

Section 86.1 Information for Canadian Shareholders of Zimmer Biomet Holdings, Inc. and Additional Information for Québec Income Tax Filers

On March 1, 2022, Zimmer Biomet Holdings, Inc. (“Zimmer Biomet”) completed a reorganization in which it spun-off approximately 80.3% of the shares of its subsidiary, ZimVie Inc. (“ZimVie”). If you received ZimVie common shares in this reorganization, this note contains important Canadian tax information that may be relevant to you.¹

THIS NOTE PROVIDES AN OVERVIEW OF THE FILING REQUIREMENTS AND OFFERS NO ADVICE, AS A TAX ADVISOR SHOULD BE CONSULTED FOR THAT PURPOSE.

Background

Where a Canadian resident holds shares of a foreign company and the foreign company distributes shares of another company to the Canadian resident, section 86.1 of the *Income Tax Act* (Canada) (the “Act”) may permit the Canadian resident to receive the distribution on a Canadian income tax-deferred basis, provided the Canadian resident complies with certain filing requirements. Where section 86.1 does not apply, the amount of the distribution would generally be treated as a foreign dividend and be included in the income of the Canadian resident.

This note provides an overview of the section 86.1 filing requirements as they may apply to the March 1, 2022 Zimmer Biomet spin-off of ZimVie, which the Canada Revenue Agency (the “CRA”) has approved as an “eligible distribution” for the purposes of section 86.1. Additional information for Québec income tax filers is provided in a separate section below.

A Summary of the Spin-Off Events

The Zimmer Biomet spin-off transactions involved:

- The distribution of ZimVie common shares to holders of Zimmer Biomet common shares, on a pro rata basis.
- Each Zimmer Biomet common shareholder received one ZimVie common share for every ten Zimmer Biomet common shares owned as of the close of business on February 15, 2022.
- Additionally, Zimmer Biomet shareholders were entitled to cash on a pro-rata basis in lieu of any fractional shares of ZimVie that they would have otherwise received.

Section 86.1 Election Requirements

In the following discussion, the “**original shares**” are the Zimmer Biomet common shares and the “**spin-off shares**” are the ZimVie common shares.

In order for a Canadian shareholder to defer Canadian income tax on the distribution of ZimVie shares, paragraph 86.1(2)(f) of the Act requires the shareholder to provide the following documentation and information to the CRA:

1. A letter addressed to the CRA stating that the shareholder elects that section 86.1 of the Act apply to the distribution (there is currently no prescribed form for this specific election);

¹ Certain taxpayers are not affected by the filing requirements pursuant to Section 86.1 (e.g., non-residents of Canada and shareholders that held Zimmer Biomet shares in an RRSP, RRIF, TFSA or other Canadian tax-exempt plan).

2. The letter must be filed with the shareholder's income tax return within the prescribed filing time for the tax year in which the distribution took place (late filing may be accepted, but penalties may apply);
3. The letter must provide the following information about the original shares that the shareholder owned **immediately before** the distribution of the spin-off shares to the shareholder:
 - a. The number of original shares owned;
 - b. The aggregate cost for Canadian income tax purposes of all of the shareholder's original shares (generally, the aggregate price that the shareholder paid on acquisition of the original shares); and
 - c. The aggregate fair market value of the original shares immediately before the distribution (see section "Determining the Fair Market Value of the Shares" below);
4. The letter must also provide the following information about the spin-off shares and the original shares that the shareholder owned **immediately after** the distribution:
 - a. The number of the original shares owned;
 - b. The aggregate fair market value of the original shares immediately after the distribution (see section "Determining the Fair Market Value of the Shares" below);
 - c. The number of the spin-off shares received on the distribution; and
 - d. The aggregate fair market value of the spin-off shares immediately after the distribution (see section "Determining the Fair Market Value of the Shares" below).

Determining the Fair Market Value of the Shares

Where a shareholder has elected for section 86.1 to apply to an eligible distribution, the amount of the distribution is not included in the shareholder's income. Rather, the cost for Canadian income tax purposes of the original shares immediately before the distribution is allocated to the original shares and the spin-off shares held immediately after the distribution based on their relative fair market values.

The fair market value determination method is not prescribed or defined under the Act. One possible approach is to use the New York Stock Exchange opening price on March 2, 2022 for Zimmer Biomet common stock (USD \$122.54 per share), and the National Association of Securities Dealers Automated Quotations opening price on March 2, 2022 for ZimVie common stock (USD \$26.77 per share), as an indication of the fair market value. Other approaches to determine fair market value may be acceptable. A shareholder should consult with their tax advisor about using this approach or another approach.

As an example, assume that a shareholder held 100 Zimmer Biomet common shares immediately before the distribution and received 10 ZimVie common shares on the distribution. The shareholder would allocate their cost for Canadian income tax purposes of the Zimmer Biomet shares immediately before the distribution as follows: 97.86% to the cost of their Zimmer Biomet common shares held immediately after the distribution and 2.14% to the cost of their ZimVie common shares held immediately after the distribution.

See below for the tax cost allocation percentage computation in this example:

	# of Shares Owned	Assumed Beginning Basis (A) (CAD)	Fair Market Value Per Share (USD)	Total FMV of Shares Owned Post Distribution (USD)	Percentage of Total FMV (B)	Allocated Tax Basis = (A) X (B) (CAD)
Zimmer Biomet common stock	100	\$5,000	\$122.54	\$12,254.00	97.86%	\$4,893
ZimVie common stock	10		\$26.77	\$267.70	2.14%	\$107
Total				\$12,521.70	100%	\$5,000

Additional Information for Québec Income Tax Filers

The *Taxation Act* (Québec) contains rules that are similar to section 86.1 of the *Income Tax Act* (Canada) for Québec income tax filers who wish to take advantage of the section 86.1 income tax-deferral for both federal and Québec income tax purposes.

We have applied to Revenu Quebec for approval of the Zimmer Biomet spin-off of ZimVie for the purposes of the *Taxation Act* (Québec). Revenu Québec has not yet provided its approval. We will update this document once approval from Revenu Québec has been received.