

If you are classified as a “U.S. person,” you may be subject to certain U.S. tax filing requirements and not even know it. Starlight Investments Capital LP (“Starlight Capital”) is pleased to provide Passive Foreign Investment Company (PFIC) Annual Information Statements for all of our mutual funds, exchange traded funds (ETFs) and offering memorandum funds to anyone who needs them.

Does this apply to you?

The definition of a “U.S. person” generally includes

- U.S. citizens
- U.S. residents
- U.S. green card holders
- anyone with a substantial connection to the U.S.
- certain entities organized in the U.S.

However, since the Internal Revenue Service’s (IRS) definition of a “U.S. person” is very broad, it’s possible there are investors who may not realize that they have U.S. tax filing obligations.

What you need to know

In 2010, the IRS issued a clarification to a set of existing tax rules. That clarification resulted in Canadian mutual funds and ETFs being classified as corporations for U.S. tax purposes. As a result “U.S. persons” who hold Canadian mutual funds and ETFs are subject to the PFIC rules. These rules are complex, and it is suggested you seek U.S. tax advice on how you may be affected. “U.S. persons” are required to report income from each PFIC held at tax time.

PFIC Annual Information Statements for Starlight Capital mutual funds and ETFs

Starlight Capital offers PFIC reporting support for its funds to reduce the PFIC tax reporting burden.

The Annual Information Statement (AIS) will be provided on our website at www.starlightcapital.com. The AIS provides a pro rata per unit per day shares of the ordinary earnings and net capital gains of the fund for the tax period. Investors simply need to multiply the number of shares they held times the number of days they held them, times the factors in the AIS to determine their personalized PFIC reporting amounts.

These statements will allow you to make the Qualified Electing Fund (QEF) election on your U.S. income tax returns. In making the QEF election, include only the pro-rata share of the fund’s earned income and capital gains for U.S. tax purposes. This is roughly similar to how U.S. mutual funds and ETFs are taxed in the U.S. and is generally aligned with how Canadian investment funds are taxed in Canada. There are other reporting options but in many cases the QEF election will be the most beneficial to U.S. tax filers.

What to do next?

It's recommended that you consult with your advisor and a U.S. tax expert. PFIC rules are complex, and Starlight Capital believes it is important for you to have the knowledge necessary to make informed decisions. Affected investors should not make changes to their Canadian investment holdings without first speaking with their advisor and a U.S. tax specialist, and informing them that all Starlight Capital mutual funds, offering memorandum funds and ETFs will provide the necessary reporting information to support the QEF election.

Additional PFIC details

A PFIC is a non-U.S. corporation of which 75% or more of its gross income consists of passive income, or 50% or more of the average fair market value of its assets consists of assets that produce passive income.

Passive income includes, among other things, dividends, interest, rent, royalties and capital gains from the disposition of securities.

It is generally believed that virtually all Canadian mutual funds and ETFs are PFICs. Certain public companies are also PFICs.

How do these rules affect different types of accounts, such as non-registered accounts, TFSAs and RRSPs?

These rules affect investments in non-registered accounts, TFSAs and RESPs. For PFICs held in retirement savings accounts such as RRSPs and RRIFs, most tax advisors suggest the PFIC rules should not be applicable. However, Starlight Capital recommends speaking with a U.S. tax advisor.

THIS INFORMATION CONTAINED HEREIN IS PROVIDED IN ORDER TO ASSIST UNITHOLDERS IN MAKING CALCULATIONS AND DOES NOT CONSTITUTE TAX ADVICE. COPIES OF THE FINANCIAL STATEMENTS ARE AVAILABLE ON STARLIGHT CAPITAL'S WEBSITE AT WWW.STARLIGHTCAPITAL.COM. UNITHOLDERS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE OVERALL TAX CONSEQUENCES OF THE OWNERSHIP OF UNITS ARISING IN THEIR OWN PARTICULAR SITUATIONS UNDER UNITED STATES FEDERAL, STATE, LOCAL OR FOREIGN LAW.

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