

INDUSTRY ADJUSTED COST BASE (BOOK COST) MATRIX

Purpose: To serve, primarily, as a working document/reference guide for operations/back office staff with the objective of promoting accuracy regarding adjustments to a security's adjusted cost base (ACB) for reporting purposes in light of changing tax requirements and the introduction of new financial instruments. This is particularly important as dealers and manufacturers work to keep their client records aligned and strive for greater consistency of ACB calculation practices.

Definition: The adjusted cost base of securities can be defined as a security's original cost – the total amount paid to purchase a security, including any transaction charges related to the purchase – adjusted for reinvested distributions (interest or dividends), returns of capital and other corporate actions. A corporate action is one that affects the holdings of common and preferred shareholders and/or bondholders. Such events include stock splits, mergers, acquisitions and spin-offs. The adjusted cost base of the securities is then used to determine capital gains or losses compared to the security's current market value.

Request: If you have comments or suggestions regarding the ACB Matrix, please email your views to bamsden@iiac.ca. After comments are reviewed and agreed upon by the respective IIAC and IFIC committees, an updated version of this document will be circulated to all who participated and be posted for use on www.iiac.ca.

Note: While the document is believed to be as complete and accurate as possible at the time of publishing, it does not cover every situation, particularly in the case of complex transactions. For these reasons, ***it should not be construed as tax advice***. This document has been prepared for the use of Investment Industry Association of Canada (IIAC) and Investment Funds Institute of Canada (IFIC) member firms and by those parties who participate in its review and update, and it is presumed that each IIAC and IFIC member firm or other party using this table will check specific provisions of this document with their internal and other independent professional advisors due to ongoing changes to the *Income Tax Act*, regulations, interpretations and Canada Revenue Agency (CRA) administrative practice.

Abbreviations used:

ACB = adjusted cost basis or book value or cost

FMV = fair market value or market value

ITF = in trust for (usually for a minor)

JTIC = joint tenants in common

JTWROS = joint tenants with right of survivorship

PUC = Paid up capital

ROC = return of capital

Event Name/Description	Adjusted Cost Base (ACB) Impact	Comments
Trades		
1. (1) Buy	Increase ACB by the cost of the trade, including commissions and fees	
2. (2) Sell/Redemption	Decrease ACB by average cost per unit multiplied by the number of units disposed	Also referred to as 'liquidation'
Corporate Actions		
Distributions		
3. (3) Dividend re-investment	Increase ACB by the actual amount of the re-invested dividend	Actual (not grossed-up) amount of the re-invested dividend is typically the FMV of the shares/units received
4. (63) Notional (phantom, non-cash) distribution	Increase ACB by the notional distribution amount	No cash or securities received
5. (24)(23) Stock dividend – Canadian	ACB of new shares = amount of dividend	<ul style="list-style-type: none"> • Amount of dividend is the increase in the paid-up capital (PUC) (often this equals the FMV of the shares received) • Amount of dividend may be nil; if the amount of the dividend = \$0, then a stock dividend has the appearance of a stock split • If received by a mutual fund trust, no dividend income is reported, but ACB is adjusted
6. (New) Stock dividend – Foreign	ACB of new shares = greater of PUC and FMV	
7. (15)(64) Principal pay-down or return of capital (ROC)	Reduce ACB by the value of the principal received or ROC received	Principal pay-down; also known as a partial liquidation (Note: The IIAC was asked to consider whether there is any possibility of more accurate and frequent ROC break-outs, at least to some extent before year-end due to client requests for help in year-end tax decisions.)
Re-organizations		
8. (4)(8) Exchange for securities only or securities and cash (mixed consideration)– no tax	ACB of new securities = FMV of new securities	Includes limited partnership unit roll-overs into a mutual fund

