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 re	porting under	the QEF regime v	vith a deemed-sale	election		Total rangets	ad in tax year
Deemed-sale election calcula	ntion					2009	2010	2011	2012	2011	ed in tax year 2012
Deemed proceeds at 1/1/11	ition				\$150,000	2003	2010	2011	2012	2011	2012
Basis at 1/1/11					100,000						
Deemed gain at 1/1/11					\$ 50,000						
Joomou gam at 1, 1, 11					<u> </u>						
Sales proceeds					\$200,000						
Adjusted basis including deem	ned gain				150,000						
Long-term capital gain reporte					\$ 50,000						
Taxed at long-term capital gains rate of 15%				\$7,500						\$7,500	
Calculation of Sec. 6621 intere	est for deeme	d 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		
				of days		Interest	Interest	Interest	Interest		
Interest rate period		2009	2010	2011	2012	2009	2010	2011	2012		
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 A	pril 15, 2012					\$98	\$559			\$657	
					=	755					
Total tay and interest by year					=		4000				± ¢7 500
Total tax and interest, by year Total tax and interest under OF	EF regime wit	th a deeme	ed-sale ele	ection	=		\$			\$18,157	+ \$7,500
	EF regime wi	th a deeme	ed-sale ele	ection	=		V			\$18,157	+ \$7,500 ,657
	EF regime wi	th a deeme	ed-sale ele		== Tax reporting		s-distribution regin	ne		\$18,157	
	EF regime wi	th a deeme	ed-sale ele		Tax reporting			ne		\$18,157 \$25	
Total tax and interest, by year Total tax and interest under QE Gain calculation	EF regime wi	th a deeme	ed-sale ele		Tax reporting			ne 2011	2012	\$18,157 \$25	,657
Total tax and interest under QE	EF regime wi	th a deeme	ed-sale ele		Tax reporting	under the exces	s-distribution regin		2012	\$18,157 \$25	,657 ed in tax year
Total tax and interest under QE Gain calculation Sales proceeds	EF regime wi	th a deeme	ed-sale ele			under the exces	s-distribution regin		2012	\$18,157 \$25	,657 ed in tax year
Total tax and interest under QE		th a deeme	ed-sale ele		\$200,000	under the exces	s-distribution regin		2012	\$18,157 \$25	,657 ed in tax year
Total tax and interest under QE Gain calculation Sales proceeds Basis at 1/31/12		th a deeme	ed-sale ele		\$200,000 	under the exces	s-distribution regin		2012	\$18,157 \$25	,657 ed in tax year
Gain calculation Sales proceeds Basis at 1/31/12 Ordinary income reported in 20	012		ed-sale ele		\$200,000 	under the exces	s-distribution regin 2010	2011		\$18,157 \$25	,657 ed in tax year
Gain calculation Sales proceeds Basis at 1/31/12 Ordinary income reported in 20 Days held in period (792)	012 od, by days (\$		ed-sale ele		\$200,000 	under the exces 2009	s-distribution regin 2010 365	2011 365	31	\$18,157 \$25	,657 ed in tax year 2012
Gain calculation Sales proceeds Basis at 1/31/12 Ordinary income reported in 20 Days held in period (792) Gain allocated to holding perio Tax at highest ordinary income	012 od, by days (\$ e rate of 35%		ed-sale ele		\$200,000 	2009 31 \$3,914	s-distribution regin 2010 365 \$46,086	2011 365 \$46,086	31 \$3,914	\$18,157 \$25	,657 ed in tax year
Gain calculation Sales proceeds Basis at 1/31/12 Ordinary income reported in 20 Days held in period (792) Gain allocated to holding perio Tax at highest ordinary income	012 od, by days (\$ e rate of 35%		ed-sale ele		\$200,000 	2009 31 \$3,914 \$1,370	s-distribution regin 2010 365 \$46,086 \$16,130	2011 365 \$46,086 \$16,130	31 \$3,914 \$1,370	\$18,157 \$25	,657 ed in tax year 2012
Gain calculation Sales proceeds Basis at 1/31/12 Ordinary income reported in 20 Days held in period (792) Gain allocated to holding perio Tax at highest ordinary income	012 od, by days (\$ e rate of 35%		ed-sale ele		\$200,000 	2009 31 \$3,914	s-distribution regin 2010 365 \$46,086	2011 365 \$46,086	31 \$3,914	\$18,157 \$25	,657 ed in tax year 2012
Gain calculation Sales proceeds Basis at 1/31/12 Ordinary income reported in 20 Days held in period (792) Gain allocated to holding perio Tax at highest ordinary income	012 od, by days (\$ e rate of 35%				\$200,000 	31 \$3,914 \$1,370	365 \$46,086 \$16,130	2011 365 \$46,086 \$16,130	31 \$3,914 \$1,370 4/15/13	\$18,157 \$25	,657 ed in tax year 2012
Gain calculation Sales proceeds Basis at 1/31/12 Ordinary income reported in 20 Days held in period (792) Gain allocated to holding perio Tax at highest ordinary income Calculation of Sec. 6621 intere Due date of original return	012 od, by days (\$ e rate of 35%	100,000)	No. o	of days	\$200,000 _100,000 \$100,000	31 \$3,914 \$1,370 4/15/10	365 \$46,086 \$16,130 4/15/11	2011 365 \$46,086 \$16,130 4/15/12 Interest	31 \$3,914 \$1,370 4/15/13	\$18,157 \$25	,657 ed in tax year 2012
