively be taxable that year. Also note, if your ACB reaches zero, any future ROC distributions will be taxed as capital gains in the year received, since the amount distributed as ROC will have exceeded the amount you initially invested.

ROC and Old Age Security (OAS) benefits

OAS and certain other government benefits may be 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 generally considered taxable income, so your OAS benefits will not be affected by them. However, when you do decide to sell your investment, or if your ACB reaches zero, OAS benefits and any other income-tested amounts, such as tax credits and other allowances, could be impacted by any realized capital gain.

How ROC affects your ACB

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

Jason's investments

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

By the end of year, each unit had distributed $0.60 to investors and the unit value had increased to $11.60.

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

If the distribution (ie: $0.60 per unit) is reinvested in additional units:

The $0.40 income portion will increase the ACB of the investment by $0.40 per unit
The $0.20 ROC portion will have no effect on the total dollars invested for the purposes of calculating capital gains or losses.

How are ROC distributions treated if your ACB reaches $0?

Example: If you initially paid $10.00 per unit for your mutual fund and you received $1.00 per year in return of capital distributions, after 10 years your ACB would reach $0.

$10.00	→	Original cost per unit.
- $10.00	→	$1.00 per year ROC distributions x 10 years.
= $0.00	→	Your ACB after 10 years. Going forward, it will remain at $0.00 until your units are sold, as an ACB cannot be negative.

Once your ACB reaches $0, any future ROC distributions received would be treated as taxable capital gains for the tax year received. Additionally, when you eventually sell your units, you would realize a capital gain based on the unit price received at sale and an ACB of $0. For example:

$12.00	→	Price per unit at sale.
- $0	→	Your ACB
= $12.00	→	Your realized capital gain

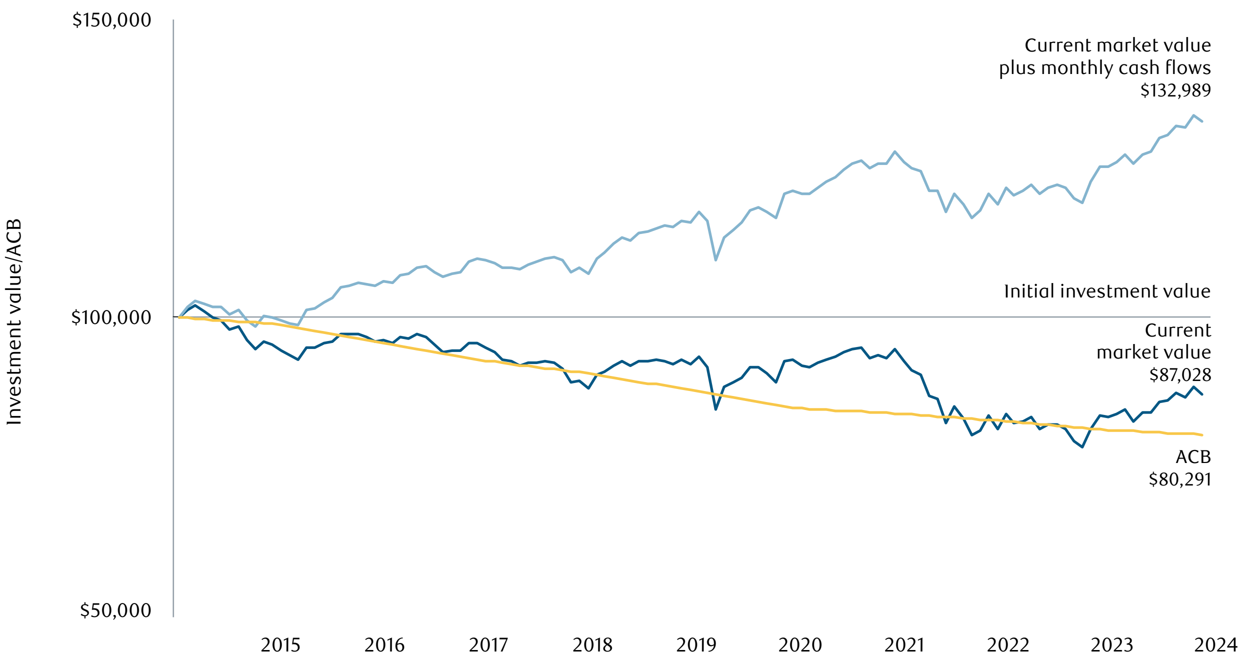
The long-term impact of ROC distributions

Assume you invested $100,000 in RBC Managed Payout Solution at the beginning of 2015. Every month, the Fund paid its regular monthly distribution, a portion of which was ROC. Your distributions are received in cash and not reinvested.

