

Whenever a mutual fund passes earnings and other payouts to investors, it's known as a distribution.

A distribution from a Fidelity mutual fund may include interest income, Canadian dividends, foreign income, capital gains and/or return of capital (ROC). The major distribution for most funds comes at the end of each year, when net amounts are calculated: capital gains and other earnings minus the expenses of running the funds. Corporate class funds differ and are covered later in this document.

Distributions and your taxes

If you hold mutual fund units in a registered account, you are not required to pay taxes on distributions.¹ If you hold mutual fund units in a non-registered account, you are required to pay taxes on distributions of income and/or capital gains, whether the distributions are paid out in cash or reinvested in additional mutual fund units. The funds report distributions to investors on a T3 tax slip after the end of each calendar year. You will need to report income and/or capital gains dividends on your tax return in the year they were received.

Investors will not experience a loss from a distribution. The per-unit amount of a distribution is deducted from a fund's net asset value (NAV). Fund prices will reflect a NAV reduction when a distribution is paid. If the distribution is reinvested, the number of shares in the account will increase. This leaves the total NAV of the account unaffected by the distribution.

The chart below illustrates how each type of mutual fund distribution is taxed. For federal tax purposes, interest and foreign income is generally taxed at higher rates than Canadian dividends and capital gains.

TYPE OF DISTRIBUTION	DESCRIPTION	TAX TREATMENT
Interest income	Interest received from fixed income securities, such as bonds, T-bills, commercial paper and other money market instruments.	Taxable at an individual's marginal tax rate.
Canadian dividends	Dividends received from Canadian corporations.	Grossed up so that the individual is taxable on a higher amount than received. However, taxes are reduced as a result of the related dividend tax credit.
Foreign income²	Interest and dividends received from foreign sources.	Taxable at an individual's marginal tax rate.
Capital gains	Gains realized when assets such as stocks or bonds are sold by the fund.	50% of realized capital gains are taxable at an individual's marginal tax rate.
Return of capital (ROC)	ROC represents a portion of an investor's adjusted cost basis (ACB) in the fund. ROC does not represent yield, income or capital gains and is not the result of a fund's performance.	A ROC payment is not taxable in the year received and not reported on an individual's tax return, but reduces the individual's ACB of the fund, which will impact the taxable capital gain (or loss) on disposition. ³

¹ A registered account may include a Registered Retirement Savings Plan (RRSP), Tax-Free Savings Account (TFSA), Locked-in Retirement Account (LIRA) or Locked-in Retirement Savings Plan (LRSP), Registered Education Savings Plan (RESP), Registered Retirement Income Fund (RRIF), Life Income Fund (LIF) Locked-in Retirement Income Fund (LRIF) and First Home Savings Account (FHSA)

² Foreign income distributions may be accompanied by allocations of foreign income taxes paid. Individuals may be able to claim a foreign tax credit on their Canadian return for such foreign taxes.

³ If ROC payments result in the ACB reaching zero, subsequent payments become capital gains.

Corporate class mutual funds

If you have invested in a corporate class mutual fund, the distribution process is somewhat different than described above for mutual fund trusts. Class funds do not distribute interest or foreign income and only distribute Canadian dividends, capital gains dividends and ROC. When class funds are held in non-registered accounts, the distributions are reported on a T5 tax slip. You will need to report Canadian dividends and/or capital gains dividends on your tax return in the year received.

The timing of distributions from corporate class mutual funds is also different. Canadian dividends are, for the most part, paid in May for Fidelity's corporate class structure. Capital gains dividends are typically paid in January.

Consider the timing of fund purchases and sales relative to distributions.

Year-end fund distributions apply to all investors equally. If you buy a fund on or before the record date of a distribution, you may have to pay tax on any gains realized by the fund throughout the entire year. This could have a significant tax impact.

For purchases of a corporate class mutual fund, the different timing of distributions should be considered.

If you are considering a purchase or sale around the time of a distribution, there are many other factors to consider, including the size of the distribution relative to the size of your expected investment and how the transaction may fit in your overall tax strategy.

For more information, contact your financial advisor or visit [fidelity.ca](https://www.fidelity.ca)



Commissions, trailing commissions, management fees, brokerage fees and expenses may be associated with investments in mutual funds and ETFs. Please read the mutual fund's or ETF's prospectus, which contains detailed investment information, before investing. Mutual funds and ETFs are not guaranteed. Their values change frequently, and investors may experience a gain or a loss. Past performance may not be repeated.

This information is for general knowledge only and should not be interpreted as tax advice or recommendations. Every individual's situation is unique and should be reviewed by his or her own personal legal and tax consultants.

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