

Richardson Kish Submissions to the Senate Finance Committee - April 15, 2015 7 Related Submissions

- (1) "Richardson Kish - Main Citizenship Taxation April 15 2015 International Tax"
- (2) "Richardson Kish - Video Testimonials of Americans Abroad – April 15,2015 - International Tax"
- (3) "Richardson Kish - Comments of Americans Abroad on Citizenship Taxation - April 15, 2015 - International Tax"
- (4) "Richardson Kish - The S. 877A Exit Tax - April 15, 2015 - International Tax"
- (5) "Richardson Kish - Revenue Raising Measures - April 15, 2015 - International Tax"
- (6) Richardson Kish - Mutual Fund Comparison: Canada vs. United States - April 15, 2015 - International Tax
- (7) Richardson Kish 2014 - Complaint to United Nations Re: United States Citizenship Taxation - International Tax

This is submission (6) - "Mutual Fund Comparison: Canada vs. United States"

John Richardson - Toronto, Canada

Stephen Kish - Toronto, Canada

citizenshiptaxation@gmail.com

The Punitive U.S. Tax Treatment of Canadian Mutual Funds

Generally, this topic is governed by a combination of the rules in S. 1297 of the Internal Revenue Code which defines what a PFIC (“Passive foreign investment company”) is: <https://www.law.cornell.edu/uscode/text/26/1297>

and S. 1291 of the Internal Revenue Code which imposes “Interest on tax deferral” for investing in PFICs. <https://www.law.cornell.edu/uscode/text/26/1291>

In general non-U.S. (including Canadian mutual funds) are considered to be PFICs under the U.S. Internal Revenue Code. U.S. mutual funds are NOT considered to be PFICs. This disparity in treatment exists even if both the U.S. and Canadian mutual funds own an identical basket of U.S. stocks. The difference lies NOT in the investments but in the location of the mutual fund. The non-U.S. (Canadian) mutual fund will be treated differently because and only because it is not located in the United States. Furthermore, the punitive treatment of Canadian mutual funds did NOT begin until 2010 which was many years after they were purchased by Americans living in Canada.

While the sale of U.S. mutual funds would be treated as a normal capital gain, a Canadian mutual fund would generally be subject to the PFIC rules.

As explained in S. 1297 of the Internal Revenue Code, a PFIC is a foreign corporation that meets either the income test or the asset test.

Income test: The income test explains that PFIC classification applies if 75 percent or more of the income for the corporation’s tax year is passive.

Asset test: The asset test triggers PFIC classification when 50 percent or greater of the average percentage of assets held by the corporation during the year produces passive income or is held to produce passive income.

By design, a mutual fund sells shares or units to investors and uses this capital to purchase stocks, bonds, and other investment producing passive income. Consequently, foreign-based (non-U.S.) mutual funds will generally fall within the PFIC definition.

S. 1291 of the Internal Revenue Code imposes punitive tax consequences on the non-U.S. mutual fund. The S. 1291 punitive tax consequences are referred to as the PFIC “excess distribution” regime. The PFIC “excess distribution” regime is what would apply to most owners of Canadian mutual funds. This is because few owners of Canadian mutual funds knew that they were purchasing PFICs at the time they were purchased. As a result, those investors in Canadian mutual funds are unable to escape the tax consequences of the “excess distribution regime”.

What is the “effect” of the S. 1291 “excess distribution” regime?

When the mutual fund is sold, the gain is NOT treated as a capital gain, as the gain from a U.S. mutual fund would be. Rather, the gain is allocated through the holding period and then taxed at the highest possible tax rate under the Internal Revenue Code. Interest is then added to that tax, and the interest is compounded daily. Such is the effect of being subject to the “excess distribution regime”.

In this submission, we will see 3 scenarios illustrating how penalizing the “excess distribution” regime is, and how as the holding period increases, the penalty gets worse. Eventually the level of taxation will approach 47% with a 20 year holding period. This is true regardless of the tax situation of the taxpayer. A low-income taxpayer would see such income taxed at 47% as opposed zero.

It is worth noting that due to Canadian regulatory reasons, Canadian mutual funds replicating US ones were created and only the Canadian one can be sold to Canadian residents, nevertheless such clones would be subject to this punitive taxation regime.

Although beyond the intended scope of this submission, it is also true that annual distributions can also be taxed as "excess distributions" (if the distribution exceeds 125% of the average of the distributions for the three previous years).

Furthermore, most investors will have to report their non-U.S. mutual funds on the expensive and complicated Form 8621 (see below).

Again, to be clear, the PFIC treatment imposed on Canadian mutual funds is for NO OTHER REASON than that the fund is located in Canada. The clear intent of the rule is to require Americans abroad to invest ONLY in U.S. mutual funds. This is absurd and ridiculous. Surely the interests of the U.S. mutual fund industry should NOT be used to punish the retirement planning objectives of American abroad.

Please see the following examples.

