# Fidelity mutual fund distributions

Whenever a mutual fund passes earnings and other payouts to unitholders, it's known as a distribution.

A distribution from a Fidelity mutual fund may include Canadian interest income, foreign income, capital gains and/or dividend income. The major distribution for most funds comes at the end of each year, when net amounts are calculated: capital gains and other earnings minus the expenses of running the funds.

## Distributions and your taxes

If you hold mutual fund units in a registered account,* you are not required to pay taxes on distributions. If you hold mutual fund units in a non-registered account, you are required to pay taxes on distributions of income and/or capital gains, whether the distributions are paid out in cash or reinvested in additional mutual fund units. The funds report distributions to unitholders on a T3 tax slip after the end of each calendar year. You will need to report income and/or capital gain distributions on your tax return in the year they were received.

Investors will not experience a loss from a distribution. The per-unit amount of a distribution is deducted from a fund's net asset value (NAV). Fund prices will reflect a NAV reduction when a distribution is paid. If the distribution is reinvested, the number of shares in the account will increase. This leaves the total net asset value of the account unaffected by the distribution.

The chart below illustrates how each type of mutual fund distribution is taxed. For federal tax purposes, income is generally taxed at higher rates than dividends and capital gains.

| TYPE OF DISTRIBUTION | DESCRIPTION | TAX TREATMENT |
|---|---|---|
| **Canadian interest income** | Interest received from fixed-income securities, such as bonds, T-bills, commercial paper and other money market instruments | Fully taxable at an individual's marginal tax rate |
| **Foreign income** | Interest and dividends received from foreign sources | Fully taxable at an individual's marginal tax rate |
| **Capital gain** | Gains received when assets such as stocks or bonds are sold within the fund and distributed to unitholders | 50% of realized capital gains are taxable at an individual's marginal tax rate |
| **Canadian dividends** | Dividends received from Canadian taxable corporations | Grossed up so that the unitholder is taxed on the yearly amount; this is then offset by a dividend tax credit of the grossed-up amount to avoid double taxation |

### Consider the timing of fund purchases and sales relative to distributions.

Year-end fund distributions apply to all unitholders equally, so if you buy units in a fund on or before the record date of a distribution, you may have to pay tax on any gains incurred from the fund throughout the entire year. This could have a significant tax impact.

If you are considering a purchase or sale around the time of a distribution, there are many other factors to consider, including the size of the distribution relative to the size of your expected investment and how the transaction may fit in your overall tax strategy.

## For more information, contact your financial advisor or visit *fidelity.ca*

*A registered account may include a Registered Retirement Savings Plan (RRSP), Tax-Free Savings Account (TFSA), Locked-in Retirement Account (LIRA) or Locked-in Retirement Savings Plan (LRSP), Registered Education Savings Plan (RESP), Registered Retirement Income Fund (RRIF), Life Income Fund (LIF) and Locked-in Retirement Income Fund (LRIF).

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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