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

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Mr. Robert Hamilton
Senior Assistant Deputy Minister, Tax Policy Branch
Department of Finance
140 O'Connor Street
Ottawa, ON K1A 0G5

Dear Mr. Hamilton:

Re: Reducing Administrative Burden/Increasing Competitiveness

Thank you for your letter dated March 12, 2008 with respect to reducing the administrative and paper burden on Canadian businesses. The Investment Industry Association of Canada (IIAC) sees the task as having the following components:

1. What administrative requirements and information obligations can be eliminated or simplified – specific examples are provided
2. What framework can be put in place to avoid the build-up of further unproductive administrative requirements in future – a simple cost-benefit analysis is proposed
3. What further steps the federal government can take to improve productivity and competitiveness within Canada from a regulatory efficiency perspective.

While the Canada Revenue Agency (CRA) and Industry Canada have worked to streamline regulatory requirements of small business – and about half of our members are small businesses – our mid- and large-size members also bear the brunt of unnecessary costs. We are therefore pleased that the analysis you are undertaking extends to all enterprises.

Also, while paper burden is the focus of your review, we are glad that you are looking at unnecessary administrative requirements more broadly, since replacing unnecessary paper requirements with technology is not a solution.

In our analysis, we include not only unproductive or less-than-ideal administrative workload that arises between our members and parts of government, but also between, in the case of our industry, different firms in the capital markets/financial services sector, and between these entities and their individual and business clients due to government requirements.

As requested, we are as specific as possible in our appended detailed comments and consider the impacts on government revenues and the integrity and efficiency of the tax system. We think that it will be a challenge to meet the 20-per-cent reduction target that the Minister set, but believe strongly that this target is achievable and will improve Canada's competitiveness overall with consequential benefits for our economy and Canadians.

Yours truly,

Carole Foster

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RECOMMENDED ADMINISTRATIVE AND PAPERWORK BURDEN REDUCTION MEASURES

While federal tax rates have been dropping, the complexity and costs of compliance have been increasing substantially. Investment dealers alone pay in the vicinity of $20 million in additional costs annually (arguably another form of "tax") as some of the government's un-reimbursed tax reporting facilitators. Moreover, these firms risk incurring penalties and interest if requirements are not adhered to properly, when clear answers are not apparent and if delays caused by incidents outside the intermediaries' control occur. The challenges, despite efforts by this and previous governments, are long-standing as is apparent from the quote below from a study conducted over a decade ago.

"The burden of government is the intervention and interference of government in the operations of a business… It is the cost involved in complying with regulatory requirements, … and responding to information demands from government. And it is the administrative hurdles, the lack of customer service, the delays, the uncertainties and the frustration involved in dealing with public bureaucracy."

– "Breaking through Barriers"
1994 report of Industry Canada's Small Business Working Committee

We endorse the use of the above broad definition of regulatory burden and urge the government to focus more broadly than simply on numbers of regulations, provisions or fields. The one positive is governments' continued recognition of the regulatory burden and efforts to address it. The one certainty is the need for a new approach, not only to reduce the regulation that already exists, but to achieve control over the growth in new regulation. Other countries have recognized the significant costs of regulation and the negative effects of requlatory expenses. The United Kingdom, Australia and the Netherlands have estimated the cost to their economies of freeing up businesses from even a small proportion of regulatory costs as having significant economic benefits.

"Compliance burdens are substantial… Modelling work undertaken by the Productivity Commission for COAG [Council of Australian Governments] suggests that the economic gains from reducing such compliance burdens could be large. For example, if regulatory reforms lowered compliance costs by one-fifth from conservatively estimated levels, a cost saving of around $7 billion (and a greater resultant increase in GDP) could be achievable.

Red tape reduction programs overseas are also estimated to have yielded substantial benefits. The Ministry of Finance in the Netherlands, for example, estimated cumulative savings of €900 million [CAD $1.4 billion] over 2003 and 2004 from reduced administrative burdens on business. In the United Kingdom, it is claimed that reductions to administrative burdens obtained through the use of the Standard Cost Model will potentially increase GDP by £16 billion [CAD$37 billion]."

– "Productivity Commission Research Report" (Australia), February 19, 2007

Most examples provided here are tax-related and a good number involve the Canada Revenue Agency (CRA) or other parts of government. We hope to count on Finance assistance in moving forward on all as the *Advantage Canada* regulatory reduction promise was not limited to Finance's area of responsibility.

1. ADMINISTRATIVE REQUIREMENTS AND INFORMATION OBLIGATIONS TO ELIMINATE OR SIMPLIFY[1]

There are a range of issues at the federal level where administrative and/or paper burden can be reduced with minimal to no to slightly positive impacts on government revenues and with improvements in tax system efficiency/integrity and/or benefits for investors, issuers and/or Canada's capital markets. Details of the issues below are appended:

- T3 and T5013 filing process improvements, p. 5
- Dividend eligibility process improvements, p. 6
- Issuer tax reporting errors and tax slip preparation/re-mailing, p. 7
- Receipt too late of tax change requirements, p. 8
- XML file reject solution, p. 9
- Non-resident tax (NRT) and other withholding improvements, p. 10
- Trust identification numbers (TINs) needed before tax filing season, p. 11
- Registered retirement income fund (RRIF) transfer process improvements, p. 12
- Anti-money laundering (AML) legislation/regulations streamlining, p. 13
- Locked-in account transfers/registered education savings plans paper elimination, p. 14
- Goods and services tax (GST) legislation and forms improvements, p. 15
- Tax-free savings account (TFSAs) reporting and process simplification, p. 16.

