

Tax reporting guide for 2007

The purpose of this guide is to assist you in reporting the tax implications of your investment in AIM Trimark's mutual funds, or Trimark segregated funds. Both mutual funds and segregated funds have two components of taxation – tax on distributions or allocations received from the fund (income and/or capital gains) and tax on redemptions (any capital gains [losses] realized when you sell units/shares of your fund investment).

Note: Mutual funds can be structured as either mutual fund trusts or mutual fund corporations. To help distinguish between them, AIM Trimark Investments uses the term "Fund" in the names of its mutual fund trusts and "Class" or "Private Pool" in the name of funds that are part of its mutual fund corporations.

Distributions/allocations

Both mutual fund trusts and segregated funds are generally considered to be "flow-through entities" for tax purposes. This means taxable income earned inside the entity is treated (for tax purposes) as if you held the securities directly instead of through the fund. This flow-through of taxable income is achieved by making a distribution in the case of mutual fund trusts, or allocation in the case of segregated funds, of income and/or capital gains from the fund to investors.

The flow-through generally results in a more favourable tax treatment of income in the hands of

investors. If income is not distributed or allocated at least annually, the income becomes taxable in the trust at the highest marginal tax rate – in effect, treating all investors as if they are taxable at the highest rate.

When taxable income is distributed to investors, it is taxed at their own, often lower, marginal tax rates.

In a fund, taxable income consists of net income (Canadian eligible and "ineligible dividends,"* foreign dividends, plus interest, less management fees and administration expenses) and net taxable capital gains (taxable capital gains, less allowable capital losses).

The amount left over after this calculation is distributed or allocated to investors to prevent the fund from paying tax.

* "Ineligible dividends" are referred to as "dividends other than eligible dividends" on the T3 and T5 slips; both these terms are used interchangeably in this guide.

Expenses in the funds are used to offset the income so that only net positive income amounts (if any) are distributed or allocated to investors as Canadian eligible and ineligible dividends, foreign investment income, interest or capital gains. Mutual funds may occasionally distribute a return of capital. Note, however, that segregated funds may distribute their net capital losses, if any. Each of these different types of income is reported separately in the various boxes of the T3. Page 5 of this guide explains how to report the different types of income and gains (losses) on your 2007 personal Income Tax and Benefit Return.

Mutual fund distributions

Mutual fund corporations generally pay three types of dividends: eligible dividends, dividends other than eligible dividends and capital gains dividends. Occasionally, mutual fund corporations may also pay a return of capital. When mutual fund corporations receive eligible and “ineligible dividends” from other Canadian corporations, the mutual fund corporations can then pay out those amounts to the individual shareholder, who can then take advantage of the corresponding dividend tax credits.

Capital gains dividends are deemed to be capital gains realized by the shareholder, thus they also receive favourable tax treatment by way of a reduced inclusion rate. Each of these types of income is reported separately in the boxes found on the T5. Page 7 of this guide explains how to report the various types of income and gains on your 2007 personal Income Tax and Benefit Return.

Capital gains (losses) upon redemption

Investments in mutual funds or segregated funds are generally considered to be capital property for tax purposes. AIM Trimark’s mutual fund corporations are actually subdivided into various share classes or types of investments, with each reflecting a different investment mandate. If you switch to another class within the same mutual fund corporation, the switch is not considered to be a “disposition” for tax purposes and accordingly, no capital gain (loss) will result. However, once you redeem your investment from the corporate structure entirely, you may realize a capital gain (loss). A capital gain (loss) may result when you dispose of units of a mutual fund trust or segregated fund.

Mutual fund investors must report this calculation on Schedule 3 of their tax return. “Completing Schedule 3 - Capital gains (losses) in 2007” on the next page walks you through this process.

Segregated fund investors should not calculate their own capital gain (loss) on Schedule 3 because AIM Trimark calculates any realized capital gain (loss) and puts the correct amount on your T3 slip. Thus, for segregated fund investors, the T3 slip contains both allocations of fund income and gains (losses) as well as gains (losses) from the redemption of segregated fund units during the year.

