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Dear M. Pépin:

**Re: "Cost or Book Value"**

We wanted to provide an update on a number of issues related to RL-18s (CRA T5008s) in preparation for our January 2015 meeting. As you know, we think that a project started by Revenu Québec may have implications more broadly. For this reason, we hope that all parties can be involved in these efforts and work together at appropriate times to achieve the best outcomes.

We have been in touch with CRA staff (copied on this letter) to discuss what we learned from Revenu Québec's initiative regarding ways we believe will improve identification by taxpayers of documentation they need for income tax reporting and we understand there will be efforts through formal channels as well. Also, we are now pleased to be working with CPA Canada, the new professional accounting organization that is the result of the unification of the three leading accounting professions, as well as with a person in the tax software provider community. These parties are collaborating on opportunities to improve outcomes for tax authorities, taxpayers, tax reporting entities such as investment dealers, as well as professional accountants and tax software providers who help individual Canadians complete their tax returns. Finally, as you know, securities regulators have introduced new rules that will require the reporting of what is called 'position cost' – that is, 'original cost' or 'book cost'. A number of issues are in discussion so that taxpayers are not confused and potentially they or their tax professionals do not inadvertently misuse information for their tax returns.

Below is where we think matters currently stand and we hope that this can help serve as background for part of our January discussions.

1. **RL-18 and T5008 Improvements:** The investment dealers are working on:
  - (i) greater standardization of RL-18 and T5008s – Securities Transactions – in accordance with tax authority form customization requirements (including the greater recognizability of the documents as ones needing to be kept for tax purposes) and
  - (ii) enhancements to the forms' presentation to improve their usability by taxpayers and their tax professionals.

**Action: IIAC Dealer and Service Providers** will roll out the new format, if they have not done so, in the 2015 tax season for the 2014 tax year (some firms), and the year after for the remainder of firms. The forms will go through the normal RQ and CRA approval processes.

2. **Box 20 – Cost or Book Value:** In June 2014, Revenu Québec officials advised they would like dealers to start reporting on 'cost or book value' in Box 20 of the RL-18 (CRA T5008). We appreciate Revenu Québec's one-year deferral in implementation requirements relating to Box 20 until the 2015 year due to the link with securities regulation changes and RQ requesting additional information (when market value is used for book value and the date of this). While Revenu Québec officials recognize the incomplete nature of dealer book cost data, we can understand why what could be provided on a best-efforts basis might be helpful. That said, most, if not all, investment dealers use a single document to meet both RQ and CRA requirements, so we think that what is on the forms/summaries and XML transmissions must be acceptable, and reasonable for dealers to provide, to both CRA and RQ. Current CRA guidance indicates concerns with the 'cost or book value' field being completed incorrectly.

**Requested Action – CRA/RQ:** We would like to ensure CRA and RQ both:

- (i) Have discussed the potential effect on taxpayers' completing their tax returns inaccurately given Box 20 being completed (a communications strategy will be important, as discussed below)
- (ii) Provide sufficient time for any systems change (we do not think this will be an issue at present, given discussions underway, however, it will be important to conclude discussions very early in the New Year and adding a date may be a challenge).

**Requested Action – CRA/RQ (with CPA Canada):** The issue that RQ identified led to the consideration of what percentage of mis-reporting was deliberate, what was due to the difference in look of T5008s/RL-18s and what was simple misunderstanding. In the latter case, a short, plain-language information sheet for investors/taxpayers would help them understand what they will get as tax slips and what they need to keep themselves to complete their tax returns correctly. Attachment 1 is a very rough draft to offer a sense of what type of information sheet might be useful for taxpayers, improve revenue collection and reduce accountant efforts (this was provided to the CRA on December 8 for similar, but different reasons). We are pleased that Revenu Québec has been in touch with its communications department in preparation for this work and a similar resource from the CRA would be helpful.

**CRA/RQ (with CPA Canada):** We think that CPA Canada would have useful contributions as well. Ideally an awareness campaign by the tax authorities, possibly with CPA Canada and perhaps tax software preparers' assistance, would have a good impact on greater tax compliance. The IIAC would send the final product to its members for their use with clients.

