

Tax reporting guide for 2006

The purpose of this guide is to assist you in reporting the tax implications of your investment in AIM or Trimark mutual funds, Trimark segregated funds or Trimark Trust GICs. Both mutual funds and segregated funds have two components of taxation – tax on distributions or allocations received from the fund (income and/or capital gains) and tax on redemptions (any capital gains [losses] realized when you sell units/shares of your fund investment). GICs have only one element of taxation – tax on interest income.

Note: Mutual funds can be structured as either mutual fund trusts or mutual fund corporations. To help distinguish between them, AIM Trimark Investments uses the term “Fund” in the names of its mutual fund trusts and “Class” in the name of funds that are part of its mutual fund corporations.

Distributions/allocations

Both mutual fund trusts and segregated funds are generally considered to be “flow-through entities” for tax purposes. This means taxable income earned inside the entity is treated (for tax purposes) as if you held the securities directly instead of through the fund. This flow-through of taxable income is achieved by making a distribution in the case of mutual fund trusts or allocation in the case of segregated funds, of income and/or capital gains from the fund to investors.

The flow-through generally results in a more favourable tax treatment of income in the hands of investors. If income is not distributed or allocated at

least annually, the income becomes taxable in the trust at the highest marginal tax rate – in effect, treating all investors as if they are taxable at the highest rate. When taxable income is distributed to investors, it is taxed at their own, often lower, marginal tax rates.

In a fund, taxable income consists of net income (Canadian eligible and ineligible dividends*, foreign dividends, plus interest, less management fees and administration expenses) and net taxable capital gains (taxable capital gains, less allowable capital losses). The amount left over after this calculation is distributed or allocated to investors to prevent the fund from paying tax.

*The term “eligible” refers to Canadian dividends which are eligible for the enhanced dividend tax credit. Ineligible dividends are not. From the perspective of AIM Trimark mutual fund trusts (MFT), Canadian ineligible dividends refer to Canadian dividends received by our MFT’s prior to 2006 (prior to March 24, 2006 for Quebec) and subsequently paid out to unitholders. Eligible dividends are Canadian dividends received by our MFT’s after 2005 (after March 23, 2006 for Quebec) and paid out to unitholders. For AIM Trimark mutual fund corporations (MFC), Canadian dividends paid out to shareholders after 2005 are considered eligible (after March 23, 2006 for Quebec). “Ineligible dividends” are referred to as “dividends other than eligible dividends” on the T3 and T5 slips; both these terms are used interchangeably in this guide.

Expenses in the funds are used to offset the income so that only net positive income amounts (if any) are distributed or allocated to investors as Canadian eligible and ineligible dividends, foreign investment income, interest or capital gains. Mutual funds may occasionally distribute a return of capital.

Note, however, that segregated funds may distribute their net capital losses, if any. Each of these different types of income is reported separately in the various boxes of the T3. Page five of this guide explains how to report the different types of income and gains (losses) on your 2006 personal Income Tax and Benefit Return.

Mutual fund distributions

As of 2006, mutual fund corporations generally pay three types of dividends: eligible dividends, dividends other than eligible dividends and capital gains dividends. Occasionally, mutual fund corporations may also pay a return of capital. Eligible and ineligible dividends received by the mutual fund corporation from other Canadian corporations can be flowed out to the individual shareholder, who can then take advantage of the corresponding dividend tax credits. Capital gains dividends are deemed to be capital gains realized by the shareholder, thus they also receive favourable tax treatment by way of a reduced inclusion rate. Each of these types of income is reported separately in the boxes found on the T5. Page seven of this guide explains how to report the various types of income and gains on your 2006 personal Income Tax and Benefit Return.

Capital gains (losses) upon redemption

Investments in mutual funds or segregated funds are generally considered to be capital property for tax purposes. AIM Trimark's mutual fund corporations are actually subdivided into various classes or types of investments, with each reflecting a different investment mandate. If you switch to another class within the same mutual fund corporation, the switch is not considered to be a "disposition" for tax purposes and accordingly, no capital gain (loss) will result. However, once you redeem your investment from the corporate structure entirely, you may realize a capital gain (loss). A capital gain (loss) may result when you dispose of units of a mutual fund trust or segregated fund.

Mutual fund investors must report this calculation on Schedule 3 of their tax return. "Completing Schedule 3 - Capital gains (losses) in 2006" on the next page walks you through this process.

