

Tax and Investment Guide 2020

What You Need to Know

(Canada except Quebec)

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Disclaimer

The information in this guide is for informational purposes and should in no way be regarded as legal or tax advice. Clients should always consult their accountant or tax specialist before taking action based on the information found in this guide.

Introduction

This guide has been prepared by National Bank of Canada (“NBC”) to present the various tax slips you may receive from us. You will find information regarding government tax slips and associated summaries. This guide is specifically intended for individuals residing in Canada. Canadians residing in Quebec should consult the Tax and Investment Guide 2020 (Quebec), which contains specificities regarding provincial taxation. This guide does not apply to non-resident corporations, trusts or individuals.

Please note that this document is not meant to be an exhaustive reference on how to report income and capital gains and losses. We strongly recommend that individuals consult an accountant or tax specialist to complete their tax return. This guide is a brief summary covering federal taxation. However, some provinces have specific requirements to be considered by individuals residing in those provinces.

Useful Links

Canada Revenue Agency (CRA):

- Website (home page): <https://www.canada.ca/en/revenue-agency.html>
- “My Account” for Individuals: <https://www.canada.ca/en/revenue-agency/services/e-services/e-services-individuals/account-individuals.html>
- Income Tax Package: <https://www.canada.ca/en/revenue-agency/services/forms-publications/tax-packages-years.html>
- CRA and COVID-19: <https://www.canada.ca/en/revenue-agency/campaigns/covid-19-update.html>

Mailing Deadlines for Various Tax Slips

Below is a table of the various tax slips and summaries potentially needed to prepare your tax return. Please note that these documents reflect the transactions and income recorded during the calendar year and some slips may not apply to your situation. Before completing your tax return, we ask you to ensure you have received all of your slips. This will avoid having to file an amended tax return. Note that the various summaries can be used as tools in verifying your tax slips.

Non-Registered		
Type of Income/Fees	Slip/Summary	Mailing Deadline¹
Dividends, interest, foreign income	T5 and <i>Investment Income Summary</i> ²	March 1, 2021
Realized gains and losses	T5008 and <i>Securities Transactions Summary</i> ²	March 1, 2021
Distributions from a trust	T3 and <i>Summary of Trust Income</i> ²	March 31, 2021 ³
Registered Investments		
Withdrawal from a registered investment account:		
RRSP	T4RSP	March 1, 2021
RRIF/LIF/LRIF	T4RIF	March 1, 2021
RESP/RDSP	T4A	March 1, 2021

- 1 - Government-prescribed date.
- 2 - This summary is not government-prescribed, but NBI commits to issuing it at the specified date if needed.
- 3 - The first time T3 is issued, a "Summary of Upcoming Trust Units" may be sent to you. This summary will list trusts for which the issuers have not yet provided the tax information necessary for the filing of tax slips and for which a tax slip will be sent at a later date.

Note: For the Accumulated Interest Report, please refer to the information on page 31.

RRSP Contributions		
Time of Contribution	Contribution Deadline	Time of Reception
First 60 days of 2020	March 2, 2020	You should have received your contribution slip in March 2020.
Rest of the year 2020	N/A	You should receive your contribution slip in January 2021.
First 60 days of 2021	March 1, 2021	You should receive your contribution slip in March 2021.

T3 Slip – Statement of Trust Income (Allocations and Designations)

If you hold shares in National Bank mutual funds, you will receive a T3 Slip.

Canada Revenue Agency / Agence du revenu du Canada Year / Année: **20XX** **STATEMENT OF TRUST INCOME ALLOCATIONS AND DESIGNATIONS / ÉTAT DES REVENUS DE FIDUCIE (RÉPARTITIONS ET ATTRIBUTIONS) T3**

Actual amount of eligible dividends / Montant réel des dividendes déterminés: 0.00	Taxable amount of eligible dividends / Montant imposable des dividendes déterminés: 0.00	Dividend tax credit for eligible dividends / Crédit d'impôt pour dividendes déterminés: 0.00	Capital gains / Gains en capital: 273212.10	Capital gains eligible for deduction / Gains en capital admissibles pour déduction: 0.00
Actual amount of dividends other than eligible dividends / Montant réel des dividendes autres que des dividendes déterminés: 0.00	Taxable amount of dividends other than eligible dividends / Montant imposable des dividendes autres que des dividendes déterminés: 0.00	Dividend tax credit for dividends other than eligible dividends / Crédit d'impôt pour dividendes autres que des dividendes déterminés: 0.00	Other income / Autres revenus: 53999.56	Trust year end / Fin d'année de la fiducie: Year / Année: 14 , Month / Mois: 12

Recipient's name (last name first) and address - Nom, prénom et adresse du bénéficiaire:
 → FIRST NAME SURNAME / PRÉNOM NOM
 ADDRESS / ADRESSE: XXXXXX

Recipient identification number / Numéro d'identification du bénéficiaire: **000000000** Account number / Numéro de compte: **NIL** Report code / Code du genre de feuille: **A** Beneficiary code / Code du bénéficiaire: **1**

National Bank Investments only prepares a tax slip if the distributions to shareholders are equal to or more than \$50. Shareholders must still declare distributions if they are less than \$50. This amount is indicated on your account statement.

The following example explains the income generated by the National Bank Funds distributions and where you must declare these on your income tax return.

The shareholder receives a distribution of \$500 from a fund, distributed as follows.

	Montant
Capital gains	\$60.00
Dividend income	\$120.00
Foreign non-business income (net amount*)	\$85.00
Other income	\$185.00
Capital return	<u>\$50.00</u>
Total	\$500.00

*This is the gross amount of foreign non-business income, that is, \$100 less the foreign tax withholding of \$15.

On his/her income tax return, the shareholder must declare the amounts shown on the T3 slip by following the instructions in the table below:

T3 Slip	Explanation of boxes	Declare this amount on your tax return	Declare at the indicated line on the federal income tax return
Box 21	Capital gains	\$60.00	Line 174 of Schedule 3 – Capital Gains (Losses)
Box 23	Actual amount of dividends	\$120.00	Not declared
Box 25	Foreign non-business income	\$100.00	Part II of Schedule 4 – Statement of Investment Income
Box 26	Other income	\$185.00	Line 121, or Part II of Schedule 4 – Statement of Investment Income
Box 32	Taxable amount of dividends (this amount is equal to 125% of the amount entered in box 23)	\$150.00	Line 120, or Part I of Schedule 4 – Statement of Investment Income
Box 34	Foreign tax paid on non-business income	\$15.00	Line 431 of Schedule 1 – Federal Tax
Box 39	Dividend tax credit (federal) (This amount is equal to 13.33% of the amount at box 32)	\$20.00	Line 425 of Schedule 1 – Federal Tax
N/A	Capital return (not identified on the front page of the T3 slip)	\$50.00	This amount is not declared on your income tax return

Summary of Trust Income

The *Summary of Trust Income* is issued by NBI and provides detail by trust and nature of the distributions. This information allows you to reconcile your T3 slip from each trust.

NATIONAL BANK INVESTMENTS		Summary of Trust Income – T3				
c/o Natcan Trust Company 1010 de la Gauchetière Ouest Mezz. 100 (5301-1) Montreal, QC H3B 5J2		For the year ending December 31, 2019				
Produit/Fonds	Remboursement du capital	Intérêts canadiens	Dividendes canadiens	Revenus étrangers	Gain en capital	
Obis rndet élevé	0.00	0.00	0.00	6,434.42	0.00	
Indiciel canadien	0.00	0.00	693.22	0.00	0.00	
Dividendes	0.00	0.00	8,472.12	0.00	0.00	
Obliq mond tactique	6,719.44	0.00	0.00	4,166.58	0.00	
Rev taux variable	0.00	1,221.70	1,301.83	857.52	0.00	
Obligations	0.00	4,504.62	0.00	372.55	0.00	
Obis corporatives	0.00	2,520.09	0.00	362.66	0.00	
IndicAmérsNtreDev	0.00	49.76	0.00	0.00	0.00	
IndicIntérsNtreDev	0.00	49.05	0.00	0.00	0.00	
Actes can toutes cap	0.00	212.68	0.00	0.00	0.00	
ACT AMÉR SmartData	0.00	0.00	0.00	601.94	19,423.87	
ACT INTER SmartData	0.00	0.00	0.00	1,451.48	9,105.24	
TOTAL	6,719.44	8,557.90	10,467.17	14,247.19	28,529.11	

FAQ – T3 Slip

➤ Q: Why did I receive my T3 slip so late in the month of April?