### 3. 'Cost or Book Value' Compared to 'Original Cost' or 'Book Cost'

Securities regulators have introduced rules that require inclusion of book or original cost on account statements. A good number of dealers have provided book cost to clients for some time, although some of these only for registered plans where foreign content limits used to apply. Although not originally identified by the dealers or other investment industry sectors as a problem, our members and possibly others now realize that a service valued (although relatively rarely used) by clients – adjustments made to bring the book value data the dealers have closer to adjusted cost base (ACB) – will not at present qualify for CRM2 position cost reporting (see Attachment 2). The CRM2 purpose is to provide a consistent base against which market value can be measured as a rough estimate of what investors have made or lost on a security-by-security basis. The IIAC has suggested that the personal elections:

- Are not a factor for most clients – but it is impossible or difficult to know which clients have provided such elections
- Only make the number more accurate from the perspective of a client that has made these adjustments
- Would allow such clients to make a purchase or sale decision taking into account some increased degree of tax consequences
- Still meets the purpose of the position cost requirement, namely to provide a rough security-by-security indication of the net increase or decrease in a security's value
- Means that clients that do make personal elections will not be confused by having two numbers on a statement in all or certain cases depending on approach.

While not a tax issue per se, the results of securities regulation may affect tax authorities, their clients and professional accountants in unexpected ways. First, book cost reporting has become more accurate over time through dealers working together to clarify, for example, the treatment of certain corporate action events and so it sometimes may be accurate for a particular client or security. Second, and more at issue here, to the extent that dealers are not certain whether what they have on record either includes personal elections that do not meet the new Client Relationship Model, Phase 2 (CRM2) book cost definition (original cost plus corporate actions, reinvested dividends, and return of capital) or was less accurate in the past than it is now, the new securities requirements effectively provide two options. That is, dealers may require the dealer to start a new field – easy in an excel spreadsheet, but less so given legacy systems – or to write over or repopulate existing fields with market value data, not just for fields that have a zero or N/A, but for all securities as the date used must be common for all securities and dealers did not need to keep a record of when personal elections were reflected in the past or how much they were for.

The effects are:

1. Anything the dealers report on RL-18s or T5008s as 'cost or book value' going forward will be dated as at July 15, 2015, and amended for the noted adjustments thereafter: this will leave the tax authorities with possibly less helpful information than currently available.
2. To the extent that professional accountants have helped their clients advise their dealer of personal elections or a client has done so him or herself, these accountants or individuals will have to find tax records that may be decades old when the taxpayer needs them at the time of the sale or redemption of their securities.

We have mentioned these concerns to and have been discussing these effects with securities regulators and, to a lesser extent, CPA Canada. The CRA, Revenu Québec and CPA Canada may wish to consider this issue further and assess the potential impact on their respective mandates.

We look forward to discussing these issues with you to confirm our understanding or address any questions you have. We will be in touch shortly or, in the meantime, please do not hesitate to contact me.

Yours sincerely,

Cc: Mickey Sarazin, Lousie DesLauriers, Sylvie Chenette, CRA  
Réjeanne Rivet, RQ  
James Carman, IFIC  
Gabe Hayos, CPA Canada  
Maureen Vance, Walters Kluwers  
CSA CRM2 Committee, c/o Chris Jepson

## Attachment 1

## Points for CRA/RQ to Consider for an Information Sheet re Documentation Needed for Tax Returns

## Own securities like stocks, bonds, funds or GICs?

## What you or your tax preparer need to complete your income tax return

As you gather tax slips to prepare for completing your tax return, what forms of investment income can you expect to receive tax slips from your financial institution for and what do you need to find yourself?

You can find a lot of information on the CRA website (and Revenue Quebec website if you live or lived in Quebec in the tax year), but to make it easier to get your tax return done when it comes to savings and investments, list all your securities and check them off as your tax slips come in.

## What you should receive from your financial institution

## If you have stocks, bonds, preferred shares, T-bills and deposit accounts ...

- **You will receive a T5 – Statement of Investment Income.** T5s must be sent to you by the end of February to report stock and preferred share dividends, and interest on bonds, T-bills, GICs and other accounts of at least \$50 per currency. You must report amounts of less than \$50 if you do not receive a receipt.

