Dear M. Cormier,

Thank you for agreeing to meet with us regarding the reporting of foreign source income, capital gains and foreign tax paid requirement on RL-15s and RL-16s. We look forward to providing you and your officials at Revenue Quebec more information during our meeting, and learning more about Revenue Quebec's objectives in implementing this new measure.

In the meantime, please find below, as a follow up to our June 2012 letter, a more detailed assessment of the impacts of the new requirements on Quebec investors, the Quebec government agencies and the financial services industry. We hope this information will provide a good background for our discussion and contribute to a productive meeting.

Our Request:

The Conseil des fonds d'investissement du Québec, the Investment Funds Institute of Canada (IFIC), the Investment Industry Association of Canada (IIAC) and the Canadian Life and Health Industry Association (CLHIA) have received feedback from their membership that they will not be able to provide the required reporting for the 2012 tax year and we are asking for an extension to implement these requirements.

Unfortunately, there are several obstacles to complying with the regulations this year.

- The first being that Canadian issuers of securities are not currently providing the breakdown of foreign sourced income on a country by country basis and even if they began doing this; there isn't a facility set up to accommodate the reporting. Also, it is not physically possible to make the required extensive systems changes in time for 2012 tax reporting. Also, as an industry we have concerns whether we would be able to get all the required foreign income data from issuers.

- Second, clients would be overwhelmed with Relevé slips and filling out government tax forms. Those clients who use professionals to help them file their return would also end up paying more for those services if the industry produced the country-by-country slips that the Relevé guides require.

- Third, the industry believes there are alternative approaches that would provide the government with the required information and be far more practical and less expensive for taxpayers, the Government of Quebec and the financial services industry.

The Background:

Our understanding is that the country-by-country calculation of foreign tax credits is intended to prevent the application of income from low-tax-rate countries to allow unjustified credits with respect to high-tax-rate countries.

As an example, a client is invested in two foreign countries and receives $100 of foreign income from each country. The first country ('A') has a 10% Treaty rate with Canada while the second has a rate of 20% (country 'B'). Under this scenario the client would have had $30 withheld at source, but would only be entitled to a tax credit of $25. However, if there was only one tax slip it would look like the client should get a $30 tax credit for the money withheld on the $200 of foreign income. Administrative concessions should keep this intention in mind, but can be used in meaningful ways to provide practical solutions and avoid undue complexity.

It is also our understanding that the proposed Relevé guidelines and their Federal equivalents are meant to ensure that investors receive all the information they need to fill out the CRA Form 2209 for Foreign Tax Credits and the Form TP-722 Quebec equivalent. As noted on Form 2209, an administrative concession from the CRA allows investors whose foreign tax does not exceed $200 to fill out one consolidated 2209 Form.

Impact:

To fulfil the 2012 proposed Quebec reporting requirements, the financial services industry would need to produce significantly more tax slips when allocating foreign income or capital gains and foreign tax to unitholders. While the intent behind these requirements is logical, the practical implications have significant drawbacks for taxpayers, government revenue agencies and the financial services industry.

Significantly Increased Volumes:

IFIC asked a large fund manufacturer to provide an estimate of how many additional tax slips they would need to produce under these reporting requirements. The company had 30 funds that allocate foreign income and foreign tax (but no foreign tax associated with foreign capital gains) to their Quebec investors. Each separate fund had foreign income and tax from an average of about 27 countries. This fund company issued 10,715 consolidated RL-16 slips to their unitholders for these 30 funds in 2011. However if they issued separate slips for each country and each fund, and if each client held units of each of the 30 funds (a total of 803 slips if reporting is done on an unconsolidated basis), an additional **8,593,430 slips** would need to be mailed to Quebec residents.

This number could be reduced but would still lead to a large increase compared to how the industry is reporting now. For example, one of these 30 funds received income from 55 countries, and if investors held units of that particular fund plus a few others, they might receive perhaps 100 slips, not 803. However, for Canadian financial institutions to reduce the volume of slips they would have to build reporting systems that had the capability to differentiate and then consolidate tax reporting on a country by country basis. So if an investor held 10 different funds with the ABC Fund Company, the fund's reporting system would need to be able to determine that three of these funds have foreign source income from the U.S. and tabulate that information on one tax slip - and then do the same thing for every other country where foreign income was derived from. This would require very extensive and expensive systems changes and the tax reporting that would come out of it would be very difficult for funds and clients to reconcile. Theoretically, assuming that the industry enhanced their systems to have this capability and using the example above with foreign income being generated from perhaps 60 countries worldwide; the 10,715 slips that were sent out by the fund company for the 2011 tax year would turn into approximately 650,000 tax slips for 2012, i.e. about 70 per investor, unless the breakdown by country could be reported on a separate attachment rather than on separate tax slips. There would still need to be 650,000 separate records filed electronically with Revenu Quebec. We strongly believe that this degree of regulatory compliance would be considered to be excessive by investors.

