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

# Bill 218: *Ontario Tax Plan for More Jobs and Growth Act, 2009*

Legislative Assembly of Ontario
Standing Committee on
Finance and Economic Affairs

December 7, 2009
Opening Remarks

Ian Russell, President and CEO
Investment Industry Association of Canada

Good morning.

I appreciate this opportunity to appear before the Standing Committee on Finance and Economic Affairs, and participate in hearings on Bill 218.

The Investment Industry Association of Canada represents over 200 member firms, 130 of which are headquartered in Ontario, employing approximately 25,000 Ontario residents. In 2009, our members are projected to pay over $1 billion in total federal and provincial taxes, with Ontario being a primary beneficiary of this revenue.

Our members fulfill another vital role in the Ontario economy, advising clients on their savings and investments held through individual and institutional portfolios. IIAC member firms also advise large and small Ontario companies on capital raising and corporate structuring. Our members are under the regulation of IIROC (the Investment Industry Regulatory Organization of Canada), requiring high proficiency standards and qualifications.

The financial crisis and its aftermath have had a debilitating impact on our retail and institutional clients, and on Canadian firms focused on building successful businesses in competitive global markets. The collapse in share prices and the modest and volatile recovery has put a serious dent in retirement savings and increased uncertainty and concerns about retirement prospects. This crisis has also caused difficulties for Ontario companies, particularly small companies, to raise new capital to increase productivity and expand output.

The harmonization of provincial sales tax with the federal GST is generally a positive step that will generate considerable economic benefit from increased capital spending, notably through lower taxes on business inputs such as machinery and equipment, and the reduced administrative burden for Ontario businesses. However, harmonization will have an adverse impact on financial services and Canadian investors.

**The Impact on Exempt Financial Services**

There are two specific ways the HST will affect financial services. I would first like to address the impact of harmonization on financial services that are currently exempt from the payment of GST by the consumer. Financial institutions do not charge sales tax on these exempt financial services, however, they may be charged GST through the manufacturing process. Since the customer is not charged GST, financial institutions are not eligible for any input tax credits.

Under harmonization, financial services that were non-taxable will be subject to the combined HST. As the inputs are ineligible for tax credits, the HST paid to provide these services will likely be passed onto the consumer through higher prices. ***Harmonization will therefore significantly increase the cost of***

***delivering financial services which will result in higher costs to the consumer.***

To address this problem, we have recommended to the Ontario and federal governments that relief from HST should be provided to financial institutions, by allowing them to claim input tax credits on these exempt services on a transitional basis. This would assist in the containment of costs, and would benefit both financial institutions and investors.

**<u>The Impact on Taxable Financial Services</u>**

The second issue I would like to address is the impact the proposed HST will have on our members and Ontario investors in relation to financial products and services that are currently subject to the GST. These services include discretionary portfolio management, RRSP and RRIF withdrawals, and account transfers. Under harmonization, these 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.**

To address this problem, we have recommended that the Ontario and federal governments provide a tax exemption for financial services that are currently subject to GST from the additional tax that would be imposed as a result of harmonization.

**Targeted Relief for Middle Income Investors**

However, we recognize that the financial crisis has also left Ontario with a large fiscal deficit that may seriously constrain the ability to provide the recommended relief. If the government is not prepared to proceed with the recommendations described, it might consider providing narrowly targeted relief to middle and lower income investors, whose retirement portfolios consist predominantly of mutual funds held in registered accounts.

The reduction or removal of the application of GST to mutual funds held in registered retirement accounts would lower the costs within registered plans and raise the return for investors.

Since most Canadians hold retirement savings in registered accounts, this relief would help the average Canadian increase retirement savings, reducing the draw on the Old Age and Guaranteed Income Supplements. Ultimately, increased retirement savings will mean increased tax revenue when savings are withdrawn from a registered account.

**Overall Impact on Capital Markets and the Financial Services Industry**

The additional costs to Ontario investors from harmonization will come at a very inopportune time. Many Ontarians are trying to recoup losses in their portfolios, especially those who are saving for retirement. The Ontario government should be encouraging investment and restoring confidence in its local capital markets. We believe that the relief measures we've proposed would encourage savings and investment among Ontario residents and contribute to the province's long term financial health.

Additionally, financial institutions are a major employer in Ontario 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.

I would like to remind the Committee that through adversity comes opportunity. The decision to impose the HST on financial services should be examined through a strategic prism of promoting growth in the Ontario economy. The financial sector and associations based in Ontario and the federal, provincial, and municipal governments have funded a comprehensive and realistic study with a series of recommendations to promote the financial sector in Ontario creating it as one of the two leading financial clusters in North America and one of the top 10 global leaders. Now, more than ever, is the time to take stock of the strengthens and weaknesses of financial services industry and develop a strategy to ensure the ongoing health and capitalize on opportunities for growth. The impact of the HST on financial services will militate against these efforts.

In closing, the IIAC would like to thank the Committee for the opportunity to present our ideas, and I would be happy to take questions from the panel.

Thank you.