## If you have mutual funds or trusts, you will receive a ...

- **T3 – Statement of Trust Income Allocations and Designations.** It must be mailed by the end of March to report capital gains and trust and mutual fund income for amounts of at least \$100 (you must still report income of less than \$100). T3s include details such as expense items and return of capital that should be reflected in the adjusted cost base of the related security.

## If you have investment trusts or limited partnerships, you will receive a ...

- **T5013 – Statement of Partnership Income.** T5013s must be mailed by the end of March to report income and gains or losses for partnerships, such as real estate investment trusts.

## If you sold a security, you will receive a ...

- **T5008 – Proceeds of disposition or settlement amounts.** T5008s can be sent individually or you may receive a transaction summary listing all sales, redemptions, maturities, exchanges and expirations for the calendar year (and often purchases).

## What tax-related information do you have to find or keep yourself?

What you won't receive in most cases is a tax slip of capital gains or losses because your financial institution will not know about holdings you have in other financial institutions, if you have made certain tax elections or when certain other events occur. The information you need to calculate the gain or loss on the sale of your securities on Schedule 3 of your income tax return are:

- (1) what you sell the securities for,
- (2) the adjusted cost base (ACB) – what you paid to buy the security modified to reflect things such as reinvested dividends, return of capital and other things, and
- (3) commissions and other expenses.

For more on ACB, *[tax authorities to elaborate]*. Clients and their tax preparers can make adjustments to information on T5008s or transaction summaries using data from other tax slips (like T3s). You may also need to refer to transaction summaries from past years.

SIMPLIFIED RECONCILIATION OF VARIOUS "BOOK" COSTS		Attachment 2
As at December 15, 2014		
<b>Securities Regulatory Terms</b>		<b>Tax Authority Terms</b>
<b>Market Value</b>		
<i>Adjusted by...</i>		<i>Adjusted by...</i>
Commissions	↔	Commissions
=		+
CSA/IIROC "Original Cost"		Legal and other acquisition costs (e.g., for some private placements)
		=
<i>Adjusted by</i>		<b>CRA/RQ "Cost or Book Value"</b> (per T5008/RL-18 Guide – initial outlay/price paid for security)
Corporate Actions + Reinvested Dividends + Return of Capital	↔	Corporate Actions + Reinvested Dividends + Return of Capital
=		=
CSA/IIROC "Book Cost"		<b>CRA/RQ Cost Base</b> (per RC4169 Tax Treatment of Mutual Funds for Individuals and T4037 – Capital Gains re limited partnerships, other securities)
<i>Adjusted by...</i>		<i>Adjusted by...</i>
Optional personal tax elections	↔	Optional personal tax elections
=		+
Currently in IIROC Dealer Book Cost Optional personal election* adjustments have not been tracked	↔	Adjustments per circumstances of transaction or client
<b>Comments:</b>		=
1. There may be little difference between the CSA's/IIROC's book value definition (above) and what dealers providing book value report to clients (right). Client accounts that have asset book value reported with no personal elections significantly outnumber those that reflect personal elections.		<b>CRA/RQ Adjusted Cost Base (ACB)</b> (per RC4169 Tax Treatment of Mutual Funds for Individuals and T4037 – Capital Gains)
2. CRA and RQ know the information dealers have as book cost is not ACB (an Income Tax Act definition), and that any book value reported is indicative only.		<i>Adjusted by...</i>
3. There is always a risk clients will use book value for tax purposes and under- or over-report capital gains/losses. The IIAC has developed material and asked tax authorities to help complete and disseminate basic fact sheets regarding what clients need to do to ensure accurate income tax return completion.		Adjustments to reflect holdings of same securities in other forms or places
4. Transfers in , where book value is provided or a client later brings in book cost, may contain personal elections.		=
5. Book value with elections is an appropriate base for use as a rough measure of performance as personal elections are rare and requested by the clients. A different or additional number would cause confusion.		<b>"True" CRA/RQ Client-and-Security-Specific ACB</b>
		* Personal elections include: Deemed disposition on the date of death; spousal rollovers; IPP tracking of book value; changes made effective Feb. 22, 1994 to take into consideration the elimination of the lifetime capital gains exemption; etc.