TAXATION OF PFICs UNDER THE EXCESS DISTRIBUTION REGIME

(WHICH WOULD APPLY TO MOST TAXPAYERS WHO WOULD LEARN ABOUT PFIC TOO LATE TO MAKE AN ELECTION)

Scenario 1:

Bought Jan 14, 2014 \$1,000
Sold Dec 31, 2014 \$21,000

Canadian mutual funds

Taxed as ordinary income

US mutual funds / Stocks

Taxed as Short-Term capital gains
Same rate as ordinary income but can be offset by capit:

Scenario 2:

Bought Jan 14, 2010 \$1,000
Sold Dec 31, 2014 \$21,000

Canadian mutual funds

Section 1291 tax: \$5,776
Section 1291 interest: \$336
Taxed as ordinary income: \$4,026
Effective tax rate in excess of: 31% (when adding tax on ordinary income, effective tax rate ranges from 31 to 39%)

US mutual funds / Stocks

Taxed as Long-Term capital gains (0, 15% or 20%)

Scenario 3:

Bought Jan 14, 1993 \$1,000
Sold Dec 31, 2014 \$21,000

Canadian mutual funds

Section 1291 tax: \$7,127
Section 1291 interest: \$2,299
Taxed as ordinary income: \$910
Effective tax rate in excess of: 47% (when adding tax on ordinary income, effective tax rate ranges from 47 to 49%)

US mutual funds / Stocks

Taxed as Long-Term capital gains (0, 15% or 20%)

SCENARIO 1

HOLDING PERIOD:

JANUARY 14, 2014 - DECEMBER 31, 2014

Form **8621**
 (Rev. December 2013)
 Department of the Treasury
 Internal Revenue Service

Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund

OMB No. 1545-1002

Attachment
 Sequence No. **69**

▶ Information about Form 8621 and its separate instructions is at www.irs.gov/form8621.

Name of shareholder US CITIZEN - CANADIAN RESIDENT	Identifying number (see instructions) 000-00-0000
Number, street, and room or suite no. (If a P.O. box, see instructions.) XXX	Shareholder tax year: calendar year 20 14 or other tax year beginning , 20 and ending , 20 .
City or town, state, and ZIP code or country XXX	
Check type of shareholder filling the return: <input checked="" type="checkbox"/> Individual <input type="checkbox"/> Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> S Corporation <input type="checkbox"/> Nongrantor Trust <input type="checkbox"/> Estate	
Name of passive foreign investment company (PFIC) or qualified electing fund (QEF) CANADIAN MUTUAL FUND	Employer identification number (if any)
Address (Enter number, street, city or town, and country.) A REGULAR CANADIAN BANK	Reference ID number (see instructions) SENATEFINANCECOMITTE
	Tax year of PFIC or QEF: calendar year 2014 or other tax year beginning , 20 and ending , 20 .

Part I Summary of Annual Information (See instructions.)

Provide the following information with respect to all shares of the PFIC held by the shareholder:

- 1 Description of each class of shares held by the shareholder: MUTUAL FUND
 Check if shares jointly owned with spouse.
- 2 Date shares acquired during the taxable year, if applicable: _____
- 3 Number of shares held at the end of the taxable year: 0
- 4 Value of shares held at the end of the taxable year (check the appropriate box, if applicable):
 (a) \$0-50,000 (b) \$50,001-100,000 (c) \$100,001-150,000 (d) \$150,001-200,000
 (e) If more than \$200,000, list value: _____
- 5 Type of PFIC and amount of any excess distribution or gain treated as an excess distribution under section 1291, inclusion under section 1293, or inclusion or deduction under section 1296:
 (a) Section 1291 \$ 20,000
 (b) Section 1293 (Qualified Electing Fund) \$ _____
 (c) Section 1296 (Mark to Market) \$ _____

Part II Elections (See instructions.)

- A** **Election To Treat the PFIC as a QEF.** I, a shareholder of a PFIC, elect to treat the PFIC as a QEF. *Complete lines 6a through 7c of Part III.*
- B** **Election To Extend Time For Payment of Tax.** I, a shareholder of a QEF, elect to extend the time for payment of tax on the undistributed earnings and profits of the QEF until this election is terminated. *Complete lines 8a through 9c of Part III to calculate the tax that may be deferred.*
- Note:** If any portion of line 6a or line 7a of Part III is includible under section 951, you may not make this election. Also, see sections 1294(c) and 1294(f) and the related regulations for events that terminate this election.
- C** **Election To Mark-to-Market PFIC Stock.** I, a shareholder of a PFIC, elect to mark-to-market the PFIC stock that is marketable within the meaning of section 1296(e). *Complete Part IV.*
- D** **Deemed Sale Election.** I, a shareholder on the first day of a PFIC's first tax year as a QEF, elect to recognize gain on the deemed sale of my interest in the PFIC. *Enter gain or loss on line 15f of Part V.*
- E** **Deemed Dividend Election.** I, a shareholder on the first day of a PFIC's first tax year as a QEF that is a controlled foreign corporation (CFC), elect to treat an amount equal to my share of the post-1986 earnings and profits of the CFC as an excess distribution. *Enter this amount on line 15e of Part V. If the excess distribution is greater than zero, also complete line 16 of Part V.*
- F** **Election To Recognize Gain on Deemed Sale of PFIC.** I, a shareholder of a former PFIC or a PFIC to which section 1297(d) applies, elect to treat as an excess distribution the gain recognized on the deemed sale of my interest in the PFIC on the last day of its last tax year as a PFIC under section 1297(a). *Enter gain on line 15f of Part V.*
- G** **Deemed Dividend Election With Respect to a Section 1297(e) PFIC.** I, a shareholder of a section 1297(e) PFIC, within the meaning of Regulations section 1.1297-3(a), elect to make a deemed dividend election with respect to the Section 1297(e) PFIC. My holding period in the stock of the Section 1297(e) PFIC includes the CFC qualification date, as defined in Regulations section 1.1297-3(d). *Enter the excess distribution on line 15e, Part V. If the excess distribution is greater than zero, also complete line 16, Part V.*
- H** **Deemed Dividend Election With Respect to a Former PFIC.** I, a shareholder of a former PFIC, within the meaning of Regulations section 1.1298-3(a), elect to make a deemed dividend election with respect to the former PFIC. My holding period in the stock of the former PFIC includes the termination date, as defined in Regulations section 1.1298-3(d). *Enter the excess distribution on line 15e, Part V. If the excess distribution is greater than zero, also complete line 16, Part V.*