Your capital gain (loss) is calculated as:

Proceeds of disposition	–	Adjusted cost base (ACB)	–	Outlays and expenses
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Completing Schedule 3 – Capital gains (losses) in 2007

Note: Capital gains (losses) on redemptions of a segregated fund are calculated by AIM Trimark for you and reported on your T3.

Any redemptions during the year must be reported under Section 3, “Publicly traded shares, mutual fund units, deferral of eligible small business corporation shares, and other shares” of Schedule 3. The information for each of AIM Trimark’s mutual funds must be listed separately, but multiple redemptions of the same fund during the same tax year may be grouped together.

Number

This is the number of units/shares of your mutual fund that you have redeemed or are considered to have redeemed during the period.

Name of fund/corporation and class of shares

This is the name of the particular mutual fund from which you redeemed or are considered to have redeemed your units/shares.

Year of acquisition (Column 1)

This identifies when you originally invested in the mutual fund. If your purchases occurred over several years, indicate the period during which you invested in the funds.

Proceeds of disposition (Column 2)

This is the gross amount you received or are deemed to have received before any expenses from your redemption.

Adjusted cost base (Column 3)

This is the adjusted cost base (ACB) of the mutual fund units/shares that you redeemed or are considered to have redeemed during the period. The adjusted cost base of a redemption can be calculated by multiplying the average cost per unit/share at the time of the redemption by the number of units/shares being redeemed.

Outlays and expenses (from dispositions) (Column 4)

This is the redemption fee (e.g., deferred sales charge) or transfer fee, if any, charged to you on your redemption transaction..

Gain (or loss) (Column 5)

The gain (loss) is the difference between your proceeds of disposition (Column 2) and your ACB (Column 3), less any outlays and expenses (Column 4).

Taxable capital gains (or net capital loss) in 2007 (Line 199)

This amount equals 50% of your total gains (losses). If the amount on line 199 is positive, report the taxable capital gain on line 127 of page 2 of your income tax return. If the amount in line 199 is negative, you have a net capital loss.

A capital loss can be used to reduce taxable capital gains in the year, carried forward indefinitely and applied against capital gains realized in future years, or it can be carried back and applied against capital gains realized in any of the previous three years. To carry the loss back to a prior year, use CRA Form T1A *Request for Loss Carryback*. For more information, please refer to our *Capital loss planning* Tax & Estate InfoPage.

T3 slip

Box 21

This is your total capital gains for the year. It includes capital gains distributions for mutual funds and capital gains allocations for segregated fund units, including any capital gains you may have realized on the disposition of segregated funds. Include this amount on line 176 on Schedule 3 of your return under “T3 information slips – Capital gains (or losses).”

Box 23

This is the actual amount of Canadian dividends other than eligible dividends distributed or allocated to you during the year. This amount is not entered on your tax return. See Box 32.

Box 25

This is the gross amount of foreign non-business income (prior to deductions for foreign tax, see Box 34) distributed or allocated to you during the year. Enter this amount on Schedule 4 of your return in Part II under “Interest and other investment income” at “Income from foreign sources,” and also include it on line 433 of form T2209, “Federal Foreign Tax Credits.” This amount is also included on line 121 of page 2 of your return “Interest and other investment income.”

Box 26

Other income is the amount of interest and other income distributed or allocated to you during the year. It is classified as “other income” and should be included on line 130 on page 2 of your income tax return.

Box 32

This amount is equal to 125% of the amount in Box 23. Enter this amount on Schedule 4 of your return under Part I “Taxable amount of dividends (eligible and other than eligible) from taxable Canadian corporations” at “Taxable amount of dividends other than eligible dividends.” This amount is also included on line 120 of page 2 of your return “Taxable amount of dividends (eligible and other than eligible) from taxable Canadian corporations” and on line 180 of the same page “Taxable amount of dividends other than eligible dividends, included on line 120, from taxable Canadian corporations.”

Box 34

This amount is used to calculate your foreign tax credit on form T2209, “Federal Foreign Tax Credits.” Enter this amount on Line 431, “Non-business income tax paid to a foreign country.”

TAX & ESTATE

Box 37

This is your total capital loss for the year. It includes capital loss allocations for segregated funds, including any capital losses you may have realized on the disposition of your segregated funds. Include this amount on line 176 on Schedule 3, “T3 Information slips – Capital gains (or losses).”

