Fidelity Tax-Smart Solutions®

Contents

Corporate class explained

During the years leading up to retirement, you'll want to make sure your savings have good growth potential. For those in their asset accumulation years, Fidelity Corporate Class offers tax-deferred growth through the potential for reduced taxable distributions, which means more money staying in your account to grow.

Many of Fidelity's most popular trusts are also offered as corporate class investments.

Corporate class funds may hold the same types of investments as the traditional trust versions. Class funds are held inside a mutual fund corporation, which provides additional tax benefits for investors. Although each corporate class fund within the corporation has its own investment objective and strategy, together they are treated as a single entity for tax purposes.

	TRUST/STOCKS/BONDS/ETFs	CORPORATE CLASS
Interest income distributions[1]	✓	Taxed as capital gain (possibly deferred)
Foreign income distributions[1]	✓	Taxed as capital gain (possibly deferred)
Canadian dividend distributions	✓	✓
Capital gain distributions[2]	✓	✓ Potentially less than trust
Return of capital distributions	✓	✓
Deductibility of fees	✓	✓

Mutual funds are generally offered in two distinct structures, trusts and classes of shares of a mutual fund corporation.

1 Unlike mutual fund trusts, mutual fund corporations cannot distribute interest and foreign income under applicable tax laws. While historically Fidelity Capital Structure Corp. has offset this type of income with expenses, in the future, if sufficient expenses are not available, this income will be taxed within the corporation.

2 Capital gains distributions from classes of Fidelity Capital Structure Corp. have historically been less than for their underlying trust funds. However, from time to time, distributions in the form of capital gains dividends will be paid and are taxable for investors.

Source: Fidelity Investments Canada ULC.

The benefits of corporate class

A mutual fund corporation is a single legal entity. Instead of taxing each individual mutual fund within the corporation, the corporation as a whole is taxed.

The resulting tax benefits are often referred to as "tax efficient" or "tax smart." While they may not reduce the tax paid in every situation, they do allow investors to organize their investments to increase the potential for tax savings.

1. Tax-smart growth

Pooling income and expenses: In a mutual fund corporation, the income and expenses of all of the different mutual fund classes are pooled, rather than being managed and reported separately.

As a result, corporate class mutual funds can share income, gains, losses, expenses and loss carry-forwards to reduce taxable distributions generated by the corporation as a whole.

Distributions: When distributions are made, they tend to be more tax-efficient than distributions from traditional mutual funds. Corporate class funds can only distribute Canadian dividends and capital gains dividends, both of which are taxed more favourably than regular income.

Corporate class funds cannot distribute interest or foreign income. Such income is retained within the corporate class structure, where it is subject to taxation unless it can be offset by expenses and the class structure itself can pay income tax which can reduce any tax benefits. Accordingly, an important factor in managing corporate class is seeking to ensure that such income does not exceed expenses.

Benefit: Taxes are minimized or deferred, leaving more money in an investor's account to benefit from compound growth. From a tax point of view, this is clearly preferable to holding a conventional balanced mutual fund, which pays interest and foreign income that is taxable at an investor's marginal tax rate.

2. Tax-smart cash flow

Corporate class investments can be combined with Fidelity Tax-Smart CashFlow® (T-Class) for even greater tax efficiency. T-Class provides cash flow by returning an investor's original investment principal in a return of capital. This amount is not taxable, because the investor already paid tax on it before the investment was made.

A return of capital will reduce the adjusted cost base (ACB) of class fund shares held. Once all an investor's capital has been returned, the subsequent cash flows will be treated as capital gains and taxed at a favourable rate.

Benefit: Investors can receive tax-efficient cash flow without having to sell investments, meanwhile deferring capital gains.

Who should invest in corporate class funds?

Individual investors

Corporate class funds are an attractive option for investors with non-registered investments, including those who

- have used up their RRSP and TFSA contribution room
- seek a steady stream of cash flow in the future or in retirement (using T-Class)

Retirees

Corporate class combined with Tax-Smart CashFlow provides retirees with tax-efficient cash flow.