Part III Income From a Qualified Electing Fund (QEF). All QEF shareholders complete lines 6a through 7c. If you are making Election B, also complete lines 8a through 9c. (See instructions.)

6a	Enter your pro rata share of the ordinary earnings of the QEF	6a		
b	Enter the portion of line 6a that is included in income under section 951 or that may be excluded under section 1293(g)	6b		
c	Subtract line 6b from line 6a. Enter this amount on your tax return as ordinary income	6c		
7a	Enter your pro rata share of the total net capital gain of the QEF	7a		
b	Enter the portion of line 7a that is included in income under section 951 or that may be excluded under section 1293(g)	7b		
c	Subtract line 7b from line 7a. This amount is a net long-term capital gain. Enter this amount in Part II of the Schedule D used for your income tax return. (See instructions.)	7c		
8a	Add lines 6c and 7c	8a		
b	Enter the total amount of cash and the fair market value of other property distributed or deemed distributed to you during the tax year of the QEF. (See instructions.)	8b		
c	Enter the portion of line 8a not already included in line 8c that is attributable to shares in the QEF that you disposed of, pledged, or otherwise transferred during the tax year	8c		
d	Add lines 8b and 8c	8d		
e	Subtract line 8d from line 8a, and enter the difference (if zero or less, enter amount in brackets)	8e		
Important: If line 8e is greater than zero, and no portion of line 6a or 7a is includible in income under section 951, you may make Election B with respect to the amount on line 8e.				
9a	Enter the total tax for the tax year (See instructions.)	9a		
b	Enter the total tax for the tax year determined without regard to the amount entered on line 8e	9b		
c	Subtract line 9b from line 9a. This is the deferred tax, the time for payment of which is extended by making Election B. See instructions	9c		

Part IV Gain or (Loss) From Mark-to-Market Election (See instructions.)

10a	Enter the fair market value of your PFIC stock at the end of the tax year	10a	
b	Enter your adjusted basis in the stock at the end of the tax year	10b	
c	Subtract line 10b from line 10a. If a gain, do not complete lines 11 and 12. Include this amount as ordinary income on your tax return. If a loss, go to line 11	10c	
11	Enter any unreversed inclusions (as defined in section 1296(d))	11	
12	Enter the loss from line 10c, but only to the extent of unreversed inclusions on line 11. Include this amount as an ordinary loss on your tax return	12	
13	If you sold or otherwise disposed of any section 1296 stock (see instructions) during the tax year:		
a	Enter the fair market value of the stock on the date of sale or disposition	13a	
b	Enter the adjusted basis of the stock on the date of sale or disposition	13b	
c	Subtract line 13b from line 13a. If a gain, do not complete line 14. Include this amount as ordinary income on your tax return. If a loss, go to line 14	13c	
14a	Enter any unreversed inclusions (as defined in section 1296(d))	14a	
b	Enter the loss from line 13c, but only to the extent of unreversed inclusions on line 14a. Include this amount as an ordinary loss on your tax return. If the loss on line 13c exceeds unreversed inclusions on line 14a, complete line 14c	14b	
c	Enter the amount by which the loss on line 13c exceeds unreversed inclusions on line 14a. Include this amount on your tax return according to the rules generally applicable for losses provided elsewhere in the Code and regulations	14c	

Note. See instructions in case of multiple dispositions.

Part V Distributions From and Dispositions of Stock of a Section 1291 Fund (See instructions.)
 Complete a separate Part V for each excess distribution (see instructions).