Segregated fund investors should not calculate their own capital gain (loss) on Schedule 3 because AIM Trimark calculates any realized capital gain (loss) and puts the correct amount on your T3 slip. Thus, for segregated fund investors, the T3 slip contains both allocations of fund income and gains (losses) as well as gains (losses) from the redemption of segregated fund units during the year.

Your capital gain (loss) is calculated as:

Proceeds of disposition	–	Adjusted cost base (ACB)	–	Outlays and expenses
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Completing Schedule 3 – Capital gains (losses) in 2006

Note: Capital gains (losses) on redemptions of a segregated fund are calculated by AIM Trimark for you and reported on your T3.

As GICs do not generate capital gains (losses) upon maturity, this section does not apply to them. Trimark Trust GIC investors can turn to the section entitled “T5 slip” on page seven.

Any redemptions during the year must be reported under Section 3, “Mutual fund units, deferral of eligible small business corporation shares, and other shares including publicly traded shares” of Schedule 3. The information for each AIM or Trimark mutual fund must be listed separately, but multiple redemptions of the same fund during the same tax year may be grouped together.

Number

This is the number of units/shares of your AIM or Trimark mutual fund that you have redeemed or are considered to have redeemed during the period.

Name of fund/corporation and class of shares

This is the name of the particular AIM or Trimark mutual fund from which you redeemed or are considered to have redeemed your units/shares.

Year of acquisition (Column 1)

This identifies when you originally invested in the AIM or Trimark mutual fund. If your purchases occurred over several years, indicate the period during which you invested in the funds.

Proceeds of disposition (Column 2)

This is the gross amount you received or are deemed to have received before any expenses from your redemption.

Adjusted cost base (Column 3)

This is the adjusted cost base (ACB) of the mutual fund units/shares that you redeemed or are considered to have redeemed during the period. The adjusted cost base of a redemption can be calculated by multiplying the average cost per unit/share at the time of the redemption by the number of units/shares being redeemed.

Outlays and expenses (from dispositions) (Column 4)

This is the redemption fee (e.g., deferred sales charge) or transfer fee, if any, charged to you on your redemption transaction.

Gain (or loss) (Column 5)

The gain (loss) is the difference between your proceeds of disposition (Column 2) and your ACB (Column 3), less any outlays and expenses (Column 4).

Taxable capital gains (or net capital loss) in 2006 (Line 199)

This amount equals 50% of your total gains (losses). If the amount on line 199 is positive, report the taxable capital gain on line 127 of page two of your income tax return. If the amount in line 199 is negative, you have a net capital loss.

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A capital loss can be used to reduce taxable capital gains in the year, carried forward indefinitely and applied against capital gains realized in future years, or it can be carried back to and applied against capital gains realized in any of the previous three years. To carry the loss back to a prior year, use CRA Form T1A *Request for Loss Carryback*. For more information, please refer to our *Capital loss planning* Tax & Estate InfoPage.

T1-2006		Capital Gains (or Losses) in 2006				Schedule 3	
<p>Read line 127 in the <i>General Income Tax and Benefit Guide</i>. For more information, read Chapter 2 in guide T4037, <i>Capital Gains</i>. Attach a separate sheet of paper if you need more space. Attach a copy of this schedule to your return.</p>							
Note: If you have a business investment loss, see line 217 in the <i>General guide</i> .		(1) Year of acquisition	(2) Proceeds of disposition	(3) Adjusted cost base	(4) Outlays and expenses (from dispositions)	(5) Gain (or loss) (column 2 minus columns 3 and 4)	
1. Qualified small business corporation shares (report, in "3" below, publicly traded shares, mutual fund units, deferral of eligible small business corporation shares, and other shares.)							
Qualified Dispositions	Number	Name of corp. and class of shares					
	Total		106			Gain (or loss)	107
2. Qualified farm property and qualified fishing property							
	Address or legal description		Prov./Terr.				
Total		109				Gain (or loss)	110+
Mortgage foreclosures and conditional sales reposessions – Address or legal description							
	Address or legal description		Prov./Terr.				
Total		123				Gain (or loss)	124+
3. Publicly traded shares, mutual fund units, deferral of eligible small business corporation shares, and other shares (Report capital gains or losses shown on T5, T5013, T5013A, T4PS and T3 information slips on line 174 or 176.)							
Number	Name of fund/corp. and class of shares						
Total							
Total of all gains (or losses) in column 5 before reserves						191 =	
Reserves from line 6706 of Form T2017 (if negative, show it in brackets and subtract it)						192 +	
Amount from line 7 of Form T1170 (attach Form T1170)						193 -	
Total capital gains (or losses)						197 =	
Taxable capital gains (or net capital loss) in 2006: Multiply the amount on line 197 by 50%. Enter the taxable capital gains on line 127 of your return. If it is a net capital loss, see line 127 in the guide.							
						199	

