RBC Investments

Financial Planning Quick Tip

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SUBJECT: TAX IMPLICATIONS OF DISCOUNT INSTRUMENTS MATURING AT PAR

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One of the common questions asked during the tax season is the tax implications of discount instruments that matured at par. Discount instruments are fixed income investments such as T-bills, strip bonds, strip coupons, banker's acceptance notes, and commercial paper that do not pay regular interest. A discount instrument that matures at par will appear in the Discount Instrument Summary located on your year-end Summary of Security Dispositions statement. This statement also includes the sale of stocks and bonds during the year that you (or a qualified tax advisor) will use to calculate your capital gains/losses. However, a discount instrument that matures at par will **not** create a capital gain/loss. The difference between the par value at maturity and the price paid to purchase the discount instrument is considered **interest income** for tax purposes.

Note that this interest income will **not** appear on a T5 slip. It is your responsibility to manually calculate this interest income on the maturity of the discount instrument and include it on your tax return as interest income. However, if the discount instrument was held for more than one year, you will need to consider the interest reported in prior years to avoid double counting. If you sell a discount instrument prior to maturity, there would generally be a **combination of interest and capital gain/loss** that would be realized for tax purposes. Again you (or a qualified tax advisor) must manually calculate this interest and capital gain/loss yourselves and report it on your tax return.

If you are a client in programs such as Platinum, Advisor, PIM, Sovereign, Access, Parameters, you should refer to your RBC Investments publication titled *Client Guide To 2003 Tax Reporting* for more details on the tax implications of discount instruments.

If you have any questions or require clarification of any of the issues discussed in this document, do not hesitate to discuss these with your advisor.

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