15a	Enter your total distributions from the section 1291 fund during the current tax year with respect to the applicable stock. If the holding period of the stock began in the current tax year, see instructions	15a	0
b	Enter the total distributions (reduced by the portions of such distributions that were excess distributions but not included in income under section 1291(a)(1)(B)) made by the fund with respect to the applicable stock for each of the 3 years preceding the current tax year (or if shorter, the portion of the shareholder's holding period before the current tax year)	15b	0
c	Divide line 15b by 3. (See instructions if the number of preceding tax years is less than 3.)	15c	0
d	Multiply line 15c by 125% (1.25)	15d	0
e	Subtract line 15d from line 15a. This amount, if more than zero, is the excess distribution with respect to the applicable stock. If zero or less and you did not dispose of stock during the tax year, do not complete the rest of Part V. See instructions if you received more than one distribution during the current tax year. Also, see instructions for rules for reporting a nonexcess distribution on your income tax return	15e	0
f	Enter gain or loss from the disposition of stock of a section 1291 fund or former section 1291 fund. If a gain, complete line 16. If a loss, show it in brackets and do not complete line 16	15f	20,000
16a	Attach a statement for each distribution and disposition. Show your holding period for each share of stock or block of shares held. Allocate the excess distribution to each day in your holding period. Add all amounts that are allocated to days in each tax year.		
b	Enter the total of the amounts determined in line 16a that are allocable to the current tax year and tax years before the foreign corporation became a PFIC (pre-PFIC tax years). Enter these amounts on your income tax return as other income	16b	20,000
c	Enter the aggregate increases in tax (before credits) for each tax year in your holding period (other than the current tax year and pre-PFIC years). (See instructions.)	16c	0
d	Foreign tax credit. (See instructions.)	16d	0
e	Subtract line 16d from line 16c. Enter this amount on your income tax return as "additional tax." (See instructions.)	16e	0
f	Determine interest on each net increase in tax determined on line 16e using the rates and methods of section 6621. Enter the aggregate amount of interest here. (See instructions.)	16f	0

Part VI Status of Prior Year Section 1294 Elections and Termination of Section 1294 Elections
 Complete a separate column for each outstanding election. Complete lines 25 and 26 only if there is a partial termination of the section 1294 election.

	(i)	(ii)	(iii)	(iv)	(v)	(vi)
17 Tax year of outstanding election						
18 Undistributed earnings to which the election relates						
19 Deferred tax						
20 Interest accrued on deferred tax (line 19) as of the filing date						
21 Event terminating election						
22 Earnings distributed or deemed distributed during the tax year						
23 Deferred tax due with this return						
24 Accrued interest due with this return						
25 Deferred tax outstanding after partial termination of election						
26 Interest accrued after partial termination of election						

SCENARIO 2

HOLDING PERIOD:

JANUARY 14, 2010 - DECEMBER 31, 2014

Form **8621**
 (Rev. December 2013)
 Department of the Treasury
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OMB No. 1545-1002

Attachment
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Name of shareholder US CITIZEN - CANADIAN RESIDENT	Identifying number (see instructions) 000-00-0000
Number, street, and room or suite no. (If a P.O. box, see instructions.) XXX	Shareholder tax year: calendar year 20 14 or other tax year beginning , 20 and ending , 20 .
City or town, state, and ZIP code or country XXX	
Check type of shareholder filling the return: <input checked="" type="checkbox"/> Individual <input type="checkbox"/> Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> S Corporation <input type="checkbox"/> Nongrantor Trust <input type="checkbox"/> Estate	
Name of passive foreign investment company (PFIC) or qualified electing fund (QEF) CANADIAN MUTUAL FUND	Employer identification number (if any)
Address (Enter number, street, city or town, and country.) A REGULAR CANADIAN BANK	Reference ID number (see instructions) SENATEFINANCECOMITTE
	Tax year of PFIC or QEF: calendar year 2014 or other tax year beginning , 20 and ending , 20 .

Part I Summary of Annual Information (See instructions.)

Provide the following information with respect to all shares of the PFIC held by the shareholder:

- Description of each class of shares held by the shareholder: MUTUAL FUND
 Check if shares jointly owned with spouse.
- Date shares acquired during the taxable year, if applicable: _____
- Number of shares held at the end of the taxable year: 0
- Value of shares held at the end of the taxable year (check the appropriate box, if applicable):
 (a) \$0-50,000 (b) \$50,001-100,000 (c) \$100,001-150,000 (d) \$150,001-200,000
 (e) If more than \$200,000, list value: _____
- Type of PFIC and amount of any excess distribution or gain treated as an excess distribution under section 1291, inclusion under section 1293, or inclusion or deduction under section 1296:
 (a) Section 1291 \$ 20,000
 (b) Section 1293 (Qualified Electing Fund) \$ _____
 (c) Section 1296 (Mark to Market) \$ _____

Part II Elections (See instructions.)