Box 39

This amount is equal to 13.3333% of the amount in Box 32 and represents your federal dividend tax credit for dividends other than eligible dividends. Include this amount on Line 425 on Schedule 1, “Federal dividend tax credit.”

Box 42

This amount represents a return of capital. It is not reported on your tax return. This amount results in a reduction of your ACB.

Box 49

This is the actual amount of eligible Canadian dividends distributed or allocated to you during the year. This amount is not entered on your tax return. See Box 50.

Box 50

This amount is equal to 145% of the amount in Box 49. Enter this amount on Schedule 4 of your return under Part I “Taxable amount of dividends (eligible and other than eligible) from taxable Canadian corporations” at “Taxable amount of eligible dividends.” This amount is also included on line 120 of page 2 of your return “Taxable amount of dividends (eligible and other than eligible) from taxable Canadian corporations.”

Box 51

This amount is equal to 18.9655% of the amount in Box 50 and represents your federal dividend tax credit for eligible dividends. Include this amount on Line 425 on Schedule 1, “Federal dividend tax credit.”

T3 slip

Canada Revenue Agency / Agence du revenu du Canada		Year / Année	STATEMENT OF TRUST INCOME ALLOCATIONS AND DESIGNATIONS / ÉTAT DES REVENUS DE FIDUCIE (RÉPARTITIONS ET ATTRIBUTIONS) T3	
Actual amount of eligible dividends / Montant réel des dividendes déterminés	Taxable amount of eligible dividends / Montant imposable des dividendes déterminés	Dividend tax credit for eligible dividends / Crédit d'impôt pour dividendes déterminés	Capital gains / Gains en capital	Capital gains eligible for deduction / Gains en capital admissibles pour déduction
49	50	51	21	30
Actual amount of dividends other than eligible dividends / Montant réel des dividendes autres que des dividendes déterminés	Taxable amount of dividends other than eligible dividends / Montant imposable des dividendes autres que des dividendes déterminés	Dividend tax credit for dividends other than eligible dividends / Crédit d'impôt pour dividendes autres que des dividendes déterminés	Other income / Autres revenus	Trust year end / Fin d'année de la fiducie
23	32	39	26	Year / Année: Month / Mois:
Other information (see the back) / Autres renseignements (voir au verso)	Box / Case	Amount / Montant	Box / Case	Amount / Montant
Recipient's name (last name first) and address – Nom, prénom et adresse du bénéficiaire			Footnotes – Notes	
→				
Trust's name and address – Nom et adresse de la fiducie				
Recipient identification number / Numéro d'identification du bénéficiaire			Beneficiary code / Code du bénéficiaire	
12			18	
Account number / Numéro de compte			Report code / Code du genre de feuillet	
14			16	
3784				
For information, see the back. / Pour obtenir des renseignements,				

T5 slip

Box 10

This is the actual amount of Canadian dividends other than eligible dividends paid to you during the year. This amount is not entered on your tax return. See Box 11.

Box 11

This amount is equal to 125% of the amount in Box 10. Enter this amount on Schedule 4 of your return under Part I “Taxable amount of dividends (eligible and other than eligible) from taxable Canadian corporations” at “Taxable amount of dividends other than eligible dividends.” This amount is also included on line 120 of page 2 of your return “Taxable amount of dividends (eligible and other than eligible) from taxable Canadian corporations” and on line 180 of the same page “Taxable amount of dividends other than eligible dividends, included on line 120, from taxable Canadian corporation.”

Box 12

This amount is equal to 13.3333% of the amount in Box 11 and represents your federal dividend tax credit for dividends other than eligible dividends. Include this amount on Line 425 on Schedule 1, “Federal dividend tax credit.”

Box 18

This is the amount of capital gains dividends paid to you in 2007. Report this amount on line 174 of Schedule 3, “T5, T5013, T5013A and T4PS Information slips - Capital gains (or losses).”

Box 24

This is the actual amount of eligible Canadian dividends paid to you during the year. This amount is not entered on your tax return. See Box 25.

