



# Passive Foreign Investment Company (PFIC) Annual Information Statements

## At a glance:

- To assist investors who file U.S. tax returns, TD Asset Management Inc. (TDAM) is pleased to provide Passive Foreign Investment Company (PFIC) Annual Information Statements for qualifying funds, which span a variety of asset classes, geographies and investment strategies
- For answers to frequently asked questions about PFIC, please read the information below

## Q: What is a PFIC?

A PFIC is a non-U.S. corporation that generates passive income from sources such as stocks and bonds instead of normal business activities. Passive income may include earned interest, dividends and capital gains. For U.S. tax purposes, Canadian mutual funds and exchange-traded funds (ETFs) are typically classified as PFICs.

## Q: To whom do PFIC rules apply?

Investors who hold units of Canadian mutual funds and file U.S. tax returns or are otherwise considered U.S. persons for U.S. tax purposes may benefit from PFIC reporting. It is recommended that investors consult with a U.S. tax professional to determine if they are considered U.S. persons for U.S. tax purposes.

## Q: Why do PFIC rules exist?

PFIC rules are in place to prevent U.S. taxpayers from receiving preferential tax treatment, such as tax deferral, as a result of their investment in foreign securities in comparison with domestic U.S. securities.

## Q: Why is PFIC reporting available for some TDAM funds and not others?

TDAM offers PFIC reporting on a broad range of qualifying mutual funds and ETFs, which span a variety of asset classes, geographies and investment strategies.

We provide reporting on the largest, most widely held mutual funds at TDAM, including those held in fund-of-fund products. Additional mutual funds may be added in the future.

## Q: What are the tax implications of owning a PFIC?

U.S. persons with ownership interest in a PFIC are required to report each holding on a separate [IRS Form 8621](#). PFIC investments held by U.S. persons are generally taxed using excess-distribution regime, which is highly unfavourable for the investor unless taxpayers make a Mark-to-Market election or a Qualified Electing Fund (QEF) election.

- **Mark-to-Market elections:** With this election, the PFIC investment is considered to be sold by the U.S. person on the last day of the tax year for fair market value at the end of the tax year, and then repurchased at the same fair market value. Any resulting gain realized on this deemed sale is considered ordinary income rather than a capital gain, and any losses are disallowed. The ordinary income is taxed at a higher rate than capital gains and investor filing this election will not benefit from more favorable income streams such as capital gains.
- **Qualified Electing Fund (QEF) elections:** With this election, a U.S. person's investment in a PFIC is taxed the same as a domestic investment with certain exceptions. The U.S. person is taxed on the pro-rata share of the PFIC's earned income for U.S. tax purposes, split between ordinary income and net capital gains, which are taxed as capital gains at potentially preferential rates. The income split between ordinary income and capital gains is provided in the PFIC statements issued by the PFIC. As a result of the QEF election, the taxes on unrealized capital gains are deferred and the U.S. person receives an allocation of capital gains of the PFIC, which otherwise is not available in a Mark-to-Market election or in default excess-distribution regime. The income included by the U.S. person under this election also increases the tax basis in units of the mutual fund.

## Q: What is the benefit of making a QEF election?

The QEF election may be advantageous for investors, as it allows for tax efficiency when it comes to the treatment of capital gains. It also allows for any future gains from the sale of that fund to be treated as capital gains for tax purposes. However, investors should consult with a U.S. tax professional to determine the best strategy for their situation.

## Q: Who can I contact for additional information about PFIC reporting at TDAM?

If you have any questions or require more information about PFIC reporting, please contact your [Investment Professional](#).

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