2. FRAMEWORK TO AVOID REGULATION CREEP/UNPRODUCTIVE IMPACTS OF REGULATION

Legislators, regulators and equivalent organizations aim to achieve public interest objectives, such as consumer protection and efficiency. However, the magnitude and scope of regulation often outpace the scope of the problem the legislation and regulation seek to address. New regulation may be enacted without balanced analysis of the need for it, the related implications including costs, an effective search for more reasonable alternatives or whether other existing rules can be simplified or reduced at the same. Elimination of regulations is rare. Consumer and investor protection is held to be a public policy objective that cannot be questioned, when, in fact, the growing costs of regulation are a hidden tax on consumers and investors and on businesses that create jobs and pay taxes. The impact of costs on firms – large and small – can reduce competition and innovation, also contrary to Canadians', Canadian businesses' and Canada's economic interests.

A number of simple approaches could be considered to reduce a net increase in unproductive or less than optimal regulation:

1. ***Cost-benefit analysis:*** The federal government has a tool – Regulatory Impact Analysis Statements (RIASs) – that contains all the necessary components of a cost-benefit analysis, but that appears limited in two ways: their application appears limited to regulations as opposed to legislative or non-regulatory administrative requirements and they are completed by government staff independent of those impacted (although consultation with those affected is undertaken). Both limitations can be addressed:

    - The rigour of the structured cost-benefit analysis, including analysis of possibly better alternatives, can easily be brought in almost all cases to legislation and non-regulatory administrative burden. The one exception would be matters that may have financial market impacts, for example, a new tax or elimination of a tax on a certain type of investment.

[1] A significant amount of regulatory burden borne by IIAC members relates to the nature of services offered by the financial sector and the securities industry in particular. These matters are discussed in the IIAC's discussion paper: *A Capital Idea – Clear, Consistent, Competitive Canadian Capital Market Legislation and Regulation*, and are not addressed here, where the focus is on regulation at the federal level.

- Government and industry should complete the cost-benefit analysis together (using the simple RIAS format), so that both sides can better understand the challenges the other faces and hopefully develop a solution satisfactory to both sides, saving time spent on sequential consultation and avoiding either party getting so firmly entrenched in a position that change to a better solution is not possible. Where different industry groups are involved, consider using a mutually agreeable facilitator to help move an issue forward. In the case of regulatory reduction committees or task forces, invite greater involvement of operations and systems people and not simply accountants and lawyers. The IIAC appreciates very much that Revenue Canada in the past year has been making material efforts to understand and address our members' concerns, with tangible benefits, we believe, for all members, the CRA, issuers and investors.

2. **Sunset clauses:** Not workable in all cases, sunset clauses on regulatory requirements would mandate reviews on a periodic basis, allowing new approaches to be introduced and out-of-date regulations to be eliminated with greater likelihood than trying to make changes on an ad hoc basis.

3. **Swift passage of legislation/time for implementation/option for administrative relief needed:** An often-overlooked part of regulatory burden is the challenge of implementation. Despite apparent views otherwise, businesses cannot afford to implement systems changes until specifications are very clear and there is absolute certainty that a change will be made. Moreover, once a rush implementation has been forced, any inefficiency built in by necessity is often perpetuated as funding for new projects is limited and is likely to be allocated first to initiatives aimed at expanding new businesses/services or new federal or provincial regulatory requirements. In particular, information on changes to tax reporting must be finalized and conveyed to the firms or industry no later than August 31 each year to allow for reasonable implementation by reporting firms of systems, procedural and communications changes – efforts to do this in the case of TFSAs are much appreciated and show what is possible. If this schedule cannot be met, we believe that legislation should provide for CRA to accord administrative relief in an implementation year provided it is evident that intermediaries have made reasonable efforts to comply.

4. **Permit unless prohibited:** A member has noted a difference in U.S. and Canadian tax approaches in some areas. Canadian firms are limited from as easy moves into new businesses as American firms enjoy because the U.S. has taken a "permitted unless prohibited" approach to legislation rather than "prohibited unless permitted" (an example relates to foreign-exchange-traded mutual fund trust units; IIAC letter to follow).

3. FURTHER STEPS THE FEDERAL GOVERNMENT CAN TAKE

1. **"What is not measured is not managed"** – Publish the list of increases and decreases in regulatory burden and the analysis/inventory promised in *Advantage Canada*. Provide it in concert with a "managed" bulletin-board, that is, allow businesses to input comments and ask questions so that there is a clear way to report unnecessary or unnecessarily complex regulatory requirements so that Finance, the CRA and other parts of government can assess the greatest irritants. Include a brief summary of net changes in regulatory burden in each federal budget – the issue is very much related to productivity and to fiscal and economic matters considered for and addressed in the budget.