Box 25

This amount is equal to 145% of the amount in Box 24. Enter this amount on Schedule 4 of your return under Part I “Taxable amount of dividends (eligible and other than eligible) from taxable Canadian corporations” at “Taxable amount of eligible dividends.” This amount is also included on line 120 of page 2 of your return “Taxable amount of dividends (eligible and other than eligible) from taxable Canadian corporations.”

Box 26

This amount is equal to 18.9655% of the amount in Box 25 and represents your federal dividend tax credit for eligible dividends. Include this amount on Line 425 on Schedule 1, “Federal dividend tax credit.”

If you held shares of mutual fund corporations that paid return of capital (ROC) at any time in 2007, this amount will be shown on your T5 slip as a footnote, below the boxes in which other amounts are reported. This amount is not reported anywhere on your tax return, but reduces the ACB of your shares on each distribution payment date. The reduction in ACB will also be reflected on your AIM Trimark annual statement of account. These ACB reductions will affect any capital gains (losses) you realized on redemptions in 2007.

T5 slip

Canada Revenue Agency / Agence du revenu du Canada		Year / Année		T5	
Dividends from Canadian corporations – Dividendes de sociétés canadiennes		Federal credit – Crédit fédéral		STATEMENT OF INVESTMENT INCOME / ÉTAT DES REVENUS DE PLACEMENTS	
24 Actual amount of eligible dividends / Montant réel des dividendes déterminés	25 Taxable amount of eligible dividends / Montant imposable des dividendes déterminés	26 Dividend tax credit for eligible dividends / Crédit d'impôt pour dividendes déterminés	13 Interest from Canadian sources / Intérêts de source canadienne	18 Capital gains dividends / Dividendes sur gains en capital	
10 Actual amount of dividends other than eligible dividends / Montant réel des dividendes autres que des dividendes déterminés	11 Taxable amount of dividends other than eligible dividends / Montant imposable des dividendes autres que des dividendes déterminés	12 Dividend tax credit for dividends other than eligible dividends / Crédit d'impôt pour dividendes autres que des dividendes déterminés	21 Report code / Code du feuillet	22 Recipient identification number / Numéro d'identification du bénéficiaire	23 Recipient type / Type de bénéficiaire
Other information (see the back) / Autres renseignements (voir au verso)					
Box / Case		Amount / Montant	Box / Case	Amount / Montant	Box / Case
Recipient's name (last name first) and address – Nom, prénom et adresse du bénéficiaire			Payer's name and address – Nom et adresse du payeur		
Currency and identification codes / Codes de devise et d'identification		27 Foreign currency / Devises étrangères	28 Transit – Succursale	29 Recipient account / Numéro de compte du bénéficiaire	
T5 (07)		For information, see the back. / Pour obtenir des renseignements, lisez le verso.			

Can I use the cost and capital gains calculations on my AIM Trimark annual statement of account?

The “average cost per unit/share” indicated on your AIM Trimark annual statement of account is provided to assist you in calculating your capital gain (loss). For some accounts, it may not properly reflect all transactions. Additionally, it may not reflect the correct amounts if the account has been subject to a deemed disposition for tax purposes or if the same fund is held in multiple accounts. Under the “identical property” rule, if you have the identical fund(s) in more than one non-registered account, you are required to calculate your ACB across all accounts.



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We have also provided a “Capital Gains Summary” section on AIM Trimark’s annual statements to show the capital gain (loss) on redemptions that occurred in the account during the year based on information that is available to us. As mentioned above, this amount may not properly take into account any deemed dispositions. We are not able to guarantee the accuracy of this information. As a result, we urge you to verify the calculations with your own records and to recalculate your average costs and gains (losses) on redemptions for your income tax return.

This guide provides only an overview of T3 and T5 tax reporting. The rules are complicated and AIM Trimark recommends you obtain your own independent financial, legal and/or tax advice and assistance.

For more information on the taxation of mutual fund trusts and/or segregated funds, speak to your advisor or consult AIM Trimark’s *Understanding mutual fund trust and corporations Tax & Estate InfoPage*. Call us at 1.800.874.6275 for your free copy or download it from our website at www.aimtrimark.com.

For more information about this topic, contact your advisor,
call us at **1.800.874.6275** or visit our website at **www.aimtrimark.com**

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