Passive Foreign Investment Company (“PFIC”) Q&A

This document provides you with information on the treatment of a Passive Foreign Investment Company (“PFIC”). **Recent changes to U.S. tax law have expanded the tax reporting requirements for Canadian-domiciled mutual funds**. Such mutual funds are considered Passive Foreign Investment Companies by the U.S. government. Should an investor, classified as a U.S. person, own one of these funds and not provide the necessary tax filing they may face punitive tax implications.

Russell Investments is now assisting you with tax reporting by providing PFIC Annual Information Statements and associated tax factors for many of our mutual funds, starting with the 2014 tax year. These are now available on our website.

Who are U.S. persons?

U.S persons include U.S. citizens and “Green Card” holders, as well as individuals who meet the “Substantial Presence” test under the Internal Revenue Code (and do not qualify for the “Closer-Connection Exception”).

What are the new U.S. reporting requirements for U.S. persons holding interests in Canadian Mutual Fund Trusts?

Effective for 2013 and subsequent years, U.S. persons holding investments in Canadian Mutual Fund Trusts (“U.S. Holders”) are required to file Form 8621 to report their investment in a Passive Foreign Investment Company and include the form with their US annual federal income tax return. Please see the IRS's 'Form 8621, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund'.

What is a PFIC?

PFIC stands for “passive foreign investment company.” A PFIC is defined as a foreign (non-US) corporation that meets one of the following two tests (1): 75% or more of its gross income is passive income; or (2) 50% or more of the corporation’s assets produce, or are held to produce, passive income. Canadian Mutual Fund Trusts are considered to be PFICs for U.S. income tax purposes. A Russell Investment Fund (“Fund”) would be treated as a PFIC for U.S. persons holding direct or indirect investments in the Fund.

Does PFIC status affect persons who are not U.S. persons?

Generally, the PFIC rules apply only to U.S. persons and should not apply to non-U.S. persons. U.S. taxpayers that intend to purchase or hold Fund units should consult their tax advisors to determine the U.S.

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federal, state, local and other tax consequences of an investment in the Fund. The following discussion of PFIC status is intended to provide information to U.S. taxpayers that hold Fund units.

What options does a U.S. person have?

U.S. persons have the choice to elect a Fund that is considered a PFIC as a “Qualified Electing Fund” or “QEF”. There are other reporting options, so investors should consult their tax advisor about eligibility and procedures for, and appropriateness in such investor’s particular circumstances of making the QEF election. By making a QEF election, a U.S. person will include their pro-rata share of the Fund’s ordinary income and net capital gain for the taxable year.

How does a U.S. investor make a QEF election?

The QEF election is made by completing and attaching Form 8621 to the investor’s federal income tax return filed by the due date of the return, including extensions.

What is the benefit of electing QEF?

If a U.S. Holder elects to treat a Fund as a QEF, then any future gain from the sale of Fund units will qualify for capital gain treatment (assuming the U.S. investor holds the unit as a capital asset). In addition, the U.S. Holder will be subject to tax at preferential capital gains rates rather than ordinary income rates and distributions of amounts to the shareholder will be distributed tax free. In contrast, without a QEF election, the U.S. Holder would be subject to “excess distribution” rules. Thus, the U.S. Holder would be taxed at ordinary income rates on distributions from the QEF and interest charge on any gain from the sale of Fund units in the future. Note there may be U.S. tax implications if a U.S. Holder held Fund units in a year prior to making the QEF election.

What is the consequence of a QEF election?

A U.S. Holder who makes a QEF election is required to annually include in income the U.S. Holder’s pro rata share of the ordinary earnings and net capital gains of the Fund. Other consequences in the year of the election will depend on whether such U.S. Holder owned units of the Fund in a year prior to the year in which the QEF election is made.

What if the U.S. investor is a new U.S. Holder of the Fund units?

The U.S. investor can make a QEF election as of the date they buy units.

If a U.S. Holder doesn't make a QEF election in the first year, can one be made in the Future?

