

2011

Income Tax and Capital Gain Information

ABOUT YOUR PCS MUTUAL FUNDS

This booklet covers income tax reporting information relating to your PCS investments and capital gains.

As always, we recommend that you check with your tax advisor for complete income tax reporting guidelines.



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Income tax and capital gains information for your investments

In order to assist you in the preparation of your 2011 income tax return, we have prepared this guide to outline tax reporting issues for your investments. Keep this guide specifically for reference purposes when you prepare your income tax return.

This guide has been prepared for individual investors. If you are a corporation or a trust, please contact your tax advisor for assistance. This document is intended to be of assistance with regard to your PCS investments and is not a complete reference for any other type of reporting, nor it is intended to constitute tax advice. We recommend that investors consult their tax advisors for their particular circumstances in order to receive additional assistance prior to submitting their tax returns.

INCOME TAX REPORTING FOR NON-REGISTERED INVESTMENTS

If you held an investment outside of a tax-deferred plan such as a Retirement Savings Plan (RSP), a Retirement Income Fund (RIF) or a Registered Education Savings Plan (RESP), you are required to report the following income on your income tax return:

- distributions in the form of interest, dividends or capital gains paid to you by any fund;
- gains (or losses) realized when selling or redeeming units of your fund.

For more detailed information on the tax treatment of income received by an individual from Canadian mutual funds, refer to Canada Revenue Agency (CRA) information guide RC4169 – “*Tax Treatment of Mutual Funds for Individuals*”.

Q: What tax forms does PCS provide me with in order to report distributions paid by the funds?

A: For Canadian residents:

If your fund made a distribution in 2011, you will have received a “consolidated” T3/RL16 slip with your annual statement, aggregating the reporting of all types of distributions from all your funds for each account. However, the T3/RL16 will be mailed to you even if you did not receive an annual statement from PCS.

A T3/RL16 has been issued per fund unless the income consists solely of “other income” (usually interest) and is less than \$1.

For Non-Canadian residents:

If your fund made a distribution in 2011, you will receive an NR4 slip(s). PCS issues an NR4 slip for each fund that paid distributions of not less than \$1 or taxes withheld.

To determine where to report the income on your personal tax return, refer to the “Mutual Fund Distributions and Income Tax Reporting” table at the end of this booklet.

Note: Distributions received on funds held within a tax-deferred plan such as an RSP are not required to be reported as taxable income as long as they stay within the plan.

Q: For tax reporting purposes, is there a difference between distributions that are reinvested in additional units and those received in cash?

A: Distributions used to purchase additional units (reinvested distributions) and cash distributions are treated in the same manner for tax purposes – that is, you must report them on your tax return as income for the year (unless the distribution is received within a tax-deferred plan). The additional units you buy upon reinvestment should be factored into the calculation of the Adjusted Cost Base (ACB) of your investments. This will ensure that you are not taxed twice when you sell your mutual fund in the future (see example below).

EXAMPLE: CALCULATION OF ADJUSTED COST BASE (ACB)

Transaction	Cost A	# of Units B	ACB per Unit A÷B
2003 Purchase (includes any applicable acquisition fee)	\$10,000.00	1,000.000	\$10.00
Reinvested Distribution	300.00	29.940	10.02
	10,300.00	1,029.940	10.00
2004 Purchase	12,000.00	1,142.857	10.50
Reinvested Distribution	750.00	70.755	10.60
	23,050.00	2,243.552	10.27
2011 Redemption (\$5,000.00) (sold at a price of \$10.70)	(4,799.07)	(467.290)	10.27
Reinvested Distribution	250.00	23.148	10.80
ACB at Dec. 31, 2011	\$18,500.93	1,799.410	\$10.28

You should always use your own investment records to calculate the gains or losses. The Statement of Account or Capital Gains Summary provided by PCS is for information purposes only and is not intended for use as the exclusive source of income tax information.

Q: What is the inclusion rate for 2011 to determine my taxable capital gain when I receive a T3 slip (T3/RL16 for Quebec residents) reporting capital gains distributions?

A: The capital gain inclusion rate for 2011 is 50%. This percentage is applied to the amount of the capital gains distribution, which is reported in Box 21 of the T3 slip (Box A of the RL16 slip), to determine your taxable capital gain.

