




REFERENCE GUIDE:

FOREIGN WITHHOLDING TAXES ON EXCHANGE TRADED FUNDS
FOR CANADIAN INVESTORS



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An aerial night view of a city skyline, likely New York City, with numerous skyscrapers illuminated. A semi-transparent blue text box is overlaid on the right side of the image.

TAX-EFFICIENT INVESTMENTS

WHILE IT IS TRUE THAT YOU CAN'T AVOID PAYING TAXES, WHEN IT COMES TO EXCHANGE TRADED FUNDS, THERE ARE SOME STRATEGIES AVAILABLE TO HELP MINIMIZE THE WITHHOLDING TAX THAT YOU ARE SUBJECT TO.

By fully understanding how ETFs are taxed, you can ensure you are choosing the most tax-efficient investment solution available to you. First Asset Exchange Traded Funds offer a variety of tax-efficient ETF solutions to include in your portfolio.



ETF STRUCTURES AND WITHHOLDING TAXES

When investing in an Exchange Traded Fund (ETF), you should be familiar with how the ETF obtains exposure to international markets. An ETF's structure and the type of account used to hold it could significantly affect how much withholding tax an investor is subject to. Once you understand the impact of foreign withholding taxes on ETFs, you will be better equipped to make investment choices that will maximize your after-tax returns.

ETF STRUCTURES

COMMON STRUCTURE EXAMPLES

There are three common ETF structures available to Canadian investors that provide access to international markets. First Asset’s international ETFs employ the most tax-efficient structure by investing directly in portfolios of international stocks (see Structure 3).

STRUCTURE 1:

U.S.-LISTED ETF THAT INVESTS DIRECTLY IN INTERNATIONAL STOCKS
INVESTOR HAS DIRECT EXPOSURE TO INTERNATIONAL MARKETS

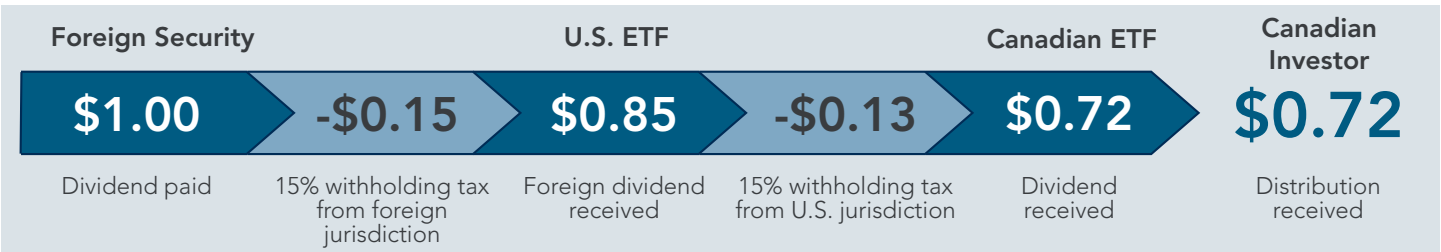
With this first structure, there are two levels of withholding tax a Canadian investor may be exposed to. First, an investor is subject to the taxes levied by the country in which each foreign stock is based. Second, the U.S. government may levy an additional withholding tax, up to 15%, on certain distributions made by the U.S. ETF to a Canadian investor’s account. The amount of taxation depends on local jurisdictional tax legislation, as well as any respective income tax treaties.



STRUCTURE 2:

CANADIAN-LISTED ETF HOLDING A U.S.-LISTED ETF THAT INVESTS IN A PORTFOLIO OF INTERNATIONAL STOCKS
INVESTOR HAS INDIRECT EXPOSURE TO INTERNATIONAL MARKETS

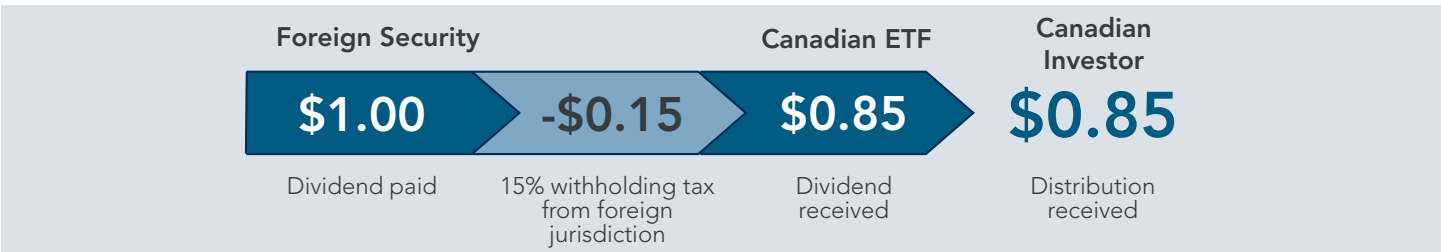
Also known in Canada as a “wrapped” ETF, within this structure a dividend paid by a foreign company may be subject to withholding taxes since the payments are sent to the U.S. ETF. Distributions by the U.S. ETF may then be subject to an additional U.S. withholding tax as they are distributed to the Canadian ETF.



