EMERGE
CANADA INC.

WELCOME TO THE EMERGE ARK

INNOVATION REVIEW WITH SPECIAL TAX SEGMENT

With Lisa Langley (CEO/Founder, Emerge Canada) &
Dean Smith (Partner, Cadesky Tax)

Tuesday May 18th, 2021

Thank you for joining! We will begin shortly.

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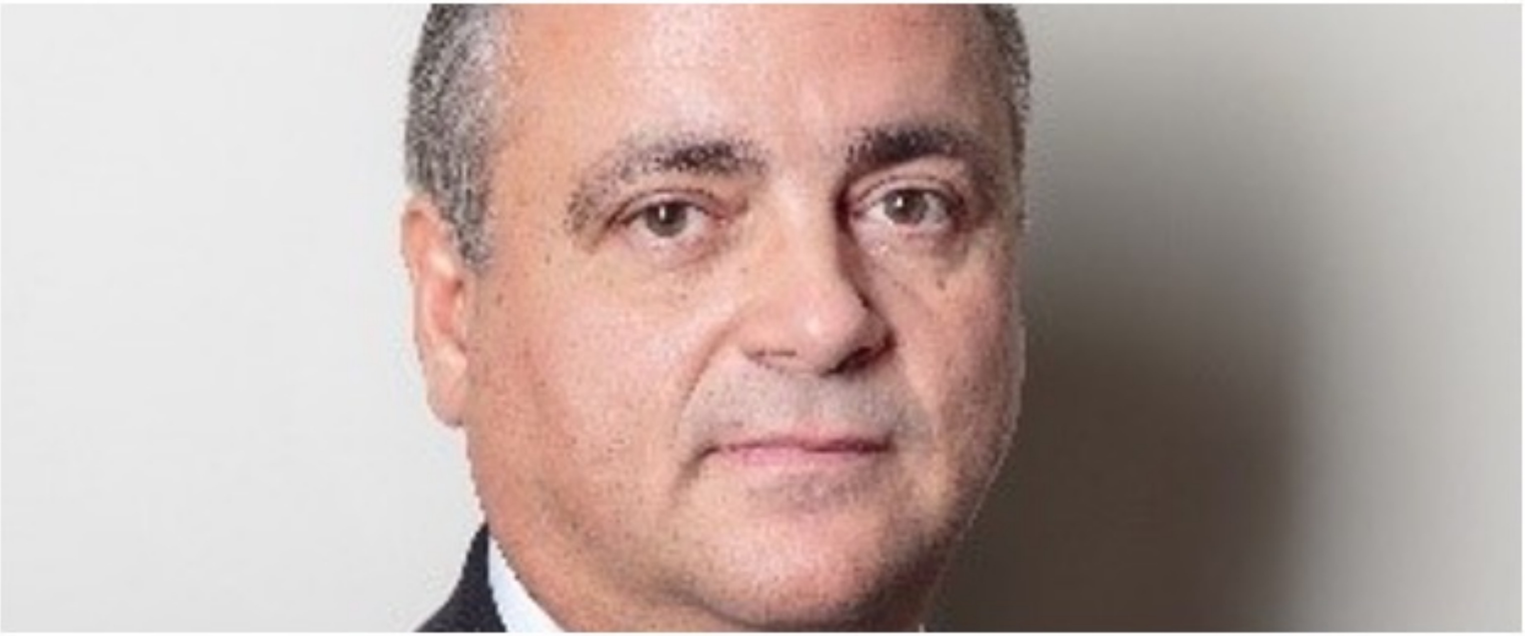
INTRODUCING KNOWLEDGE BUREAU