- A** **Election To Treat the PFIC as a QEF.** I, a shareholder of a PFIC, elect to treat the PFIC as a QEF. *Complete lines 6a through 7c of Part III.*
- B** **Election To Extend Time For Payment of Tax.** I, a shareholder of a QEF, elect to extend the time for payment of tax on the undistributed earnings and profits of the QEF until this election is terminated. *Complete lines 8a through 9c of Part III to calculate the tax that may be deferred.*
- Note:** If any portion of line 6a or line 7a of Part III is includible under section 951, you may not make this election. Also, see sections 1294(c) and 1294(f) and the related regulations for events that terminate this election.
- C** **Election To Mark-to-Market PFIC Stock.** I, a shareholder of a PFIC, elect to mark-to-market the PFIC stock that is marketable within the meaning of section 1296(e). *Complete Part IV.*
- D** **Deemed Sale Election.** I, a shareholder on the first day of a PFIC's first tax year as a QEF, elect to recognize gain on the deemed sale of my interest in the PFIC. *Enter gain or loss on line 15f of Part V.*
- E** **Deemed Dividend Election.** I, a shareholder on the first day of a PFIC's first tax year as a QEF that is a controlled foreign corporation (CFC), elect to treat an amount equal to my share of the post-1986 earnings and profits of the CFC as an excess distribution. *Enter this amount on line 15e of Part V. If the excess distribution is greater than zero, also complete line 16 of Part V.*
- F** **Election To Recognize Gain on Deemed Sale of PFIC.** I, a shareholder of a former PFIC or a PFIC to which section 1297(d) applies, elect to treat as an excess distribution the gain recognized on the deemed sale of my interest in the PFIC on the last day of its last tax year as a PFIC under section 1297(a). *Enter gain on line 15f of Part V.*
- G** **Deemed Dividend Election With Respect to a Section 1297(e) PFIC.** I, a shareholder of a section 1297(e) PFIC, within the meaning of Regulations section 1.1297-3(a), elect to make a deemed dividend election with respect to the Section 1297(e) PFIC. My holding period in the stock of the Section 1297(e) PFIC includes the CFC qualification date, as defined in Regulations section 1.1297-3(d). *Enter the excess distribution on line 15e, Part V. If the excess distribution is greater than zero, also complete line 16, Part V.*
- H** **Deemed Dividend Election With Respect to a Former PFIC.** I, a shareholder of a former PFIC, within the meaning of Regulations section 1.1298-3(a), elect to make a deemed dividend election with respect to the former PFIC. My holding period in the stock of the former PFIC includes the termination date, as defined in Regulations section 1.1298-3(d). *Enter the excess distribution on line 15e, Part V. If the excess distribution is greater than zero, also complete line 16, Part V.*

Part III Income From a Qualified Electing Fund (QEF). All QEF shareholders complete lines 6a through 7c. If you are making Election B, also complete lines 8a through 9c. (See instructions.)

6a	Enter your pro rata share of the ordinary earnings of the QEF	6a		
b	Enter the portion of line 6a that is included in income under section 951 or that may be excluded under section 1293(g)	6b		
c	Subtract line 6b from line 6a. Enter this amount on your tax return as ordinary income	6c		
7a	Enter your pro rata share of the total net capital gain of the QEF	7a		
b	Enter the portion of line 7a that is included in income under section 951 or that may be excluded under section 1293(g)	7b		
c	Subtract line 7b from line 7a. This amount is a net long-term capital gain. Enter this amount in Part II of the Schedule D used for your income tax return. (See instructions.)	7c		
8a	Add lines 6c and 7c	8a		
b	Enter the total amount of cash and the fair market value of other property distributed or deemed distributed to you during the tax year of the QEF. (See instructions.)	8b		
c	Enter the portion of line 8a not already included in line 8c that is attributable to shares in the QEF that you disposed of, pledged, or otherwise transferred during the tax year	8c		
d	Add lines 8b and 8c	8d		
e	Subtract line 8d from line 8a, and enter the difference (if zero or less, enter amount in brackets)	8e		
Important: If line 8e is greater than zero, and no portion of line 6a or 7a is includible in income under section 951, you may make Election B with respect to the amount on line 8e.				
9a	Enter the total tax for the tax year (See instructions.)	9a		
b	Enter the total tax for the tax year determined without regard to the amount entered on line 8e	9b		
c	Subtract line 9b from line 9a. This is the deferred tax, the time for payment of which is extended by making Election B. See instructions	9c		

Part IV Gain or (Loss) From Mark-to-Market Election (See instructions.)

10a	Enter the fair market value of your PFIC stock at the end of the tax year	10a	
b	Enter your adjusted basis in the stock at the end of the tax year	10b	
c	Subtract line 10b from line 10a. If a gain, do not complete lines 11 and 12. Include this amount as ordinary income on your tax return. If a loss, go to line 11	10c	
11	Enter any unreversed inclusions (as defined in section 1296(d))	11	
12	Enter the loss from line 10c, but only to the extent of unreversed inclusions on line 11. Include this amount as an ordinary loss on your tax return	12	
13	If you sold or otherwise disposed of any section 1296 stock (see instructions) during the tax year:		
a	Enter the fair market value of the stock on the date of sale or disposition	13a	
b	Enter the adjusted basis of the stock on the date of sale or disposition	13b	
c	Subtract line 13b from line 13a. If a gain, do not complete line 14. Include this amount as ordinary income on your tax return. If a loss, go to line 14	13c	
14a	Enter any unreversed inclusions (as defined in section 1296(d))	14a	
b	Enter the loss from line 13c, but only to the extent of unreversed inclusions on line 14a. Include this amount as an ordinary loss on your tax return. If the loss on line 13c exceeds unreversed inclusions on line 14a, complete line 14c	14b	
c	Enter the amount by which the loss on line 13c exceeds unreversed inclusions on line 14a. Include this amount on your tax return according to the rules generally applicable for losses provided elsewhere in the Code and regulations	14c	

Note. See instructions in case of multiple dispositions.