It may be especially helpful in reducing or eliminating Old Age Security (OAS) clawback. Since T-Class payments – at least in the initial years – are return of capital, they are not considered income for tax purposes. (The corporate class funds may pay Canadian dividends and capital gains dividends from time to time.) By supplementing income with return of capital, pensioners can get added spending power while keeping taxable income down – thus maximizing OAS payments.

For more information, see Tax-smart cash flow from non-registered accounts.

Owner-managed corporations

Corporate class may provide a more tax-efficient option for after-tax profits held in a corporation than other commonly used investment vehicles.

Corporate class can also help fund a corporation's capital dividend account (CDA), which may facilitate the payment of non-taxable dividends from the corporation to its shareholders.

For more information, see Capital dividend account.

Philanthropists

Donations to a charity are a great way to give back. The value of a donation (whether cash or "in-kind") is used to determine a tax credit, saving taxes for the donor.

Charitable giving with Tax-Smart CashFlow allows you to receive tax-deferred cash flow payments from your investments and donate to a worthy cause in a tax efficient way.

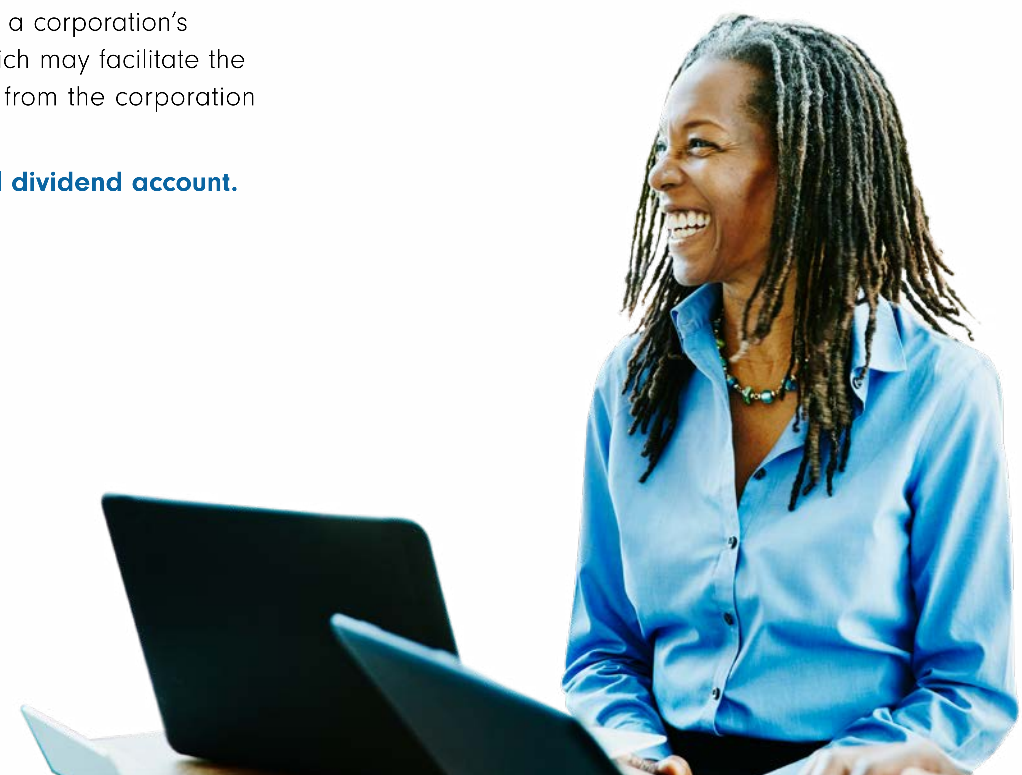
For more information, see Donation strategies using Tax-Smart CashFlow.

Trusts

Corporate class provides the same tax-efficient benefits for those who may want to create trust accounts for children or grandchildren.

Generally, parents or grandparents are taxed on interest and dividends received before the child turns 18. However, corporate class has the potential to reduce distributions, thereby minimizing the potential tax burden before the beneficiary turns 18.

