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SUMMARY OF TAX IMPLICATIONS OF DSC REBATE INCENTIVES AND TRAILER FEE REBATE INCENTIVES

Mutual fund dealers, financial planners and brokers offer a variety of incentives to encourage individuals to purchase mutual funds through them. The purpose of this communication is to describe the tax consequences to the investor of two such incentives: DSC Rebate Incentives and Trailer Commission Incentives.

1. OPEN ACCOUNTS

The following comments assume that the mutual fund units held by the investor are entitled to capital gains treatment.

DSC Rebate Incentives

A dealer may pay to an investor all or a portion of the commission it receives from a mutual fund company when the investor purchases mutual funds on a deferred sales charge ("DSC") basis ("DSC Rebate Incentive"). The dealer generally purchases additional units of the funds on behalf of the investor.

The DSC Rebate Incentive must be included in income by the investor for the year, unless an election is filed with his return for that year. By filing an election, the DSC Rebate Incentive will not be included in income. The amount of the DSC Rebate Incentive is applied to reduce the cost of the mutual fund units acquired with the investor's own funds.

There are two clear advantages to an investor from making the election. First, the investor will defer payment of tax on the DSC Rebate Incentive. Second, only 75% of the DSC Rebate Incentive is required to be included in income as a taxable capital gain, as opposed to 100% being included as ordinary income.

The election would be made by including a written statement in the return indicating an intention to apply the DSC Rebate Incentive as a reduction of the purchase price. The tax return and the election should be filed on or before the filing due date for the year that the DSC Rebate Incentive is received.

Trailer Commission Incentives

Mutual fund companies often pay trailer fees or commissions to dealers in return for ongoing assistance and advice to the investors. A dealer may pay a portion of such trailer fees to the investor ("Trailer Commission Incentive"). Trailer Commission Incentive payments should be included in income by the investor. If the payment were in the form of a credit to be applied towards the purchase of other services, the investor should be able to defer taxation until the credit is used.

2. REGISTERED ACCOUNTS

Neither DSC Rebate Incentives nor Trailer Commission Incentives are taxable if paid directly into a registered account (e.g., RRSP, RIF). The payments should not adversely affect the registered status of the plan and should not, in the case of RRSP's, affect the investor's tax deductible contribution limits.

You should consult your tax adviser if you have any questions or concerns.