

January 31, 2013

**Re: Information for Canadian resident shareholders concerning the Canadian Income Tax Election on the spin-off of AbbVie Inc. from Abbott Laboratories**

Dear Abbott/AbbVie Shareholder,

As you are aware, on January 1, 2013 Abbott Laboratories ("Abbott") separated into two publicly traded companies, one in diversified medical products, which will retain the Abbott name, and the other in research-based pharmaceuticals, which will be known as AbbVie Inc. ("AbbVie"). This transaction is commonly referred to as a spin-off.

Abbott distributed all the outstanding shares of AbbVie to Abbott shareholders of record as of the close of business on December 12, 2012. In this distribution, each Abbott shareholder received one (1) Common share of AbbVie for every one (1) Common share of Abbott owned. Cash was paid instead of issuing fractional shares of AbbVie.

The purpose of this letter is to summarize the Canadian income tax consequences for Canadian resident shareholders of Abbott and to describe a Canadian tax election that can be made to defer the tax arising from the distribution of AbbVie shares to you.

**CANADIAN TAX TREATMENT OF THE SPIN-OFF**

Generally, a Canadian resident who receives foreign shares must include the fair market value ("FMV") of the shares received in their income as a foreign dividend. However, under certain conditions, the shareholder (a shareholder could be an individual, trust, corporation or partnership) can make an election<sup>1</sup> to defer the taxation of this distribution.

We understand that the Abbott spin-off of AbbVie has satisfied all of the conditions necessary in order to permit the Canadian shareholders to make the election to defer the tax on the distribution of AbbVie shares.

**Generally, it is to your advantage to make the tax election. However, you should seek professional advice, if necessary, to determine whether making the election is appropriate, considering your particular facts and circumstances. If you do not make the election, the distribution of AbbVie shares to you will be a taxable event for the 2013 taxation year.**

**CANADIAN SPIN-OFF ELECTION**

In order to defer the tax on the distribution of AbbVie shares, you must attach an election (i.e. a letter) to your Income Tax Return for the taxation year in which the distribution occurred. Any income tax slips, such as T5 - *Return of Investment Income* slips or 1099-DIV - *Dividends and Distributions* slips, issued by Abbott in regard to this distribution should also be attached to the election.

**It is important to note that if you are an individual shareholder, EFILE or NETFILE cannot be used to file your tax return for the taxation year if you have chosen to make this election.**

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<sup>1</sup> Section 86.1 of the *Income Tax Act* (and the equivalent for provincial purposes).

**If you are a corporate shareholder with annual gross revenue over \$1 million, you can still file your return electronically, and make the election by sending a letter to the government authorities for the corporation's taxation year in which the distribution occurred.**

The letter must contain the following information (**see Appendix I for a sample letter**):

1. Written notification that you are electing to defer tax relating to the distribution of the AbbVie shares from Abbott, including a description of both the Abbott and the AbbVie shares;
2. The number, tax cost (generally equal to what was paid to acquire the shares), and fair market value of your Abbott shares, both immediately before the distribution and after the distribution; and
3. The number and fair market value of your AbbVie shares immediately after the distribution.

If you file an election, it must be filed on or before the time when your Income Tax Return is due, which is as follows:

1. For individuals – April 30, 2014;
2. For trusts – 90 days from the end of the trust's taxation year; and
3. For corporations – within six months after the end of the taxation year which includes the distribution date. For example, for a corporation with a taxation year-end of January 31, 2013, the deadline is July 31, 2013.

#### **PROVINCIAL SPIN-OFF ELECTION (QUEBEC AND ALBERTA ONLY)**

Generally, the conditions that you have to meet with respect to making an election at the provincial level are similar to the federal election requirements. However, you should seek professional advice, if necessary, to determine whether making the provincial election is appropriate, considering your particular facts and circumstances.

If you are a Quebec resident, Revenu Québec requires that you make a valid election with the Canada Revenue Agency ("CRA"). Therefore, you should attach a copy of the federal election filed with the CRA to your Income Tax Return to be filed with Revenu Québec.

If you are a corporation that has to file an Alberta Corporate Income Tax Return, you should attach a copy of the federal election filed with the CRA to the Tax Return filed with Alberta Tax and Revenue Administration.

The Quebec and Alberta elections would be sent to the tax offices where your Income Tax Return is normally sent.

## **TAX COST OF YOUR SHARES**

If you make the election, you must reallocate the tax cost of your Abbott shares between your Abbott shares and your AbbVie shares. It is important that you compute and document your tax costs of your Abbott and AbbVie shares, as these costs will be relevant when you eventually dispose of either of your shares.