REPORTING OF CAPITAL GAINS AND LOSSES

Determining a Capital Gain (Loss)

A capital gain occurs when you redeem your mutual fund units at a unit price that is higher than your ACB.

On the other hand, a capital loss occurs when you sell at a unit price that is lower than your ACB. Determining your ACB involves more than simply knowing your original investment price. The ACB is the cost of your units plus any expenses you incurred to acquire them, such as commission and legal fees.

Other factors such as additional purchases, partial redemptions, transfers and reinvested distributions will also affect your ACB. You must factor in all these types of transactions to determine your ACB for tax purposes. A capital gain (loss) is calculated as follows:

EXAMPLE: CAPITAL GAINS CALCULATION

Redemption Amount	–	Adjusted Cost Base (ACB)	–	Redemption Fees	=	Capital Gain
\$10,000.00	–	\$4,500.00	–	\$500.00	=	\$5,000.00

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Q: What type of redemption transactions require me to report capital gains or capital losses?

A: Redemption transactions that require capital gains or capital losses reporting include:

- sale of mutual fund units held within Cash or Self-Directed Cash plans;
- transfer of assets from one fund to another;
- fees paid by a redemption of units.

Q: What type of redemptions do not require capital gains or capital losses reporting?

A: Redemptions of units or shares are not required to be reported as capital gains or capital losses if the transaction was a sale of mutual fund units held within a registered plan such as an RRSP (including spousal and group RRSP), RRIF (including spousal RRIF), LIRA, LRSP, RLSP, LIF, LRIF, RLIF, PRIF, TFSA (including group TFSA) or RESP (including group and family plan RESP).

Q: Why am I receiving capital gains or income distributions in a year when my investment had negative performance?

A: A distribution may reflect income or gain realized in a fund, regardless of fund performance.

Other than a fund that pays a fixed distribution, a distribution is only paid to ensure that the fund does not have to pay tax. Many investors are better off to receive distributions paid by a fund because distributions are often taxed at a lower rate in the hands of the investors compared to a mutual fund which is subject to the highest marginal tax rate.

Fund performance mainly consists of three components:

PERFORMANCE COMPONENT	Taxable and distributable?
Net income earned by the fund, which is equal to dividend and other income less fund expenses	Yes
Realized capital gains on the disposition of portfolio securities	Yes
Unrealized capital gains from market appreciation of portfolio securities	No

The buying and selling of investments in a fund is continuously reviewed by the portfolio managers of the fund.

Many equity funds appreciate in value due to increases in the value of the underlying investments. Any increase in value is not included in the taxable income of the fund until an investment is sold. (This is the same as if you owned the stocks and bonds yourself, where you would not report any gains until you sold the investment.)

Q: I invested in the fund in the middle of the year, am I only entitled to a pro-rated portion of the distributions?

A: No, the distributions allocated to you are based on the number of units you owned on the record day, the date established by an issuer of a security for the purpose of determining dividend or distribution. As long as you own the fund on the record day, you will be allocated the full amount of the distributions regardless of how long you held the fund.

Q: How do I determine my Adjusted Cost Base (ACB)?

A: To determine your ACB, you must keep track of all transactions resulting in the purchase, sale, reinvestment of distributions or transfer of mutual fund units. Distributions, other than return of capital distributions, received in cash do not affect your ACB. Acquisition fees paid for the purchase of mutual funds increase your ACB (see example on page 2).

Q: How do I report a capital gain (loss) on my T1-2011 Personal Income Tax and Benefit Return?

A: When you redeem your mutual fund units, you may have a capital gain or a capital loss. Generally, only 50% of your 2011 capital gain or capital loss becomes the taxable capital gain or allowable capital loss.

Mutual fund investors must report the capital gain (loss) on Schedule 3 of their tax return under Section 3 "Publicly traded shares, mutual fund units, deferral of eligible small business corporation shares, and other shares." (See below an excerpt of T1-2011 Schedule 3, Capital Gains (or losses) in 2011.)