A: Trust companies must also file tax returns. Coordination between these filings and the issuance of the slips is often the reason they wait until the prescribed limit (i.e., 90 days after year-end) before providing the issuers with the necessary data to produce the T3 slips, which in turn leads to filing delays.

➤ Q: Why did I receive an amended T3 slip?

A: As previously mentioned, trust companies prepare, very tardily, the information related to their distributions to coordinate them with their own returns. Sometimes, corrections are required after the deadline that may result, amongst other causes, from adjustments or errors in their tax return.

➤ Q: I received a T3 slip from NBI. I do not find any T3 slips issued in NBI's name in the CRA's "My Account." Why?

A: T3 slips are issued by NBI, but on behalf of the different trusts. The income shown on the T3 slip you received will be displayed in the trust's name in the CRA's "My Account." You will not find any T3 slips in the name of NBI. In order to reconcile the trust information set out in the CRA's "My Account," you must refer to the details provided in your *Summary of Trust Income*.

T5 Slip – Statement of Investment Income

The T5 is used to report dividend income, interest income and foreign taxes paid on your investments held in a non-registered Account (Guaranteed Investment Certificates and daily accounts). Please note that the slip will not be issued if the total investment income is less than \$50, but you must still include this income in your tax return.

If you own National Bank mutual funds, you may also receive T5 slips to declare their dividend distributions and capital gains attributions.

Canada Revenue Agency / Agence du revenu du Canada		T5 STATEMENT OF INVESTMENT INCOME / ETAT DES REVENUS DE PLACEMENTS		Year / Année: 20XX	Protected B / Protégé B when completed / une fois rempli
24 Actual amount of eligible dividends / Montant réel des dividendes éligibles: 1188.74	25 Taxable amount of eligible dividends / Montant imposable des dividendes éligibles: 1640.46	26 Dividend tax credit for eligible dividends / Crédit d'impôt pour dividendes éligibles: 246.39	13 Interest from Canadian sources / Intérêts de source canadienne	18 Capital gains dividends / Dividendes sur gains en capital	
10 Actual amount of dividends other than eligible dividends / Montant réel des dividendes autres que des dividendes éligibles	11 Taxable amount of dividends other than eligible dividends / Montant imposable des dividendes autres que des dividendes éligibles	12 Dividend tax credit for dividends other than eligible dividends / Crédit d'impôt pour dividendes autres que des dividendes éligibles	21 Report Code / Code du feuillet: 0	22 Recipient identification number / Numéro d'identification du bénéficiaire: 000 000 000	23 Recipient type / Type de bénéficiaire: 1
Other information (see the back) / Autres renseignements (voir le verso):		15 Box / Case: 49.98	16 Box / Case: 7.49		
Recipient's name (last name first) and address – Nom, prénom et adresse du bénéficiaire			Payer's name and address – Nom et adresse du payeur		
FIRST NAME SURNAME / PRÉNOM NOM / ADDRESS / ADRESSE					
Currency and identification codes / Codes de devise et d'identification: 27 CAD 28		Foreign currency / Devise étrangère: 29 XXXXXX		For information, see the back. / Pour obtenir des renseignements, lisez le verso.	

Dividends from Taxable Canadian Corporations

Essentially, the tax implications associated with a dividend will depend on the type of dividend you received. A dividend paid by a taxable Canadian corporation can be classified, very generally, as either an “eligible dividend” or a “dividend other than an eligible dividend.” The tax implications and rates applied to each type of dividend reflect the underlying taxation of income earned in the corporation. Put simply, corporate income that has been taxed at a higher rate (at the general corporate tax rate) can be paid out as “eligible dividends” and, therefore, taxed in your hands at a lower tax rate. Earnings which were taxed at a lower corporate tax rate will be paid as “dividends other than eligible dividends” and taxed in your hands at a higher tax rate. Finally, a dividend gross-up and a dividend tax credit apply to the dividends you received from Canadian corporations. This mechanism ensures that the combined corporate and personal tax paid on income approximates the tax that would be paid by an individual who earns the income directly (concept of “integration”).

1 - Eligible dividends

Eligible dividends paid to you during the year are found in box 24 of the T5 slip. However, this is not the amount to be reported in your return; you must report the grossed-up amount shown in box 25 – Taxable amount of eligible dividends.

2 - Dividends other than eligible dividends (or "non-eligible dividends")

Dividends other than eligible dividends paid to you over the year are found in box 10 of the T5 slip. However, this is not the amount to be reported in your return; you must report the grossed-up amount shown in box 11 of the T5 slip – Taxable amount of dividends other than eligible dividends.

Foreign Income

Earnings from dividends, interest or any other type of foreign income are shown in box 15 of the T5. The tax paid to the foreign country pertaining to such income is reported in box 16 of the T5 slip. All types of foreign income are grouped together in the same box. The Canadian tax system makes no distinction between them: they are taxed in the same way. The foreign tax credit mechanism will allow you to recover a portion of the tax paid in the foreign country in your tax return.

Interest on Linked Notes

Following regulatory changes in 2017 regarding the disposition or transfer of equity linked notes prior to their maturity, all gains realized at the time of disposition or transfer must be considered as accrued interest. For 2019, this interest must be declared in box 30 of the T5 slip. Box 21 of the T5008 (proceeds of disposition) will not include the interest declared on the T5.

See Linked Notes (page 14)

Accrued Interest on Debt Securities

Accrued interest during the year on discount debt securities (e.g. stripped coupons and residual bonds) and compound interest debt securities (e.g. guaranteed investment certificates) must be reported annually, even if interest is not paid. This interest is included on your T5 with the exception of interest on stripped coupons and residual bonds which is reported on the Accumulated Interest Report provided by your Advisor.

See Premium or Discount Bonds (page 19)

Investment Income Summary

If you have securities with National Bank Investments, you will receive an *Investment Income Summary* which provides, in chronological order, all the investment income paid to your accounts during the period.

In addition, it contains information regarding the interest you paid during the year. The accrued interest that was paid should not be deducted from interest received. It should be added to other deductible financial expenses. Note that the annual administration fees of an RRSP, RRIF, TFSA, RESP, RDSP, LIRA, LRIF or Locked-In RRSP are not deductible, even if paid through a non-registered account.

NATIONAL BANK		INVESTMENT INCOME SUMMARY 20XX			
NAME		Reference XXXX			
ADDRESS		Advisor			
ADDRESS		Telephone			
ADDRESS		S.I.N. 000-000-000			
		Resident			
				AMOUNT	
DATE	QUANTITY	DESCRIPTION		PAID BY YOU	PAID TO YOU
VOTRE COMPTE					
20xx/xx/xx		INTERET AU 16 JAN	(0) INT		10.96
20xx/xx/xx		INTERET AU 16 FEV	(0) INT		11.00
20xx/xx/xx	975	TEST	(1) DIV		271.17
20xx/xx/xx	1,800	TEST	(1) DIV		500.63
20xx/xx/xx		INTERET AU 16 MAR	(0) INT		9.99
20xx/xx/xx	1,201	TEST	(1) DIV		466.36
20xx/xx/xx		INTERET AU 16 AVR	(0) INT		11.12
20xx/xx/xx		INTERET AU 16 MAI	(0) INT		10.80
20xx/xx/xx	975	TEST	(1) DIV		271.17
20xx/xx/xx	1,800	TEST	(1) DIV		500.63
20xx/xx/xx		INTERET AU 16 JUN	(0) INT		11.23
20xx/xx/xx	1,201	TEST	(1) DIV		466.36
20xx/xx/xx		INTERET AU 16 JUI	(0) INT		10.92
20xx/xx/xx		INTERET AU 16 AOU	(0) INT		11.32
20xx/xx/xx	975	TEST	(1) DIV		271.17
20xx/xx/xx	1,800	TEST	(1) DIV		500.63
20xx/xx/xx		INTERET AU 16 SEP	(0) INT		9.86
20xx/xx/xx	1,201	TEST	(1) DIV		466.36
TOTAUX DE TOUS LES COMPTES :					
(0) INTERETS CON À LA SOURCE					93.20
(1) DIVIDENDES DÉTERMINÉS DE CORP. CON					3,720.48

T5008 Slip – Statement of Securities Transactions

If you have sold securities from your non-registered National Bank Investments account during the year, you will receive a T5008 statement.