Evelyn Jacks, Founder and President

Knowledge Bureau

INTRODUCING DR. DEAN SMITH, PARTNER, CADESKY TAX



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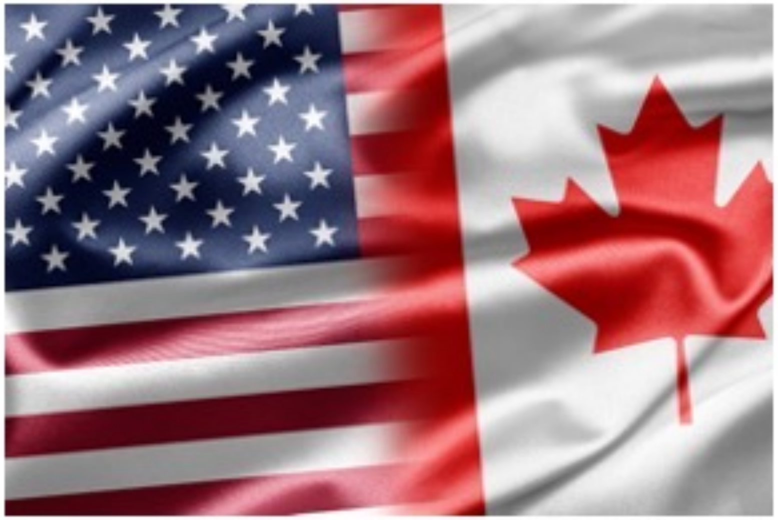
THE ISSUES

How does holding a Canadian vs. a U.S. ETF affect your after-tax returns?



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THE ISSUES

- Holding Foreign Properties
- Distributions
- Estate Planning Issues

Types of distributions – in general

- Capital gains
- Canadian dividends
- Foreign income and foreign taxes paid
- Interest and other income
- Return of capital (ROC)

Distributions – Canadian ETFs (to Canadian residents)

- Capital gains and Canadian source dividends flow out to unitholders – allows character of income to flow out to unit holders and be taxed accordingly
  - Capital gains – 50% of capital gain (known as a taxable capital gain) is taxed at ordinary rates
  - Eligible dividends
  - Not-eligible dividends
- Foreign income and foreign taxes paid flow out to unitholders – allows unit holders to claim foreign tax credits
- Interest and other income – taxed at marginal tax rate as ordinary income
- Return of capital – not taxable, reduces adjusted cost base (ACB), essentially a return of part of the unit holder's initial investment

Distributions – U.S. ETFs (to Canadian residents)

- Treated as foreign (U.S.) source income
- Since a factual U.S. corporation, Canada treats as U.S. RIC as a foreign (U.S.) corporation
- Distributions treated as foreign (U.S.) source dividends
- Canadian foreign tax credit may be limited to 15%
- Full distribution taxed at marginal tax rates – NO preferential Canadian tax treatment (capital gains, Canadian source dividends, ROC)
- Any preferential U.S. treatment NOT relevant for Canadian tax purposes

Taxation at death

- Canadian
  - Deemed to have disposed of ALL capital assets at fair market value resulting in either a capital gain or capital loss
  - Exceptions – property left to surviving spouse – then transferred at tax cost
  - Would include Canadian and U.S. ETFs

Taxation at death

- United States
  - U.S. ETFs considered U.S. situs assets
  - In general, a U.S. ETF is a U.S. corporation that has elected to be treated as a "regulated investment company" (RIC) for U.S. tax purposes.
    - Allows U.S. corporation to deduct distributions in computing its taxable income
  - Subject to U.S. estate tax – based on FMV of assets NOT inherent gain.
  - Under U.S. Internal Revenue Code (IRC) only US$60,000 of assets are excluded form U.S. estate to U.S. nonresidents/non-citizens
  - Ability to use Article XXIX-B of Canada-United States Tax Convention (1980)
  - Highly political
    - Under Trump – 2021 exemption amount US $11.7 million – 40% top marginal tax rate
    - Biden – proposes to reduced exemption amount to US $3.5 million and increase top marginal rate to 45%

Foreign Reporting

- Form T1135, "Foreign Income Verification Statement"
- Due at the same time as the taxpayer's return
- Significant penalties for non-compliance
- Generally must be filed if taxpayer has
  - Specified foreign property (would include U.S. based ETFs)
  - Where tax cost, in aggregate, exceeds C$100,000
  - *At any time during the year.*
  - Think – investment assets
  - Does NOT include personal-use property or listed personal property

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