REPORTING A CAPITAL GAIN ON SCHEDULE 3 BASED ON A \$5,000.00 REDEMPTION

T1-2011		Capital Gains (or Losses) in 2011				Schedule 3
Read line 127 in the <i>General Income Tax and Benefit Guide</i> . For more information, read chapter 2 in the Guide T4037 called <i>Capital Gains</i> .						
Attach a separate sheet of paper if you need more space. Attach a copy of this schedule to your return.						
		(1) Year of acquisition	(2) Proceeds of disposition	(3) Adjusted cost base	(4) Outlays and expenses (from dispositions)	(5) Gain (or loss) (column 2 minus columns 3 and 4)
A		C	D	E	F	G
3. Publicly traded shares, mutual fund units, deferral of eligible small business corporation shares, and other shares.						Gain (or loss)
Number	Name of fund/corporation and class of shares					
490.196	Fund Name	2000-01	5 000 00	4 901 96	40 00	58 04
		Total 131	5 000 00		Gain (or loss) 132	58 04

COLUMN	DESCRIPTION
A Number of shares:	Number of units or shares redeemed. Please refer to your Capital Gains Summary.
B Name of fund/corporation and class of shares:	Name of the fund redeemed.
C Year of acquisition:	The year(s) over which the units or shares were acquired.
D Proceeds of disposition:	The gross amount reported on your redemption.
E Adjusted Cost Base (ACB):	Usually the cost of your investment plus certain expenses to acquire it, such as commission (see the calculation example on page 2). Please note that any return of capital received reduces your ACB. Return of capital is reported on Box 42 of the T3 slip or Box M of the RL16. (or in the footnote on a NR4 slip for non-residents)
F Outlays and expenses (from dispositions):	Charges or commissions you paid as a result of your redemption.
G Gain (or loss):	You have realized a capital gain if the proceeds of disposition (item D) exceed the sum of the ACB (item E) plus outlays and expenses (item F). You have realized a capital loss if the proceeds of disposition (item D) are less than the sum of the ACB (item E) plus outlays and expenses (item F).

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Q: What is a return of capital? Do I pay tax on this?

A: Funds or portfolios

A return of capital is part of the distributions made by the fund that exceeds the amount of taxable income of the fund in that year. A return of capital is generally a distribution of some of your invested capital in the mutual fund. You do not pay tax on this amount and you do not include it in your taxable income for the year. The “return of capital” is reported in Box 42 of a T3 slip or Box M of a RL16 slip (disclosed as a footnote on an NR4). This amount reduces the ACB of your investment.

Q: What happens if the adjusted cost base (ACB) is reduced to zero or becomes negative?

A: It is possible that if distributions of return of capital (ROC) are received over an extended period of time that the adjusted cost base of the investment could fall to zero or become negative. If this occurs, the negative amount is deemed to be a capital gain in that taxation year. Any further ROC distributions will result in a capital gain in the year in which they occur.

Q: How does PCS report the proceeds from a mutual fund redemption?

A: PCS is required to report the proceeds of disposition on certain redemption transactions to Canada Revenue Agency (CRA). An income tax form, however, is not issued with respect to these transactions. They are highlighted by an asterisk (“*”) on your Annual Statement of Account in the Account Activity section. You are required to report the gains or losses on your income tax return as described on page 4.

You should always use your own investment records to calculate the gains or losses. As some of our records are based on third-party data for which we are unable to guarantee accuracy. The Statement of Account or Capital Gains Summary provided by PCS is for information purposes only and is not intended for use as the exclusive source of income tax information.

Q: Does the selling of one fund to buy another fund require tax reporting?

A: Changing your investment from one fund to another, within your Cash or Self-Directed Cash plans, is considered a transfer and is treated as a redemption and purchase transaction for tax reporting purposes. You must report the capital gain (loss) on the fund from which you transferred out.

Q: Are capital gains taxed differently than other types of income?

A: Yes. Only 50% of the capital gains amount is taxable if you redeemed units in 2011. The taxable amount is calculated on Line 199 of Schedule 3 of your personal tax return (and line 98 of Schedule G of your Quebec Income Tax return, if required). The sum of all taxable capital gains (or allowable capital losses) reported on Schedule 3 is to be entered on Line 127 of your personal income tax return, (and Line 139 of your Quebec Income Tax Return, if required) if the sum is positive. If the amount is negative, see CRA guide T4037 entitled “Capital Gains for the treatment of net capital losses.”

Q: What happens if I sell the mutual funds at a loss?

A: If you sell the mutual funds at a loss, this loss can be used to reduce any capital gains realized on the disposition of other property.

Q: Are capital losses deductible?

A: Capital losses may be applied against capital gains of the preceding three years to reduce tax payable. If no prior capital gains are available, you should keep a record of the losses to offset future capital gains. Capital losses cannot be used as a deduction against any other types of income except capital gains, nor may capital losses be used on their own to reduce income. For greater detail, consult the CRA guide T4037 entitled “Capital Gains”.

