



THE INVESTMENT FUNDS INSTITUTE OF CANADA  
L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

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August 11, 2011

Mr. James Rajotte, Chair, and Members  
House of Commons Standing Committee on Finance  
c/o Mme. Guyanne L. Desforges, Clerk  
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The Investment Funds Institute of Canada (IFIC) is pleased to have an opportunity to provide its views to the House of Commons Standing Committee on Finance (the Committee) in response to the Committee's request for participation in pre-budget consultations.

IFIC Members include mutual fund management companies, fund distributors, and organizations that provide services to the industry. The mutual fund industry currently manages \$791 billion of client assets – over 30% of Canadians' financial wealth. It provides services to 12 million investors nationwide through 300,000 advisors and other fund company and distributor staff. Our industry also delivers on government policy initiatives by promoting the use of tax-assisted savings plans.

Our three recommendations to the government are centered around two themes that we believe are important to the continued recovery and future economic growth of the Canadian economy: 1) achieving fairness in taxation amongst investment options; and 2) achieving fairness in retirement funding options for Canadians. In support of these themes, IFIC is asking the House of Commons Standing Committee on Finance to consider important changes in the following three areas:

1. The Goods and Services/Harmonized sales tax (GST/HST) regimes
2. Registered Retirement Savings Plans (RRSP) – Income Splitting
3. Pooled Registered Pension Plans (PRPP)

Our recommendations for these programs will bring greater tax fairness to the system, lead to better investment choices, and decrease taxes on savings to help Canadians prepare for retirement.

### **GST/HST Reform**

For nearly 20 years, the GST has been applied at effective rates of four to five times more on mutual fund and other investment fund instruments than on non-fund financial products. Sales tax harmonization, while economically desirable in principle, is exacerbating the long-standing unequal treatment of fund-holders under the GST.

Approximately 80% of Canadians invested in mutual funds hold these funds in retirement savings accounts. There can be no avoiding the fact that higher taxes on mutual funds impact the ability of ordinary Canadians to save for their retirements.

Canadians should be choosing which products to hold in their investment portfolios based on their financial circumstances, objectives and risk tolerance. By taxing mutual funds at a considerably higher rate than other financial products, the GST/HST distorts the market and does a disservice to Canadian investors, especially those saving for retirement.

#### **IFIC recommends:**

**That the government review and address the unfair, non-neutral and administratively complicated application of the goods and services tax (GST) and harmonized sales tax (HST) by applying a single, equitable, low federal-provincial rate of sales tax to management, advisory and administrative services provided to funds consistent with the treatment of other investment products.**

### **Registered Retirement Savings Plans – Income Splitting:**

IFIC also recommends more equitable treatment of RRSPs and RRIFs with pensions with respect to income splitting and eligibility for the pension income tax credit. Two-in-five Canadians who have defined-benefit pension or annuitized defined-contribution plans can split income with a spouse at age 55. The three-in-five Canadian workers without these plan types, who rely on RRSPs and other savings for retirement, must wait an additional decade – until age 65 – before income-splitting with spouses in the case of:

- registered retirement income funds (RRIFs);
- pension plans transferred to a locked-in plan; and
- amounts transferred from RRIFs and locked-in life income funds (LLIFs) on the death of an investor to another plan of their spouse.

#### **IFIC recommends:**

**That the government permit income splitting at age 55 with respect to registered retirement income funds (RRIFs), pension plans transferred to a locked-in plan, and amounts transferred from RRIFs and LLIFs upon the death of an investor to another plan**

**belonging to their spouse; and place pensions and RRSPs on an equal footing by making income from a RRIF eligible for the pension income tax credit.**

**Pooled Retirement Pension Plans**

IFIC supports the government's objective for the Pooled Retirement Pension Plan (PRPP) to provide an accessible, straightforward, low-cost retirement option to enable more individuals to save for retirement.

**IFIC recommends:**

**That the government follow the patterns and rules of RRSPs in the design of the PRPP with some minor adaptations of pension rules to allow for locked-in provisions and employer contributions; refrain from restricting PRPP investment managers to passive investment strategies; confirm that Group Registered Retirement Savings Products (GRRSPs) are qualifying alternatives to PRPPs; and allow maximum portability between PRPPs and RRSPs (i.e. tax free rollovers to LIRA's or locked-in RRSPs from PRPPs) both while a member is employed and at termination of employment.**

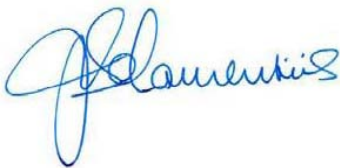
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IFIC would like to thank the Committee for its time and consideration. We would be pleased to elaborate on our perspectives on these subjects through an appearance before your committee when it holds hearings later this year.

If you have any questions please contact me directly by phone at 416-309-2300 or by email at [jdelaurentiis@ific.ca](mailto:jdelaurentiis@ific.ca) or James Carman, Senior Policy Advisor, Taxation at (416) 309-2323 ([jcarman@ific.ca](mailto:jcarman@ific.ca)) if you would like additional clarification of our views.

Yours truly,

**The Investment Funds Institute of Canada**



By: Joanne De Laurentiis  
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