



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

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President & Chief Executive Officer

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The Honourable Colin Hansen
Minister of Finance and Deputy Premier
PO Box 9048 STN PROV GOV
Victoria BC
V8W 9E2

Dear Minister:

Re: Sales Tax Harmonization in British Columbia

The Investment Industry Association of Canada (IIAC) commends British Columbia for its decision to harmonize the provincial sales tax (PST) with the goods and services tax (GST). We believe British Columbia will generate considerable economic benefit from increased capital spending that will be realized through sales tax harmonization, notably through lower taxes on business inputs such as machinery and equipment and the reduced administrative burden for British Columbia businesses. However, we are prepared to meet with your officials to discuss the adverse impact harmonization will have on the financial services industry and work to address these concerns.

The IIAC is the trade association for Canada's securities industry, representing over 200 investment dealers employing 40,000 individuals across Canada, with the mandate of promoting efficient, fair, and competitive capital markets. There are 21 investment dealers headquartered in British Columbia.

Increasing the Cost Burden on Financial Institutions and Canadian Investors

Most financial services, including services supplied by investment dealers such as securities trading, underwriting and borrow-lending services have been categorized as ‘exempt supplies’ not subject by the consumer to provincial or federal tax. Financial institutions, however, are not eligible for any input tax credits on the purchases related to delivering their exempt financial services. As a result, taxes on inputs are either absorbed by the financial institution or passed on to their consumer through higher prices. Under harmonization, financial institutions delivering non-taxable financial services will now be subject to provincial sales tax and GST on their inputs. **The harmonization of PST with GST will therefore significantly increase the cost to financial institutions of delivering their tax exempt financial services which will result in higher costs to the consumer of these services.**

Investment dealers also supply taxable financial products and services which are currently subject to the GST such as discretionary portfolio management, RRSP/RRIF withdrawals and account transfers. **Under harmonization, taxable financial products and services will be charged a provincial tax on top of the existing GST. Harmonization will, therefore, impose a direct cost increase to the consumers of taxable financial services.**

These additional costs would come at a very inopportune time for your province’s investors and financial institutions that have been battered by the recent turmoil in financial markets.

Impact to Investors

Harmonization will reduce the after-tax investment returns for investors at a critical time when their portfolios have already been greatly diminished. For taxable services such as management fees on mutual funds and discretionary investment accounts, the increased tax will have to be paid continuously on a yearly basis, for as long as the investor continues to hold the fund or account, compounding the effect of the reduction in returns. Harmonization will also impact the ability for your residents to build their retirement savings by increasing the administrative costs to withdrawing their savings from RRSPs/RRIFs as well as by lowering the returns of RRSPs/RRIFs invested in managed funds. This puts a further dent in retirement savings already devastated from substantial market losses and restrictions on tax-sheltered retirement contributions. Investors, especially those nearing or entering retirement, can ill afford to be penalized during a period when they are beginning to focus on rebuilding their portfolios.

Some have identified harmonization as a tax on savings, one that British Columbia investors should not be forced to pay during a time when the British Columbia government ought to be encouraging investment and restoring confidence in their local capital markets.

Impact to Financial Institutions

Financial institutions are a major employer in British Columbia and the health of Canada’s financial services industry is vital to Canada’s economy through the savings-investment process these institutions foster. Harmonization may reduce margins for many smaller financial institutions less capable of passing on higher input costs to their consumers and will jeopardize their ability to remain financially viable.

Remedies

What are needed are some transitional provisions to allow investors and our members to more easily accommodate the move to a harmonized sales tax under the changed market and business environment. We encourage your province to ***provide an exemption to your planned harmonization framework that would exclude financial services that are currently subject to GST from the further application of the harmonized provincial tax.*** Such an exemption would encourage savings and investment among British Columbia residents and contribute to your province's long-term financial health. ***Transitional relief should also be provided to financial institutions by allowing for input tax credits on their purchases related to exempt supplies.*** Such relief will help financial institutions contain the costs of delivering exempt supplies, benefiting both the firm and their clients.

We would be pleased to meet with you to further discuss the recommendation in this letter.

Yours sincerely,

Ian Russell