Over time, the ROC distribution has reduced the ACB of your units. At the end of 2024, 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

Actual results for the RBC Managed Payout Solution (Series A)
Based on a $100,000 investment at the start of 2015 through the end of 2024



Returns for RBC Managed Payout Solutions (series A) as of December 31, 2024: 1yr: 9.4%, 3yr: 2.3%, 5yr: 4.0%, 10yr: 3.7%.

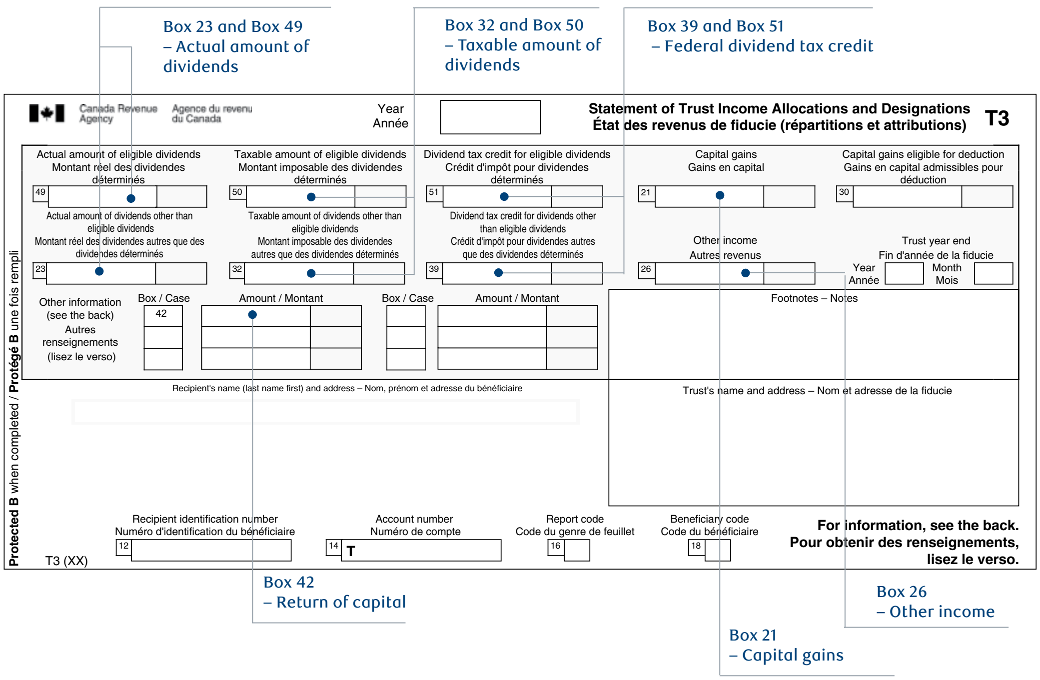
Key points:

- Over the holding period, the current market value plus monthly cash flows amounted to $132,989, providing a total benefit of $32,989.
- Total monthly cash flow payments of $45,960 include ROC distributions of $19,709, which reduce your ACB to $80,291 ($100,000 - $19,709).
- The remaining cash flow of $26,251 consists of a combination of interest, dividends, and capital gains ($45,960 - $19,709).
- If all units were sold on December 31, 2024, the difference between the market value ($87,028) and the ACB ($80,291) would generate a capital gain of $6,737 ($87,028 - $80,291 = $6,737).