17	18	19	20	21	22	23	24
Identification of securities Designation des titres	Type code Code des titres	Date	Quantity of securities Quantité de titres	Unit price Prix unitaire	Proceeds of disposition Produits de disposition	Cost or Book Value Coût ou valeur comptable	Commission and/or fee Commission et/ou frais
description	PTI	AUG 08	5000	10,000	50,000.00	49,793.01	
description	PTI	AUG 08	5000	10,000	50,000.00	49,982.50	
test	PTI	JAN 01	800	100,000	9,000.00	11,234.72	
test	PTI	JAN 02	45	100,000	89.00		13.00
test	PTI	JAN 03	70	300,000	90.00		12.00
test	PTI	JAN 04	75	20,000	1,000.00		11.00
TOTAL			10953		110,179.00		36.00

16 Folio/Code Code du folio: 0
21 Recipient type Type de bénéficiaire: 1
23 Foreign currency Devise étrangère:
24 Recipient identification number Numéro d'identification du bénéficiaire:

17 Identification of securities
18 Type code
19 Date
20 Quantity of securities
21 Unit price
22 Proceeds of disposition
23 Cost or Book Value
24 Commission and/or fee

T5008-18, SECURITIES TRANSACTIONS ARE DISCLOSED TO THE CANADA REVENUE AGENCY ON A YEARLY BASIS. THESE TRANSACTIONS ARE TO BE REPORTED ON YOUR ANNUAL RETURN OF INCOME. PLEASE RETAIN FOR INCOME TAX PURPOSES, AS NO OTHER FORM WILL BE ISSUED. RC-18-#999
 T5008-18, LES OPÉRATIONS SUR TITRES SERONT COMMUNIQUÉES À L'AGENCE DU REVENU DU CANADA SUR UNE BASE ANNUELLE. CES OPÉRATIONS DOIVENT ÊTRE INCLUSES DANS VOTRE DÉCLARATION DE REVENUS ANNUELLE. VEUILLEZ CONSERVER POUR FINS D'IMPÔT, CAR AUCUN AUTRE FORMULAIRE NE SERA ÉMIS. RC-18-#999

THIS INFORMATION SLIP REPORTS THE AMOUNTS PAID OR CREDITED TO YOU FOR SECURITIES YOU DISPOSED OF OR REDEEMED DURING THE YEAR INDICATED. PLEASE NOTE THAT THESE PROCEEDS OF DISPOSITION APPEAR SEPARATELY FROM FEES AND COMMISSIONS YOU HAVE PAID. THE DATE SHOWN IN BOX 19 IS THE SETTLEMENT DATE. IN ORDER TO OBTAIN THE INFORMATION RELATED TO PURCHASES YOU CAN REFER TO YOUR PORTFOLIO STATEMENTS AND/OR YOUR TRADE CONFIRMATIONS.
 CE FEUILLET INDIQUE LES MONTANTS QUI VOUS ONT ÉTÉ PAYÉS OU CRÉDITÉS POUR LES TITRES QUE VOUS AVEZ VENDUS OU RACHETÉS DURANT L'ANNÉE. VEUILLEZ NOTER QUE CES PRODUITS DE DISPOSITION FIGURENT INDÉPENDamment DES FRAIS ET COMMISSIONS QUE VOUS AVEZ PAYÉS. LA DATE INSCRITE À LA CASE 19 EST CELLE DU JOUR DU RÈGLEMENT DE LA TRANSACTION. POUR OBTENIR LES INFORMATIONS RELATIVES AUX ACHATS, VOUS POUVEZ VOUS RÉFÉRER À VOS RELIÈVES DE PORTEFEUILLE ET/OU VOS AVIS D'EXÉCUTION.

For more information about this form, visit www.cra-arc.gc.ca/Forms or call 1-800-955-4221.
 Pour en savoir plus, allez à www.cra-arc.gc.ca/Forms ou composez le 1-800-955-4221.

See the privacy notice on your return.
 Consultez l'avis de confidentialité dans votre déclaration.

T5008 (2018) / RL-18 (2018) - Page 1 of 2 -

- As indicated in the CRA guide, the amount shown in box 20 of the T5008 slip may not represent the Adjusted Cost Base (ACB) required to calculate the gain/loss. As such, please refer to the FAQ at the end of this section for further detail.
- In all cases, you must take the “adjusted cost base” calculated based on your aggregate data as indicated on the following page. **IMPORTANT:** Keep the explanations of your ACB calculations, especially if they differ from the values shown in box 20 of your T5008 slips. This will allow you to respond to requests for additional information from tax authorities, as required.
- If box 20 is left blank, it is because the institution does not have accurate information to report a book value. In this case, you should check your records to determine the ACB in order to calculate your gain or loss for tax purposes.

How is the Capital Gain or Loss Calculated

The fiscal gain or loss is calculated as follows: Proceeds of disposition minus fiscal ACB less expenses incurred to sell the asset. Thus, the fiscal ACB is used to calculate, at the time of disposition, the taxpayer's loss or gain, for tax purposes.

Proceeds of Disposition

Proceeds of disposition is the amount received or receivable in return for property or goods and is, generally, the sale price. Box 21 of the T5008 slip represents the proceeds of disposition before commission or any expenses disbursed.

Commissions or Fees

The T5008 slip also reports the fees or commissions incurred on the disposition of the security. This amount is needed to accurately calculate the fiscal gain or loss as mentioned above.

How to Calculate the ACB of a Mutual Fund

The ACB of a mutual fund investment is equal to:

The total of all amounts paid to purchase fund shares
 (+) the value of all reinvested distributions ⁽¹⁾
 (-) the portion of capital return of distributions ⁽²⁾
 (-) the ACB of previously sold shares.

⁽¹⁾ Reinvested distributions increase the cost base of the units to avoid double taxation when units are disposed of.

⁽²⁾ Distributions may be made in part from a return of capital. You do not have to pay tax on this amount. Therefore, you do not have to report this amount as taxable income for the year.

For a partial redemption, the capital gain or loss is determined by multiplying the ACB per unit by the number of units redeemed.

Example of the calculation of the Adjusted Cost Base

January 25, 2018

An investor acquires \$10,000 worth of shares of a National Bank fund, whose cost per share is \$10.00. The investor therefore acquires 1,000 shares.

April 8, 2018

The investor buys \$3,600 worth of shares of the same fund, when the cost per share is now \$9.00. The investor therefore acquires 400 additional shares.

December 31, 2018

The fund in question issues a distribution of \$0.25 per share.

The investor receives a distribution of \$350.00 (1,400 shares x \$0.25) which is reinvested to acquire additional shares at a price of \$12.50 per share effective at the end of the year. The investor acquires 28 additional shares (\$350.00 divided by \$12.50).

Following these transactions, the ACB of the shares is as follows:

Acquisition on January 25, 2018	\$10,000
Acquisition on April 8, 2018	\$3,600
Distribution reinvested on December 31, 2018	\$350
Total ACB	\$13,950
Devided by the number of shares	1,428 shares
ACB per share	\$9,7689 / share

February 24, 2019

The investor redeems 500 shares at \$13 per share, for a total amount of \$6,500.