deferral		
9. (5)(9) Exchange for securities only or for mixed consideration (securities and cash) – no tax deferral (where S.85(1) tax election available)	ACB of new shares = FMV of new shares; if client confirms tax election was filed by issuer, then firm can adjust ACB to the amount of proceeds elected by the client minus any cash received	Effectively, old ACB allocated first 100% to the non-share consideration (cash) received, then to shares received
10. (6) Exchange for mixed consideration (securities and cash) – partial deferral/cost allocation (S.86 applies)	ACB of new shares = ACB of old shares less cash and non-share consideration received	Effectively, old ACB allocated first 100% to the non-share consideration (cash) received, then to shares received
11. (7) Exchange for mixed consideration –ROC received and tax deferral	ACB of new shares = ACB of old shares less amount of ROC reduction to ACB of old shares	First, process ROC adjustment to old shares and then process exchange from old shares to new shares on a rollover basis
12. (10)(11) Exchange for securities – s.86 or s.85.1 tax deferral applies	ACB of new shares = ACB of old shares	
13. (13)(22) Merger – taxable (NOT s.87 amalgamation); receive stock and may receive cash	ACB of new shares = FMV of new shares	Disposition of old shares is recorded at FMV of new shares plus cash received (Note: Members to consider whether it is possible for there to be instances of taxable foreign mergers is underway)
14. (12) Merger – non-taxable (S.87 amalgamation)	ACB of new shares = ACB of old shares less any cash received (up to \$200)	If more than \$200 cash received, S.87 does not apply
15. (new) Merger – foreign – non-taxable (S.87)	ACB of new shares = ACB of old shares less any cash received (up to \$200)	Process as roll-over if a particular shareholder chooses to receive only shares AND each predecessor corporation distributes no more than 10% of the FMV of its shares in cash to its shareholders as a group (S.87(8.1))
16. (14) Name change only	ACB of new shares = ACB of old shares	
Spin-offs		
17. (17) (18) Spin-off (Foreign) – U.S. or non-U.S. dividend in-kind	New (child) shares received start with an ACB = FMV at the effective date of the spinoff (ACB of the original corporation (parent) does not change)	Report the FMV of the dividend as foreign income; if shareholder subsequently makes an election under Section 86.1 (usually available only for U.S. corporations, and published on CRA

		website at http://www.cra-arc.gc.ca/tx/bsnss/tpcs/frgn-eng.html), then the ACB of parent can be allocated to parent and child shares based on their relative FMVs
18. (19) Spin-off – Canadian – non-taxable (not a dividend-in-kind) (includes a S.86 capital reorganization)	A percentage or fixed amount (determined by the company) of the ACB of the parent is applied to the “child” (entity that is spun off); ACB of the parent is reduced by the percentage or fixed amount applied to the child	Normally Canadian spinoff transactions include a s.86 capital reorganization and are rarely done as a dividend-in-kind (see next section)
19. (20) Spin-off (Canadian) – taxable (dividend in kind)	ACB of child shares = FMV of the shares at effective date of spinoff; ACB of parent does not change	Occasionally, Canadian spin-offs take the form of a dividend-in kind, and the ACB of the child shares = FMV of those shares at effective date of spin-off; this amount is also reported as dividend income
<i>Splits/reverse splits</i>		
20. (21) Split	Total ACB value of the holding does not change but the number of shares held is increased	
21. (16) Reverse split (Consolidation)	Total ACB value of the holding does not change but number of shares held is reduced	Also referred to as a share consolidation
Transfers		
<i>Non-Registered Account Transfers – Same beneficial owner(s)</i>		
22. (26) Client name change only	Securities transfer at ACB	
23. (27)(29) Corporation name to same corporation name. Registered owner remains the same.	Securities transfer at ACB	
24. (36) Individual to same individual, registered owner the same	Securities transfer at ACB	
25. (44) Joint to joint, all owners remain the same	Securities transfer at ACB	
<i>Non-Registered Account Transfers – Different beneficial owner(s)</i>		
26. (31)(40) Individual to spouse – registered owner changed	Securities transfer at ACB	Includes a gift to a spouse. May elect to transfer at market instead of transferring at cost
27. (30)(35)(39) Individual to a different individual (non-	Securities transfer at FMV	Includes a gift to a non-spouse

spouse)		
28. (28) Corporation name to different corporation name (registered owner changed)	Securities transfer at FMV; adjustments per individual firm policy for cases where S.85 election filed	S.85(1) election may apply if shares of the receiving corporation are received in exchange for the securities
29. (32) Individual or joint to/from charitable trust or foundation	Securities transfer at FMV	Donated securities transfer at FMV even though the donor(s) may have special tax treatment on the reporting of their capital gain or capital loss
30. (33) Individual to a corporation	Securities transfer at FMV; adjustments per individual firm policy for cases where section 85 election filed	S. 85(1) election may apply if shares of the receiving corporation are received in exchange for the securities
31. (34) Individual to same individual – in trust for (ITF) account	Securities transfer at FMV, unless the beneficiary is the individual's spouse, in which case the transfer occurs at ACB	ITF is typically for a minor/child (Note: ITF rules differ in Quebec and are not covered here; contact your tax professionals)
32. (37) Individual to joint – original individual owner is one of the joint owners	The portion that remains beneficially owned by the original owner transfers at ACB, and the rest transfers at FMV	<ul style="list-style-type: none"> • Proportion of securities owned by the original owner in the new account transfers at cost ; proportion owned by the new joint owner (if a non-spouse) transfers at FMV • If NO right of survivorship and no change of beneficial ownership, securities transfer at ACB and no disposition is recorded as the individual is still treated as the sole owner for tax purposes; often used in family estate planning situations
33. (new) Individual to joint – with spouse	Securities transfer at ACB	Includes a gift to a spouse; may elect to transfer spouse's portion at FMV instead of ACB
34. (38) Individual to joint – original owner is not one of the joint owners	Securities transfer at FMV	Where one of the joint owners is the individual's spouse, that portion of the