Gain calculation Sales proceeds Basis at 1/31/12 Ordinary income reported in 20 Days held in period (792) Gain allocated to holding perio Tax at highest ordinary income Calculation of Sec. 6621 intere Due date of original return	012 od, by days (\$ e rate of 35% est Rate	2009			\$200,000 	31 \$3,914 \$1,370 4/15/10 Interest 2009	365 \$46,086 \$16,130	2011 365 \$46,086 \$16,130	31 \$3,914 \$1,370 4/15/13	\$18,157 \$25	,657 ed in tax year 2012
Gain calculation Sales proceeds Basis at 1/31/12 Ordinary income reported in 20 Days held in period (792) Gain allocated to holding perio Tax at highest ordinary income Calculation of Sec. 6621 intere Due date of original return Interest rate period Through 12/31/10	od, by days (\$*e rate of 35% Rate 4%	2009 260	No. o	of days	\$200,000 _100,000 \$100,000	31 \$3,914 \$1,370 4/15/10 Interest 2009 \$39	365 \$46,086 \$16,130 4/15/11	2011 365 \$46,086 \$16,130 4/15/12 Interest	31 \$3,914 \$1,370 4/15/13	\$18,157 \$25	,657 ed in tax year 2012
Gain calculation Sales proceeds Basis at 1/31/12 Ordinary income reported in 20 Days held in period (792) Gain allocated to holding perio Tax at highest ordinary income Calculation of Sec. 6621 intere Due date of original return Interest rate period Through 12/31/10 Through 3/31/11	012 od, by days (\$ e rate of 35% est Rate 4% 3%	2009 260 90	No. o	of days	\$200,000 _100,000 \$100,000	31 \$3,914 \$1,370 4/15/10 Interest 2009 \$39 10	365 \$46,086 \$16,130 4/15/11 Interest 2010	2011 365 \$46,086 \$16,130 4/15/12 Interest	31 \$3,914 \$1,370 4/15/13	\$18,157 \$25	,657 ed in tax year 2012
Gain calculation Sales proceeds Basis at 1/31/12 Ordinary income reported in 20 Days held in period (792) Gain allocated to holding perio Tax at highest ordinary income Calculation of Sec. 6621 intere Due date of original return Interest rate period Through 12/31/10 Through 9/30/11	012 od, by days (\$*e rate of 35% est Rate 4% 3% 4%	2009 260 90 183	No. o 2010	of days 2011	\$200,000 _100,000 \$100,000	31 \$3,914 \$1,370 4/15/10 Interest 2009 \$39 10 27	365 \$46,086 \$16,130 4/15/11 Interest 2010	2011 365 \$46,086 \$16,130 4/15/12 Interest 2011	31 \$3,914 \$1,370 4/15/13	\$18,157 \$25	,657 ed in tax year 2012
Gain calculation Sales proceeds Basis at 1/31/12 Ordinary income reported in 20 Days held in period (792) Gain allocated to holding perio Tax at highest ordinary income Calculation of Sec. 6621 intere Due date of original return Interest rate period Through 12/31/10 Through 9/30/11 Through 7/15/12	012 ad, by days (\$ a rate of 35% Rate 4% 3% 4% 3%	2009 260 90 183 289	No. o 2010 168 289	of days 2011	\$200,000 _100,000 \$100,000	31 \$3,914 \$1,370 4/15/10 Interest 2009 \$39 10 27 33	365 \$46,086 \$16,130 4/15/11 Interest 2010 \$297 383	2011 365 \$46,086 \$16,130 4/15/12 Interest 2011	31 \$3,914 \$1,370 4/15/13	\$18,157 \$25	,657 ed in tax year 2012
Gain calculation Sales proceeds Basis at 1/31/12 Ordinary income reported in 20 Days held in period (792) Gain allocated to holding perio Tax at highest ordinary income Calculation of Sec. 6621 intere Due date of original return Interest rate period Through 12/31/10 Through 3/31/11 Through 9/30/11 Through 7/15/12 Through 4/15/13*	012 od, by days (\$'e rate of 35% est Rate 4% 3% 4% 3% 3% 3%	2009 260 90 183	No. o 2010	of days 2011	\$200,000 _100,000 \$100,000	31 \$3,914 \$1,370 4/15/10 Interest 2009 \$39 10 27	365 \$46,086 \$16,130 4/15/11 Interest 2010	2011 365 \$46,086 \$16,130 4/15/12 Interest 2011	31 \$3,914 \$1,370 4/15/13	\$18,157 \$25	,657 ed in tax year 2012
Gain calculation Sales proceeds Basis at 1/31/12 Ordinary income reported in 20 Days held in period (792) Gain allocated to holding perio Tax at highest ordinary income Calculation of Sec. 6621 intere Due date of original return	2012 ad, by days (\$* e rate of 35% est Rate 4% 3% 4% 3% 3% 3%	2009 260 90 183 289	No. o 2010 168 289	of days 2011	\$200,000 _100,000 \$100,000	31 \$3,914 \$1,370 4/15/10 Interest 2009 \$39 10 27 33	365 \$46,086 \$16,130 4/15/11 Interest 2010 \$297 383	2011 365 \$46,086 \$16,130 4/15/12 Interest 2011	31 \$3,914 \$1,370 4/15/13	\$18,157 \$25	,657 ed in tax year 2012