Part V Distributions From and Dispositions of Stock of a Section 1291 Fund (See instructions.)
 Complete a separate Part V for each excess distribution (see instructions).

15a	Enter your total distributions from the section 1291 fund during the current tax year with respect to the applicable stock. If the holding period of the stock began in the current tax year, see instructions	15a	0
b	Enter the total distributions (reduced by the portions of such distributions that were excess distributions but not included in income under section 1291(a)(1)(B)) made by the fund with respect to the applicable stock for each of the 3 years preceding the current tax year (or if shorter, the portion of the shareholder's holding period before the current tax year)	15b	0
c	Divide line 15b by 3. (See instructions if the number of preceding tax years is less than 3.)	15c	0
d	Multiply line 15c by 125% (1.25)	15d	0
e	Subtract line 15d from line 15a. This amount, if more than zero, is the excess distribution with respect to the applicable stock. If zero or less and you did not dispose of stock during the tax year, do not complete the rest of Part V. See instructions if you received more than one distribution during the current tax year. Also, see instructions for rules for reporting a nonexcess distribution on your income tax return	15e	0
f	Enter gain or loss from the disposition of stock of a section 1291 fund or former section 1291 fund. If a gain, complete line 16. If a loss, show it in brackets and do not complete line 16	15f	20,000
16a	Attach a statement for each distribution and disposition. Show your holding period for each share of stock or block of shares held. Allocate the excess distribution to each day in your holding period. Add all amounts that are allocated to days in each tax year.		
b	Enter the total of the amounts determined in line 16a that are allocable to the current tax year and tax years before the foreign corporation became a PFIC (pre-PFIC tax years). Enter these amounts on your income tax return as other income	16b	4,026
c	Enter the aggregate increases in tax (before credits) for each tax year in your holding period (other than the current tax year and pre-PFIC years). (See instructions.)	16c	5,776
d	Foreign tax credit. (See instructions.)	16d	0
e	Subtract line 16d from line 16c. Enter this amount on your income tax return as "additional tax." (See instructions.) .	16e	5,776
f	Determine interest on each net increase in tax determined on line 16e using the rates and methods of section 6621. Enter the aggregate amount of interest here. (See instructions.)	16f	336

Part VI Status of Prior Year Section 1294 Elections and Termination of Section 1294 Elections
 Complete a separate column for each outstanding election. Complete lines 25 and 26 only if there is a partial termination of the section 1294 election.

	(i)	(ii)	(iii)	(iv)	(v)	(vi)
17 Tax year of outstanding election						
18 Undistributed earnings to which the election relates .						
19 Deferred tax						
20 Interest accrued on deferred tax (line 19) as of the filing date						
21 Event terminating election .						
22 Earnings distributed or deemed distributed during the tax year						
23 Deferred tax due with this return						
24 Accrued interest due with this return						
25 Deferred tax outstanding after partial termination of election .						
26 Interest accrued after partial termination of election . .						

Canadian mutual fund
Statement to Form 8621, page 3, question 16a
December 31, 2014

Holding Period: January 14, 2010 thru December 31, 2014

Acquisition date: Acquired mutual fund shares on January 14, 2010 for \$1,000

Disposition date: Sold mutual fund shares on December 31, 2014 for \$21,000

Total Excess distribution: \$20,000.00

Allocated to 1,813 days - 11.0314 dollars per day

Section 1291 tax: \$5,775.95

Total Interest due: \$335.70

SCENARIO 3

HOLDING PERIOD:

JANUARY 14, 1993 - DECEMBER 31, 2014

Form **8621**
 (Rev. December 2013)
 Department of the Treasury
 Internal Revenue Service

Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund

OMB No. 1545-1002

Attachment
 Sequence No. **69**

▶ Information about Form 8621 and its separate instructions is at www.irs.gov/form8621.

Name of shareholder US CITIZEN - CANADIAN RESIDENT	Identifying number (see instructions) 000-00-0000
Number, street, and room or suite no. (If a P.O. box, see instructions.) XXX	Shareholder tax year: calendar year 20 14 or other tax year beginning , 20 and ending , 20 .
City or town, state, and ZIP code or country XXX	
Check type of shareholder filling the return: <input checked="" type="checkbox"/> Individual <input type="checkbox"/> Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> S Corporation <input type="checkbox"/> Nongrantor Trust <input type="checkbox"/> Estate	
Name of passive foreign investment company (PFIC) or qualified electing fund (QEF) CANADIAN MUTUAL FUND	Employer identification number (if any)
Address (Enter number, street, city or town, and country.) A REGULAR CANADIAN BANK	Reference ID number (see instructions) SENATEFINANCECOMITTE
	Tax year of PFIC or QEF: calendar year 2014 or other tax year beginning , 20 and ending , 20 .

Part I Summary of Annual Information (See instructions.)