The ACB of the 500 redeemed shares is \$4,884.45 (500 shares multiplied by the ACT per share of \$9.7689) and the ACB of the remaining shares is reduced by this amount.

The new total ACB is \$9,065.55, for the remaining 928 shares, while the ACB per share is unchanged at \$9.7689.

The ACB per share immediately after a partial redemption is identical to the ACB per share immediately after the redemption.

CALCULATION OF THE ACB

Description	Calculation of the ACB		
	<i>The ACB is calculated as follows:</i>		
	Total Cost	Shares	ACB per share
Purchase transaction of January 25, 2018	\$10,000.00	1,000.000	\$10.0000
Purchase transaction of April 8, 2018	\$3,600.00	400.000	\$9.7143
	\$13,600.00	1,400.000	
Distribution reinvested on December 31, 2018	\$350.00	28.000	
	\$13,950.00	1,428.000	\$9.7689
Redemption transaction of February 24, 2019	(\$4,884.45)	(500.000)	\$9.7689
Adjusted Cost Base of remaining shares	\$9,065.55	928.000	\$9.7689

Settlement Date vs. Transaction Date

A tax disposition is triggered on the settlement date and not on the date the transaction order is given.

Conversion to Canadian Dollars

Please note that all information reported on your income tax return must be in Canadian dollars (with a few exceptions). As well, the fiscal ACB must be calculated in Canadian dollars, even if the security (Canadian or foreign) is denominated in a different currency. Thus, the exchange rates in effect at the time of purchase and at the time of disposition must be used to calculate the ACB and the proceeds of disposition accordingly, and therefore, will ultimately determine the gain/loss. Note that the CRA indicates on its website that you can use the annual average exchange rate when transactions occur throughout the year, as is the case when receiving dividends or interest. This is not the case when calculating the ACB, the proceeds of disposition and the capital gain/loss.

Linked Notes

A linked note is a debt obligation, most often issued by a financial institution, the return on which is linked in some manner to the performance of one or more reference assets or indexes over the term of the obligation. Previously, selling a linked note prior to maturity generally only generated a capital gain or loss. Since January 1, 2017, all or a portion of any gain realized on the sale of a linked note is deemed to be interest that has accrued on the debt obligation. This measure ensures that any positive return on a linked note retains the same character, whether it is earned at maturity or reflected in a secondary market sale.

Caution: Certain products may be referred to as "Notes," and may not be subject to the rules of the Notes if the legal nature of the product does not fall within the definition of "linked bills" under the Income Tax Act. For example, bills with fixed coupons (redeemable or not) are not covered because they do not provide for any variable or conditional interest in addition to fixed interest. Thus, these bills, whose interest payments do not depend in any way on the performance of at least one reference asset or index during the term, receive the same tax treatment as a conventional bond (see the section "Taxation of Bonds").

The following three elements must be identified at the sale or maturity of a linked note:

- 1 - Taxable interest (T5 slip)
- 2 - Interest paid to the seller at purchase; this is deductible in Schedule 4 (no prescribed slip is required)
- 3 - Gain or loss, as applicable (slip T5008 and calculation of the ACB).

We recommend that you calculate each of the steps in the following order:

- 1- *Calculation of interest:* Paragraph 20(14.2) of the ITA stipulates that the difference between the amount received in exchange for the linked note (hereinafter, the "Sell Price") and the remaining capital (hereinafter, the "Face Value") is considered interest income, regardless of whether the linked note was sold before or after maturity. When there are returns of capital during the holding period, the repaid amount reduces the Face Value for the calculation of interest at the time of the disposition or the maturity of the linked note (see example 6 below). Note that even if a capital loss is realized in the third step calculation, this capital loss does not reduce the interest calculated in this first step.

The CRA requires that the portion of interest be reported on a T5 slip.

- 2- *Calculation of interest paid to the seller at purchase:* When a premium is paid upon the acquisition of a linked note, it is generally considered as interest paid to the seller. In this case, the purchaser would be entitled to deduct an amount, limited to the interest calculated in step 1 and indicated on the T5 slip, as "interest paid" pursuant to paragraph 20(14)(b) of the ITA. This amount must be provided in Schedule 4 of the income tax return. The interest paid also reduces the acquisition cost for the purpose of calculating the ACB (see example 3 below).
- 3- *Calculation of the gain or loss:* Upon the disposition or the maturity of the linked note, it is necessary to calculate whether there is a gain or loss. For this purpose, the proceeds of disposition must be reduced by the interest income included at the time of disposition or maturity (step 1 above). In addition, the initial cost must, in certain circumstances, be modified to obtain the adjusted cost base (ACB) required to calculate the capital gain or loss. For additional information, please refer to the section entitled "How is the capital gain or loss calculated?" above.

The disposition or maturity must also be reported on a T5008 (Box 15 = ELN or BLA for Linked Notes) slip. However, the proceeds of disposition on the T5008 are reduced by the portion of interest indicated on the T5 slip.

Note: If the proceeds of disposition indicated in the *Realized Capital Gains and Losses Report* are different from that identified on the T5008, please use the value indicated on the T5008.

The following are examples illustrating the calculation of the interest and the capital gain (or loss) resulting from the disposition or the maturity of the linked note.

Example 1: Purchase at face value

Face Value	\$1,000
Investor's Purchase Price	\$1,000
Sell Price	\$1,020
Interest (T5)	\$20
Gain (Loss) Calculation	
Proceeds of Disposition	\$1,020
Adjustment (interest T5)	\$20
Proceeds of Disposition (T5008)	\$1,000
Initial Cost	\$1,000
Adjustment	\$0
Adjusted Cost Base	\$1,000
Gain (Loss)	\$0

Example 2: Commissions

The payment of a commission requires an adjustment to the calculation of the capital gain (loss). If a \$25 commission was paid at the time of disposition, this amount must be considered in the calculation of the gain (loss). Please refer to the section "How is the capital gain or loss calculated?" above for more information. No adjustment is required when the commission is integrated into the product, that is, provided in the linked note's issuing document.

Face Value	\$1,000
Investor's Purchase Price	\$1,000
Sell Price	\$1,020
Purchase Commission	\$0
Sale Commission	\$25
Interest (T5)	\$20
Gain (Loss) calculation	
Proceeds of Disposition	\$1,020
Adjustment (interest T5)	\$20
Proceeds of Disposition (T5008)	\$1,000
Sale Commission	\$25
Initial Cost	\$1,000
Adjustment	\$0
Adjusted Cost Base	\$1,000
Gain (Loss)	\$25

Example 3: Acquisition cost exceeds face value

When a premium is paid upon the acquisition of a linked note, it is generally considered as interest paid to the seller. In this case, the purchaser would be entitled to deduct the amount as "interest paid" pursuant to paragraph 20(14)(b) of the ITA. This amount must be shown in Appendix 4 of the individual's income tax return. The interest paid also reduces the acquisition cost for the purpose of calculating the ACB.

Face Value	\$1,000
Investor's Purchase Price	\$1,050
Sell Price	\$1,070
Interest (T5)	\$70
Deduction for Interest Paid Purchase (Schedule 4)	\$50
Gain (Loss) Calculation	
Proceeds of Disposition	\$1,070
Adjustment (interest T5)	\$70
Proceeds of Disposition (T5008)	\$1,000
Initial Cost	\$1,050
Adjustment (Interest Paid on Purchase)	\$50
Adjusted Cost Base	\$1,000
Gain (Loss)	\$0

Example 4: Acquisition cost below face value

Face Value	\$1,000
Investor's Purchase Price	\$998
Sell Price	\$1,000
Interest (T5)	- \$
Deduction for Interest Paid Purchase (Schedule 4)	- \$
Gain (Loss) Calculation	
Proceeds of Disposition	\$1,000
Adjustment (interest T5)	- \$
Proceeds of Disposition (T5008)	\$1,000
Initial Cost	\$998
Adjustment (Interest Paid on Purchase)	- \$
Adjusted Cost Base	\$998
Gain (Loss)	\$2

Example 5: Foreign currency linked notes

Interest received (and taxable) is converted using the exchange rate at the time of payment. Interest paid (deductible in Schedule 4) is converted at the exchange rate applicable at the time of acquisition. For the purpose of calculating the gain (loss), proceeds of disposition and related expenses are converted at the exchange rate at the time of disposition or maturity, as the case may be. Proceeds of disposition are reduced by the interest included in Canadian dollars. Finally, the initial cost is converted to the exchange rate at the time of acquisition. Adjusted cost base adjustments (such as interest paid) are converted at the exchange rate when they occur.