   Ensure that the format used for some departments in the *2008-2009 RPPs – Department's Regulatory Plan* (http://www.tbs-sct.gc.ca/rpp/2008-2009/info/drp-prm-eng.asp), which clearly shows planned regulatory changes with expected results, is completed for all departments to allow a more at-a-glance, plain-language review of regulatory changes under way. With respect to the Canada Revenue Agency specifically, intermediaries disappointingly continue not to be recognized as a stakeholder group or partner by the CRA (despite some noteworthy efforts at the staff level), meaning little priority may be placed on achieving regulatory reduction in this area although improvements for intermediaries have the important benefit of helping taxpayers file their taxes.

An interesting measurement tool to investigate is participation in and measurement under the World Bank's and International Financing Corporation's *Doing Business* Project. While there are known flaws in the process, for those unaware of them, it is a benchmark that is watched and reported on and could be considered as a way to promote efforts at regulatory efficiency improvement (and to show Canada's improving competitiveness assuming the current Canadian government regulatory reduction initiative is successful).

2. **Service level targets and reporting:** On a broad level, the government could report against the benchmarks implicit in the options set out in Industry Canada's *Regulatory Burden: Reduction and Measurement Initiatives* (http://www.ic.gc.ca/epic/site/pbri-iafp.nsf/en/sx00069e.html). The CRA should set and report against service level standards to intermediaries (as is done now to taxpayers in terms of responsiveness measures) including a timeline for providing intermediaries with tax guides, computer specs and tax forms and to providing responses at implementation time with respect to changes – an example relates to the implementation of new form T5013, with 100 new fields added where no new guides had yet been issued.

3. **"Issues not discussed are not resolved"** – Ensure that regulatory burden is a standing item on the agendas of relevant federal-provincial meetings. This ideally would help improve co-ordination where there are federal and provincial regulatory components (e.g., between Revenu Québec and the CRA). Share best practices (at least three provinces have regulation control or reduction policies) and ideally generate some healthy competition between jurisdictions to reduce unnecessary regulatory burden.

T3 and T5013 Filing Process Improvements

Problem: Legislative and regulatory changes introduced last year, requiring issuers of publicly listed income and capital trusts and limited partnerships (LPs) to file information centrally and electronically, did not extend to privately issued vehicles due to an oversight in industry representations. Private income trusts and capital trusts, as well as limited partnerships, need only file their tax breakdowns by the end of March whereas IIAC members need to report these breakdowns to holders, also by the end of March. Additionally, while the mandated filing of publicly listed income trusts, capital trusts and LPs was very helpful, it was less successful than hoped as some hold private trusts and LPs in their portfolio and they needed to wait for tax information from these private entities before filing. Moreover, one member reported hearing from an issuer, when the member followed up to obtain the information that still had not been filed at March 31, that "the CRA will never charge a penalty." The overlapping deadlines (and potentially attitudes of some filers) means clients receive their tax slips late, they may be inaccurate in the first instance and thus investors may experience delays in filing their tax returns and receiving their refunds, causing problems for clients and complaints for brokers and other tax-reporting forms. This has meant that reporting income associated with privately issued trusts and LPs is less timely and investors continue to receive possibly inaccurate or late tax information, while some issuers perpetuate late filing due to the belief that they will not be penalized.

Solution:

1. Mandate the filing on the CDS Innovations Inc. website of income from *private* income and capital trusts/limited partnerships that issuers must provide to investors and the CRA as publicly listed income and capital trusts and limited partnerships are now doing.
2. Consider eliminating the requirement of issuers to also file with the CRA.
3. Use the filing dates as a basis to apply late filing penalties to any issuers that are more than two weeks past due.

Note: Going forward, any new measures should similarly require central electronic reporting of all non-client-specific tax information.

Cost-benefit analysis:

Costs	Benefits
• **No material impact on government revenues;** any impact would be slightly positive • Some potential although transitional impact on private income and capital trusts and LPs as they arrange for earlier audits to allow them to complete their tax filings • Legislative change required, but should be minor with minor related cost	• **Tax system integrity is unaffected and its efficiency is improved** • Investors should receive tax slips earlier and they should be more accurate, reducing the need to refile • The CRA should have a reduced need to input corrections and pursue client refilings • Issuers should, after a transition period, receive less calls and questions from tax reporting forms • Issuers would benefit from no longer having to file with the CRA on top of on the website • The CRA would have an independent easily verifiable way to ensure that filing deadlines are adhered to • Tax reporting firms will experience reduced costs of data collection and repeat tax slip mailing

Conclusion: Benefits clearly outweigh costs; the recommended change is only required to correct an oversight.

The recommended change is in line with Taxpayer Bill of Rights commitment #10 – taxpayers have the right to have the costs of compliance taken into account when administering tax legislation – and Commitment to Small Business #2: to streamline service, minimize cost and reduce the compliance burden. Over half of IIAC members are small businesses.

Dividend Eligibility Process Improvements

Problem: While the 2006 elimination of the double taxation of large corporate dividends represents a major step forward for investors, administering the eligible dividend legislation continues to impose unnecessary costs on issuers and significant costs on tax reporting firms. The legislation requires *all* issuers to file whether their dividends are eligible or not, although our estimates before implementation, confirmed since, are that well over 95 per cent of dividends from publicly listed companies are eligible. As well, tax reporting firms must spend considerable time trying to locate and obtain information on thousands of issuers' dividends – information that may not easily be found.