Fidelity offers over 80 investment options in its corporate class structure to assist your advisor in constructing a portfolio for you according to your investment objectives, suitability and time horizon. And all our products are backed by our leading investment process, with solutions to suit almost every risk profile.



Tax-smart cash flow from non-registered accounts

With Fidelity Tax-Smart CashFlow you can switch back and forth from saving to cash flow whenever you like, without any immediate tax consequences.

When you want to begin receiving cash flow from non-registered accounts, Tax-Smart CashFlow offers a customizable solution. Tax-Smart CashFlow provides steady tax-efficient monthly cash flow, combined with the potential for tax-deferred growth.

Fidelity Tax-Smart CashFlow in action

Scenario 1: Taxation of $50,000 additional cash flow, assuming $80,000 ordinary income (salary or pension income)*

	INTEREST/FOREIGN	CANADIAN DIVIDEND (ELIGIBLE DIVIDEND)	CAPITAL GAINS	TAX-SMART CASHFLOW	POST-ROC CASH FLOW
Pre-tax cash flow	50,000	50,000	50,000	50,000	50,000
Taxes excl. clawback	18,416	9,284	8,513	2,924	8,542
OAS clawback	7,236	7,930	3,486	2,556	4,806
After-tax cash flow	**24,348**	**32,786**	**38,001**	**44,520**	**36,652**
Effective tax rate	51.30%	34.43%	24.00%	10.96%	26.70%

Scenario 2: Taxation of $50,000 additional cash flow, assuming $250,000 ordinary income (salary or pension income)*

	INTEREST/FOREIGN	CANADIAN DIVIDEND (ELIGIBLE DIVIDEND)	CAPITAL GAINS	TAX-SMART CASHFLOW	POST-ROC CASH FLOW
Pre-tax cash flow	50,000	50,000	50,000	50,000	50,000
Taxes excl. clawback	26,272	19,093	13,136	6,446	14,327
After-tax cash flow	**23,728**	**30,907**	**36,864**	**43,554**	**35,673**
Effective tax rate	52.54%	38.19%	26.27%	12.89%	28.65%

For illustrative purposes only.

* Based on 2022 federal and provincial average combined tax rates. Assuming $10,000 dividends and $10,000 capital gains for Tax-Smart CashFlow, for a 2% total distribution on a $1,000,000 investment. The remaining $30,000 is ROC. For post-ROC cash flow, still assuming $10,000 dividends but $40,000 of capital gains as ACB has been reduced to nil and ROC is no longer possible. Actual taxable distributions will vary from year to year. In Scenario 2, the OAS amount is clawed back before the additional cash flow in all income scenarios.

How does Fidelity Tax-Smart CashFlow work?

Monthly cash flow payout rates

Payout rates are usually calculated in January, up to 8% of the net asset value per unit of the respective Tax-Smart CashFlow series on the last business day in December of the previous year.

Stable cash flow option

If selected, a stable cash flow option is available where a set dollar amount per month is chosen.

Adjustment to payout rates

Monthly payment amounts may be changed from time to time to keep the cash flow payout rate close to the desired amount. If the stable cash flow option has been selected, the monthly amount will stay the same in most cases.

Redirected cash flow option

Investors have the ability to reinvest cash flow into other funds. This provides the ability to gradually shift asset allocation over time without triggering capital gains.

Taxability of cash flow payments

Monthly Tax-Smart CashFlow payments are generally characterized as return of capital (ROC). Any taxable cash flow payments paid out by the investment may reduce the tax efficiency of the investment.

Return of capital (ROC)

With Fidelity Tax-Smart CashFlow, monthly cash flow payments are composed mainly of ROC. ROC is not taxable income, because the non-registered investment was originally purchased with after-tax dollars. A ROC payment will reduce the amount of the investor's original investment and does not represent income or capital gains earned by the investment, and does not reflect, and is not the result of, the performance of the investment. Lastly, ROC does not contribute to the clawback of income-tested government benefits such as Old Age Security (OAS).

Market value

Investors should not confuse monthly Tax-Smart CashFlow payments with a fund's rate of return or yield. The investment continues to generate market returns after the cash flow payout is made.

