RBC Global Asset Management

Passive Foreign Investment Company

PASSIVE FOREIGN INVESTMENT COMPANY (PFIC)

Annual Information Statements Available From RBC Global Asset Management for the 2014 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 40 funds for the 2014 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 2015.

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 2014 and for assistance in preparing the required reporting forms to include with their U.S. tax returns.

More information on how to access PFIC Annual Information Statements for RBC GAM funds will be communicated in early 2015.

RBC GAM funds with 2014 PFIC reporting

PH&N Funds	**RBC Funds -** *cont'd*
PH&N Balanced Fund	RBC Emerging Markets Dividend Fund
PH&N Bond Fund	RBC Emerging Markets Equity Fund
PH&N Canadian Equity Fund	RBC Emerging Markets Small-Cap Equity Fund
PH&N Canadian Equity Value Fund	RBC European Equity Fund
PH&N Canadian Growth Fund	RBC Global Balanced Fund
PH&N Canadian Income Fund	RBC Global Bond Fund
PH&N Dividend Income Fund	RBC Global Corporate Bond Fund
PH&N High Yield Bond Fund	RBC Global Dividend Growth Fund
PH&N Monthly Income Fund	RBC Global Energy Fund
PH&N Overseas Equity Fund	RBC Global Equity Focus Fund
PH&N Short Term Bond & Mortgage Fund	RBC Global Equity Fund
PH&N Total Return Bond Fund	RBC Global High Yield Bond Fund
PH&N U.S. Equity Fund	RBC Global Precious Metals Fund
PH&N U.S. Multi-Style All-Cap Equity Fund	RBC High Yield Bond Fund
RBC Funds	RBC Japanese Equity Fund
BlueBay Global Convertible Bond Fund	RBC Monthly Income Bond Fund
BlueBay Global Monthly Income Bond Fund	RBC North American Growth Fund
RBC Asian Equity Fund	RBC North American Value Fund
RBC Asia Pacific Ex-Japan Equity Fund	RBC O'Shaughnessy All-Canadian Equity Fund
RBC Balanced Fund	RBC O'Shaughnessy Canadian Equity Fund
RBC Balanced Growth & Income Fund	RBC O'Shaughnessy International Equity Fund
RBC Bond Fund	RBC O'Shaughnessy U.S. Value Fund
RBC Canadian Dividend Fund	RBC QUBE Low Volatility Canadian Equity Fund
RBC Canadian Equity Fund	RBC U.S. Dividend Fund
RBC Canadian Equity Income Fund	RBC U.S. Equity Fund
RBC Canadian Index Fund	RBC U.S. Mid-Cap Equity Fund
RBC Canadian Money Market Fund	RBC U.S. Monthly Income Fund
RBC Canadian Short-Term Income 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 (TFSAs), 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 if the additional filing requirements for those accounts are submitted annually, such as IRS Form 8891, "U.S. Information Return for Beneficiaries of Certain Canadian Registered Retirement Plans." 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, RBG 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 70 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 2014 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 × 365 = 36,500. If those units were held for 180 days, the number of unit days would be 100 × 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 units × 65 days) + (200 units × 300 days) = 66,500 unit days.

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

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