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 tax slip (Relevé 16 in Quebec) 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 (Relevé 18 in Quebec) 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

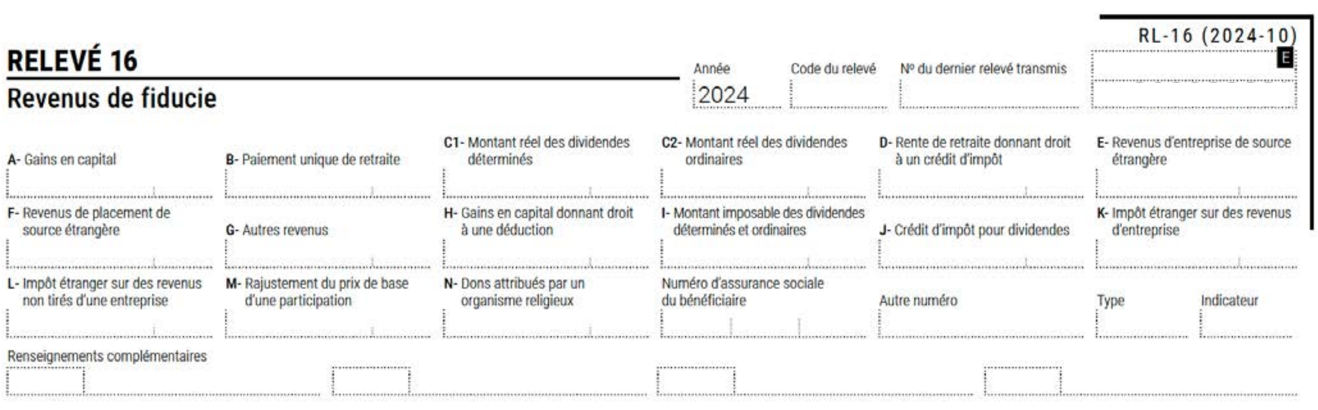


Canada Revenue Agency / Agence du revenu du Canada
Year / Année
Statement of Trust Income Allocations and Designations / État des revenus de fiducie (répartitions et attributions) T3

Actual amount of eligible dividends / Montant réel des dividendes déterminés — 49
Taxable amount of eligible dividends / Montant imposable des dividendes déterminés — 50
Dividend tax credit for eligible dividends / Crédit d'impôt pour dividendes déterminés — 51
Capital gains / Gains en capital — 21
Capital gains eligible for deduction / Gains en capital admissibles pour déduction — 30
Actual amount of dividends other than eligible dividends / Montant réel des dividendes autres que des dividendes déterminés — 23
Taxable amount of dividends other than eligible dividends / Montant imposable des dividendes autres que des dividendes déterminés — 32
Dividend tax credit for dividends other than eligible dividends / Crédit d'impôt pour dividendes autres que des dividendes déterminés — 39
Other income / Autres revenus — 26
Trust year end / Fin d'année de la fiducie — Year / Année, Month / Mois
Other information (see the back) / Autres renseignements (lisez le verso) — Box / Case 42, Amount / Montant; Box / Case, Amount / Montant
Footnotes – Notes
Recipient's name (last name first) and address – Nom, prénom et adresse du bénéficiaire
Trust's name and address – Nom et adresse de la fiducie
Recipient identification number / Numéro d'identification du bénéficiaire — 12
Account number / Numéro de compte — 14 T
Report code / Code du genre de feuillet — 16
Beneficiary code / Code du bénéficiaire — 18
For information, see the back. Pour obtenir des renseignements, lisez le verso.
Protected B when completed / Protégé B une fois rempli
T3 (XX)

Note: A Summary of Trust Income will accompany your T3 tax slips.