Provide the following information with respect to all shares of the PFIC held by the shareholder:

- Description of each class of shares held by the shareholder: MUTUAL FUND
 Check if shares jointly owned with spouse.
- Date shares acquired during the taxable year, if applicable: _____
- Number of shares held at the end of the taxable year: 0
- Value of shares held at the end of the taxable year (check the appropriate box, if applicable):
 (a) \$0-50,000 (b) \$50,001-100,000 (c) \$100,001-150,000 (d) \$150,001-200,000
 (e) If more than \$200,000, list value: _____
- Type of PFIC and amount of any excess distribution or gain treated as an excess distribution under section 1291, inclusion under section 1293, or inclusion or deduction under section 1296:
 (a) Section 1291 \$ 20,000
 (b) Section 1293 (Qualified Electing Fund) \$ _____
 (c) Section 1296 (Mark to Market) \$ _____

Part II Elections (See instructions.)

- A** **Election To Treat the PFIC as a QEF.** I, a shareholder of a PFIC, elect to treat the PFIC as a QEF. Complete lines 6a through 7c of Part III.
- B** **Election To Extend Time For Payment of Tax.** I, a shareholder of a QEF, elect to extend the time for payment of tax on the undistributed earnings and profits of the QEF until this election is terminated. Complete lines 8a through 9c of Part III to calculate the tax that may be deferred.
- Note:** If any portion of line 6a or line 7a of Part III is includible under section 951, you may not make this election. Also, see sections 1294(c) and 1294(f) and the related regulations for events that terminate this election.
- C** **Election To Mark-to-Market PFIC Stock.** I, a shareholder of a PFIC, elect to mark-to-market the PFIC stock that is marketable within the meaning of section 1296(e). Complete Part IV.
- D** **Deemed Sale Election.** I, a shareholder on the first day of a PFIC's first tax year as a QEF, elect to recognize gain on the deemed sale of my interest in the PFIC. Enter gain or loss on line 15f of Part V.
- E** **Deemed Dividend Election.** I, a shareholder on the first day of a PFIC's first tax year as a QEF that is a controlled foreign corporation (CFC), elect to treat an amount equal to my share of the post-1986 earnings and profits of the CFC as an excess distribution. Enter this amount on line 15e of Part V. If the excess distribution is greater than zero, also complete line 16 of Part V.
- F** **Election To Recognize Gain on Deemed Sale of PFIC.** I, a shareholder of a former PFIC or a PFIC to which section 1297(d) applies, elect to treat as an excess distribution the gain recognized on the deemed sale of my interest in the PFIC on the last day of its last tax year as a PFIC under section 1297(a). Enter gain on line 15f of Part V.
- G** **Deemed Dividend Election With Respect to a Section 1297(e) PFIC.** I, a shareholder of a section 1297(e) PFIC, within the meaning of Regulations section 1.1297-3(a), elect to make a deemed dividend election with respect to the Section 1297(e) PFIC. My holding period in the stock of the Section 1297(e) PFIC includes the CFC qualification date, as defined in Regulations section 1.1297-3(d). Enter the excess distribution on line 15e, Part V. If the excess distribution is greater than zero, also complete line 16, Part V.
- H** **Deemed Dividend Election With Respect to a Former PFIC.** I, a shareholder of a former PFIC, within the meaning of Regulations section 1.1298-3(a), elect to make a deemed dividend election with respect to the former PFIC. My holding period in the stock of the former PFIC includes the termination date, as defined in Regulations section 1.1298-3(d). Enter the excess distribution on line 15e, Part V. If the excess distribution is greater than zero, also complete line 16, Part V.

Part III Income From a Qualified Electing Fund (QEF). All QEF shareholders complete lines 6a through 7c. If you are making Election B, also complete lines 8a through 9c. (See instructions.)

6a	Enter your pro rata share of the ordinary earnings of the QEF	6a		
b	Enter the portion of line 6a that is included in income under section 951 or that may be excluded under section 1293(g)	6b		
c	Subtract line 6b from line 6a. Enter this amount on your tax return as ordinary income	6c		
7a	Enter your pro rata share of the total net capital gain of the QEF	7a		
b	Enter the portion of line 7a that is included in income under section 951 or that may be excluded under section 1293(g)	7b		
c	Subtract line 7b from line 7a. This amount is a net long-term capital gain. Enter this amount in Part II of the Schedule D used for your income tax return. (See instructions.)	7c		
8a	Add lines 6c and 7c	8a		
b	Enter the total amount of cash and the fair market value of other property distributed or deemed distributed to you during the tax year of the QEF. (See instructions.)	8b		
c	Enter the portion of line 8a not already included in line 8c that is attributable to shares in the QEF that you disposed of, pledged, or otherwise transferred during the tax year	8c		
d	Add lines 8b and 8c	8d		
e	Subtract line 8d from line 8a, and enter the difference (if zero or less, enter amount in brackets)	8e		
Important: If line 8e is greater than zero, and no portion of line 6a or 7a is includible in income under section 951, you may make Election B with respect to the amount on line 8e.				
9a	Enter the total tax for the tax year (See instructions.)	9a		
b	Enter the total tax for the tax year determined without regard to the amount entered on line 8e	9b		
c	Subtract line 9b from line 9a. This is the deferred tax, the time for payment of which is extended by making Election B. See instructions	9c		

Part IV Gain or (Loss) From Mark-to-Market Election (See instructions.)

