



## **EXPLANATION OF THE LIMITATION OF BENEFITS ARTICLE & TREATY STATEMENT**

The Internal Revenue Service of the United States of America has recently effected changes that impact all clients investing in U.S. securities. The changes will impact U.S. withholding tax on U.S. source investment income and are effective January 1, 2001. **Please note that this document/explanation is not intended for natural persons (individuals) resident in Canada, the Federal, Provincial or Municipal Government or any agency of any such government.**

**This explanation is meant to assist certain clients in obtaining only a general understanding of their requirements under the new withholding tax rules. It is not intended to be, nor should it be construed to be, legal or tax advice to any client, prospective or otherwise. You are encouraged to consult tax or legal expertise for further clarification, if required.**

The changes impact certain clients that currently claim reduced rates of withholding tax on investment income earned on U.S. securities under the Canada-U.S. Income Tax Convention 1980, (herein after referred to as the "Treaty") as amended by the Protocols signed on June 14, 1983, March 28, 1984, March 17, 1995 and July 29, 1997. In order to continue enjoying the reduced Treaty rate of withholding tax on U.S. investment income received after January 1, 2001, certain clients must certify that they are eligible for Treaty Benefits. Failure to certify the Treaty

Statement above would result in the application of non-treaty rate withholding (generally 30%) on the client's U.S. source investment income. This is in comparison to Treaty reduced rates of generally 15% on U.S. source dividends and 10% on U.S. source interest.

As part of the certification process, affected clients are asked to certify the Treaty Statement set out in the Account Application Form.

The reference to section 894 of the Code and the regulations thereunder, refers to the Internal Revenue Service Income Tax Code and the related Income Tax Regulations. The Limitation of Benefits ("LOB") Article, found in Section XXIX-A of the Treaty defines who can sign the Treaty Statement. Certification of the Treaty Statement indicates that the recipient of U.S. source income meets the definition of "qualifying person" as set forth in Article XXIX-A of the Treaty. Treaty benefits may still be available to clients

that are not “qualifying persons”, if that person satisfies other tests stipulated in the Treaty.

### **Qualifying Persons**

Listed below are various entities that could meet the definition of “qualifying person” under Article XXIX-A of the Treaty. These entities could continue to enjoy reduced withholding rates once they certify the LOB Treaty statement. **Please note that there are various tests which must be met by each entity in order to be classified as “qualified person”. This is not intended to be an exhaustive list:**

- (a) Publicly Traded Companies or Trusts;
- (b) Subsidiaries of Publicly Traded Companies or Trusts;
- (c) Private Companies and Unlisted Trusts;
- (d) Estates resident in Canada;
- (e) Not-for-Profit Organizations;
- (f) Registered Retirement Savings Plans, Registered Retirement Income Funds, LIRAs, Pension Funds, etc.

### **Non-Qualifying Persons**

A person that is a resident of Canada but does not fit into one of the categories for “qualifying persons” listed above, may still be entitled to treaty benefits if either the Active Business Test or Derivatives Tests (as defined in Article XXIX-A of the Treaty) are met.