T3 slip

Box 21

This is your total capital gains for the year. It includes capital gains distributions for mutual funds and capital gains allocations for segregated fund units, including any capital gains you may have realized on the disposition of segregated funds. Include this amount on line 176 on Schedule 3 of your return under “Information slip – Capital gains (or losses) from all your T3 slips.”

Box 23

This is the actual amount of Canadian dividends other than eligible dividends distributed or allocated to you during the year. This amount is not entered on your tax return. *See* Box 32.

Box 25

This is the gross amount of foreign non-business income (prior to deductions for foreign tax, see Box 34) distributed or allocated to you during the year. Enter this amount on Schedule 4 of your return in Part II under “Interest and other investment income” at “Income from foreign sources,” and also include it on line 433 on Schedule 1, “Net foreign non-business income.” This amount is also included on line 121 of page two of your return “Interest and other investment income.”

Box 26

Other income is the amount of interest and other income distributed or allocated to you during the year. It is classified as “other income” and should be included on line 130 on page two of your income tax return.

Box 32

This amount is equal to 125% of the amount in Box 23. Enter this amount on Schedule 4 of your return under Part I “Taxable amount of dividends from taxable Canadian corporations” at “Taxable amount of dividends other than eligible dividends.” This amount is also included on line 120 of page two of your return “Taxable amount of dividends from taxable Canadian corporations” and on line 180 of the same page “Taxable amount of dividends other than eligible dividends, included on line 120, from taxable Canadian corporations.”

Box 34

This amount is used to calculate your foreign tax credit on Schedule 1 of your return. Enter this amount on Line 431 on Schedule 1, “Non-business income tax paid to a foreign country.”

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Box 37

This is your total capital loss for the year. It includes capital loss allocations for segregated funds, including any capital losses you may have realized on the disposition of your segregated funds. Include this amount on line 176 on Schedule 3, "Information slip – capital gains (or losses) from all your T3 slips."

Box 39

This amount is equal to 13.3333% of the amount in Box 32 and represents your federal dividend tax credit for dividends other than eligible dividends. Include this amount on Line 425 on Schedule 1, "Federal dividend tax credit."

Box 42

This amount represents a return of capital. It is not reported on your tax return. This amount results in a reduction of your ACB.

Box 49

This is the actual amount of eligible Canadian dividends distributed or allocated to you during the year. This amount is not entered on your tax return. See Box 50.

Box 50

This amount is equal to 145% of the amount in Box 49. Enter this amount on Schedule 4 of your return under Part I "Taxable amount of dividends from taxable Canadian corporations" at "Taxable amount of eligible dividends." This amount is also included on line 120 of page two of your return "Taxable amount of dividends from taxable Canadian corporations."

Box 51

This amount is equal to 18.97% of the amount in Box 50 and represents your federal dividend tax credit for eligible dividends. Include this amount on Line 425 on Schedule 1, "Federal dividend tax credit."

T3 slip

Canada Revenue Agency / Agence du revenu du Canada		Year / Année	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	Taxable amount of eligible dividends / Montant imposable des dividendes déterminés	Dividend tax credit for eligible dividends / Crédit d'impôt pour dividendes déterminés	Capital gains / Gains en capital	Capital gains eligible for deduction / Gains en capital admissibles pour déduction	
[49]	[50]	[51]	[21]	[52]	
Actual amount of dividends other than eligible dividends / Montant réel des dividendes autres que des dividendes déterminés	Taxable amount of dividends other than eligible dividends / Montant imposable des dividendes autres que des dividendes déterminés	Dividend tax credit for dividends other than eligible dividends / Crédit d'impôt pour dividendes autres que des dividendes déterminés	Other income / Autres revenus	Trust year end / Fin d'année de la fiducie	
[53]	[54]	[55]	[28]	Year / Année [] Month / Mois []	
Other information (see the back) / Autres renseignements (voir au verso)		Box / Case		Footnotes - Notes	
		Amount / Montant			
Recipient's name (last name first) and address - Nom, prénom et adresse du bénéficiaire			Trust's name and address - Nom et adresse de la fiducie		
Recipient identification number / Numéro d'identification du bénéficiaire	Account number / Numéro de compte	Report code / Code du genre de feuille	Beneficiary code / Code du bénéficiaire	For information, see the back. / Pour obtenir des renseignements.	
[12]	[14]	[16]	[18]	3794	