Generally, the adjusted cost base ("ACB") of shares received in regard to a spin-off distribution, is equal to the fair market value of those shares. If you make the election, the historical ACB of your Abbott shares will be allocated between your Abbott shares and your AbbVie shares received.

**Please see Appendix II for an example of how the revised ACB of your Abbott shares and your AbbVie shares are computed.**

## **FRACTIONAL SHARES**

Because no fractional shares of AbbVie shares were issued, shareholders received cash instead of fractional shares. The taxable gain or loss must be reported on your Income Tax Return (i.e. no tax deferral election is possible in respect of cash paid for fractional shares) and is equal to the difference between the cash you received and the tax cost (as determined) of a fractional share of AbbVie.

**Please see Appendix II for an example of the calculation of the cost of a fractional share.**

## **RRSP**

Please note that no election is required to be made for shares held in an RRSP.

## **SUMMARY OF STEPS**

1. Determine whether making the election is advantageous (it generally is).
2. Complete the election in Appendix I.
3. Attach any Income Tax slips, such as T5 slips or 1099-DIV slips issued by Abbott to the election.
4. Compute the new ACB of your Abbott and AbbVie shares (Appendix II). Please keep a copy of this calculation for your records.
5. File the election with your Income Tax Return by April 30, 2014 at the latest if you are an individual. For corporations and trusts, please refer to the Section entitled "Canadian Spin-Off Election" for the respective filing due dates.
6. Report the capital gain (or loss) resulting from the receipt of cash for fractional shares of AbbVie. If you are an individual shareholder, this is reported on Schedule 3 - *Summary of disposition – Capital Gains (or Losses)* of your 2013 Income Tax and Benefit Return.
7. If you are a corporation, this is reported on Schedule 6 - *Summary of Dispositions of Capital Property* of your 2013 Corporate Income Tax Return.
8. If you are a trust, this is reported on Schedule 1 - *Dispositions of Capital Property* of your 2013 Trust Income Tax and Information Return.
9. If you are a resident of Quebec or if you need to file an Alberta Corporate Income Tax Return, attach the election and any income tax slips filed for federal purposes to your provincial Income Tax Return.

We trust that this information will be useful to you. Please contact your tax advisor if further assistance is required in filing the election.

**APPENDIX I**

**Election Letter to be filed with the Canada Revenue Agency**

Canada Revenue Agency  
Tax Services Office  
[Address where you normally mail your return]

Dear Sir/Madam:

**Subject: Section 86.1 Election for Tax Deferral on Foreign Spin-Off Shares  
[Taxpayer Name, Social Insurance Number]**

This letter is to inform you that the above-mentioned taxpayer is electing under section 86.1 of the *Income Tax Act* (the "Act") for the tax-deferred treatment on foreign spin-off shares of AbbVie Inc. ("AbbVie") that the taxpayer received during its taxation year ended December 31, 2013<sup>2</sup>.

The taxpayer is a shareholder of Abbott Laboratories ("Abbott"), a U.S. resident corporation. On January 1, 2013, Abbott declared to its shareholders, on a per share basis, a dividend consisting of one (1) common share of AbbVie, also a U.S. resident corporation, for one (1) common share of Abbott owned. Pursuant to section 86.1 of the Act, the transaction qualifies the above-named taxpayer, a Canadian resident shareholder of Abbott, to elect for a tax deferral on the AbbVie shares received.

The following information is being provided pursuant to the requirements set out in paragraph 86.1(2)(f) of the Act:

**1. Abbott Shares (As at the close of business on December 31, 2012)**

- a. Number of Shares Held by Taxpayer: \_\_\_\_\_
- b. Adjusted Cost Base of Shares: \_\_\_\_\_  
(Number of shares in 1(a) above **times** cost per share)
- c. Fair Market Value of Shares: \_\_\_\_\_  
(Number of shares in 1(a) above **times** CDN\$65.17  
[US\$65.50] per share)

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<sup>2</sup> If the recipient is a trust, corporation or partnership, another date may be applicable. Please consult your tax advisor.