Q: How do I apply my net capital losses of other years to 2011?

A: You can apply net capital losses of other years to reduce your taxable capital gains in 2011. The amount of deduction you claim depends on when you incurred the loss because the inclusion rates used to determine taxable capital gains and allowable capital losses have changed over the years.

All inclusion rates are shown in the table below.

INCLUSION RATES	
Period net capital loss incurred	Inclusion rate
1972 to 1987	50%
1988 and 1989	66.67%
1990 to 1999	75%
2000	*
2001 to 2011	50%

** The inclusion rate for 2000 can be found on Line 16 in Part 4 of Schedule 3 on your 2000 personal income tax return.*

You have to apply net capital losses that arose in earlier years before you apply net capital losses of later years.

When you apply a net capital loss of a previous year to reduce your taxable capital gains in 2011, and the inclusion rates for the two years are different, you must first adjust the amount of the net capital loss to match the inclusion rate of 2011 by using an adjustment factor. The adjustment factor is determined by dividing the inclusion rate for 2011 by the inclusion rate for the year in which the net capital loss arose. The principle is that a dollar of actual loss should offset a dollar of actual gain before applying the inclusion rate to either the gain or loss.

To determine the amount of net capital loss to be carryforward to 2011, multiply the adjustment factor by the amount of net capital loss to be applied. Then you can apply the net capital loss carryforward against your 2011 taxable capital gain.

The application of net capital losses of other years to 2011 is illustrated in the following example.

Example:

Mark had a net capital loss of \$1,500 in 1999 and wishes to apply it against his taxable capital gains of \$1,800 in 2011. Mark had no other capital gains or losses. Inclusion rate for 1999 was 75%. Mark applies his 1999 net capital loss in 2011 as follows:

Determine his adjustment factor by dividing the inclusion rate for 2011 by the inclusion rate for 1999, the year in which the loss arose.

$$\text{Adjustment factor} = \frac{50\%}{75\%} = 66.67\%$$

To determine the amount of net capital loss he can utilize in 2011, Mark multiplies the adjustment factor by the amount of net capital loss for 1999.

$$\begin{aligned} \text{Net capital loss for carryforward} &= \text{Adjustment factor} \times \text{Net capital loss to be applied} \\ &= 66.67\% \times \$1,500 \\ &= \$1,000 \end{aligned}$$

Mark claims the adjusted net capital loss of \$1,000 against his taxable capital gain of \$1,800 in 2011 and reports a net taxable capital gain of only \$800 in 2011.

For more detailed information on capital gains and losses, refer to the CRA guide T4037 entitled “Capital Gains”.

MUTUAL FUND DISTRIBUTION AND INCOME TAX REPORTING

FUNDS (REPORTED ON A T3 TAX SLIP)	
MUTUAL FUND	TYPE OF DISTRIBUTIONS PAID IN 2011
Primerica Aggressive Growth Fund	capital gain
Primerica Canadian Money Market Fund	interest (other income)
Primerica Conservative Growth Fund	capital gain eligible dividend foreign non-business income interest (other income)
Primerica Growth Fund	capital gain eligible dividend foreign non-business income
Primerica Income Fund	capital gain eligible dividend foreign non-business income interest (other income)
Primerica Moderate Growth Fund	capital gain eligible dividend foreign non-business income interest (other income)
TYPE OF DISTRIBUTIONS PAID IN 2011	PERSONAL INCOME TAX REPORTING
Capital gain	Subtract any amount in Box 30 from the amount in Box 21. Enter the difference on Line 176 of Schedule 3 of your T1 Individual Tax Return.
Eligible dividend	Enter the taxable amount from Box 50 of your consolidated T3 information slip (equal to 1.41 times the amount in Box 49) on Line 120 of your T1 Individual Tax Return. The dividend tax credit shown in Box 51 should be claimed on Schedule 1, Line 425 of your T1 Individual Tax Return.
Foreign non-business income	Enter the amount from Box 25 of your consolidated T3 information slip on Line 121 of your T1 Individual Tax Return and on Line 433 of Form T2209.
Interest (other income)	Subtract any amount in Box 31 from the amount in Box 26. Enter the difference on Line 130 of your T1 Individual Tax Return.

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