	(1)		(2)	(1) x (2)
	USD		Conversion rate	CDN \$
Face Value	\$1,000	Jan 16, 2019	1.1	\$1,100
Investor's Purchase Price	\$1,050	April 18, 2019	1.2	\$1,260
Return on Capital	\$1,070	Nov 26, 2019	1.3	\$1,391
Interest (T5)	\$70		1.3	\$91
Deduction for Interest Paid Purchase (Schedule 4)	\$50		1.2	\$60
Gain (Loss) Calculation				
Proceeds of Disposition	\$1,070		1.3	\$1,391
Adjustment (interest T5)	\$70		1.3	\$91
Proceeds of Disposition (T5008)	\$1,000			\$1,300
Initial Cost	\$1,060		1.2	\$1,260
Adjustment (Interest Paid)	\$50		1.2	\$60
Adjusted Cost Base	\$1,000			\$1,120
Gain (Loss)	\$0			\$100

Example 6: Return on capital

When there are returns of capital during the holding period, the repaid amount reduces the face value for the calculation of interest at the time of the disposition or the maturity of the linked note. This amount also reduces the purchase price to obtain the adjusted cost base (ACB) for the calculation of the gain or loss.

Face Value	\$1,000
Investor's Purchase Price	\$1,000
Return on Capital	\$200
Sell Price	\$820
Interest (T5)	\$20
Gain (Loss) Calculation	
Proceeds of Disposition	\$820
Adjustment (interest T5)	\$20
Proceeds of Disposition (T5008)	\$800
Initial Cost	\$1,000
Adjustment (Return on Capital)	\$200
Adjusted Cost Base	\$800
Gain (Loss)	\$0

Premium or Discount Bonds

Generally, a bond that trades in a secondary market allows investors to buy and sell the bond at prices that fluctuate due to several factors, including the interest rate in effect at the time of the transaction. Thus, the bond may be **sold** at a lower price (at a discount), a higher price (at a premium), or at a price equal to its face value.

Bonds will therefore often have interest income and the potential for capital gains (losses).

Calculation of the interest portion

The I.T.A. requires taxpayers who hold investment contracts (including bonds) acquired after December 31, 1989, to report their interest income annually. Thus, interest income must be declared annually on the anniversary date of the investment. At the time of sale, it is likely that a portion of the accrued interest will be included in the sale price. Therefore, the seller must add this portion of accrued interest to his/her income. The purchaser will be able to **deduct the interest paid**.

Here is a summary of some of the tax impact:

- Interest accrued since the last payment that is part of the sale price (20(14)(b) ITA and 167 LI).
- The purchaser will receive the T5 for the full year but will deduct the portion paid to the seller.
- The deduction is allowed in the taxation year in which the accrued interest was included in the taxpayer's income.

Calculation of gain (loss) in the year of disposition

For the seller, the difference between the **sale price** and the **price paid after subtracting the portion representing the interest accrued since the last interest payment** will then constitute a capital gain or loss.

- Example from IQPF Solution
 - Vested obligation January 1, 2020
 - Maturity: December 31, 2035
 - Interest at 3% payable semi-annually on June 30 and December 31 of each year.
 - Face value: \$10,000
 - Price paid: \$10,000
 - Sale of bonds July 31, 2020 at a price of \$10,500
 - Tax impact for the seller

Nominal Value		\$10,000	
Interest Rate		3%	
Calculation of Interest Income		2020	
Half-year payment 1	January 1 to June 30	150.00	6/12
Half-year payment 2	July 1 to July 31	25.48	31/365
	TOTAL INTEREST	350.96	
Calculation of Gain (Loss)		2020	
Selling Price		\$10,500.00	
ACB		\$10,000.00	
Gain (Loss)		\$500.00	

FAQ –T5008 Slip

- Q: Under what circumstances may adjustments to the amount shown in box 20 of my T5008 slip be required to determine the ACB for tax purposes?

A: There are a wide variety of reasons why the amount in box 20 may not accurately reflect the ACB, including:

- when a security was transferred into your account, the information that was provided by the institution that transferred the security may have been incorrect.
 - when you hold identical securities in more than one non-registered account, even when the accounts are all at the same institution.
 - when you have a history of losses subject to the superficial loss regulations.
 - when you have made a tax election, undertaken certain rollover transactions (including a spousal or estate rollover) or have been subject to "deemed disposition" rules for the security.
 - certain market events such as mergers, acquisitions and foreign spin-off reorganizations may not have been properly considered.
 - if you disposed of interests in mutual funds, income trusts, royalty trusts, real estate investment trusts (REITs), exchange traded funds (ETFs) or limited partnerships, the amount in box 20 may not reflect reimbursements of capital (which reduce the ACB) or reinvested distributions (which increase the ACB).
 - if you have entered into short sale transactions and the position was not fully hedged during the year, the book value may not be accurately reflected.
- Q: If there is a difference between the amount that is shown on the T5008 and the Realized Capital Gains and Losses Report, which number takes precedence?

A: The amount on the T5008 takes precedence. For example, if the client sells his position and a book value adjustment subsequently occurs, the book value on T5008 will be different.

RRSP

RRSP Contribution Slips

If you have contributed to an RRSP of which you or your spouse (or common-law partner) is an annuitant between March 3, 2020 and March 1, 2021, you will receive an RRSP contribution receipt. Receipts will be issued for two separate periods: the first one corresponding to contributions between March 3, 2020 and December 31, 2020, and the second covering the first 60 days of 2021 from January 1, 2021 to March 1, 2021.

It is important to complete Schedule 7 of your 2020 income tax return and attach all receipts including those covering the first 60 days of 2021, even if you do not claim RRSP deductions on your 2020 income tax return for some or all contributions made between March 3, 2020 and March 1, 2021.

BANQUE NATIONALE NATIONAL BANK OF CANADA

N^o agence / Centre No. 36686

N^o resp. - Receipt No. 11006196

N ^o du régime / Plan No.	Date du dépôt / Deposit Date	Contribution	N ^o d'assurance sociale / Social Insurance No.
	2021	\$36000.00	06321

CONTRIBUTION PENDANT LES 60 PREMIERS JOURS DE L'ANNEE

16-17 (01-2021) REQU OFFICIEL POUR PMS-DIMÔT FEDERAL / FEDERAL INCOME TAX COPY

Nous certifions que le participant dont le nom figure ci-dessus a contribué au régime d'épargne-retraite conformément à l'article 146 de la Loi de l'impôt sur le revenu (Canada) et que les versements de fonds se sont effectués sur son compte et qu'il est enregistré en conséquence de ce fait.

We certify that the appropriate member's name has been entered in the Retirement Savings Plan in accordance with section 146 of the Income Tax Act (Canada) and in accordance with the provisions of any applicable provincial income tax law and that it has been registered accordingly.

