

Cost estimate

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Short title: Mutual Funds: Allocation to Redeemer -PIT

Description: Preventing mutual funds trust from using a method allocating capital gains or income to redeeming unitholders where such use defers tax or convert investment income into capital gains.

Operating line(s): Personal income tax

Data sources:	<u>Variable</u>	<u>Source</u>
	Total assets of mutual funds	Morningstar, Horizons Exchange Traded Funds (ETFs), The Investment Funds Institute of Canada (IFIC)
	Historical capital gains distributions	iA Securities
	Historical income distributions	Morningstar, Horizons ETFs
	Holding periods	BlackRock
	Proportion of taxable investment income	Statistics Canada, IFIC

Estimation and projection method: Funds likely to be affected by the measure were identified and the increase in future distributions were estimated using historical data and grown by the average historical performance from benchmark funds.

The increase in capital gains distributions was determined using an historical distribution of capital gains distributions from mutual funds and ETFs. The increases in income distributions were projected using historical data from benchmark funds. The reduction in unrealized capital gains was projected using estimated distribution of holding periods. The resulting net increase in personal income tax revenues was determined using marginal tax rates on investment income and capital gains and an estimated proportion of assets in non-registered accounts.

Uncertainty assessment: The estimate has high uncertainty. Financial data exhibits high volatility and historical data does not predict future returns or distributions precisely. Accounting methods of mutual funds are not publicly available, as a result, the identification of affected funds is imprecise. Moreover, estimated holding schedule is the result of a survey which only represent a sample of the investor population.

Cost of proposed measure

\$ millions	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total cost	-	-19	-75	-69	-57	-47

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost