AGF MUTUAL FUNDS | 2019

INCOME TAX AND CAPITAL GAINS INFORMATION

This booklet covers income tax reporting information relating to your AGF investments and capital gains.
As always, we recommend that you check with your tax advisor for complete income tax reporting guidelines.

AGF™

INCOME TAX AND CAPITAL GAINS INFORMATION FOR YOUR INVESTMENTS

In order to assist you in the preparation of your 2019 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 AGF 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 additional assistance prior to submitting their tax returns.

INCOME TAX REPORTING FOR NON-REGISTERED INVESTMENTS

Distributions on mutual funds held in a tax-deferred plan(s) do not need to be reported as taxable income as long as they stay within the plan.

Mutual fund refers to either a mutual fund trust (called "Fund or Portfolio") or a mutual fund corporation (called "Class"). In 2019, distributions were made from both the mutual fund trusts and the mutual fund corporations.

If you held an investment outside of a tax-deferred plan such as a Retirement Savings Plan (RSP), a Retirement Income Fund (RIF), a Registered Education Savings Plan (RESP), or a Tax Free Savings Account (TFSA), 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 or shares of your fund (except conversions of different series of the same Class or reclassifications of different series of the same Fund or Portfolio).

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 reporting slips does AGF provide me in order to report dividends/distributions paid by funds, portfolios or classes?

A: For Canadian Residents:

Funds or portfolios

If the funds or portfolios you invested in paid a distribution in 2019, you were issued a "consolidated" T3/RL16 slip with your annual statement, aggregating the reporting of distributions from your funds or portfolios. However, the T3/RL16 will be mailed to you even if you did not receive an annual statement from AGF.

A T3/RL16 slip has been issued per fund or portfolio unless the income consists solely of "other income" (usually interest) and is less than $1.

Classes

If the classes you invested in paid a dividend and/or a distribution in 2019, you were issued a "consolidated" T5/RL3 slip with your annual statement, aggregating the reporting of the dividends and/or distributions from the classes in each account. However, the T5/RL3 slip will be mailed to you even if you did not receive an annual statement from AGF.

You were issued a T5/RL3 slip if the dividend and/or distribution per account in the year were $1 or more.

For non-Canadian residents:

If your fund made a distribution in 2019, you will receive an NR4 slip(s). AGF issues an NR4 slip for each fund that paid distributions not less than $1 or taxes withheld.

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 were reinvested in additional units or shares and those received in cash?

A: Distributions used to purchase additional units or shares (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)

	Transactions	Cost A	# of Units B	ACB per Unit A÷B
2011	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**
2013	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**
2019	Redemption ($5,000.00) (sold at a price of $10.70)	(4,799.07)	(467.290)	10.27
	Reinvested Distribution[1]	250.00	23.148	10.80
	Return of Capital[2] of $100 reported in Box 42 of the T3 slip or Box M of the RL16 slip for fund/portfolios or in the footnotes on a T5/RL3 slip for classes.	(100.00)		
	ACB at Dec. 31, 2019	**$18,400.93**	**1,799.410**	**$10.23**

You should always use your own investment records to calculate your 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 T5008/R18 slip(s) provided by AGF is for information purposes only and is not intended for use as the exclusive source of income tax information.

[1] *2019 total reinvested distribution of $250 included a return of capital of $100.*

[2] *A return of capital reduces the calculation of ACB.*

Q: What capital gain inclusion rate should I use to determine my taxable capital gain in 2019 when I receive a T3 or T5 slip (T3/RL16 or T5/RL3 for Quebec residents) reporting capital gains distributions?

A: The capital gain inclusion rate for 2019 is 50%. This percentage is applied to the amount of capital gain distribution, which is reported in Box 21 of the T3 slip (Box A of RL16) or Box 18 of the T5 slip (Box I of RL3), 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 or shares at a unit price that is higher than the ACB.

On the other hand, a capital loss occurs when you redeem 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 or shares, plus any expenses you incurred to acquire them, such as commission and annual fees.

Other factors such as additional purchases, partial redemptions, transfers and reinvested distributions and deemed dispositions will also affect your ACB. If the same fund is held in multiple non-registered accounts, you are required to calculate your ACB across all accounts. 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

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 or shares held within Cash or Self-Directed Cash plans;
- transfer of assets from one Fund or Portfolio or Class to another[1] including those pursuant to the AGF Canadian Asset Allocation Service;
- fees paid by a redemption of mutual fund units or shares;
- conversion fees paid on a transfer of assets from one class to another within AGF All World Tax Advantage Group Limited.

Q: What is the impact to mutual fund price upon distributions?