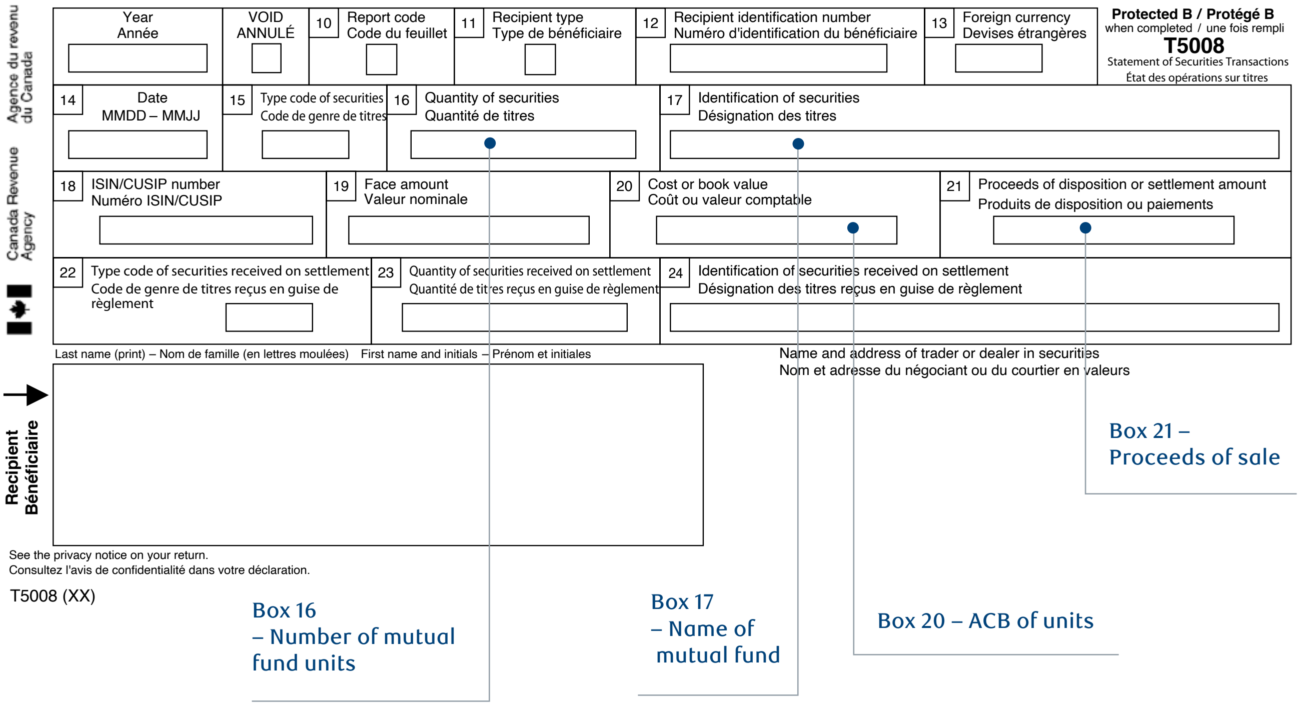
Sample Relevé 16 Tax Slip



RELEVÉ 16
Revenus de fiducie
Année 2024 — Code du relevé — Nº du dernier relevé transmis
RL-16 (2024-10) E

A- Gains en capital
B- Paiement unique de retraite
C1- Montant réel des dividendes déterminés
C2- Montant réel des dividendes ordinaires
D- Rente de retraite donnant droit à un crédit d'impôt
E- Revenus d'entreprise de source étrangère
F- Revenus de placement de source étrangère
G- Autres revenus
H- Gains en capital donnant droit à une déduction
I- Montant imposable des dividendes déterminés et ordinaires
J- Crédit d'impôt pour dividendes
K- Impôt étranger sur des revenus d'entreprise
L- Impôt étranger sur des revenus non tirés d'une entreprise
M- Rajustement du prix de base d'une participation
N- Dons attribués par un organisme religieux
Numéro d'assurance sociale du bénéficiaire
Autre numéro
Type
Indicateur
Renseignements complémentaires

Sample T5008 tax slip


Canada Revenue Agency / Agence du revenu du Canada

Year / Année | VOID / ANNULÉ | 10 Report code / Code du feuillet | 11 Recipient type / Type de bénéficiaire | 12 Recipient identification number / Numéro d'identification du bénéficiaire | 13 Foreign currency / Devises étrangères

Protected B / Protégé B when completed / une fois rempli
T5008
Statement of Securities Transactions
État des opérations sur titres

14 Date MMDD – MMJJ | 15 Type code of securities / Code de genre de titres | 16 Quantity of securities / Quantité de titres | 17 Identification of securities / Désignation des titres

18 ISIN/CUSIP number / Numéro ISIN/CUSIP | 19 Face amount / Valeur nominale | 20 Cost or book value / Coût ou valeur comptable | 21 Proceeds of disposition or settlement amount / Produits de disposition ou paiements

22 Type code of securities received on settlement / Code de genre de titres reçus en guise de règlement | 23 Quantity of securities received on settlement / Quantité de titres reçus en guise de règlement | 24 Identification of securities received on settlement / Désignation des titres reçus en guise de règlement