Solution:

1. Require firms with ineligible dividends to file notice of this with the publicly accessible Canadian Depository for Securities Limited Innovations (already mandated by Finance as the filing location for issuers to file income trust, capital trust and limited partnership information) and mandate that this be sufficient for issuer filing purposes.
2. To prevent the leakage that this may seem to allow, require issuers to confirm in a return to the Canada Revenue Agency that their issues are eligible or other than eligible.

Cost-benefit analysis:

Costs	Benefits
• **No impact on government revenues** (except possibly where an issuer with eligible dividends did not indicate this and by default the dividends were treated as other than eligible – an inappropriate outcome) • Issuers with other-than-eligible dividends will likely have no net change in overall reporting costs – many may experience savings and for others, for any additional workload associated with filing centrally in electronic form, there will likely be a more-than-corresponding reduction in contacts from tax-reporting firms to confirm the dividend information • Legislative change required, but minor with little cost	• T**ax system efficiency and integrity will be improved** • Investors will be able to more easily verify the tax status of their dividends • Issuers will have on average a net reduction in overall reporting costs • CRA will be able to identify more easily the eligible and other-than-eligible dividends for audit purposes, reducing time and taxpayer cost, as well as to monitor and if necessary penalize late filers • Tax reporting firms will experience reduced costs of search and monitoring

Conclusion: From an economic perspective, there will be a net good as net savings are redirected to developing new services, increasing returns, etc.

The recommended change is in line with Taxpayer Bill of Rights commitment #10 – taxpayers have the right to have the costs of compliance taken into account when administering tax legislation – and Commitment to Small Business #2: to streamline service, minimize cost and reduce the compliance burden. Over half of IIAC members are small businesses.

Issuer Tax Reporting Errors and Tax Slip Preparation/Re-mailing

Problem: The current process requires tax reporting firms to bear all costs of issuer filing errors. Based on a review of the data on the CDS Innovations Inc. Tax Breakdown Posting website facility, it is estimated that 25 per cent of T3s are filed with errors that require amendment. As an example, an issuer that had filed March 29 submitted a revision on April 29, well after tax slips had been mailed. While this leads to the costs of remailings, problematic in itself, it is all the more difficult and costly for tax reporting firms when the errors are from previous tax years (in April 2008, a number of revisions relating to the 2006 tax year were received) and it will be hugely frustrating for investors, most of whom direct their dissatisfaction towards the messenger – the tax reporting firms – rather than towards the issuers. We understand that the CRA has advised that there is no option within the *Income Tax Act* or *Regulations* to address this ongoing problem.

Solution: Implement a "user-pay" principle to govern the tax slip re-issuance process – either the CRA or the issuer are "using" the services of the tax reporting firms and should bear the related costs, especially for re-issuance of slips from preceding years which requires even more work. There are a number of options that Finance, the CRA and issuers should discuss, predominantly the following:

- Where the amount to be collected from individual investors/taxpayers is below a *de minimis* amount, waive the need for investors to refile and intermediaries to re-mail
- For amounts above the threshold, require the issuer to absorb the costs – pay the tax – or re-imburse tax reporting firms for the related costs (for example, possibly on a flat-recovery-per-xx-slips basis to be determined by the CRA and intermediaries, according to an agreed-upon process, which will include a letter from the issuer explaining the reason for the tax slip re-issuance
- Work on a communication strategy with the law society, accountant and law firms, Canadian Investor Relations Institute (CIRI), Canadian Society for Corporate Secretaries (CSCS), transfer agents and other relevant groups and the CRA to discuss and promote better, more timely and more accurate reporting.

Cost-benefit analysis:

Costs	Benefits
• **Slightly positive impact on government revenues** • Minimal time required for small legislative and/or regulatory change • Some issuers will pay more, however, this is the appropriate outcome from a user-pay basis	• **Tax system integrity and efficiency are improved – the user-pay approach applies the correct incentives/disincentives to ensure accuracy the first time** • Investors will avoid the need to refile due to no fault of their own • Credibility of the CRA and government is enhanced • Tax reporting firms will avoid costs for work correcting errors

Conclusion: Benefits clearly outweigh costs.

The recommended change is in line with Taxpayer Bill of Rights commitment #10 – taxpayers have the right to have the costs of compliance taken into account when administering tax legislation – and Commitment to Small Business #2: to streamline service, minimize cost and reduce the compliance burden. Over half of IIAC members are small businesses.

Receipt Too Late of Tax Change Requirements

Problem: It has been rare in recent years that changes announced in the federal budget have lead to information being provided to tax reporting firms in sufficient time for a cost-effective implementation of systems changes. The CRA has advised that details are late in coming to them from Finance and that there is no provision for grace. In the past few years, final guides and sometimes specifications have not even been ready prior to the tax season for which changes apply. This not only exposes tax reporting firms to the risk of penalties for errors and late filing, but leads to significantly greater costs due to an increased volume of questions from issuers, possible need to replace interim "quick-and-dirty" processes later and a greater number of errors. It causes significant cost and frustration for taxpayers, issuers and tax reporting firms. A recent example relates to the change in T5013 forms, where members and the IIAC itself fielded hundreds of calls.

Solution: Provide for administrative relief in all cases in the first year of tax change implementation. Provide a "manned" dedicated separate CRA phone number and e-mail contact in the case of material changes – in the case of the recent T5013 change, this would have significantly reduced calls and problems and almost certainly have reduced errors. Also, a dedicated line would give the CRA a much better first-hand understanding of where there are problems, ideally improving the development of more efficient administrative requirements in future.