Yes, but complicated rules apply to U.S. Holders that do not have a QEF election in effect with respect to PFIC units throughout the period that they own such units. A U.S. Holder may make a QEF election in a subsequent year provided that they elect to treat the PFIC units as being sold on the first day of the year in which the QEF election is made and pay the deferred tax owing with respect to any resulting gain from the deemed sale. The QEF regime will apply to the PFIC units for the subsequent taxable years. Each U.S. Holder should consult their tax advisors with respect to the U.S. federal, state, local and other tax consequences of making such a QEF election.

What if a U.S. Holder owned units in a year prior to the year of the QEF election?

If a U.S. Holder makes a QEF election and owned units of the Fund prior to the effective date of the QEF election, then the U.S. Holder may also choose to make a “deemed sale” election. A deemed sale election will require the investor to recognize any gain from a deemed sale of the U.S. Holder’s Fund units as of the first day of the QEF election year (January 1 of such year), and report the gain as ordinary income on Form 8621. Such gain will be allocated over the U.S. Holder’s holding period up to the date of the deemed sale and taxed at ordinary income tax rates plus an interest charge. Gain, if any, is the difference between the “deemed sale price” and the U.S. Holder’s adjusted cost basis. The deemed sale price to be used is the fair market value of the Fund units on the first day of the Fund’s year as a QEF (i.e., January 1 of the taxable year with respect to which the U.S. investor makes the QEF election). The U.S. Holder’s adjusted basis in the Fund units will be increased by the gain on such deemed sale.

What if the U.S. Holder does not have a gain on the deemed sale?

If there is no gain, then the U.S. Holder will not have to pay any taxes as a result of making the deemed sale election, but will still need to make the deemed sale election and a QEF election in order to avoid the application of the “excess distribution” rules.

What if the U.S. Holder makes a mark-to-market election?

In the case of a mark-to-market election, the U.S. investor is deemed to dispose of the Fund and recognizes a deemed gain or loss annually to reflect changes in the value of the Fund; the net result is that the U.S. investor realizes a taxable gain or loss on their holdings for that particular tax year. Gains from the deemed disposition are treated as ordinary income. Losses associated with a decline in value of the Fund may be recognized but only to the extent a mark-to-market gain for that particular fund was realized in a prior year.

What is a PFIC Annual Information Statement?

A PFIC Annual Information Statement enables U.S. investors who have made a QEF election to compute their taxable income, if any, attributable to their investment in the Fund.

What information will be included in a Russell Investment Fund Annual Information Statement?

A Russell Investment Fund’s PFIC Annual Information Statement will include per unit information regarding ordinary income and net capital gains that should be reported on a U.S. Holder’s U.S. federal income tax return as well as the amount of any distributions to the shareholder during the taxable year of the PFIC and the first and last days of the taxable year of the PFIC to which the PFIC Annual Information Statement applies.

For which Russell funds will an Annual Information Statement be available?

Russell Canadian Fixed Income Fund

Russell Inflation Linked Bond Fund

Russell Canadian Equity Fund

Russell US Equity Fund

Russell Overseas Equity Fund

Russell Global Equity Fund

Russell Short Term Income Pool

Russell Fixed Income Pool

Russell Global Unconstrained Bond Pool

Russell Global High Income Bond Pool

Russell Canadian Dividend Pool

Russell Focused Canadian Equity Pool

Russell Canadian Equity Pool

Russell Global Smaller Companies Pool

Russell Focused US Equity Pool

Russell US Equity Pool

Russell Overseas Equity Pool

Russell Focused Global Equity Pool

Russell Global Equity Pool

Russell Emerging Markets Equity Pool

Russell Global Infrastructure Pool

Russell Global Real Estate Pool

Russell Money Market Pool

Russell Income Essentials Portfolio and Class Portfolio

Russell Real Assets Portfolio

Russell Diversified Monthly Income Portfolio and Class Portfolio

Russell Multi Asset Growth & Income and Class

Russell LifePoints Balanced Income Portfolio and Class Portfolio

Russell LifePoints Balanced Growth Portfolio and Class Portfolio

By offering Russell Investment Fund Annual Information Statements on our website we hope that U.S. tax filing requirements may be easier and more beneficial for your clients. PFIC rules can be complicated and each U.S. Person should consult their tax advisor to learn more. Please feel free to contact us at 1-888-509-

1792, with any questions you may have about our Annual Information Statements and the corresponding Russell Funds.

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