BANQUE NATIONALE NATIONAL BANK OF CANADA

Dépositaire / Depository

Par / By *[Signature]*

Use present / Révisé / Updated and email business

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BANQUE NATIONALE NATIONAL BANK OF CANADA

N^o agence / Centre No. 36686

N^o resp. - Receipt No. 11006196

N ^o du régime / Plan No.	Date du dépôt / Deposit Date	Contribution	N ^o d'assurance sociale / Social Insurance No.
	2021	\$36000.00	06321

CONTRIBUTION PENDANT LES 60 PREMIERS JOURS DE L'ANNEE

16-17 (01-2021) REQU OFFICIEL POUR PMS-DIMÔT FEDERAL / FEDERAL INCOME TAX COPY

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BANQUE NATIONALE NATIONAL BANK OF CANADA

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Spousal or Common-Law Partner's RRSP

You can contribute into a spousal or common-law partner's RRSP instead of yours. These contributions will be deductible on your income tax return based on your RRSP deduction limit (i.e., RRSP contribution room). You will need to identify separately, in Schedule 7, the contributions to your own RRSP from those made to your spousal or common-law partner's RRSP.

Excess Contributions

A special tax of 1% per month is payable on contributions made to an RRSP that exceed your RRSP deduction limit by more than \$2,000. If you are subject to this special tax, you must complete a T1-OVP return, "Individual Tax Return for RRSP, SPP and PRPP - Excess Contributions", send it to your tax centre and make a payment within 90 days following the end of the calendar year to avoid paying a penalty or interest.

The application of this special tax (1%) may cease either:

- when you have new RRSP contribution room; or
- at the time of withdrawal of excess contributions.

Withdrawal of Excess Contributions

If you withdraw excess contributions from your RRSP, you will have to include the withdrawn amount in your income for the year of withdrawal, even if you have never deducted this amount in your previous tax returns. However, an offsetting deduction can be claimed when certain conditions are met. You can refer to [Form T746](#) to find out if you are eligible for this offsetting deduction.

Attribution Rules: Calculation of the Amount to be Included in Your Income and in the Income of Your Spouse or Common-Law Partner

When you withdraw from a spousal or common-law partner's RRSP, it is possible that all or part of the amount on the T4RSP or T4RIF slip is reattributed to you (even if the slip is issued in the annuitant's name), meaning that the amount must be included in your income tax return (the contributor's tax return).

If you contributed to a spousal or common-law partner's RRSP in 2018, 2019 or 2020, you may have to include in your 2020 income some or all of the amounts withdrawn from the spousal or common-law partner's RRSP.

In the year of withdrawal (e.g., 2020), you must include the lesser of

- the amount you contributed to your spouse's RRSP for the year of withdrawal (2020) as well as the two previous years (2019 and 2018), and
- the amount that your spouse or common-law partner has withdrawn from his/her RRSP (e.g., 2020).

Please review the CRA website for more information: <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/rrsps-related-plans/making-withdrawals/withdrawing-spousal-common-law-partner-rrsps.html>

Use Form T2205, "Amounts from a Spousal or Common-law Partner RRSP, RRIF or SPP to Include in Income" to calculate the amount to be included in your own income tax return and in the return of your spouse or common-law partner.

In all cases, the individual whose name appears on the slip must declare the tax withheld. Most of the time, after a withdrawal, the information slip is made in the name of the annuitant. However, you must report income as calculated in Parts 1 and 2 of Form T2205.

Exceptions

The attribution rules do not apply in the following situations:

- you and your spouse or common-law partner were living separately at the time of withdrawal due to a breakdown of the relationship;
- at the time of withdrawal, you or your spouse or common-law partner were non-residents of Canada;
- to the Prescribed Minimum RRIF Amount: the attribution rules apply only to amounts in excess of the minimum withdrawal for the year;
- in the year of death.

RRIFs - Reduced Minimum Withdrawals from Registered Retirement Income Funds (RRIFs)

(Canada Revenue Agency and COVID-19)

The minimum withdrawal requirement for all types of Registered Retirement Income Funds (RRIFs) has been reduced by 25% for the year 2020. Individuals who withdrew more than the reduced minimum amount in 2020 cannot put the excess amount back into their RRIFs.

The 25% reduction applies to the total minimum withdrawal amount for 2020. For example, if an individual had to withdraw \$12,000 from an RRIF in 2020 before the reduction, he/she could receive a minimum amount of \$1,000 per month. As a result of the economic measures, the minimum withdrawals for 2020 were reduced by 25% to \$9,000 ($\$12,000 \times 75\% = \$9,000$). If the individual has already received \$1,000 per month from January to April, for a total of \$4,000, he/she will only need to withdraw a total of \$5,000 for the rest of the year to meet the new minimum withdrawal requirements. This means that monthly RRIF payments will be reduced to \$625 for the last 8 months of the year ($8 \times \$625 = \$5,000$).

This also applies to:

- > Life Income Funds (LIFs)
- > Variable benefit payments under a money purchase registered pension plan (RPP)
- > Group Registered Pension Plan (PRPP)
- > Non-residents holding a RRIF
- > Benefits payable from IPPs - Minimum benefit conditions

The regular minimum remains for the application of the following three measures:

- 1 - Withholding tax: The I.T.A. provides that no tax is withheld on the prescribed minimum amount, i.e. for the regular minimum and the reduced minimum. However, the withdrawals remain taxable.
- 2 - Attribution rule: Withdrawals from a spousal RRIF may be subject to the attribution rules if made within three years of the last RRSP contribution. This has the effect of taxing the withdrawal on the contributor's tax return. This rule does not apply to the prescribed minimum withdrawal, i.e. the regular minimum and the reduced minimum.
- 3 - Non-resident tax: A RRIF withdrawal by a non-resident of Canada is subject to a 25% Canadian tax under Part XIII of the I.T.A. It is the financial institution that remits the tax to the government through a withholding at source at the time of withdrawal. Some tax treaties provide for a reduction of this tax when the amount withdrawn from the RRIF is a "periodic payment," as defined in section 5 of the Income Tax Conventions Interpretation Act. In order to qualify as a "periodic payment," the RRIF amount cannot exceed the greater of the following amounts:
 - Double the minimum RRIF withdrawal amount required by the I.T.A. for the year
 - 10% of the value of the RRIF account at the beginning of the year (January 1).

For this purpose, the calculation will be based on the regular minimum amount.

Transfer of a RRIF/LIF to an RRSP/LIRA

It is possible, in certain circumstances, that an annuitant transfers funds from his/her RRIF/LIF to his/her RRSP/LIRA. While this transfer is not taxable, the amount transferred from the RRIF (LIF) to the RRSP (LIRA) will trigger the issuance of a T4RIF, as well as an RRSP contribution slip. The T4RIF will result in the inclusion of the amount in declared income, while the RRSP contribution slip, included as appropriate on Schedule 7 of the Federal income tax return (transfer section), will provide a deduction that will negate the inclusion of the income.

Note, however, that the following transfers do not generate tax slips and do not affect the reporting of income: RRSP/LIRA to RRSP/LIRA, RRSP/LIRA to RRIF/LIF, RRIF/LIF to RRIF/LIF.

RESP Withdrawal – T4A Slip

RESP income withdrawal will trigger the issuance of a T4A slip in the name of the beneficiary of the plan. RESP capital withdrawals are not taxable.

Canada Revenue Agency / Agence du revenu du Canada		Year / Année	T4A		
Payer's name – Nom du payeur		Statement of Pension, Retirement, Annuity, and Other Income / État du revenu de pension, de retraite, de rente ou d'autres sources			
061	Payer's program account number / Numéro de compte de programme du payeur	Pension or superannuation – line 11500 / Prestations de retraite ou autres pensions – ligne 11500		Income tax deducted – line 43700 / Impôt sur le revenu retenu – ligne 43700	
012	Social insurance number / Numéro d'assurance sociale	013	Recipient's program account number / Numéro de compte de programme du bénéficiaire	016	
	999 999 999			022	
Recipient's name and address - Nom et adresse du bénéficiaire		018	Lump-sum payments – line 13000 / Paiements forfaitaires – ligne 13000	020	
Last name (print) – Nom de famille (en lettres moulées) / First name – Prénom / Initials – Initiales				Self-employed commissions / Commissions d'un travail indépendant	
FIRST NAME SURNAME / PRENOM NOM				Fees for services / Honoraires ou autres sommes pour services rendus	
ADDRESS / ADRESSE				024	
				048	
Box – Case / Amount – Montant		Box – Case / Amount – Montant		Box – Case / Amount – Montant	
014	XXXXXXX			Other information (see page 2) / Autres renseignements (voir à la page 2)	
				042	872.62

Tax-Free Savings Account (TFSA)

The TFSA is an account that allows a taxpayer to save and invest on a tax-free basis. Any amounts accumulated in a TFSA or withdrawn from the account are not taxable.