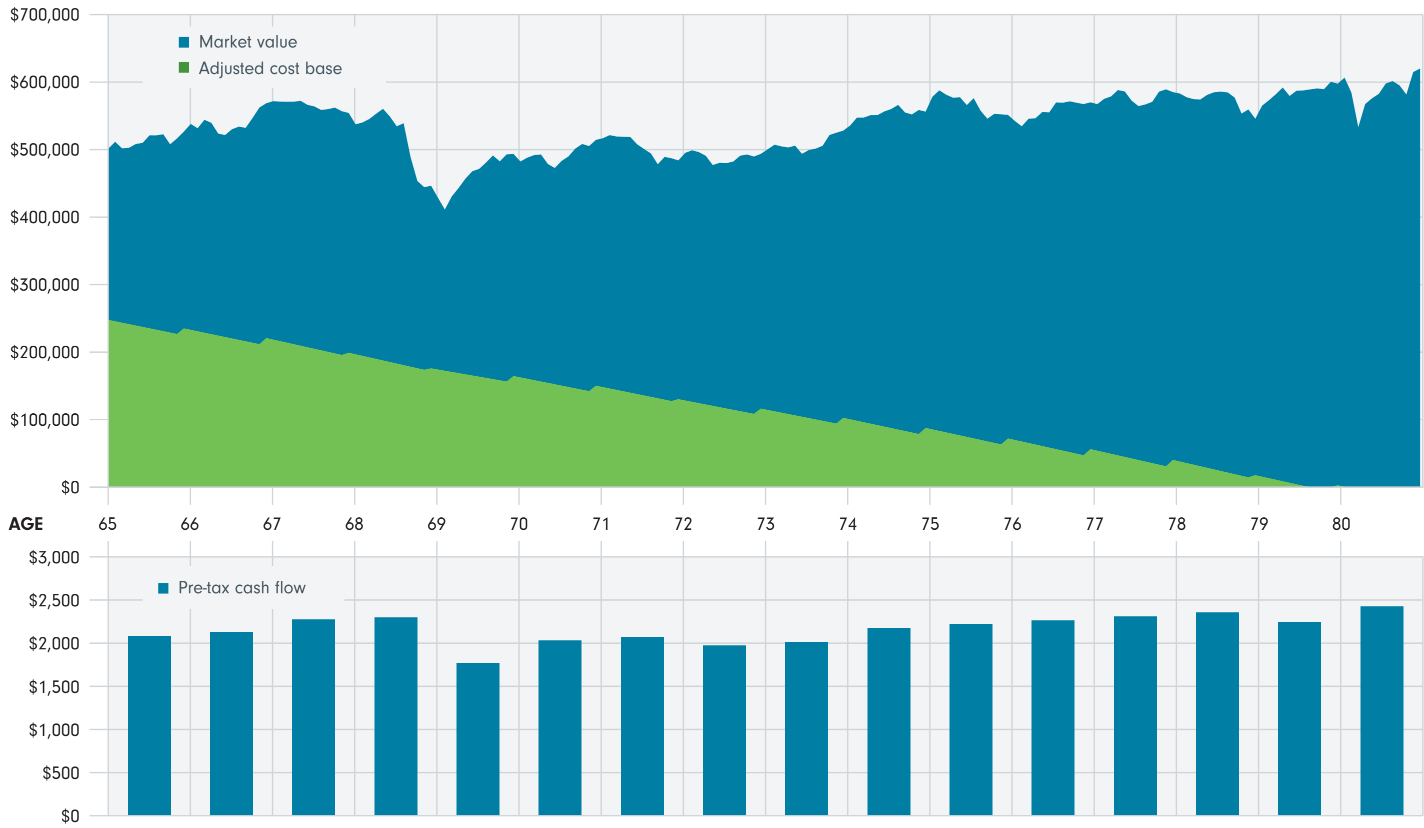
Adjusted cost base (ACB)

Payments characterized as ROC will reduce your ACB. When all the investor's original capital has been returned (i.e., the adjusted cost base ACB has reached zero), monthly payments become mainly capital gains, which are still tax-advantaged compared with other forms of income.

