Understanding Withholding Tax

BENEFACTION FOUNDATION

Investments Held Within Charitable Accounts

Under the Canada-United States Convention with Respect to Taxes on Income and on Capital Treaty, U.S. source income derived by a charitable organization like Benefaction shall be exempt from U.S. withholding tax if this income earned is also exempt from Canadian income tax.

To qualify for the preferential withholding tax rate, Benefaction provides proper documentation when it opens new accounts. This signed documentation is generally a valid IRS Form W-8BENE Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding. Without appropriate documentation, income from U.S. investments may be subject to the U.S. domestic tax rate which is generally a flat 30% U.S. non-resident withholding tax rate. In addition to this form, Benefaction further protects each account from by having it coded as Tax Exempt at its custodial firms. This ensures that no WHT will be charged on the US securities that the foundation owns directly.

HOWEVER, an important point is that Canadian mutual funds and exchange-traded funds (ETFs) that own U.S. stocks are considered Canadian investments and subject to 15% withholding tax. Even though they are owned by a registered charity, they will not qualify for the 0% withholding tax rate. This is because the mutual fund or ETF is considered the shareholder of the U.S. stocks, not Benefaction.

All U.S. ETF distributions are considered fully taxable foreign income and will be subject to tax. If Benefaction invests in a U.S. ETF that earns investment income from outside the U.S., the ETF may be subject to foreign withholding tax in those foreign countries. As an investor in the ETF, Benefaction is not be able to recover this tax.

Although there is a process to claim a refund directly from the IRS via each fund issuer, it is complicated and must be done at the individual donor advised fund level. Benefaction has over 1,000 funds and it is therefore not economical for the organization to pursue this path. In most cases, the cost of doing so would be more than the tax withheld.Therefore, withholding tax on dividends or distributions from these types of investments is not recoverable. In an effort to ensure best practices and disclosure, Benefaction wish to make donors, and advisors who are selecting investments for its funds, aware of this industry issue.

Benefaction's Board of Directors have established an Investment Policy Statement (IPS) for the foundation as a whole. Each of our donor advised funds must adhere to its guidelines for asset allocation and investments should be structured and managed to provide for the generation of the return objective while minimizing the level of risk over the long-term using a diversified investment approach.This may mean holdings of investments that may incur additional tax implications outside of Canada. The IPS is reviewed by the Board on an annual basis.

Appendix: US investment types and their corresponding withholding taxes

US Investment Type	Withholding Tax Rate
Government/Corporate Bonds	Interest: 0%
Shares of US Corporations	Dividend: 15% Capital Gain on Sale: 0%
Shares of Canadian Corporations traded on American exchanges	Dividend: 0% Capital Gain on Sale: 0%
American Depository Receipts	No US withholding since the rate is set by country of underlying issuer. Capital Gain on sale: 0%.
US ETFs traded on American exchanges	US ETF that qualifies as RIC: Interest-related dividends and short-term capital gain distributions 15% as of Jan 1, 2014. The dividend rate is 15%. OR Us EFT that does NOT qualify as RIC: Interest, dividends, and capital gain distribution rate is 15%. Capital gain on sale of EFT investment: 0%.

BENEFACTION FOUNDATION
83 HARBORD ST., TORONTO, ON, M5S 1G4
TEL: 1-416-915-0700
INFO@BENEFACTION.CA
WWW.BENEFACTION.CA

CRA REGISTRATION #: 80421 3759 RR0001