Cost-benefit analysis:

Costs	Benefits
• **Likely minimal to no impact on government revenues – possibly slightly positive**	• **Tax system integrity and efficiency are improved** • Would reduce the need for investors to refile, with consequential additional savings for the CRA • Would provide significantly greater value to issuers and tax reporting firms, and expedite filing

Conclusion: Benefits outweigh costs.

The recommended change is in line with Taxpayer Bill of Rights commitment #10 – taxpayers have the right to have the costs of compliance taken into account when administering tax legislation – and Commitment to Small Business #2: to streamline service, minimize cost and reduce the compliance burden. Over half of IIAC members are small businesses.

XML File Reject Solution

Problems:

1. Currently, intermediaries experience the rejection of entire XML files when only a few records are invalid. As an example, a tax filer had to resubmit T3 XML files to CRA, which should have deleted the records from the initial files and replaced them with the data from the new files. Some were apparently processed correctly, but the initial files were never deleted on the rest, resulting in numerous complaints from individuals of duplicated values. Even with the removal of the duplicates, the individuals will still face problems, as we understand the CRA procedure is not to frequently sweep the updated data into the processing area, which can mean problems being perpetuated for months. Once the problem was identified, it appeared that the taxpayer must initiate contact with the CRA, rather than the CRA pro-actively correcting the errors.

2. The electronic RSP contribution receipt requirements for XML files have ambiguities that may be the cause of problems. For a spousal contribution indicator, the XML instructions use the vague terminology of, for example, "has the spouse ever contributed". File requirements for non-contribution transactions (e.g., estate transfers, 60J and 60L transfers) apparently do not distinguish between transaction types. AFAIK transactions are effectively neutral, with the withdrawal (reported on a T4 slip) equaling the contribution, however, the T4 information is a required filing, while the contribution is not. Taxpayers' T1 filings are rejected for incorrect data as paper slips do not reconcile to the XML file.

3. There is a tolerance for difference between the actual slip records and the summary total (whether this be by paper slip or by XML file) as decimals are not keyed in for greater keypunch efficiency, meaning differences between the slips and slip summaries. The larger an XML file, the greater the likelihood that there will be discrepancies beyond the tolerance, incorrectly resulting in duplicated filings, leading to problems for taxpayers and intermediaries.

Solution:

1. Clarify processing instructions as there may be some misunderstandings (e.g., regarding whether an "A" meant "amended" or "additional"). Assess what the impact on errors is, in reconciliations, of filings without trust ID numbers (see p. 11). If the foregoing does not address the concern, allow intermediaries to adjust invalid records instead of re-sending whole XML files. We are pleased to be in discussion with the CRA on this issue.
2. Re-construct the RSP contribution XML requirements to define unique transaction types.
3. Match records on a one-to-one basis or better manage reconciliation instead of simply trying to match from the summary total.

Cost-benefit analysis:

Costs	Benefits
• **No unfair impact on government revenues**	• **Improvement in tax system integrity and efficiency** • Individuals will not be forced to bear the burden of errors (refiling, potentially interest or penalties) • CRA will benefit from a reduced need to manage refilings • Intermediaries will have less need to refile/follow up/placate clients

Conclusion: Benefits outweigh costs.

The recommended change is in line with Taxpayer Bill of Rights commitment #10 – taxpayers have the right to have the costs of compliance taken into account when administering tax legislation – and Commitment to Small Business #2: to streamline service, minimize cost and reduce the compliance burden. Over half of IIAC members are small businesses.

Non-Resident Tax (NRT) and Other Withholding Improvements

Note: A number of these issues are currently under review with the CRA.

Problems:

- ***NR7 forms:*** Clients are supposed to ask for refunds using an NR7R form, however, an NR7R must be used for each distribution instead of one form per intermediary per tax year.
- ***Trust unit and split corporation distributions:*** For trust unit and split corporation distributions, intermediaries must provide the CRA with the NRT on the full distribution even though part of the distribution may contain non-taxable components like return of capital.
- ***Yearly NRT accounts with the CRA:*** Yearly NRT accounts with the CRA close as of December 31, but intermediaries are not in a position to know how much money really should have been withheld until the last trust issuer has reported around March 31 and, then, the clients have to be refunded the money that was over-withheld from their account at the time of distribution, leading to significant out-of-balance situations.
- ***Withholding on RSP withdrawals:*** CRA requires withholding tax on registered plan withdrawals by the third business day of the New Year. With many branch staff on holiday before the end of the year, it is impossible to get everything correct by the third business day. We would suggest a grace period until the middle of January on the previous year's transactions and remittances.

Solution:

- ***NR7 forms:*** Accept one form per intermediary per tax year.
- ***Trust unit and split corporation distributions:*** No longer require non-resident tax payments related to trust unit and split corporation distributions on the full distribution when part of the distribution may contain non-taxable components like return of capital.
- ***Yearly NRT accounts with the CRA:*** Close yearly NRT accounts with the CRA as of March 31 to avoid over-withholding and significant out-of-balance situations and clients having to obtain refunds.
- ***Withholding on RSP withdrawals:*** Provide intermediaries with the option only to remit withholding tax on registered plan withdrawals by the middle of January on the previous year's transactions and remittances.

