

**Passive Foreign Investment Company (PFIC)  
Annual Information Statements  
for the 2019 Tax Year**

**January 31, 2020**

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To help investors who file U.S. tax returns, Renaissance Investments will provide PFIC Annual Information Statements (AIS) for most of our Renaissance Investments Family of Funds. For the full list of funds that will have a PFIC information statement, please see the table on the following page.

The PFIC Annual Information Statement allows investors to make the Qualified Electing Fund Election (QEF Election) on their U.S. tax returns. The QEF Election allows for long-term capital gains to be taxed at more favourable rates and helps to avoid interest penalties.

The PFIC Annual Information Statement for Renaissance Investments Mutual Funds is available at the fund level rather than the individual account level. To file a QEF Election, investors need the PFIC Annual Information Statement for each fund they own, plus their account statements for the appropriate tax year.

U.S. investors in Renaissance Investments should consult with a U.S tax advisor on their QEF Election option and for assistance in preparing the required reporting forms to include with their U.S. tax returns.

## **Funds with 2019 PFIC reporting**

### **Money Market Funds**

Renaissance Canadian T-Bill Fund

### **Fixed Income Funds**

Renaissance Canadian Bond Fund

Renaissance Global Bond Fund

Renaissance High-Yield Bond Fund

Renaissance Real Return Bond Fund

Renaissance U.S. Dollar Corporate Bond Fund

Renaissance Corporate Bond Fund (formerly Renaissance Corporate Bond Capital Yield Fund)

Renaissance Floating Rate Income Fund

Renaissance Short-Term Income Fund

### **Balanced Funds**

Renaissance Canadian Balanced Fund

Renaissance Optimal Income Portfolio

Renaissance Optimal Conservative Income Portfolio

Renaissance Optimal Growth & Income Portfolio

Renaissance U.S. Dollar Diversified Income Fund

### **Equity Income Funds**

Renaissance Canadian Dividend Fund

Renaissance Canadian Monthly Income Fund

Renaissance Diversified Income Fund

Renaissance High Income Fund (formerly Renaissance Millennium High Income Fund)

### **Canadian Equity Funds**

Renaissance Canadian Core Value Fund

Renaissance Canadian Growth Fund

Renaissance Canadian All-Cap Equity Fund

Renaissance Canadian Small-Cap Fund

### **U.S. Equity Funds**

Renaissance U.S. Equity Fund

Renaissance U.S. Equity Growth Fund

Renaissance U.S. Equity Growth Currency Neutral Fund

Renaissance U.S. Equity Value Fund

Renaissance U.S. Equity Income Fund

### **Global Equity Funds**

Renaissance China Plus Fund

Renaissance Emerging Markets Fund

Renaissance Global Focus Fund

Renaissance Global Focus Currency Neutral Fund

Renaissance Global Growth Fund

Renaissance Global Growth Currency Neutral Fund

Renaissance Global Markets Fund

Renaissance Optimal Global Equity Portfolio

Renaissance Optimal Global Equity Currency Neutral Portfolio

Renaissance Global Small-Cap Fund

Renaissance Global Value Fund

Renaissance International Equity Fund

**Specialty Funds**

Renaissance Optimal Inflation Opportunities Portfolio  
Renaissance Global Health Care Fund  
Renaissance Global Infrastructure Fund  
Renaissance Global Infrastructure Currency Neutral Fund  
Renaissance Global Real Estate Fund  
Renaissance Global Resource Fund  
Renaissance Global Science & Technology Fund  
CIBC Multi-Asset Absolute Return Strategy

**Private Pools**

Renaissance Ultra Short-Term Income Private Pool  
Renaissance Canadian Fixed Income Private Pool  
Renaissance Canadian Equity Private Pool  
Renaissance Equity Income Private Pool  
Renaissance U.S. Equity Private Pool  
Renaissance International Equity Private Pool  
Renaissance Emerging Markets Equity Private Pool  
Renaissance Global Bond Private Pool  
Renaissance Global Equity Private Pool  
Renaissance Multi-Sector Fixed Income Private Pool  
Renaissance Real Assets Private Pool  
Renaissance Multi-Asset Global Balanced Income Private Pool  
Renaissance Multi-Asset Global Balanced Private Pool

\* Not available for Renaissance Money Market Funds, Renaissance High Interest Savings Accounts and Axiom Portfolios

## 1. Who are U.S. persons?

The definition of a U.S. person for U.S. income tax purposes is broad and generally includes U.S. residents, U.S. citizens, U.S. green card holders, other persons with a substantial connection to the U.S. and certain entities organized in the U.S. (such as U.S. domestic corporations). It should also be noted that U.S. citizens and green card holders are considered U.S. persons regardless of their country of residence. Some Canadian residents are unaware that they have U.S. tax filing requirements, including Canadian citizens who are also U.S. citizens through birth or ancestry.

## 2. What is a PFIC?

A PFIC (Passive Foreign Investment Company) is a non-U.S. corporation that has:

- 75% or more of its gross income that consists of passive income, or
- 50% or more of the average fair market value of its assets that produce passive income or that produce no income (such as cash)

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

Special U.S. tax rules apply to U.S. persons who own PFICs; these rules have existed since 1986.

In 2010, the Internal Revenue Service (IRS) issued a clarification that Canadian mutual funds are classified as corporations for U.S. tax purposes. As such, units of most Canadian mutual funds are considered PFIC shares and are subject to the PFIC rules.

