



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 Dalton McGuinty
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The Honourable Dwight Duncan
Minister of Finance and Revenue
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Dear Premier and Minister:

Re: Sales Tax Harmonization in Ontario

The Investment Industry Association of Canada (IIAC) is pleased to provide you with our Association's views and recommendations on planned initiatives your government or ministry may have for harmonizing Ontario's provincial sales tax (PST) with the federal goods and services tax (GST). The IIAC, as the trade association for the securities industry, represents over 200 investment dealers employing 40,000 individuals across Canada. The Association's mandate is to promote efficient, fair, and competitive capital markets. There are 130 investment dealers headquartered in Ontario with over 2,500 offices in the province, employing approximately 30,000 Ontarians. Investment dealers paid over \$1 billion in federal and provincial income tax in 2007.

Our Association believes that, although the province will derive considerable economic benefit from stepped up capital spending through sales tax harmonization – notably, a reduced administrative burden for Ontario business and lower taxes on business inputs such as machinery and equipment -- the Association cautions Ontario must be cognizant of the adverse impact of harmonization on the competitiveness of the financial sector, and the increased tax burden imposed on investment returns from the harmonized tax.

The financial services sector in Ontario has become a major contributor to growth and employment in the province. Toronto is a leading global financial services centre and the third largest in North America after New York and Chicago. The Toronto region alone employs over 200,000 residents directly in the financial services sector and tens of thousands more in ancillary activities such as IT, tax and legal services. The majority of

Canada's major financial institutions are headquartered in Ontario, including banks, insurance companies, mutual fund companies and investment dealers. The thriving financial sector in Ontario becomes even more critical to provincial growth and prosperity given the economic difficulties plaguing the important auto and auto parts manufacturing sector.

The existing GST imposes a value-added tax on investment management services, including mutual funds, segregated funds and other managed accounts, in contrast to other financial services exempt from this federal sales tax. As a result, the harmonization of the existing provincial sales tax with the GST means, all other things equal, the newly harmonized sales tax replacing the provincial sales tax would now apply to investment management services. After-tax investment returns for investors would be reduced. Further, this additional tax burden would apply on RRSP and RRIF savings invested in managed funds, putting a further dent in retirement savings already under siege from substantial market losses and restrictions on tax-sheltered retirement contributions. The higher tax burden on investment funds from provincial tax harmonization would also reduce the competitiveness of the investment fund business in Ontario, encouraging the shift of this business to lower sales tax jurisdictions.

Recommendation

We recommend that harmonization of the provincial sales tax with the GST proceed to reduce the administrative burden for Ontario businesses and stimulate investment spending in the province, but such harmonization should be conditional on providing an exemption from the harmonized provincial tax applying to financial services now subject to federal GST taxation.

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

Yours sincerely,

Ian Russell