



INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

MEMBER ADVISORY

December 28, 2011

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For distribution to:

Tax, Operations, Wealth Management and Other
Relevant Areas

Standardized Explanation for 1% Penalty Tax Refund on Newly Non-Qualified Investments in Registered Plans

Purpose:

This advisory has been prepared in response to the recommendation of two industry committees that a standard text be developed for use by members to educate investment representatives and clients on a tax change that took effect March 23, 2011. The change is expected to affect a range of registered plan holders now and in the future.

Process:

Draft wording was prepared by IIAC staff, reviewed by a small task force of member experts, amended to reflect their input and then circulated to the IIAC's RRSP/RRIF Working Group for sign-off.

Background:

The federal 2011 Budget was tabled in the House of Commons on March 22, 2011, with certain provisions effective immediately. The Budget was not passed, an election was called, the Budget was re-introduced following the election in June and it was passed late in the month.

When draft legislation to implement the budget was first introduced in August 2011, IIAC and its members identified problems with, and recommended changes to, a number of proposed *Income Tax Act* provisions referred to as RRSP and RRIF anti-avoidance rules. In mid-October, amended legislation, reflecting some IIAC suggestions, was introduced in the House of Commons and then the Senate. IIAC pursued additional transitional relief and other changes to help what is understood to be the significant majority of honest Canadian taxpayers who would be negatively affected by provisions targeted at the small number of registered plan holders taking advantage of the tax system. While Senators said that they were sympathetic, they did not table changes to the law, although Senator Gerstein said: "... (T)he government has been clear that going forward it will continue to discuss the issue with all interested groups and continue to dialogue with those who may have concerns."

Optional use:

Below is self-explanatory wording that may be used to explain verbally or in writing, or to which members can refer clients to www.iiac.ca, Resources, Advisories, 1% Refund, December 29, 2011. At the time of drafting, a number of firms are waiting for CRA instructions before making the refunds, others intend to process refunds as soon as possible. A few firms by volume of refunds have either had no penalty tax to return to clients or have already refunded the amounts.

TAX ON NON-QUALIFIED INVESTMENTS

The federal government's 2011 budget included provisions applicable to registered retirement savings plans (RRSPs) and registered retirement income funds (RRIFs). Changes to RRSP and RRIF qualified investment rules became law on December 15, 2011, with some of the measures, such as taxes applicable to non-qualified investments held in a registered plan, taking effect on March 23, 2011. The 1%-per-month tax, which financial institutions for years have been required by law to deduct and remit to the federal government on the value of any non-qualified assets in your account, was eliminated for any non-qualified investments that were acquired or became non-qualified after March 22, 2011. This means that for these recently-non-qualified investments, we have refunded [will be refunding] the 1% tax collected since March 22, 2011. The government has replaced the 1% tax by a new one-time tax equal to 50% of the value of non-qualified assets, and applicable to assets that were, or became, non-qualified after March 22, 2011. Canada Revenue Agency (www.cra-arc.gc.ca) will be providing additional information on how the new 50% tax will apply in the next while.

IMPÔT SUR LES PLACEMENTS NON ADMISSIBLES

Le budget 2011 du gouvernement fédéral prévoit des dispositions ayant trait aux régimes enregistrés d'épargne-retraite (REER) et fonds enregistrés de revenu de retraite (FERR). La loi contenant les changements aux règles sur les REER et FERR est entrée en vigueur le 15 décembre 2011 et elle prévoit certaines dispositions, notamment sur l'imposition des placements non admissibles détenus dans un régime enregistré, qui s'appliqueront rétrospectivement au 23 mars 2011. L'impôt de 1 % par mois, calculé sur tous les placements non admissibles détenus dans votre compte et que la loi obligeait depuis des années les institutions financières à retenir à la source et remettre au gouvernement fédéral, a été aboli pour tous les placements non admissibles acquis ou qui sont devenus non admissibles après le 22 mars 2011. Donc, pour ces placements non admissibles de date récente, nous avons remboursé [nous rembourserons] l'impôt de 1 % qui a été retenu à la source depuis le 22 mars 2011. Le gouvernement a remplacé l'impôt de 1 % par un nouvel impôt de 50 % non récurrent prélevé sur tous les placements non admissibles acquis ou qui sont devenus non admissibles après le 22 mars 2011. L'Agence du revenu du Canada (www.cra-arc.gc.ca) fournira prochainement d'autres informations sur les modalités d'application du nouvel impôt de 50 %.

Further updates:

This Member Advisory may be amended as further information is received from the CRA.

Contact:

Members with questions are encouraged to contact Barb Amsden at bamsden@iiac.ca.

This document is for general information purposes only and should not be used as a substitute for consultation with professional advisors. Information is current to December 2011. The information contained in this Advisory is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.