## 3. How do PFIC rules work?

U.S. persons who own PFIC shares must report each PFIC investment annually on a separate IRS form ([Form 8621](#), *Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund*). Investors and advisors must complete [Form 8621](#) for each Canadian mutual fund owned. The annual reporting requirement also applies to indirect holdings of PFIC shares (e.g., where a U.S. person owns shares of a Canadian mutual fund using a fund-of-fund(s) structure, meaning that in turn, it holds shares of another Canadian mutual fund). The U.S. person must file [Form 8621](#) to report holdings of each indirectly held Canadian mutual fund.

There are three taxation methods available to U.S. persons with holdings of PFIC shares – the Excess Distribution Method, the Mark-to-Market Election, and the Qualified Electing Fund (QEF) Election.

### 1. Excess Distribution Method (default)

Under the Excess Distribution Method, tax on PFIC income and gains in excess of 125% of the average distributions from the PFIC over the previous three years is payable at the highest ordinary income rate. This applies for income attributed to years prior to the year of disposition or income receipt with no long-term capital gains treatment. Payment of tax is deferred to disposition. Gains are assumed to be earned consistently over the time the PFIC shares are held and deferred tax is subject to compound interest

charges. This is the default method applied for PFIC shares unless the taxpayer makes either the Mark-to-Market Election or Qualified Electing Fund Election.

## 2. Mark-to-Market Election

Under the Mark-to-Market Election, tax is paid as if the gain or loss in fair market value of PFIC shares is determined as ordinary income with the shares being sold at the end of the period. This inclusion of income to the U.S. person correspondingly affects their U.S. tax basis in the PFIC shares.

## 3. QEF Election

Under the QEF Election, investors must, on an annual basis, include their pro-rata share of the mutual fund's earned income and capital gains for U.S. tax purposes. A PFIC Annual Information Statement is required to make a QEF Election.

Please note that T3 and T5 slips issued by Canadian mutual funds report income earned for Canadian tax purposes and not income earned for U.S. tax purposes. As such, a QEF Election made using T3 or T5 slips is not valid and the "Excess Distribution Method" may consequently continue to apply to holdings of such funds.

## 4. Which of the three options is better for the investor? Excess Distribution Method, Mark-to-Market Election or QEF Election?

Investors should consult with their financial advisor or a U.S. tax specialist to make this decision, as the preferred method will vary in each investor's particular case (and possibly for each PFIC or Canadian mutual fund they hold). You must also take into account factors, such as the amount of distributions; the length of the investor's holding period, and the appreciation or depreciation in the fund's value over the investor's holding period. However, generally speaking:

- the Excess Distribution Method (the default method) is the least favourable;
- the Mark-to Market Election is straightforward, but not otherwise advantageous; and
- the QEF Election is generally the preferred method because it most closely aligns with the tax treatment of mutual fund investments by both the U.S. and Canadian tax systems.

## 5. 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. CIBC will not provide Annual Information Statements for PFICs held in retirement savings accounts such as RRSPs and RRIFs, as we believe that the PFIC rules are not applicable. However, CIBC recommends that investors speak with a U.S. tax specialist.

## 6. Will the PFIC Annual Information Statements be provided for the 2019 tax year?

Renaissance Investments elected a tax year for U.S. tax purposes to start on July 1, 2018 and end on June 30, 2019. U.S. persons with U.S. tax years ending on December 31, 2019 may make a QEF Election with respect to such funds for the funds' year that ended on June 30, 2019. This period is deemed acceptable by the Internal Revenue Service (IRS). Investors should consult with their U.S. tax specialist to understand how this impacts their tax reporting.

## **7. Why is PFIC reporting provided at the fund level, rather than the individual account level?**

Renaissance Investments decided to offer PFIC reporting at the fund level so that investors have all of the information they need to file more tax-efficient QEF Elections for the 2019 tax year.

## **8. How can I get my PFIC Annual Information Statement?**

You can visit the [Renaissance Investments website](#) or contact Renaissance Client Services at 1-888-888-3863.

## **9. When will PFIC Annual Information Statements be available?**

PFIC Annual Information Statements will be available online by February 28, 2020.

## **10. How do I calculate my account level PFIC factors for the QEF Election?**

For each PFIC, your U.S. tax preparer requires the following:

- The PFIC Annual Information Statement for the fund provided by Renaissance Investments
- Your account statements for the tax year provided by your investment dealer

The PFIC Annual Information Statement 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, multiply the number of unit days you held the fund by the pro-rata amounts on the Annual Information Statement.

To calculate the number of unit days, multiply the number of units held by the number of days the units were held for the tax year. For example, an account that held 1,000 units of a fund for the full year (July 1, 2018 to June 30, 2019, 365 days), the number of unit days would be  $1,000 \times 365 = 365,000$ . If those units were held for 181 days (July 1, 2018 to December 29, 2018), the number of unit days would be  $1,000 \times 181 = 181,000$ . This value would then be multiplied by the pro-rata values on the Annual Information Statement 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 1,000 units then, 65 days into the year, another 1,000 units are purchased (increasing the total number of units to 2,000). If no other changes are made for the remaining 300 days of the year, the unit days calculation would be:  $(1,000 \text{ units} \times 65 \text{ days}) + (2,000 \text{ units} \times 300 \text{ days}) = 665,000$  unit days.

For any help with these calculations, Renaissance Investments suggests that investors consult with a qualified U.S. tax professional.

## **11. Can clients still request a previous year's PFIC Annual Information Statement?**

Yes, clients can request a PFIC Annual Information Statement for the previous reporting year by visiting the [Renaissance Investments website](#) or by contacting Renaissance Client Services at 1-888-888-3863.