**Notional/Phantom Distributions – They Just Cannot Be Ignored!**

In order to preserve cash, a trust may elect to declare a distribution in the form of additional units, then immediately complete a unit consolidation that results in an unchanged number of units outstanding. The unit holder receives no cash and no additional units, hence the term “Phantom” distribution. However, this “distribution” appears on the T3 as a taxable event, and the cost base of the position is increased by the amount of the Phantom distribution.

Phantom distributions are not obvious on the T3 and consequently are easily missed. If the cost base is not adjusted higher upon the ultimate sale of the position, investors will pay tax twice on Phantom distributions received during the time the investment was held -- once when the T3 is received, and again by failure to increase the adjusted cost base by the amount of the Phantom payments received over the holding period. Most investors and many tax preparers do not fully grasp the tax implications of Phantom distributions.

Phantom distributions are typically paid of record during the final week of a calendar year.   However, many investment dealers, if they do adjust “book values” for positions held, do not do so for many months into the following year.  Consequently, if the investor sold a holding at any time in the first few months of the year and used the “book value” shown by the dealer as its cost, the investor or his accountant would miss adjusting for the final Phantom payment. Of more significance, not all dealers have retroactively adjusted for Phantom payments made for positions that may have been held for several years or that have been transferred in from another dealer.

Over 2,600 Phantom distributions have been paid by Canadian ETFs over the years through the end of 2021; over 500 Phantom distributions were paid by these trusts in 2021 alone. One way to keep track of the tax characteristics of trust distributions is through the services of ACB Tracking Inc. More information can be found on their website  [https://www.acbtracking.ca](https://www.acbtracking.ca/).