Cost-benefit analysis:

Costs	Benefits
• **Minimal impact on government revenues** (timing only or government was collecting tax that it should not have been)	• **Improvement in tax system integrity and efficiency due to less paper, less risk of error, less need to refile** • Fairer to investors; also, investors are less likely to have to refile • Environmentally friendly – less paper • CRA will benefit from a reduced need to manage refilings • Intermediaries will make fewer errors, less need to refile/duplicate efforts

Conclusion: Benefits outweigh costs.

The recommended change is in line with Taxpayer Bill of Rights commitment #10 – taxpayers have the right to have the costs of compliance taken into account when administering tax legislation – and Commitment to Small Business #2: to streamline service, minimize cost and reduce the compliance burden. Over half of IIAC members are small businesses.

Trust Identification Numbers (TINs) Needed Before Tax Season

Problem: The lack of easy access to TINs has regularly caused filing problems and additional administrative costs – it is a longstanding and known problem that could be easily managed on a manual basis but has not been given priority and it appears that it will not be given priority again in 2008. Unlike Business Numbers that are easily available in at most a few business days, the TINs are only being assigned *after* income statements are filed. While a work-around is to file a nil return, the process for this is not well-known or understood and is cause for concern for issuers who have been advised to do this. The interim measure used to date within the CRA appears to have lead to the creation of a TIN or temporary TIN for each trust *per tax reporting firm*, that is, each trust ends up with multiple reference numbers.

Solution: Provide a manual alternative immediately until a systems change is made; if this, for some legislative or regulatory reason, is not possible, broadly communicate to trusts, or to trusts through their intermediaries, how to obtain a filer ID before their first year of tax filing by filing a nil return. Alternatively, allow the dealers and CDS Innovations Inc. to develop a proxy that at least would allow the estimated more than half of T3/T5013 filings that occur through Canada's investment dealers to be processed more effectively (note that CDS is Canada's National Number Agency).

Cost-benefit analysis:

Costs	Benefits
• **No impact on government revenues**	• **Tax system integrity and efficiency are improved** • Would reduce the need for investors to refile, with a consequential reduction in costs for the CRA • Would provide significantly greater value to issuers and tax reporting firms and expedite filing

Conclusion: Benefits outweigh costs.

The recommended change is in line with Taxpayer Bill of Rights commitment #10 – taxpayers have the right to have the costs of compliance taken into account when administering tax legislation – and Commitment to Small Business #2: to streamline service, minimize cost and reduce the compliance burden. Over half of IIAC members are small businesses.

Registered Retirement Income Fund (RRIF) Transfer Process Improvements

Problem: The *Income Tax Act* requires intermediaries transferring client RRIFs to another institution to withhold a residual amount – the minimum amount that must be withdrawn each year after RRIF set-up based on the RRIF-holder's age and the RRIF's fair market value at the beginning of the year. This can cause cash flow difficulties for investors and may require investors to liquidate securities at an inopportune time or be unable to trade for a period while the transfer is occurring.

Solution: Allow intermediaries the option of transmitting the necessary information between transferring and receiving institutions; for the broker/dealers that process over half of the account transfers in this country, this means the ability to transfer information, including the minimum payment obligation, to the receiving institution electronically through ATON, a system funded by the investment dealer community as a way to speed transfers and better serve clients.

Cost-benefit analysis:

Costs	Benefits

• **No impact on government revenues as there is no tax withheld on the residual payment**
• Legislative change required, but should be minor with minor related cost
• No hard costs for any intermediary that chooses not to transmit information if they do not want to incur systems changes (some time will be needed for a system implementation for firms choosing to use one)
	• **Improved fairness and perceived fairness of tax system; no change to efficiency and integrity of the tax system**
	• Seniors:
	  • Can manage their cash flow better, important for those on a fixed income
	  • Do not risk having to cash in investments when markets are down
	  • Are not shut out of the market while investments are redeemed before transfer
	  • Can transfer their account assets more quickly through ATON, the investment industry's electronic account transfer utility
	• Improved transfer efficiency through unified use of ATON

Conclusion: Benefit of greater fairness clearly outweigh costs of what is essentially a timing difference and cost of drafting a small legislative change – no difference in risk of intermediary error and no impact on tax system efficiency/integrity.

The recommended change is in line with Taxpayer Bill of Rights commitment #10: taxpayers have the right to have the costs of compliance taken into account when administering tax legislation – intermediaries' compliance with tax legislation/regulations is at the implicit expense of seniors who must take the residual amount out at an inconvenient time that may be in a market downturn.

Anti-Money Laundering (AML) Legislation/Regulations Streamlining

Problem:

1. The industry is preparing for the final implementation in June 2008 of Bill C-25 – amendments to the federal *Proceeds of Crime (Money Laundering) and Terrorist Financing Act 2000* and related regulations. While the amendments will bring Canadian AML rules in line with international standards and although we share the goals of controlling money-laundering and funding for terrorists, the regulations taking effect this June will impede how investment dealers conduct international business, adding to costs and impairing the efficiency of transactional flows with dealers in ways that provide no additional benefits. The apparent goal of achieving identical rules across jurisdictions appears to be more important than meeting efficiency goals by recognizing identity verification for firms already demonstrating that they meet AML requirements in jurisdictions meeting similarly high levels of AML demands. Despite conversations with senior officials at the Department of Finance outlining the competitive issues surrounding AML requirements, to date Finance has not been willing to consider exemptions for off-short regulated entities. Unless foreign financial institutions can get in under the exemption for public companies listed on recognized exchanges with more than $75 million in assets, there are no exemptions.