Optimize tax efficiency

As mentioned, Fidelity Tax-Smart CashFlow is also available with Fidelity Corporate Class, which offers additional tax benefits through the potential for reduced taxable distributions.

After growing an initial investment to $500,000, at age 65, the investor starts a 5% Tax-Smart CashFlow:



For illustrative purposes only.

Source: Fidelity Investments Canada ULC. The above illustration is a hypothetical example only and is intended to be a future snapshot from an initial hypothetical investment of $250,000 made on December 31, 1998, and is based on historical returns of a general investment in asset classes that consist of 36% S&P/TSX Capped Composite Index, 24% MSCI All Country World ex Canada Index, 14% Bloomberg Global Aggregate Bond Index, 21% FTSE Canada Universe Bond Index and 5% FTSE Canada 91-Day T-Bill Index. The investor starts taking out a 5% Tax-Smart CashFlow monthly cash flow payment. This example is not meant to represent the actual or expected returns of, or cash flows that can be expected from, any Fidelity Funds. Fidelity Funds are subject to fees and expenses that will reduce returns and that have not been considered in the above illustration. The returns account for reinvestment of any year-end distributions. Monthly cash payments from Tax-Smart CashFlow series funds will be mainly return of capital (ROC). However, a year-end distribution will reduce the ROC rate. This average reflects that possibility. An ROC payment reduces an investor's adjusted cost base (ACB). Capital gains taxes are deferred until units are sold or until the ACB goes below zero. Investors should not confuse this cash-flow distribution with a fund's rate of return or yield. The tax liability is calculated using the following marginal tax rates: capital gains, 25%; interest income, 50%.

With Fidelity Tax-Smart CashFlow you can

1. Receive tax-efficient monthly cash flow payments (up to 8% cash flow options on a broad range of Fidelity Funds in CDN$ or US$).
2. Customize the cash flow payout rate or amount, without triggering capital gains tax.
3. Shift asset allocation over time without triggering capital gains.
4. Turn cash flow payments on or off (or adjust them), according to individual needs.
5. Transfer wealth to a charity in a tax-smart way.

Capital dividend account: A powerful tax tool for Canadian owner-managed businesses

A capital dividend account (CDA), combined with capital gains-generating investments, may provide tax-efficient income for Canadian business shareholders.

What is it?

A CDA, as defined by the Income Tax Act (Canada), is a notional account that keeps track of various tax-free surpluses accumulated by a private corporation.[3] These amounts are eligible for distribution to shareholders as tax-free dividends, referred to as capital dividends.

The intent of the CDA is to preserve the concept of integration, which is designed to ensure the taxes paid by an individual are the same whether the income was earned directly by the individual or was earned by a corporation and later distributed to the individual. Both individuals and corporations are subject to tax, and are taxed on only 50% of capital gains. In the case of a corporation, the remaining non-taxable 50% can be added to a CDA and distributed to the shareholder as a tax-free capital dividend. Capital losses, in turn, reduce the CDA.

Only Canadian-controlled private corporations (CCPCs) are eligible, and the shareholder must be a Canadian resident. Capital dividends paid to non-residents are subject to withholding tax.

CDAs and investment products

Corporations should seek investments that generate primarily capital gains if they wish to take advantage of the tax benefits of a CDA. Capital gains distributions from mutual fund trusts and capital gains dividends from mutual fund corporations (corporate class funds) both qualify as capital gains for the purpose of funding a CDA.

Paying a tax-free capital dividend

Before a capital dividend can be paid, the corporation must file an election with the Canada Revenue Agency (CRA), on or before the earlier of

- the day the dividend becomes payable; or
- the day it was paid.[4]

If an election is filed late, it could be subject to a late-filing penalty. The election form should be submitted with a certified directors' resolution authorizing the election and a schedule showing that the calculation of the tax-free capital dividend was made immediately before the election.