T5 slip

Box 10

This is the actual amount of Canadian dividends paid to you during the year. This amount is not entered on your tax return. *See* Box 11.

Box 11

This amount is equal to 125% of the amount in Box 10. Enter this amount on Schedule 4 of your return under Part I “Taxable amount of dividends from taxable Canadian corporations” at “Taxable amount of dividends other than eligible dividends.” This amount is also included on line 120 of page two of your return “Taxable amount of dividends from taxable Canadian corporations” and on line 180 of the same page “Taxable amount of dividends other than eligible dividends, included on line 120, from taxable Canadian corporations.”

Box 12

This amount is equal to 13.3333% of the amount in Box 11 and represents your federal dividend tax credit for dividends other than eligible dividends. Include this amount on Line 425 on Schedule 1, “Federal dividend tax credit.”

Box 13

This is the amount of interest earned on your Trimark Trust GICs. Enter this amount on Schedule 4 of your return under Part II, “Interest and other investment income.” This amount is also included on line 121 of page two of your return “Interest and other investment Income.”

Box 18

This is the amount of capital gains dividends paid to you in 2006. Report this amount on line 174 of Schedule 3, “T5, T5013, T5013A and T4PS Information slips - capital gains (or losses).”

Box 24

This is the actual amount of eligible Canadian dividends paid to you during the year. This amount is not entered on your tax return. *See* Box 25.

Box 25

This amount is equal to 145% of the amount in Box 24. Enter this amount on Schedule 4 of your return under Part I “Taxable amount of dividends from taxable Canadian corporations” at “Taxable amount of eligible dividends.” This amount is also included on line 120 of page two of your return “Taxable amount of dividends from taxable Canadian corporations.”

Box 26

This amount is equal to 18.97% of the amount in Box 25 and represents your federal dividend tax credit for eligible dividends. Include this amount on Line 425 on Schedule 1, “Federal dividend tax credit.”

If you held shares of Trimark Diversified Income Class at any time in 2006, a portion of amounts distributed to you will represent a return of capital for tax purposes. The amount of the return of capital will be shown on your T5 slip as a footnote, below the boxes in which other amounts are reported. This amount is not reported anywhere on your tax return, but reduces the ACB of your shares on each distribution payment date. The reduction in ACB will also be reflected on your AIM Trimark annual statement of account. These ACB reductions will affect any capital gains (losses) you realized on redemptions in the period noted above.

Can I use the cost and capital gains calculations on my AIM Trimark annual statement of account?

The “average cost per unit/share” indicated on your AIM Trimark annual statement of account is provided to assist you in calculating your capital gain (loss). For some accounts, it may not properly reflect all transactions. Additionally, it may not reflect the correct amounts if the account has been subject to a deemed disposition for tax purposes or if the same fund is held in multiple accounts. Under the “identical property” rule, if you have the identical fund(s) in more than one non-registered account, you are required to calculate your ACB across all accounts.

T5 slip



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We have also provided a “Capital Gains Summary” section on AIM Trimark’s annual statements to show the capital gain (loss) on redemptions that occurred in the account during the year based on information that is available to us. As mentioned above, this amount may not properly take into account any deemed dispositions.

We are not able to guarantee the accuracy of this information. As a result, we urge you to verify the calculations with your own records and to recalculate your average costs and gains (losses) on redemptions for your income tax return.

This guide provides only an overview of T3 and T5 tax reporting. The rules are complicated and AIM Trimark recommends you obtain your own independent financial, legal and/or tax advice and assistance.

For more information on the taxation of mutual fund trusts and/or segregated funds, speak to your advisor or consult AIM Trimark’s *Understanding mutual fund trust and corporations* Tax & Estate InfoPage.

Call us at 1.800.874.6275 for your free copy or download it from our website at www.aimtrimark.com.

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