House of Commons
Chambre des communes
Canada

House of Commons Standing Committee on Finance – Pre-budget Consultations 2013

This brief is submitted by:

(●) **an organization** **Organization name:** The Investment Funds Institute of Canada

or

( ) **an individual** **Name:** _____

Topic: Business taxation and regulatory issues

*Recommendation 1: Please provide a short summary of your recommendation.

US Passive Foreign Investment Corporation rules disincent Americans from purchasing foreign passive investment funds in countries that allow tax advantages through deferment of annual income distributions. Although Canadian tax laws ensure that any deferment benefit received through holding mutual funds is de minimis, Canadian mutual funds are caught in the broad definition. IFIC urges the government to negotiate an agreement with the US that either no longer designates Canadian mutual funds as US PFICs or allows use of Canadian tax reporting slips as substitute forms for US reporting purposes

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

unknown

Immediately

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

No federal funding is required.
Canadian mutual funds provide capital to Canadian companies looking to create jobs and strengthen our economy. By reducing the amount of capital available for investment, the PFIC rules affect the expansion plans of Canadian companies and negatively impact Canada's economy and our domestic tax base. With the introduction of the U.S. Foreign Account Tax Compliance Act (FATCA), and its implementation in coming months, even more dual citizens will realize their dual tax status and be advised to liquidate their Canadian mutual fund portfolios.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

• Canadian investors, companies and Canadian governments.
• The U.S. taxes all income derived from Canadian mutual funds as ordinary income so investors lose the tax benefits from earning capital gains and dividends. There is also a tax-deficiency interest charge added to the investor's tax liability.
• This limits their ability to invest in a product that provides considerable benefits in terms of access to financial advice, top flight investment management, and portfolio diversification.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

There is a growing trend of foreign governments enacting extraterritorial tax rules to raise revenue and discourage foreign investment. Additional administrative and system requirements to implement these rules are increasing costs for all Canadian investors, limiting access to financial products for investors, and reducing competitiveness and productivity of Canadian business. Negotiating such an agreement would allow dual citizens of Canada and the US residing in Canada to continue investing in Canadian mutual funds, increasing availability of domestic capital to fund growth, create jobs.

Topic: Business taxation and regulatory issues

Recommendation 2: Please provide a short summary of your recommendation.

Mutual fund corporations are not entitled to the General Rate Reduction that is available to most Canadian corporations. In the case of most corporations, the general rate reduction applies to reduce the rate of tax on income at the corporate level to a rate which, when combined with the dividend tax credit available to shareholders, achieves integration.
In the case of a mutual fund corporation, the capital gains refund mechanism and refundable taxes on dividends received from other taxable Canadian corporations permit integration on capital gains and dividend income.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

unknown

Immediately

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

There would not be a significant impact on government.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

• Canadian investors would benefit from strengthening a significant source of their investments.

N.B.: Please see additional section at bottom of submission for more.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Furthers neutrality within the Canadian Income Tax Act to facilitate better allocation of capital and increase future economic growth. Neutrality is an important underlying principle of the Canadian Income Tax Act (ITA). Neutrality in the ITA increases the likelihood that investment decisions made by Canadians will be based on sound economic principles and not on tax planning considerations. This will lead to a better allocation of capital and increased future economic growth.

Topic: Retirement, pensions and seniors

Recommendation 3: Please provide a short summary of your recommendation.

IFIC is urging the federal government to modify the federal tax rules governing RRSPs to better align them with rules governing PRPPs and other pension models in order to encourage more Canadian employers to offer workplace pension plans.
• Remove the payroll tax from employer contributions to GRRSPs.
• Allow employers to automatically enroll employees in GRRSPs; and
• Lock in employer contributions, which will ensure employer contributions are used for retirement, as intended, and not simply as deferred salary.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

unknown

Immediately

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

There is no federal funding required. There will be some reduction in federal payroll taxes collected.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Employers seeking to offer competitive pension plan benefits; Canadian workers saving for retirement; and all Canadians who will have a smaller tax burden due to greater private savings among retirees.Group RRSPs and TFSAs, with their often built-in financial advisory components, offer significant benefits over and above their retirement savings aspect. Research shows that people who access financial advice accumulate higher levels of wealth than those who are not advised – principally because they develop better savings habits and are more likely to stick to their financial plans.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Ensuring adequate levels of retirement saving is important to the future economic security of all Canadians. This will provide Canadians with the broadest array of quality choices to assist them in achieving their retirement goals. It will also demonstrate support for the benefits of financial advice, lead to higher levels of financial literacy and recognize the economic value of over 330,000 financial advice and fund management employees across the country.

Please use this page if you wish to provide more explanation about your recommendation(s).

Recommendation #2, Intended beneficiaries:

• A mutual fund corporation is not entitled to the general rate reduction since its “full rate taxable income” is deemed to be nil. This would be a reasonable policy if a mutual fund corporation was only to earn capital gains and dividend income but a mutual fund corporation may have income from other sources (e.g., interest income and income from foreign sources).
• This means that the corporate tax rate applicable to a mutual fund corporation’s interest income and foreign income exceeds that necessary to achieve integration.

*Please note that at least one recommendation must be provided