**2. Abbott Shares (on January 2, 2013, immediately after distribution)**

a. Number of Shares Held by  
Taxpayer:

\_\_\_\_\_  
(Should be equal to the number of shares in 1(a) above)

b. Adjusted Cost Base of Shares:

\_\_\_\_\_  
(Adjusted Cost Base in 1(b) above **times** 0.48051)

c. Fair Market Value of Shares:

\_\_\_\_\_  
(Number of shares in 2(a) above **times** CDN\$31.84  
[US\$32.30] per share)

**3. AbbVie Shares (on January 2, 2013, immediately after distribution)**

a. Number of Shares Held by  
Taxpayer:

\_\_\_\_\_  
(Should be equal to the number of shares in 1(a) above)

b. Adjusted Cost Base of Shares :

\_\_\_\_\_  
(Adjusted Cost Base per 1(b) above **times** 0.51949)

c. Fair Market Value of Shares:

\_\_\_\_\_  
(Number of shares in 3(a) above **times** CDN\$34.43  
[US\$34.92] per share)

We trust that you will find this information satisfactory. Please contact the undersigned at [telephone number] if you have any questions or concerns

Yours very truly,

[Taxpayer Name]

## APPENDIX II

### Computation of the New ACB of Abbott and AbbVie Shares

#### EXAMPLE

This example assumes you choose to use the opening quoted selling prices on the New York Stock Exchange ("NYSE") as the method of determining the fair market values of the Abbott common shares and the AbbVie common shares immediately after the spin-off. Using this method, on January 2, 2013, which was the first day that Abbott common shares and AbbVie common shares traded regularly on the NYSE following the spin-off, the fair market value of the Abbott common shares was US\$32.30 and the fair market value of the AbbVie common shares was US\$34.92.

Other approaches to determine fair market value may also be possible, and you should determine, in consultation with your own tax advisor, what approach to use in determining fair market values for Abbott common shares and AbbVie common shares. Please note that the information is only provided as an example of one potential approach. There are various ways in which brokerage houses may calculate the tax basis, including, but not limited to, January 2, 2013 midpoint of lowest and highest or closing prices. Please contact your brokerage house to determine which calculation they may have used with respect to your shares and contact your own tax advisor for advice regarding the tax basis allocation.

#### **ABBOTT**

The cost of one Abbott share immediately after the spin-off is determined as follows:

**Cost of one Abbott share =  $A - A * B/C$**

**A =** Original cost per Abbott share **immediately before** the distribution

**B =** FMV of an AbbVie share **after** spin-off = \$34.92 US

**C =** FMV of an Abbott share **after** spin-off = \$32.30 US

**Plus**

FMV of an AbbVie share **after** spin-off = \$34.92 US

Total = \$67.22 US

Equals:

$$\begin{aligned} \text{Cost of one Abbott share} &= A - A * B/C \\ &= A * (1 - B/C) \\ &= A * \left( 1 - \frac{\$34.92}{\$67.22} \right) \\ &= A * (1 - 0.51949) \\ &= A * 0.48051 \end{aligned}$$

**Conversion factor for Abbott shares: 0.48051<sup>3</sup>**

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<sup>3</sup> This conversion factor is used in the election letter (see requirement #2(b) in Appendix I).

## ABBVIE

The cost of one AbbVie share **immediately after** the spin-off is determined as follows:

The cost of the AbbVie shares immediately after the spin-off is equal to the cost of the Abbott shares before the distribution, less the cost of Abbott shares immediately after the spin-off.

$$\begin{aligned}\text{Cost for an AbbVie share} &= A - A * 0.48051 \\ &= A * (1 - 0.48051) \\ &= A * 0.51949\end{aligned}$$

**Conversion factor for AbbVie shares: 0.51949<sup>4</sup>**

Numerical example of the allocation of the tax cost to Abbott and AbbVie shares (including a fractional share)

- Assume you own 75.3 Abbott common shares with a tax basis of CAD\$30 per share (total tax basis of CAD\$2,259 (75.3 shares \* CAD\$30)).
- You are entitled to receive 75.3 AbbVie common shares in the spin-off. Because no fractional shares are issued, you receive cash instead of the fractional share. Therefore, you receive 75 AbbVie common shares and cash for the fractional share.
- Your total tax basis in your Abbott shares is allocated as follows:
  - CAD\$1,085.47 to the Abbott shares (CAD\$2,259 \* 0.48051), or CAD\$14.42 per share (CAD\$1,085.47/75.3), and
  - CAD\$1,173.53 to the AbbVie shares (CAD\$2,259 \* 0.51949), or CAD\$15.58 per share (CAD\$1,173.53/75.3).
- The basis allocated to the 0.3 fractional share of AbbVie for which you received cash is CAD\$4.67 (CAD\$15.58 \* 0.3).
- Consequently, after the spin-off, your 75.3 Abbott shares have a cost basis of CAD\$1,085.47, and your 75 AbbVie shares have a cost basis of CAD\$1,168.86 (CAD\$1,173.53-CAD\$4.67).
- In order to calculate the capital gain (or loss) resulting from the receipt of cash for the fractional share, you must deduct the basis allocated to the fractional share from the net proceeds received on the fractional share.

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<sup>4</sup> This conversion factor is used in the election letter (see requirement #3(b) in Appendix I).