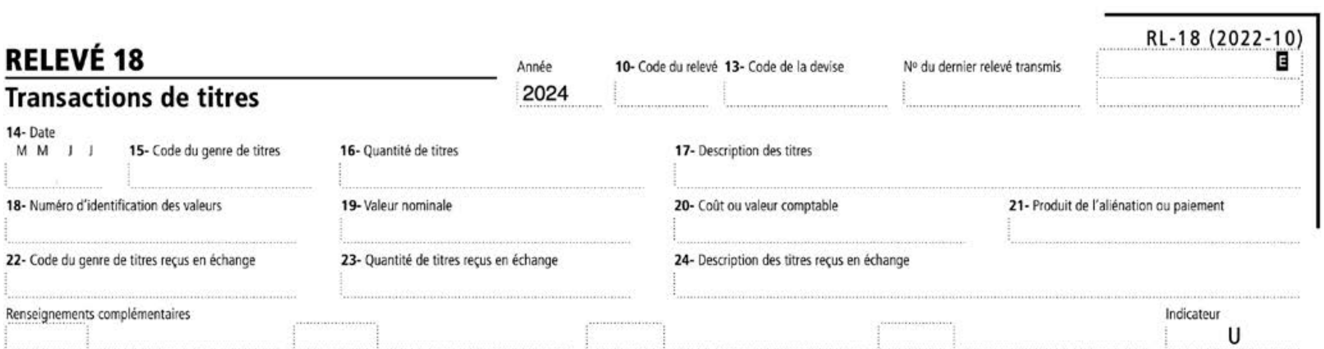
Recipient / Bénéficiaire
Last name (print) – Nom de famille (en lettres moulées) First name and initials – Prénom et initiales

Name and address of trader or dealer in securities
Nom et adresse du négociant ou du courtier en valeurs

See the privacy notice on your return.
Consultez l'avis de confidentialité dans votre déclaration.

T5008 (XX)

Sample Relevé 18 Tax Slip


RELEVÉ 18
Transactions de titres

RL-18 (2022-10)

Année 2024 | 10- Code du relevé | 13- Code de la devise | Nº du dernier relevé transmis | E

14- Date M M J J | 15- Code du genre de titres | 16- Quantité de titres | 17- Description des titres

18- Numéro d'identification des valeurs | 19- Valeur nominale | 20- Coût ou valeur comptable | 21- Produit de l'aliénation ou paiement

22- Code du genre de titres reçus en échange | 23- Quantité de titres reçus en échange | 24- Description des titres reçus en échange

Renseignements complémentaires

Indicateur U

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 all RBC GAM mutual funds are automatically reinvested in additional units of the fund. All distributions, whether reinvested or paid out to you, are reported on your tax slips, which include a breakdown of each type of income paid.

I sold some mutual funds during the year and realized some capital gains. Do these capital gains appear on my tax slips?
You can use the information on your T5008 tax slip to help you calculate your capital gains (or losses) from the sale of your mutual funds. The capital gains reported on T3 tax slips include gains that were realized within a mutual fund and distributed to unitholders. T3 tax slips do not indicate capital gains you may have realized by selling your own mutual fund units.

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, year-end capital gains and income estimates are generally available on rbcgam.com approximately two months prior to year-end for RBC Funds and PH&N Funds. Note that these estimates are for tax planning purposes only, and actual year-end distributions can be significantly different.

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.

How can triggering a capital loss before year-end help 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 capital gains earned on other investments, which may help reduce your overall taxes payable. If you have no capital gains in the current year, you can use the net capital loss to reduce taxable capital gains in the three preceding years or carry it forward indefinitely for use in future years.

What is 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 settlement date of the sale (and you continue to hold it for 30 days or more), your capital loss may be disallowed.

How are capital gains and distributions from U.S.-dollar mutual funds reported?

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

First, whenever you redeem a US$ fund in a taxable account, you'll need to calculate your purchase and redemption amounts in CA$ 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) = US$10
- U.S./Canada exchange rate on date of purchase: $1.10 (US$1.00 is equal to CA$1.10)
- 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 = US$10
- U.S./Canada exchange rate on date of sale: $1.30 (US$1.00 is equal to $1.30 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 $200 gain is due to currency fluctuation (appreciation of the US$ versus the CA$) and not a change in the value of the Fund.

Second, if you receive a taxable distribution from a US$ fund, you'll receive a T3 tax slip for reporting that income on your tax return. The amounts reported on a T3 tax 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.

RBC Global Asset Management

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

08280 (02/2025)

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