Standding Committee on Finance (FINA)

Pre-budget consultations 2012

The Investment Funds Institute of Canada

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

An important component to economic recovery and growth is governmental support of frameworks that underpin the strength of the private sector. During these times of global economic uncertainty, it is imperative that the government does not hinder the collaborative efforts of the private sector to return Canada to economic prosperity. We note that Bill C-25: "Pooled Registered Pension Plans Act" received Royal Assent on June 28, 2012. IFIC recognizes the intent on the part of the government to provide a legal framework for the establishment and administration of pooled registered pension plans (PRPP), and generally supports, as good public policy, the goal underlying PRPP of expanding options for Canadians to save for retirement. However, we urge the government to ensure that Canadians retain the flexibility of using individual and group registered retirement savings plans (GRRSP) for retirement savings by leveling the playing field amongst various retirement savings vehicles. Doing so will demonstrate support for the over 330,000 financial advice and fund management employees across the country and provide Canadians with the broadest array of quality choices to assist them in achieving their retirement goals. At present, 80% of assets held by fund holders are in registered retirement savings plans (RRSP). The uneven playing field that the proposed PRPP model will create threatens to lower that percentage considerably, both by channelling new workplace plans into PRPPs and by redirecting into PRPPs the available RRSP contributions of some employees who already save through RRSPs. The latter outcome does not result in net new savings; rather a government incented redistribution of existing savings from one product to another. The specific changes that will level the playing field include the following: - Remove the payroll tax from employer contributions to GRRSPs. - Align the features of GRRSPs to those of PRPPs, such as allowing employers to automatically enrol employees.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

While we have no specific recommendations regarding the issue of job creation in Canada, we believe implementing the recommendations contained in this submission will enhance the current environment in which Canadian businesses operate, and thus stimulate job creation.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

A significant challenge facing the country in the coming decades is ensuring that Canadians have sufficient levels of savings for their retirement. As additional strain is placed on government programs moving forward, Canadians must become more reliant on their own wealth accumulation to fund future needs for themselves and their families. To provide further incentives for Canadians to save, the annual contribution limit for the Tax Free Savings Account (TFSA) should be increased. Such an initiative would provide Canadians of all ages with additional tax-free savings capability, addressing the growing concern surrounding retirement income levels. Since its introduction in 2009, the TFSA has become an important component to the savings portfolio of Canadians. The program has been of particular importance to low-income Canadians, who are unable to capitalize on the tax advantages offered through RRSPs, or from the proposed PRPP. Another issue of importance regarding the savings levels of the aging Canadian population is the regulations of the Registered Retirement Income Fund (RRIF) withdrawal program. In order to provide increased flexibility for Canadians, the government should reduce the minimum withdrawal rates for RRIF accounts currently found in Regulation 7308. With an aging population that retires later and lives longer, the minimum withdrawal factors established means that moneys funding retirement may be withdrawn and taxed earlier than they otherwise would be, reducing savings for later when they may be more needed. This initiative would also compliment the reforms to the Canada Pension Plan implemented earlier this year by enabling individuals to utilize their finite resources more effectively.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

One of the greatest inhibitors to productivity is the regulatory burden faced by industry. The federal government recognizes that to remain competitive in the global market and to better position the Canadian economy for recovery and growth, it is important that governments continue to address this issue. We are aware that following the Supreme Court decision noting that the securities regulation fell primarily under provincial jurisdiction, with some elements residing in the federal sphere, that the Department of Finance is discussing the creation of a more collaborative structure with the provinces. We support that initiative as it will bring efficiencies to the process. We also strongly urge that for those provinces who choose to remain outside any such structure, that a workable interface is created between participating and non-participating provinces. For efficient and productive capital markets, and an investor-responsive regulatory system, the regulatory process must remain cooperative and harmonized regardless of the structure.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

The United States, in an effort to combat tax evasion by their citizens have enacted the Foreign Account Tax Compliance Act (FATCA) and have also ruled that Canadian mutual funds are Passive Foreign Investment Corporations (PFIC). IFIC is asking that the Canadian government actively engage their U.S. counterparts to come to an agreement on FATCA that strikes a better balance between preventing tax fraud in the U.S. and imposing additional costs and administrative burdens on Canadian investors and financial institutions. A PFIC agreement is also needed to ensure that U.S. investors maintain their access to the Canadian mutual fund market. This will help ensure that Canadian companies have the easy access to affordable capital that will in turn enhance economic growth and recovery. FATCA imposes costly implementation and administrative burdens on Canadian financial institutions that will end up being passed on to Canadian consumers. This will decrease the productivity of the financial sector and direct resources away from critical product and technology development that are the foundation of job creation. The current FATCA draft legislation also impinges on Canadian privacy rights. Canadian financial institutions will be required to close the accounts of Canadian residents, who are also U.S. persons, if they do not sign a privacy waiver allowing the financial institution to send their personal information to the Internal Revenue Service. Under FATCA, Canadian residents who have no nexus to the United States may incur additional U.S. withholding tax because they do not wish to certify their non-U.S. person status. By designating Canadian mutual funds as PFICs, the U.S. has effectively closed off an important avenue for Canadian companies to raise capital. Under the PFIC rules, any income a U.S. tax payer receives from a Canadian mutual fund is taxed at the highest nominal rate under United States tax law – providing a powerful incentive to remove their capital from the Canadian market. On both FATCA and the ruling that Canadian mutual funds are PFICs, it is critical that the Canadian government work with the U.S. to protect our investors and the ability of Canadian companies to raise capital.