		transfer occurs at ACB unless elect at FMV
35. (41) ITF to beneficial owner – after beneficial owner reaches age of majority	Securities transfer at ACB	
36. (42) Joint to joint – at least one owner remains the same	Proportion of securities owned by the original owner(s) transfers at ACB; proportion owned by new owners transfer at FMV	
37. (43) Joint to joint – all owners change	Securities transfer at FMV	
Registered Account Transfers		
38. (45) Non-registered to registered (contribution)	Securities transfer at FMV	(new) Capital gains recognized but capital losses are denied
39. (46) Registered to non-registered (de-registration)	Securities transfer at FMV	Withdrawals from RRSPs and RRIFs are subject to withholding taxes
40. (47) Registered to registered – same annuitant, holder (TFSA) or subscriber (RESP)	Securities transfer at ACB	<ul style="list-style-type: none"> • Includes: RRSP to RRSP; RRSP to RRIF • RRIF to RRIF; RRIF to RRSP (see below) • RESP to RESP; TFSA to TFSA • The RRIF to RRSP is a tax reportable 60(L) transfer (T4RIF slip and RRSP contribution receipt issued but effectively it is still a roll-over)
41. (48) RESP to RESP (Different Subscriber) (Family or Individual Plan)	Securities transfer at FMV	
Estate Transfers		
42. (49) Deceased to estate upon death of individual	Securities transfer at FMV value at date of death	May transfer at ACB if estate will go entirely to spouse or a spousal trust
43. (50) Deceased to surviving spouse	Securities transfer at ACB	May elect to transfer spouse's portion at FMV instead of transferring at ACB
44. (51) Deceased to individual, new owner not spouse	Securities transfer at FMV at date of death	
45. (52) Estate to beneficiary	Note: Depends on firm policy	(Note: Due to challenges both IIAC and IFIC members face in dealing with estates

		(backdating, etc.), particularly when the date of death is not communicated on a timely basis, further joint action between IFIC and IIAC, and with the CRA, is being considered)
46. (53) Joint tenants with right of survivorship (JTWROS) to individual who is surviving member	If survivor is the spouse of the deceased, securities transfer at ACB; otherwise proportion owned by the deceased transfers at FMV	
47. (New) Joint tenants in common (JTIC) to individual who is surviving member	Proportion owned by the deceased transfers at FMV	
48. (54) RRIF or RRSP to estate upon death of owner	Securities transfer at FMV at transfer date	
49. (55) RRIF to RRIF upon death, new owner is successor annuitant	Securities retain ACB	(Note: A survivor's spouse may not be a successor annuitant or beneficiary)
50. (56)(57)(58)(59)(60) Other registered account transfers upon death	Securities transfer at FMV at transfer date	Includes these transfers at death: <ul style="list-style-type: none"> • RRIF to RRIF (new owner not successor annuitant) • RRIF to RRSP • RRSP to RRIF • RRSP to RRSP
Country of Residency Transfers (non-registered accounts)		
51. (61) Account owner changes residency from one foreign country to another foreign country (no change of beneficial ownership)	Securities transfer at ACB from a Canadian tax perspective	(Note: Foreign jurisdictions may impose their own rules)
52. (62) Account owner changes residency from Canada to a foreign country or vice versa	Securities transfer at FMV (as of date account owner becomes, or ceases to be, a Canadian resident)	There is a deemed disposition when a client moves into or out of Canada. Refer to firm's documentation requirements
Special Securities/Other		
53. (65) Assets transferred between accounts maintained in different currencies (no change of ownership)	Securities transfer at ACB, each lot converted at the exchange rate in effect as of each acquisition date	If acquisition information is unavailable, ACB information should not be provided

54. (66) Discount instruments	Depends on firm policy	
55. (67) Limited partnerships	Too complex to cover generically; use issuer information	
56. (68) Mutual funds		
1. Mutual fund trust 2. switch	ACB of new = FMV of new units	For a mutual fund trust, a switch is a redemption even if no back-end load fee applies, e.g., includes 10% free switch
3. Corporate Class Switch	ACB of new shares = ACB of old shares	
4. T-Shares	ACB needs to be decreased for ROC distributions received	The term "T-shares" is used as a general term by mutual fund trusts also
57. (69) Options – on exercise	ACB of securities received equals cost of options plus exercise price	Excludes options earned as part of employment income
58. (70)(72) Rights/warrants distribution from a corporation	ACB = 0 only if the rights/warrants are identical in nature and issued to all shareholders; otherwise ACB=FMV	FMV may often be zero
59. (71) Rights Distribution from a Trust	Use issuer information	
60. (25) Stapled Unit Separation	ACB is allocated to each component of the unit, pro-rated to that component's FMV at time of acquisition	
61. (73) External transfers-in without ACB information	ACB = 0, notify advisor and/or client to provide the ACB	