Eligibility

Any individual who is 18 years of age or older living in Canada and who has a valid Canadian Social Insurance Number is eligible to open a TFSA. Individuals who reach the age of 18 during the year must wait until their birthday to open a TFSA. In Canadian provinces where the age of majority is 19 (British Columbia, New Brunswick, Nova Scotia, Nunavut, the Northwest Territories, Yukon and Newfoundland/Labrador), a TFSA account for an individual who is 18 years of age must be opened as follows: "Name of the Child, C/O name of the guardian, tutorship to minors." When the individual turns 19, a new TFSA account will have to be opened in the individual's name and new documents must be signed by him/her.

Annual TFSA Contribution Limit

The TFSA contribution limit for 2020 and 2021 was \$6,000. The limit will be indexed to the inflation rate for subsequent years and will be rounded to the nearest \$500. The annual contribution limit for 2009 to 2012 was \$5,000. The contribution limit for each of 2013, 2014, 2016, 2017 and 2018 was \$5,500. Exceptionally, the 2015 contribution limit was \$10,000. The limit for 2019 was \$6000.

A TFSA contribution is not deducted from income (unlike an RRSP contribution). Unused contribution room will be carried forward to future years indefinitely and there is no cumulative limit. In addition, withdrawals from a TFSA in a given year will be added to the individual's contribution room for the following year. This allows individuals withdrawing money from their TFSA to use their accumulated savings to recontribute an amount equivalent to the withdrawal in the following or subsequent years.

The calculation of the annual contribution room is as follows:

Unused contribution room from previous years + withdrawals made in the previous year + current year's contribution room.

For example, an individual has unused contribution room of \$10,000 and withdraws \$7,000 in a given year. The following year, she/he may therefore contribute \$17,000 in addition to the current year's contribution limit. As with RRSPs, it is not possible for financial institutions to calculate, for the client, the amount they are entitled to contribute to their TFSA. Note, however, that it is possible to find this information on the CRA's "My Account." For more information, see the following webpage:

<https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/tax-free-savings-account/contributions.html>

"In kind" contributions are allowed. The amount of the contribution will be equal to the fair market value ("FMV") of the property. CRA considers that there was a disposition of the property at FMV at the time of the contribution. If the FMV exceeds the fiscal cost of the property, a capital gain must be reported when filing your tax return. However, if the fiscal cost is greater than the FMV, no capital loss will be permitted since the loss would be considered "deemed to be nil" under the ITA.

There is no maximum age for contributing. No tax slip will be issued. Each year, CRA will determine the permitted contribution amount for the TFSA holder. Interest paid on money borrowed and invested in a TFSA is not deductible for tax purposes.

Excess Contributions

Excess TFSA contributions are subject to a 1% tax per month. If the CRA suspects that the excess contributions were deliberate, a 100% tax will be levied on income earned on these contributions. There is no special procedure to withdraw excess contributions; i.e., a regular withdrawal must be made. The withdrawal of excess contributions will not allow the holder to accumulate new contribution room.

Example:

Rosanna is a 31-year-old Canadian resident. She opened a TFSA on February 6, 2009 and contributed the maximum amount she could contribute from 2009 to 2019. In February 2020, she contributed \$4,500. Later that year, she received an unexpected \$4,100. She forgot that her contribution room for 2020 was limited to \$6,000 and decided to contribute the full amount (\$4,100) to her TFSA on October 30, 2020.

After making this contribution, Rosanna had an excess of \$2,600 in her TFSA because the total amount she contributed as of October 30 was \$8,600 (\$4,500 + \$4,100) and this amount exceeded her 2020 contribution room of \$6,000.

Assuming that Rosanna has made no further contributions to her TFSA and no withdrawals during the remainder of 2020, she has a tax liability of \$78 on her excess TFSA amount. This amount was calculated by multiplying the highest excess amount in each month by 1% for each of the three months from October to December; therefore, $\$2,600 \times 1\% \times 3 \text{ months} = \78 .

If, after making her \$4,100 contribution on October 30, 2020, Rosanna realized her error and withdrew \$2,600 on October 31, she still would have been subject to a 1% tax on the \$2,600 excess amount, but only for October. Her tax liability would have been \$26 ($\$2,600 \times 1\% \times 1 \text{ month}$). (Example from the CRA guide)

Note that the application of this special 1% tax may cease when the taxpayer has new TFSA contribution rights.

Withdrawals

TFSA withdrawals may be made at any time, for any reason, and are not taxable. The total amount of the withdrawals may be recontributed to the TFSA in the following or subsequent years (due to the increase in contribution room). Hence, a TFSA withdrawal restores contribution room, which is not the case for RRSP withdrawals.

Plan's Maturity Date

Unlike an RRSP, where you must terminate the plan when reaching 71 years of age, there is no termination date for a TFSA. The TFSA, therefore, offers seniors aged 71 and over a tax-free savings vehicle.

Differences Between a TFSA and an RRSP

Both plans offer tax benefits but have significant differences:

- RRSP contributions are deductible for income tax purposes unlike those made to a TFSA.
- RRSP withdrawals are added to income, are taxed at the current rate, and do not result in restored contribution room. TFSA withdrawals and income do not raise any tax implications, i.e., they are tax-free. Moreover, TFSA contribution room may be restored after a withdrawal. For more information, please visit the CRA website:
<https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/tax-free-savings-account.html?slnk>

Miscellaneous

NR4 Slip (Federal) – Statement of Amounts Paid or Credited to Non-Residents of Canada

Non-residents of Canada will receive a NR4 stating the gross investment income, the tax withheld (if applicable) as well as withdrawals from registered accounts. Usually, the withholding tax will be considered a final tax and the non-resident should not be required to file a Canadian income tax return unless he or she is in a special situation.

Canada Revenue Agency		Agence du revenu du Canada		NR4		STATEMENT OF AMOUNTS PAID OR CREDITED TO NON-RESIDENTS OF CANADA		ÉTAT DES SOMMES PAYÉES OU CRÉDITÉES À DES NON-RÉSIDENTS DU CANADA	
121 Year Année	122 Recipient code Code du bénéficiaire	123 Country code Code pays	124 Payer or agent identification number Numéro d'identification du payeur ou de l'agent		125 Foreign or Canadian tax identification number Numéro d'identification étranger ou canadien aux fins de l'impôt				
20XX	1	P R A	XXXXXX		000 000 000				
Line Ligne	126 Income code Code de revenu	127 Currency code Code de devise	128 Gross income Revenu brut		129 Non-resident tax withheld Impôt des non-résidents retenu		130 Exemption code Code d'exemption		
1	6 1	C A D	9814 93		0 00		S		
2									
Non-resident recipient's name and address – Nom et adresse du bénéficiaire non-résident Individual's surname, first name and initial / Corporation, organization, association, trust, or institution name Nom, prénom et initiale du particulier / Nom de la société, de l'organisme, de l'association, de la fiducie ou de l'établissement Second individual's surname, first name and initial / Nom, prénom et initiale du deuxième particulier Address / Adresse FIRST NAME SURNAME PRÉNOM NOM ADDRESS ADRESSE									
Name and address of payer or agent Nom et adresse du payeur ou de l'agent									
Non-resident account number Numéro de compte non-résident XXXXXXXXXXXX									
Country code Code pays F R A									
Privacy Act / Personal Information Bank numbers CRA PPU 005 and CRA PPU 047. Loi sur la protection des renseignements personnels, Fichiers de renseignements personnels numéros APC PPU 005 et APC PPU 047. NR4 (XX)									
RC-XX-XXX Canada									

Stripped Coupons and Residual Bonds

Essentially, it is a bond with interest coupons that are separate from the principal. Each coupon can then be sold separately at a price representing the present value of the cash to be received. Both the residual bond and interest coupons that have been separated from the principal amount constitute debt obligations that, for tax purposes, are governed by the rules applicable and prescribed by regulation. Thus, "notional" interest must be included annually in the investor's income although no interest will be paid or received during the year.

