

## ABOUT ETF DISTRIBUTIONS

Exchange-traded funds (ETFs) are flow-through entities<sup>1</sup> and, as such, net income and realized gains generated within the ETFs will be distributed to investors. Distributions can be made on a monthly, quarterly or annual basis. Capital gains are typically paid annually in December as reinvested distributions. Generally, the greater the income generated in the fund, the higher the distribution.

### AS AN ETF INVESTOR, THERE ARE TWO TAX CONSIDERATIONS TO UNDERSTAND:

01

THE TREATMENT OF  
DISTRIBUTIONS PAID BY THE ETF

02

THE TREATMENT OF THE GAIN  
OR LOSS REALIZED ON SELLING  
THE ETF UNITS

### DISTRIBUTIONS MADE BY CANADIAN ETFS TO INVESTORS CAN CONSIST OF THE FOLLOWING:

CANADIAN DIVIDENDS THAT ARE ELIGIBLE  
FOR THE DIVIDEND TAX CREDIT

CAPITAL GAINS (50% TAXABLE)

RETURN OF CAPITAL (NOT TAXABLE, BUT  
REDUCES THE ADJUSTED COST BASE OF UNITS)

REINVESTED DISTRIBUTIONS (TAXABLE, BUT  
BECAUSE THEY'RE NOT RECEIVED IN CASH, THEY  
INCREASE THE ADJUSTED COST BASE OF UNITS)

INTEREST INCOME OR OTHER INCOME  
(100% TAXABLE)

FOREIGN INCOME (100% TAXABLE)

<sup>1</sup> Flow-through entity – is a legal business entity that passes income on to its investors. The result is that investors are taxed on the entity's income and not the entity itself.

## TYPES OF ETF DISTRIBUTIONS

### **1** CANADIAN DIVIDENDS

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Dividends received from a Canadian corporation get preferential tax treatment through the gross-up and dividend tax credit mechanism. The grossed-up amount is included on your tax return, and the tax payable is reduced by the dividend tax credit.

### **2** INTEREST AND OTHER INCOME

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Fixed income ETFs earn interest on their investments in bonds, debentures, commercial paper and other debt obligations. Interest from Canadian sources is fully taxable and is considered other income. There is no preferential tax treatment for this type of income. Income is 100% taxable.

### **3** FOREIGN NON-BUSINESS INCOME

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Dividend income from foreign companies is fully taxable and receives no preferential tax treatment. Foreign taxes may be withheld from this income. Note that dividends received from foreign corporations are not eligible for the dividend tax credit.

### **4** CAPITAL GAINS

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An ETF may incur capital gains if the sale of investments in the ETF's portfolio is sold for more than its purchase price. You will also realize a capital gain or loss if you dispose of all or part of your ETF units. Your tax slip will contain both distributions of gains realized by the ETF as well as your gains and losses realized on the sale of ETF units. Only 50% of capital gains are subject to tax and should be included in your taxable income.

### **5** RETURN OF CAPITAL

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A distribution may be deemed a return of capital (ROC), generally when it pays out more than it earned in income. However, ROC is non-taxable to investors and will decrease the adjusted cost base (ACB) of the investor's units. When the investor sells the ETF units, the lower ACB will increase the capital gain (or decrease the capital loss) that would otherwise be realized on the sale. As long as your ACB is positive, a distribution that is identified as a ROC is non-taxable. Once your ACB reaches zero (that is, when you have received the amount of your original investment back), all further distributions that are reported as ROC are taxable as capital gains.

### ARE ALL ETF DISTRIBUTIONS PAID IN CASH?

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No; while monthly and quarterly distributions are paid in cash to the unitholders, capital gains, which are typically distributed annually in December, are paid as reinvested distributions. The units issued as a result of the reinvestment are immediately consolidated such that the ETF's total units outstanding do not change. As a result, an investor's ACB is increased by the amount of the reinvested distribution. This adjustment may be handled by the brokerage firm where you purchased the ETF. This reinvested distribution adds to the investor's adjusted cost base, resulting in a lower capital gain once the ETF is sold.

### WHAT EVENTS CONTRIBUTE TO ETF CAPITAL GAINS?

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An ETF could incur a capital gain if one of the following events occur:

**Performance:** If the ETF experiences positive returns from the date of purchase until the ETF is sold, an investor could realize a capital gain.

**Corporate Action:** When a merger or acquisition occurs on one of the underlying holdings, the ETF may realize a capital gain that is taxable to investors.

**Portfolio Rebalancing:** When a rebalance occurs, the ETF will trade the underlying securities, which could result in a capital gain.

### WHEN WILL INVESTORS RECEIVE THEIR TAX SLIPS?

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WisdomTree ETFs make distributions throughout the year. However, the income sources that make up the distribution (i.e., interest, dividends, capital gains or ROC) are not determined at the time of the payment. The tax characterization of the distributions will be known only once the ETF performs a year-end analysis of its income and gains. T3 tax slips issued by the financial institution where an investor holds his or her units will show the amounts and types of distributions made by the ETF.

### WITHHOLDING TAXES

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Dividend income received from foreign investments may be subject to withholding taxes. Treaties between Canada and foreign countries may reduce the amount of the withholding tax in those countries. Foreign tax credits can be claimed for investments held in taxable, non-registered accounts.

This document is for general information and should not be considered investment or tax advice. Investors should consult their own tax advisors appropriate to their specific situation. Commissions, management fees and expenses all may be associated with investing in WisdomTree ETFs. Please read the relevant prospectus before investing, which is available at [WisdomTree.com](http://WisdomTree.com). WisdomTree ETFs are not guaranteed, their values change frequently and past performance may not be repeated.

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