Relative Value

IFIC also looked at the average amount of foreign tax allocated by the 30 funds and found that the average amount of tax only amounted to $44 per client account. It may be useful for Revenue Quebec staff, since they have the complete data set, to determine how many investors claimed foreign non-business income tax credits over $200 last year.

Proposed Solutions:

In order to achieve the intention of the taxation laws while preventing a lot of time, money and effort being spent by investors, government revenue agencies and the financial services industry, we propose the following solutions that would make the process more cost-efficient and less cumbersome for stakeholders. As noted above, it is not physically possible to make the significant systems changes required this year. For the future, we would like to propose the following two changes:

1. Consolidated Reporting

The revenue agencies already allow mutual funds and other pooled investment trusts to prepare T3s and RL-16s on a consolidated basis. This has no effect on data sent to the revenue agencies. However, taxpayers receive only one T3 / RL-16 slip with respect to a family of funds.

An attachment that has been approved by the revenue agencies reports a breakdown of each box by fund. These attachments could be expanded, to provide a country-by-country breakdown for foreign income and associated tax, and foreign capital gains and associated tax. However, since this level of breakdown has not been provided in the past, and since such attachments would be new for T5013 / RL-15 purposes, time and resources would be needed to make the necessary program changes. Reporting for 2013 might be possible on a voluntary basis, but some issuers might need more time

2. Administrative Concession

Several drawbacks remain even with expanded consolidated reporting. Taxpayers with more than $200 of foreign tax are currently required to complete separate T2209 forms with respect to each country. This requirement would create an administrative burden for many taxpayers with simple investments in funds that include any foreign exposure, since they might have more than 20 source countries represented by a single fund investment. Some taxpayers may be forced back to paper filing by this requirement. Many investors might be led to stop investing in international funds completely, which would mean less diversification and by definition higher risk and/or lower net return at a time when governments are concerned people are not accumulating enough for retirement. This problem could be solved for most taxpayers by adding a new sentence to the third paragraph of Form T2209 as follows (with similar changes to the fifth paragraph of Form TP-772):

> If you paid tax to more than one foreign country, and the total non-business income tax you paid to all foreign countries is more than $200, you have to do a separate calculation for each country for which you claim a foreign tax credit. **However, any allocations of foreign tax from trusts or other pooled investment vehicles can be consolidated as if these had come from a single country, as long as the amount of foreign tax does not exceed 15% of the related foreign income.**

This administrative concession would respect the intent of the taxation laws, which include a country-by-country approach in order to prevent the application of income from low-tax-rate countries to allow unjustified credits with respect to high-tax-rate countries.

- The 15% threshold appears reasonable, since most of Canada's tax treaties limit the taxation of investment income to this level, and since the taxation laws allow any excess over 15% to be claimed as a deduction to the extent not claimed as a tax credit.

- This concession would also give a choice to each investment fund, as well as to personal trusts. Investment funds could choose to pay substantial amounts to develop country-by-country reporting capabilities, or they could restrict foreign tax allocations to 15%, and claim any excess as a deduction instead of a tax credit. Most would likely choose the latter, not only to reduce substantial costs that would otherwise get passed on to unitholders, but also to prevent causing undue tax complexity to so many taxpayers, beyond the level to be expected from them.

- The voluntary limitation of the foreign tax credit to 15% would increase tax revenue marginally in cases where fund expenses are charged against foreign income, since reducing the amount of foreign income available for allocation can otherwise result in an elevated ratio of foreign tax to foreign income.

- The substantial reduction in the number of tax slips and T2209 / TP-722 forms filed would reduce the costs incurred by all stakeholders.

CFIQ, IFIC, CLHIA and IIAC look forward to having a constructive conversation with you and your officials to find a solution that works for government, investors and the financial services industry.