

Excess-distribution vs. QEF tax regime

The client is a U.S. taxpayer who invested \$100,000 in Canadian mutual funds on Dec. 1, 2009. The client sold his entire investment on Jan. 31, 2012, for \$200,000. A QEF election was not made, but the practitioner determines that it is the most favorable approach for the client, as illustrated below. The election is made as of Jan. 1, 2011, when the value of the mutual fund was \$150,000.

Tax reporting under the QEF regime with a deemed-sale election

									Total reported in tax year	
					2009	2010	2011	2012	2011	2012
Deemed-sale election calculation										
Deemed proceeds at 1/1/11					\$150,000					
Basis at 1/1/11					<u>100,000</u>					
Deemed gain at 1/1/11					<u>\$ 50,000</u>					
Sales proceeds					\$200,000					
Adjusted basis including deemed gain					<u>150,000</u>					
Long-term capital gain reported in 2012					<u>\$ 50,000</u>					
Taxed at long-term capital gains rate of 15%					<u>\$7,500</u>					\$7,500
Calculation of Sec. 6621 interest for deemed sale										
Days held in period (396)					31	365				
Deemed gain allocated to holding period, by days (\$50,000)					\$3,914	\$46,086				
Tax at highest ordinary income rate of 35%					\$1,370	\$16,130			\$17,500	
Due date of original return					4/15/10	4/15/11	4/15/12	4/15/13		
					Interest	Interest	Interest	Interest		
Interest rate period					2009	2010	2011	2012		
					No. of days					
Through 12/31/10					4%	260			\$39	
Through 3/31/11					3%	90			10	
Through 9/30/11					4%	183	168		27	\$297
Through 4/15/12					3%	198	198		22	262
Total interest owing through April 15, 2012									\$98	\$559
Total tax and interest, by year										
									\$18,157	+ \$7,500
Total tax and interest under QEF regime with a deemed-sale election										\$25,657

Tax reporting under the excess-distribution regime

									Total reported in tax year		
					2009	2010	2011	2012	2011	2012	
Gain calculation											
Sales proceeds					\$200,000						
Basis at 1/31/12					<u>100,000</u>						
Ordinary income reported in 2012					<u>\$100,000</u>						
Days held in period (792)					31	365	365	31			
Gain allocated to holding period, by days (\$100,000)					\$3,914	\$46,086	\$46,086	\$3,914			
Tax at highest ordinary income rate of 35%					\$1,370	\$16,130	\$16,130	\$1,370		\$35,000	
Calculation of Sec. 6621 interest											
Due date of original return					4/15/10	4/15/11	4/15/12	4/15/13			
					Interest	Interest	Interest	Interest			
Interest rate period					Rate	2009	2010	2011	2012		
					No. of days						
Through 12/31/10					4%	260			\$39		
Through 3/31/11					3%	90			10		
Through 9/30/11					4%	183	168		27	\$297	
Through 7/15/12					3%	289	289	91	33	383	
Through 4/15/13*					3%	274	274	274	31	363	
*Assumed to remain unchanged											
Total interest owing through April 15, 2013									\$140	\$1,043	
Total tax and interest under excess-distribution regime										\$1,667	
										\$36,667	