A: When a fund makes a distribution, its unit or share price drops by an amount equal to the distribution per mutual fund unit or share. However, the overall value of your investment is not impacted. If you did not participate in distribution reinvestment, your investments plus the cash distribution received will equal to the value of your holdings before the distribution. If you had enrolled in distribution reinvestment plan, you would have bought more units or shares of the fund. When you multiply the higher number of units or shares by the new, lower price, you will find that the value of your holdings is unchanged. All distributions, whether reinvested or paid out to you, are reported on your T3/RL16 or T5 /RL3 tax slip.

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 for the following transactions:

- sale of mutual fund units or shares held within a registered plan such as an RRSP (inluding spousal and group RRSP), RRIF (including spousal), LIRA, LRSP, RLSP, LIF, LRIF, RLIF, PRIF, TFSA (and group TFSA), or RESP (including group and family plan RESP);
- conversion of one series within a class of shares of AGF All World Tax Advantage Group Limited into another series of the same class of shares of AGF All World Tax Advantage Group Limited[1];
- transfer of mutual fund units or shares between mutual fund series of the same fund.

Q: Are tax slips issued for mutual funds held in my Tax Free Savings Account (TFSA)? How about withdrawals?

A: 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.

[1] For years after 2016, income tax rule changes require reporting for transfer of assets between class or funds within the AGF All World Tax Advantage Group Limited.

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 receiving 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 or shares. 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 3).

Q: How do I report a capital gain/(loss) on my T1-2019 General Income Tax and Benefit Return?

A: When you redeem your mutual fund units or shares, you may have a capital gain or a capital loss. Generally, only 50% of your 2019 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 T1-2019 Schedule 3, Capital Gains (or Losses) in 2019.)

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

T1-2019 | **Capital Gains (or Losses) in 2019** | **Schedule 3**

Read line 127 in the *General Income Tax and Benefit Guide*. For more information, read chapter 2 in the Guide T4037 called *Capital Gains*.

Attach a separate sheet of paper if you need more space. Attach a copy of this schedule to your return.

3. Publicly traded shares, mutual fund units, deferral of eligible small business corporation shares, and other shares.

A Number	B Name of fund/corporation and class of shares	(1) Year of acquisition C	(2) Proceeds of disposition D	(3) Adjusted cost base E	(4) Outlays and expenses (from dispositions) F	(5) Gain (or loss) (column 2 minus columns 3 and 4) G Gain (or loss)
467.29	*Fund Name*	*2013*	*5 000 00*	*4,799 07*	*40 00*	*160 93*
		Total 131	*5 000 00*		Gain (or loss) 132	*160 93*

COLUMN	DESCRIPTION
A **Number of shares:**	Number of units or shares redeemed. Please refer to your T5008/R18 slip(s).
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 any expenses to acquire it, such as commission. 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 slip for funds/portfolios or in the footnotes on a T5/RL3 for classes or in the footnote on a NR4 slip for non-residents. (Refer to the example on page 3.) Special rules may also apply if your investments were acquired prior to 1972.
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).

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 slip). This amount reduces the ACB of your investment.

Classes

A return of capital distribution from a class represents a distribution of capital which is generally a distribution of your invested capital in the 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 distribution" from a class is disclosed in the footnote area of a T5 slip, a RL3 slip and an NR4 slip. 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 AGF report the proceeds from a mutual fund redemption?

A: AGF is required to report the proceeds of disposition on certain redemption transactions to the 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. If your investments are registered under the nominee name (i.e. your financial advisor's firm), such transactions may be reported separately to you by your financial advisor's company. You are required to report the gains or losses on your income tax return as described on page 6.

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 T5008/R18 slip(s) provided by AGF 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.[2]

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[2] For years after 2016, income tax rules require tax reporting for class changes within the AGF All World Tax Advantage Group Limited.

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

A: Yes. Only 50% of the amount of capital gains is taxable if you redeem your units or shares during 2019. 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 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 return (and Line 139 of your Quebec Income Tax Return, if required), if the sum is positive. If the amount if negative, see CRA guide T4037 entitled "Capital Gains" for treatment of net capital losses.

Q: What happens if I sell the mutual funds and realize a capital loss?

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

Q: Are capital losses deductible?

A: Capital losses may be applied against capital gains taxed in 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 2019?

A: You can apply net capital losses of other years to reduce your taxable capital gains in 2019. 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 2019	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 2019, 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 2019 by using an adjustment factor. The adjustment factor is determined by dividing the inclusion rate for 2019 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 carried forward to 2019, 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 2019 taxable capital gain.

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