10a	Enter the fair market value of your PFIC stock at the end of the tax year	10a	
b	Enter your adjusted basis in the stock at the end of the tax year	10b	
c	Subtract line 10b from line 10a. If a gain, do not complete lines 11 and 12. Include this amount as ordinary income on your tax return. If a loss, go to line 11	10c	
11	Enter any unreversed inclusions (as defined in section 1296(d))	11	
12	Enter the loss from line 10c, but only to the extent of unreversed inclusions on line 11. Include this amount as an ordinary loss on your tax return	12	
13	If you sold or otherwise disposed of any section 1296 stock (see instructions) during the tax year:		
a	Enter the fair market value of the stock on the date of sale or disposition	13a	
b	Enter the adjusted basis of the stock on the date of sale or disposition	13b	
c	Subtract line 13b from line 13a. If a gain, do not complete line 14. Include this amount as ordinary income on your tax return. If a loss, go to line 14	13c	
14a	Enter any unreversed inclusions (as defined in section 1296(d))	14a	
b	Enter the loss from line 13c, but only to the extent of unreversed inclusions on line 14a. Include this amount as an ordinary loss on your tax return. If the loss on line 13c exceeds unreversed inclusions on line 14a, complete line 14c	14b	
c	Enter the amount by which the loss on line 13c exceeds unreversed inclusions on line 14a. Include this amount on your tax return according to the rules generally applicable for losses provided elsewhere in the Code and regulations	14c	

Note. See instructions in case of multiple dispositions.

Part V Distributions From and Dispositions of Stock of a Section 1291 Fund (See instructions.)
 Complete a separate Part V for each excess distribution (see instructions).

15a	Enter your total distributions from the section 1291 fund during the current tax year with respect to the applicable stock. If the holding period of the stock began in the current tax year, see instructions	15a	0
b	Enter the total distributions (reduced by the portions of such distributions that were excess distributions but not included in income under section 1291(a)(1)(B)) made by the fund with respect to the applicable stock for each of the 3 years preceding the current tax year (or if shorter, the portion of the shareholder's holding period before the current tax year)	15b	0
c	Divide line 15b by 3. (See instructions if the number of preceding tax years is less than 3.)	15c	0
d	Multiply line 15c by 125% (1.25)	15d	0
e	Subtract line 15d from line 15a. This amount, if more than zero, is the excess distribution with respect to the applicable stock. If zero or less and you did not dispose of stock during the tax year, do not complete the rest of Part V. See instructions if you received more than one distribution during the current tax year. Also, see instructions for rules for reporting a nonexcess distribution on your income tax return	15e	0
f	Enter gain or loss from the disposition of stock of a section 1291 fund or former section 1291 fund. If a gain, complete line 16. If a loss, show it in brackets and do not complete line 16	15f	20,000
16a	Attach a statement for each distribution and disposition. Show your holding period for each share of stock or block of shares held. Allocate the excess distribution to each day in your holding period. Add all amounts that are allocated to days in each tax year.		
b	Enter the total of the amounts determined in line 16a that are allocable to the current tax year and tax years before the foreign corporation became a PFIC (pre-PFIC tax years). Enter these amounts on your income tax return as other income	16b	910
c	Enter the aggregate increases in tax (before credits) for each tax year in your holding period (other than the current tax year and pre-PFIC years). (See instructions.)	16c	7,127
d	Foreign tax credit. (See instructions.)	16d	0
e	Subtract line 16d from line 16c. Enter this amount on your income tax return as "additional tax." (See instructions.)	16e	7,127
f	Determine interest on each net increase in tax determined on line 16e using the rates and methods of section 6621. Enter the aggregate amount of interest here. (See instructions.)	16f	2,299

Part VI Status of Prior Year Section 1294 Elections and Termination of Section 1294 Elections
 Complete a separate column for each outstanding election. Complete lines 25 and 26 only if there is a partial termination of the section 1294 election.

	(i)	(ii)	(iii)	(iv)	(v)	(vi)
17 Tax year of outstanding election						
18 Undistributed earnings to which the election relates						
19 Deferred tax						
20 Interest accrued on deferred tax (line 19) as of the filing date						
21 Event terminating election						
22 Earnings distributed or deemed distributed during the tax year						
23 Deferred tax due with this return						
24 Accrued interest due with this return						
25 Deferred tax outstanding after partial termination of election						
26 Interest accrued after partial termination of election						

Canadian mutual fund
Statement to Form 8621, page 3, question 16a
December 31, 2014

Holding Period: January 14, 1993 thru December 31, 2014

Acquisition date: Acquired mutual fund shares on January 14, 1993 for \$1,000

Disposition date: Sold mutual fund shares on December 31, 2014 for \$21,000

Total Excess distribution: \$20,000.00

Allocated to 8,022 days - 2.4931 dollars per day

Section 1291 tax: \$7,127.05

Total Interest due: \$2,298.78