Tax-efficient options

To fund the CDA, the corporate treasurer should seek investments that generate capital gains. Capital gains are conventionally driven by the appreciation of equity investments. But with Fidelity Corporate Class products, businesses can fund their CDA and distribute gains in a tax-efficient way.

Corporate class funds can grow in a tax-efficient manner, primarily because the income and expenses of the funds are pooled. This means that corporate class can share income, gains, losses, expenses and loss carry-forwards from other classes to reduce distributions generated by the overall structure. When distributions are made, they are generally tax-efficient Canadian dividends and, on a more limited basis, capital gains dividends. As a result, corporate class investments can potentially accumulate maximum growth while minimizing taxable distributions during the investment term. Upon redemption, the investment will realize a capital gain or loss.

3 Subsection 89(1).

4 File Form T2054 – Election for a Capital Dividend under subsection 83(2) of the Income Tax Act.

Tax-planning strategies

There are several ways that shareholders can use these tax-efficient options to take full advantage of a CDA. Here are some examples:

Tax-free shareholder dividends

Many business owners accumulate after-tax profits in the company to facilitate growth. Investing that pool of capital in corporate class funds may be an attractive alternative to money market or fixed income funds, which provide interest earnings that are taxed at the highest corporate rate.

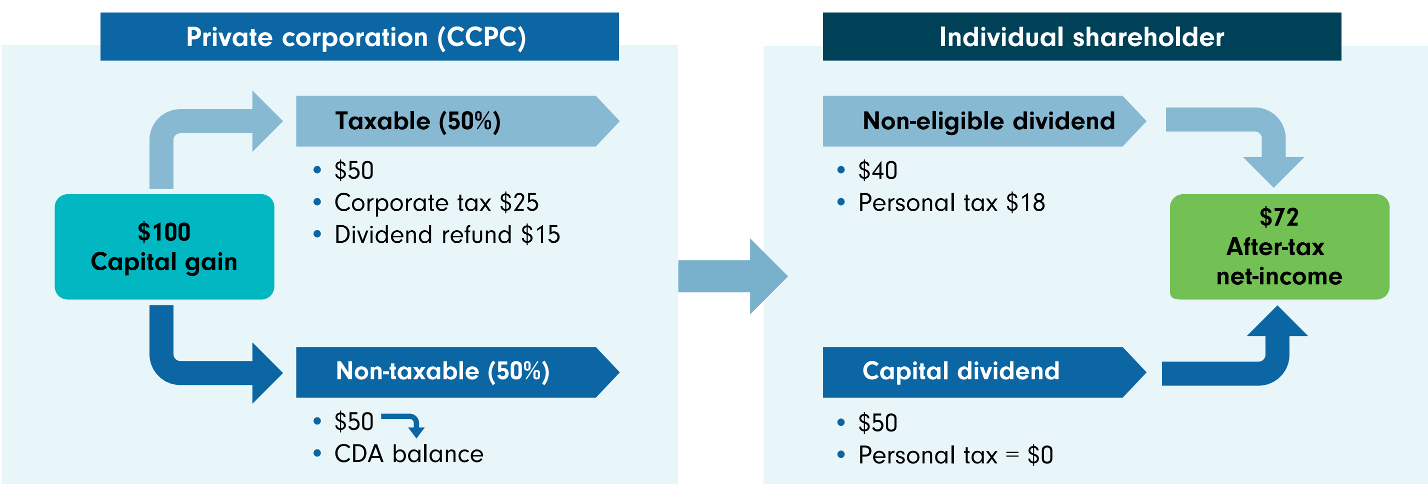
The non-taxable portion of realized capital gains is added to the CDA balance, which can be paid as a tax-free capital dividend, maximizing after-tax returns for shareholders. This strategy reduces the corporate tax liability by replacing investment income (taxed at approximately 50%) with capital gains (taxed at 25%, because only 50% of the gain is taxable), while funding the CDA to distribute tax-free dividends to shareholders.[5]

Capital expenditures

Many operating companies need capital assets to support their business, but capital expenditures can be a challenge to budget. One possible budgeting technique is to fund capital expenditures by saving money in corporate class. Investments can be redeemed at any time to purchase a new asset. The redemption will trigger a capital gain or loss, and the non-taxable portion of a gain will be added to the CDA.