STRUCTURE 3:

CANADIAN-LISTED ETF THAT INVESTS DIRECTLY IN A PORTFOLIO OF INTERNATIONAL STOCKS
INVESTOR HAS DIRECT EXPOSURE TO INTERNATIONAL MARKETS

This is the most tax-efficient ETF available to Canadian investors. Withholding tax only applies to the Canadian investor according to the country where the foreign stock is domiciled. A dividend paid by a foreign company may be subject to one level of withholding tax as the payments are made to the Canadian ETF.



WITHHOLDING TAX LEVELS BY ACCOUNT TYPE

RRSP, TFSA, RESP & TAXABLE ACCOUNTS

Investors should consider the account type that the ETF is held in, as this also impacts the amount of withholding tax an investor is subject to. The chart below illustrates what levels of withholding tax a Canadian investor would be subject to depending on the account type the investment is held in.

Tax I: Withholding taxes levied by the country where the underlying stocks/holdings are domiciled

Tax II: Additional withholding tax (15%) levied by the virtue of being a U.S.-listed ETF

ETF STRUCTURE	ACCOUNT TYPE		
U.S. Markets	RRSP	TFSA, RESP	Taxable Accounts
U.S.-listed ETF holding U.S. stocks directly	Exempt	Tax I	Tax I Creditable
Canadian-listed ETF holding a U.S.-listed ETF of U.S. stocks	Tax I	Tax I	Tax I Creditable
Canadian-listed ETF holding U.S. stocks directly	Tax I	Tax I	Tax I Creditable
International Markets	RRSP	TFSA, RESP	Taxable Accounts
U.S.-listed ETF holding international stocks directly	Tax I Tax II Exempt	Tax I Tax II	Tax I Tax II Creditable
Canadian-listed ETF holding U.S.-listed ETF of international stocks	Tax I Tax II	Tax I Tax II	Tax I Tax II Creditable
Canadian-listed ETF holding international stocks directly	Tax I	Tax I	Tax I Creditable

This chart is designed for illustrative purposes only and is subject to change. Please consult with a tax specialist for more information.

NOTES ON THIS CHART

- “*Creditable*” means that foreign tax credits are available to the taxable Canadian-resident investor or ETF (to the extent that the Canadian recipient is taxable), to be claimed against the foreign income/distribution received.
- Most countries impose a tax on income when paid to foreign investors. The U.S. levies a 30% withholding tax (reduced by any respective income tax treaties) on certain income distributions to foreign residents.

OTHER CONSIDERATIONS

Investors will want to keep in mind other considerations that may impact their overall investment return:

- *Cost of currency conversion:* The spread paid to convert currency may reduce or eliminate the advantage of owning U.S.-listed ETFs with lower management expense ratios (MERs).
- *U.S. estate taxes:* Wealthy Canadians may be subject to estate taxes if they have large holdings in U.S.-listed ETFs. These investors may be better off holding Canadian-listed ETFs, even if exposed to certain withholding taxes.

FIRST ASSET INTERNATIONAL ETF SOLUTIONS

STRUCTURED FOR TAX-EFFICIENCY

First Asset ETFs are Canadian-listed and invest directly in U.S. and international securities. Our ETF products are structured to ensure that Canadian investors are only subject to one level of withholding tax, making our ETFs more tax-efficient than investing in fund-of-fund structures.

U.S. EQUITY

XXM	First Asset Morningstar US Value Index ETF (CAD Hedged) The Fund invests in equity securities of the largest and most liquid U.S. issuers and is designed to provide diversified exposure to U.S. issuers that are considered to be “good value” based on characteristics like low price-to-earnings and low price-to-cash flow ratios.
YXM	First Asset Morningstar US Momentum Index ETF (CAD Hedged) The Fund invests in equity securities of the largest and most liquid U.S. issuers and is designed to provide diversified exposure to U.S. issuers that have demonstrated positive momentum in earnings and price.
UXM	First Asset Morningstar US Dividend Target 50 Index ETF (CAD Hedged) The Fund invests in equity securities of the largest and most liquid U.S. public issuers and is designed to provide diversified exposure to U.S. dividend-paying companies.
RWU	First Asset MSCI USA Low Risk Weighted ETF (CAD Hedged) The Fund offers exposure to the lower volatility stocks of large- and mid-capitalization companies in the U.S. and the potential for enhanced risk-adjusted returns.

EUROPEAN EQUITY

RWE	First Asset MSCI Europe Low Risk Weighted ETF (CAD Hedged) The Fund offers broad exposure to the lower volatility stocks of developed large- and mid-capitalization companies in Europe and the potential for enhanced risk-adjusted returns.
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GLOBAL EQUITY

RWW	First Asset MSCI World Low Risk Weighted ETF (CAD Hedged) The Fund provides broad exposure to the lower volatility stocks of developed large- and mid-capitalization companies from around the world and the potential for enhanced risk-adjusted returns.
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All First Asset International ETFs are also offered in unhedged classes

From a tax perspective, Canadian investors are best served when investing in international equities directly through Canadian-listed ETFs.



To learn more about First Asset's tax-efficient ETF products,
please contact your advisor or visit us at:

www.firstasset.com

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Exchange Traded Funds