2. Also, it seems that the application of the updated AML rules will not be identical in different jurisdictions. Once they are implemented, where individuals wanting to become clients are not physically present when an account is opened, one of three options to confirm the individual's identity must be used. The first cannot be used outside Canada other than with an affiliate. The second option is much less flexible than that in, say, the U.S., as it requires referring to an independent Canadian identification product or, with the individual's permission, referring to a credit file OR (2) obtaining an attestation concerning an identification document for the individual from a commissioner of oaths or a guarantor AND (3) confirming that a cheque drawn on a deposit account with a Canadian financial entity has cleared OR (4) confirming that the individual has a deposit account with a Canadian financial entity (in both cases other than one that is exempt from identification requirements). There is also an option to use an agent or mandatary to make face-to-face identification: "The Canadian securities dealer must have a written contract with the agent, describing the agent's responsibilities, and the agent must accept the conditions of the contract. Where a Canadian securities dealer opts to enter into such an arrangement, the ultimate responsibility for ascertaining identity and making any third-party determination remains with the Canadian securities dealer." These three options are in contrast to those allowed by the U.S. Securities and Exchange Commission, which provides that "… documentary and non-documentary verification methods set forth in the rule are not meant to be an exclusive list of the appropriate means of verification. Other reasonable methods may be available now or in the future. The purpose of making the rule flexible is to allow broker-dealers to select verification methods that are, as section 326 requires, reasonable and practicable. Methods that are appropriate for a smaller broker-dealer with a fairly localized customer base may not be sufficient for a larger firm with customers from many different countries. The proposed rule recognizes this and, therefore, allows broker-dealers to employ such verification methods as would be suitable to a given firm to form a reasonable belief that it knows the true identities of its customers."

Solution: Rather than pursuing point-for-point global consistency in AML provisions, seek to achieve global effectiveness, by introducing regulations that address the problem of money-laundering without diminishing the efficiency of Canadian capital markets and market participants, specifically, provide exemptive relief for client verification requirements for off-shore-managed funds already registered in a recognized jurisdiction such as the U.S. and U.K. and review the second example provided above.

Cost-benefit analysis:

Costs	Benefits
• **Time to explain/justify changes to counterparts in other countries**	• **AML legislation and regulation framework integrity is undiminished** • Capital markets efficiency is improved • Would be a particularly important concession for smaller firms • Lowers compliance costs for dealers without any commensurate added risk of money-laundering or terrorist activity • Enhances the competitiveness of Canadian capital markets

Conclusion: Pursue the exemptive relief noted. Revisit and address identified differences between countries' rules.

Locked-In Account Transfers (LIRA)/Registered Education Savings Plans (RESPs) Paper Elimination

Problem: It is understood that the transfer of locked-in accounts requires the transfer of paper locked-in agreements. Also, we understand that the transfer of notional information for RESPs must be made by paper. Reliance on paperwork can cause significant delays – the ability to process all data through ATON, the investment industry's electronic account transfer utility, means a less than 10-day transfer time compared to, on average, at least a month. Moreover, the need for paperwork increases risk, causing additional problems for intermediaries, investors and, we presume, the CRA. With respect to RESPs, the lack of a systems solutions increases the risk of error and prevents errors from being detected and corrected earlier.

Solution:

1. Identify and assign a task force of appropriate persons for each of LIRAs and RESPs to develop processes for the electronic exchange of, respectively, LIRA and RESP information.
2. Help as required facilitate trustee participation at an organization level (Canadian Bar Association, Canadian Law Society), as well as a review by the relevant parts of provincial and federal legislative areas, notably, we believe:
   - Alberta, B.C. and Manitoba require the transferring institution to advise the receiving institution in writing of the requirement to lock-in the money
   - Nova Scotia requires that the transferee advise any subsequent transferee in writing that the amount transferred must be administered as a pension or deferred pension under the Act and the regulations
   - Newfoundland requires that the transferee advise any subsequent transferee in writing that the amount transferred must be administered as a pension benefit under the Act.
3. With respect to RESPs, work with Human Resources Development Canada (HRDC) on a systems solution, at RESP offerors' option, to address the problem of "unmatched" entries.

Cost-benefit analysis:

Costs	Benefits
• **No impact on government revenues** • Cost of HRDC systems changes, however, this should be offset by staff time savings over time	• **Tax system integrity and efficiency are improved** • Investor transfers will proceed more quickly as ATON enables transfers to be completed within 10 days – transactions involving paper regularly take over a month to process fully • ATON, the investment industry's electronic account transfer utility that processes over half of Canadian securities and mutual fund account transfers, will be able to be used fully, providing an excellent systems-generated audit trail for any necessary CRA verification related to these products • Environmentally friendly – paper use is reduced • Intermediary efficiency is improved and intermediary costs are reduced in the long run due to reduced paper handling, filing, etc.

Conclusion: Benefits significantly outweigh net costs, although implementation may take some time due to the requirement for some systems development.