With a wide array of corporate class products to choose from, backed by a leading investment process, Fidelity offers investments to suit almost every risk profile.

Example of a $100 capital gain



* Assumes 50% corporate tax rate/30% dividend refund rate/45% personal tax rate. (All rates rounded to nearest 5%; tax rates vary by province.)

For illustrative purposes only.

5 The corporate tax rate on investment income for a CCPC varies by province and ranges from 46.7% to 54.7% as at December 31, 2022.

Donation strategies using Tax-Smart CashFlow

The gift of giving

Usually when investments are sold in non-registered accounts, a capital gain (or loss) is realized, and fifty percent of any capital gain is included in taxable income. If qualifying investments are donated directly to a registered charity (an "in-kind" donation), the capital gains inclusion rate is reduced to zero percent, which means no taxes are paid on the capital gain of the donated investments. Qualifying investments include mutual funds, stocks, bonds or other publicly traded securities.

The value of the donation is used to determine a tax credit, saving taxes for the donor, whether cash or "in-kind".

With Tax-Smart CashFlow, because payments generally include ROC and reduce the ACB of the investment, deferring the capital gain to the time the units are sold, if the Tax-Smart CashFlow units are donated directly to a registered charity then, the capital gains inclusion rate is reduced to zero percent.

Charitable giving with Tax-Smart CashFlow lets you receive tax-deferred cash flow from your investments while donating in a tax-efficient way.

Charitable giving with Tax-Smart CashFlow

The following example assumes a $50,000 investment was made a number of years ago, which has since doubled in value. The investor wishes to sell the investment and donate $50,000 to charity.

Scenario 1 (cash) – The investment is sold and cash is donated to charity.

Scenario 2 (in-kind) – Only half of the investment is sold; the remaining half of the units are donated in-kind. This cuts the tax bill in half.

Scenario 3 (in-kind with Tax-Smart CashFlow) – Tax-Smart CashFlow is used to effectively separate the original capital from the gain. Over a period of years, Tax-Smart CashFlow distributions provide cash flow to the individual and reduce the ACB to zero. The Tax-Smart CashFlow units are donated to charity, and capital gains taxes have been eliminated.

In all three scenarios, a $50,000 charitable donation receipt is used to reduce taxes otherwise owing.

DONATION STRATEGY	CASH	IN-KIND	IN-KIND WITH TAX-SMART CASHFLOW	
Initial investment	$50,000	$50,000	$50,000	
			ROC DISTRIBUTIONS	**TAX-SMART CASHFLOW UNITS**
Investment doubles in value	$100,000	$100,000	$50,000	$50,000
Composition	**ACB** = $50,000 **Capital gain** = $50,000	**ACB** = $50,000 **Capital gain** = $50,000	**ROC** = $50,000	**ACB** = $0 **Capital gain** = $50,000
Donation (amount for tax credit)	**$50,000** (cash)	**$50,000** (in-kind)	**$0**	**$50,000** (in-kind)
Tax on disposition of investment	**$12,500**	**$6,250**	**$0**	**$0**
Tax efficiency	**Lower**	**Lower**	**Higher**	**Higher**

For illustrative purposes only. Source: Fidelity Investments Canada ULC. The above example assumes no distributions or dividends and a tax rate of 50%. Capital gains inclusion rate: 50% inclusion if sold for cash; 0% for in-kind donations.

Canadian-controlled private corporations can also benefit from this strategy.

1

Private corporations claim charitable donations as a deduction, unlike individuals, who receive a tax credit.

2

The entire capital gain on the donated securities increases the capital dividend account when units are donated in-kind, because of the capital gains zero-percent inclusion rate.

3

Private corporations can benefit from the Tax-Smart CashFlow donation strategy and increase the capital dividend available to be paid tax-free to the shareholder.

This strategy can also work on the death of a taxpayer.
For more information, ask your financial advisor.

For more information, contact your financial advisor or visit fidelity.ca/**TaxSmart**

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