

If you are classified as a "U.S. person," you may be subject to certain U.S. tax filing requirements and not even know it. Fidelity is pleased to provide Passive Foreign Investment Company (PFIC) Annual Information Statements for all of our mutual funds and exchange traded funds (ETFs) to anyone who needs them.

Does this apply to you?

The definition of a "U.S. person" generally includes

- U.S. citizens
- U.S. residents
- U.S. green card holders
- anyone with a substantial connection to the U.S.
- certain entities organized in the U.S.

However, since the Internal Revenue Service's (IRS) definition of a "U.S. person" is very broad, it's possible there are investors who may not realize that they have U.S. tax filing obligations.

What you need to know

In 2010, the IRS issued a clarification to a set of existing tax rules. That clarification resulted in Canadian mutual funds and ETFs being classified as corporations for U.S. tax purposes. As a result "U.S. persons" who hold Canadian mutual funds and ETFs are subject to the PFIC rules. These rules are complex, and it is suggested you seek U.S. tax advice on how you may be affected. "U.S. persons" are required to report income from each PFIC held at tax time.

PFIC Annual Information Statements for Fidelity mutual funds and ETFs

Fidelity offers individually customized PFIC reporting support for all its mutual funds to reduce the PFIC tax reporting burden.

Upon request you will receive a personalized Annual Information Statement that reflects your allocation of ordinary earnings and net capital gains, and total distributions received from each Fidelity mutual fund held.

For ETF's and ETF Series, the Annual Information Statement (AIS) will be provided on our website at www.fidelity.ca. The AIS provides a pro rata per unit per day share of the ordinary earnings and net capital gains of the ETF or ETF Series for the tax period. Investors need to multiply the number of shares they held by the number of days they held them, and by the factors in the AIS to determine their personalized PFIC reporting amounts.

These statements will allow you to make the Qualified Electing Fund (QEF) election on your U.S. income tax returns. In making the QEF election, include the pro-rata share of the mutual fund's and ETF's ordinary earnings and capital gains for U.S. tax purposes. This is roughly similar to how U.S. mutual funds and ETFs are taxed in the U.S. and is generally aligned with how Canadian mutual funds and ETFs are taxed in Canada. There are other reporting options but in many cases the QEF election will be the most beneficial to U.S. tax filers.

What to do next?

It's recommended that you consult with your advisor and a U.S. tax specialist. PFIC rules are complex, and Fidelity believes it is important for you to have the knowledge necessary to make informed decisions. Affected investors should not make changes to their Canadian investment holdings without first speaking with their advisor and a U.S. tax specialist, and informing them that all Fidelity mutual funds and ETFs will provide the necessary reporting information to support the QEF election.

Additional PFIC details

A PFIC is a non-U.S. corporation of which 75% or more of its gross income consists of passive income, or 50% or more of the average fair market value of its assets consists of assets that produce passive income.

Passive income includes, among other things, dividends, interest, rent, royalties and capital gains from the disposition of securities.

It is generally believed that virtually all Canadian mutual funds and ETFs are PFICs. Certain public companies are also PFICs.

How do these rules affect different types of accounts, such as non-registered accounts, TFSAs and RRSPs?

These rules affect investments in non-registered accounts, TFSAs and RESPs. For PFICs held in retirement savings accounts such as RRSPs and RRIFs, most tax advisors suggest the PFIC rules should not be applicable. However, Fidelity recommends speaking with a U.S. tax specialist.

For more information, contact your financial advisor or visit fidelity.ca/PFIC



Commissions, trailing commissions, management fees, brokerage fees and expenses may be associated with investments in mutual funds and ETFs. Please read the mutual fund 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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