In general, the amount of notional interest that is deemed to accrue each year is determined using the "actual annual return" calculated based on the purchase price and maturity value, and considers this interest to be compounded annually. Once the "Actual Annual Return" is determined, the following formula is applied for each year:

$$(\text{Purchase price plus interest from previous years}) \times \text{effective yield} \times \text{number of days the warrant is held} \div \text{number of days in the year of sale} = \text{interest to be included in income}$$


The imputed interest accrued during each fiscal year is calculated based on the anniversary date of the issuance of the underlying bond. For example, if a stripped coupon or residual bond was purchased on February 1 of a year and the anniversary date of its issuance was June 30, notional interest would only need to be accrued for five months in the year of purchase. However, for each subsequent year, notional interest would have to be earned from the preceding July 1 to June 30 of the subsequent year.

- Example: A residual bond of \$5,000 is acquired on February 2, 2018, for a price of \$3745. The anniversary date of the underlying bond is June 30. The bond will mature on June 30, 2023. Therefore, there is a real annual yield of 5.5%.

Actual Output 5.5%	Underlying Bond Anniversary Date Date of Bond Acquisition	June 30 February 2, 2018	# of Days Held
YEAR	Basis for Interest Calculation	Notional Interest	DAYS
2018	\$3,745.00	\$84.05	149
2019	\$3,829.05	\$210.52	
2020	\$4,039.57	\$222.09	
2021	\$4,261.67	\$234.31	
2022	\$4,495.97	\$247.19	
2023	\$4,743.16	\$260.78	
		\$1,258.94	

Ask your Advisor for the calculation of imputed interest in the "Accumulated Interest" report.

In order to facilitate these adjustment calculations, we suggest sending the 2019 report.



Cash
Period from January 1, 2020 to December 31, 2020

Your Investment Advisor

ACCUMULATED INTEREST (CAD)

Client Name	Description	Last Purchase	Trans. Type	Quantity	YTM Cost	THEORETICAL PRICE		Accum. Interest
						Beginning	Ending	
	INT-ONTARIO PROV 2JUN20	2019/03/29	Held			n/a	n/a	n/a
	INT-QUEBEC HYD 15AG21	2019/03/29	Sell	(51,510)	1.91	96.27	97.53	658.47
	INT-QUEBEC HYD 15AG21	2019/03/29	Sell	(51,525)	1.91	96.27	97.99	893.97
								\$ 1,552.45
	INT-ONTARIO PROV 2JN22	2019/03/29	Held	43,785	2.14	93.82	95.84	881.95
	INT-ONTARIO PROV 2DC22	2020/03/25	Buy	35,961	1.09	97.12	97.85	263.03
	INT-ONTARIO PROV 2DC22	2020/03/25	Sell	(8,170)	1.09	97.12	97.32	16.20
								\$ 279.23
	INT-ONTARIO PROV 2JN26	2019/06/28	Buy	54,000	2.11	86.45	88.15	919.90
	INT-QUEBEC HYD 15AG27	2019/03/29	Held	82,650	2.77	80.24	82.48	1,856.91
	INT-QUEBEC HYD 15AG28	2019/03/29	Held	56,235	2.55	79.60	81.64	1,148.63
	INT-QUEBEC HYD 15AG28	2019/08/19	Buy	18,000	1.90	84.35	85.94	286.87
	INT-QUEBEC HYD 15AG28	2019/09/17	Buy	9,900	2.29	81.61	83.32	169.27
								\$ 1,604.76

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Calculation of Gain (Loss) if Sold Before Maturity

Disposal of a stripped coupon prior to maturity will result in a capital gain or loss.

Let's take the previous example, but with the coupon sold on September 30, 2020, for a sale price of \$4,400.

Interest Calculation		
Proceeds of Disposition		\$4,400.00
Adjusted Cost Base		
Initial Cost	\$3,745.00	
Initial Income 2018	\$84.05	
Initial Income 2019	\$210.60	
Initial Income 2020	\$281.26*	
*To Anniversary Date (June 30, 2020)	\$222.18	
*July 1 to Sept 30, 2020	\$59.08	
		\$4,320.92
Gain (Loss)		\$79.08

Actual Output 5.5%	Underlying Bond Anniversary Date	June 30	# of Days Held		
YEAR	Date of Bond Acquisition	February 2, 2018	DAYS		
	Basis for Interest Calculation	Notional Interest			
2018	\$3,745.00	\$84.08	149	Feb-02-18	Buy
2019	\$3,829.08	\$210.60			
2020	\$4,039.68	\$222.18			
2021	\$4,261.87	\$59.08		Sept-30-20	Sale
2022	- \$	- \$			
2023	- \$	- \$			
		\$575.95			

FAQ – Tax Slips and Miscellaneous

Why were there withholdings on my registered account when income paid into this account is not taxable?

It is true that income is not taxed in a registered account. There are, however, withholdings on U.S. source income paid into an TFSA, RESP or Registered Disability Savings Plan (“RDSP”). These are considered “non-registered vehicles”, and therefore taxable, by U.S. tax authorities. The withholdings associated with these accounts cannot be recovered through the Canadian foreign tax credit mechanism. Note that the treatment is different for RRSP/RRIF accounts: no withholding tax will be levied for these since the United States recognizes Canadian RRSPs and RRIFs as having non-taxable “registered plan” status. Thus, in accordance with the tax treaty between Canada and the United States, money or investments held in an RRSP/RRIF continue to grow tax-free as long as no amounts are withdrawn.

The withholding rate may differ according to the documentation that you provide at account opening, as well as your country of residence. The tax treaty between the United States and certain countries, including Canada, provides the right to a reduced withholding rate. To be eligible for the treaty’s preferential tax rate, you must provide documentation establishing your place of residence, i.e., the IRS’ Form “W-8BEN” or any other acceptable document. We strongly recommend that you contact your Advisor to determine the forms required for your specific situation. If you do not fill in the required documentation, the maximum withholding rate of 30% will be applied to all U.S. source income paid into your non-registered accounts, TFSAs, RESPs and RDSPs. The withholding is remitted to the U.S. tax authorities and is generally considered a final tax. Therefore, you do not need to file a U.S. tax return (Form 1040NR or Form 1040) unless you need to file one for another reason, or there is reason to believe that you will be able to recover a withheld amount from the U.S. tax authorities.

Deduction for carrying charges and interest expenses

Carrying charges and interest expenses are deductible within certain limitations. Here is a brief summary of these:

A) Federal

As outlined by CRA on their website:

<https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/line-22100-carrying-charges-interest-expenses.html>

Line 22100 – Carrying charges and interest expenses

Note: Line 22100 was line 221 before tax year 2019.

Claim the following carrying charges and interest you paid to earn income from investments:

- > most interest you pay on money you borrow for investment purposes, but generally only if you use it to try to earn investment income, including interest and dividends. However, if the only earnings your investment can produce are capital gains, you cannot claim the interest you paid.

You agree to release National Bank of Canada (“NBC”), its affiliates, employees, agents, representatives, officers and directors, even in case of gross negligence or misconduct on the part of NBC or the latter, from and against all liabilities, claims, losses and/or damages (including legal fees and expenses) and from all proceedings, claims or any other cause of action as to the accuracy of the information herein (as well as in the mentioned documents and statements) and the tax impacts resulting from their use.

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