The recommended change is in line with Taxpayer Bill of Rights commitment #10 – taxpayers have the right to have the costs of compliance taken into account when administering tax legislation – and Commitment to Small Business #2: to streamline service, minimize cost and reduce the compliance burden. Over half of IIAC members are small businesses.

Goods and Services Tax (GST) Legislation and Forms Improvements

Note: Refer April 30, 2007 letter from B. Amsden (IIAC) to B. Hamilton (Finance).

Problem: Draft legislation, tabled January 26, 2007, on the application of the GST to the financial services sector and proposed changes to the annual schedule would, if unchanged, impose prescribed input tax credit (ITC) recovery rate limits; make changes retroactive to November 2005; amend the GST treatment of imported supplies; and change the Annual Schedule.

Comments: We have not received: (1) clarification as to why the proposed legislative changes are required in the securities sector as IIAC members, already subject to extensive audits that allow for the identification of any concerns, are not aware of any consistent issues within the dealer community; (2) the estimated financial effect – direct and indirect – of the changes on the sector and how the maximum 15-per-cent rate applicable to securities dealers was calculated; (3) how the proposed changes – the prescribed ITC recovery rate and the taxation of non-taxable-in-Canada input sources in the case of imported non-arm's-length transactions – are consistent with principles of value-added taxation (VAT); and (4) comparable tax provisions from legislation in other Organization for Economic Co-operation and Development (OECD) countries that demonstrate how the proposed changes promote a level playing field internationally and domestically where certain advisory services may be offered by non-financial institutions.

Solution:

1. Allow more time for implementation if the ITC allocation method is changed and capped.
2. Make new imported supplies rules effective no earlier than the legislation's release date or, if they require significant systems changes, at least a year after the date of enactment to allow for efficient systems changes; confirm the transitional election will be available for all registrants; expand the section 150 election for closely-related parties or otherwise alleviate the inappropriate taxation of inputs that would not otherwise be taxable, including with respect to "loading"; exclude items on which value-added tax has already been paid from being subject to a VAT/GST a second time.
3. If the new annual return is to proceed, extend the implementation deadline until after Royal Assent with six months following fiscal year-end to complete the return, which uses data collected to complete the corporate income tax returns due within six months of fiscal year-end; allow amended returns to be filed to correct information to avoid complications for firms and the CRA.
4. Provide the financial institutions with a right of appeal to the CRA on issues applicable to administration of the GST and that the six-per-cent penalty is not automatic, applying only in cases of fraud or where there is evidence of continuous negligence.
5. Eliminate retroactive application of those aspects of the legislation or provide for administrative relief where warranted.

Cost-benefit analysis:

Costs	Benefits
• **In theory, to the extent the measures are not a revenue grab, there is little impact on federal government revenues given auditor access to challenge any issues of concern** (assuming changes are not being made to increase the net revenue from the financial sector) • Implementing ITC caps and changes on imported supplies, and preventing the right to appeal, without explanation call into question the GST's objectivity and fairness	• **Without the requested information summarized under Comments above, definitive comments on the solutions' impacts on tax system efficiency and integrity are difficult to make, however, implementing all or part of the recommended solutions would maintain or improve the credibility of the tax system**

Conclusion: Do not implement the draft legislation until the benefits and fairness of the changes are confirmed.

The recommended change is in line with Taxpayer Bill of Rights commitment #10 – taxpayers have the right to have the costs of compliance taken into account when administering tax legislation – and Commitment to Small Business #2: to streamline service, minimize cost and reduce the compliance burden. Over half of IIAC members are small businesses..

Tax-Free Savings Accounts (TFSAs) Reporting and Process Simplification

Note: For complete details, refer the IIAC's April 23, 2008 submission to Finance on TFSAs.

Problem: Proposed legislation for the new TFSA requires use of a trust structure, which is more costly than contractual relations. A number of the parameters of the TFSA, based on a review of the legislation and/or discussions with the CRA, seem to differ from those of registered retirement savings plans, which would add to the complexities of implementation and maintenance of the accounts, notably different eligible and prohibited investments, different reporting requirements, different procedures upon the death of a plan holder, etc. This would mean more investor complexity, greater technology costs, more training costs, more risks of error, etc.

Solution:

1. Use in every material respect the provisions of the registered retirement savings plan as the model for TFSAs to provide greater consistency for investors/savers, CRA and intermediaries.
2. Allow TFSAs to be opened during the months before the official start date, to a zero balance, to avoid the need to staff up in January, already a busy time for firms from the perspective of RRSP season and the start of the tax season.
3. Allow TFSAs to be issued also via contract and be offered by brokers.

Cost-benefit analysis:

Costs	Benefits
• **No material impact on government revenues** (any potential loss of revenue through over-contributions should be discouraged by penalties) • Proposed legislation will require minor changes	• **Tax system integrity and efficiency are unchanged** • Simpler for investors to understand a common set of parameters for RRSPs and TFSAs • Lower costs for CRA and CRA audits simplified as fewer parameters differ • Greater efficiency and cost-effectiveness for intermediaries

Conclusion: Benefits outweigh net costs.

The recommended change is in line with Taxpayer Bill of Rights commitment #10 – taxpayers have the right to have the costs of compliance taken into account when administering tax legislation – and Commitment to Small Business #2: to streamline service, minimize cost and reduce the compliance burden. Over half of IIAC members are small businesses.