



THE INVESTMENT FUNDS INSTITUTE OF CANADA
L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA
151 YONGE ST., 5TH FLOOR, TORONTO, ONTARIO, M5C 2W7 TEL 416 363-2158 FAX 416 861-9937

BY FAX: 613-954-0896

May 17, 2005

Richard Montroy
Director General
Policy and Planning
Legislative Policy Directorate
22nd floor, Place de Ville, Tower A
325 Queen Street
Ottawa, ON K1A 0L5

Dear Mr. Montroy:

RE: T3 CONSOLIDATION – RETURN OF CAPITAL REPORTING

Further to your letter dated January 24, 2005 (CIMS 2005-011054 – copy enclosed), we are writing to you today on behalf of the Members of The Investment Funds Institute of Canada (“IFIC”). It is our desire to develop a mutually acceptable, long-term solution to the reporting of return of capital (“ROC”) distributions that meets the objective of the Canada Revenue Agency (“CRA”) to improve compliance as well as taxpayer awareness of adjustments to the cost base of their interests in trusts.

Background

As you are aware from our previous correspondence, IFIC members are concerned about the statement, set out in the 2004 T3 Guide, that where a mutual fund trust makes an ROC distribution that is to be reported in new Box 42 (reductions in adjusted cost base) the tax information for that fund cannot be included in a consolidated T3 slip with the information for other funds. A separate T3 slip has to be issued for that fund.

The existing ability of a fund manager to issue one combined T3 that consolidates all reportable amounts for an investor arising from more than one mutual fund of that manager provides substantial benefits to both investors and mutual fund companies. The benefits of reduced paperwork, costs, complexity, and confusion are both obvious and significant. The proposed requirement to issue separate T3 slips for mutual funds that pay a return of capital would undermine these benefits.

Mutual funds (and hence investors) will bear the resulting additional mailing costs and increased labour costs associated with managing a larger volume of slips.

From our perspective, we believe that the CRA's objectives should be satisfied under the current practice of reporting ROC and other distributions on a consolidated T3 basis. We would like to address each of the CRA's objectives, in turn, to set out our thoughts in this regard. We look forward to your comments regarding whether the CRA would still have a concern with consolidated T3 reporting.

1. Improving Compliance

We perceive that the CRA is concerned that through the consolidation process, the Agency will lose the ability to specifically track the ROC associated with each fund. This should not be a concern as most, if not all, fund companies file their annual T3 slips with the CRA through magnetic media, in which the information is **not consolidated** and is separately reported for each mutual fund trust. Thus, the CRA has exactly the information it is looking for through the electronic T3 filing process.

Furthermore, the disposition of mutual fund units can be made several years after the ROC distribution reported on a particular T3 slip. The CRA would still need to audit a particular taxpayer in order to determine whether the appropriate gain or loss has been reported.

2. Taxpayer awareness of ACB adjustments

Perhaps the CRA's bigger concern, however, is the ability for taxpayers to properly adjust their ACB to take into account a ROC distribution.

Under the current procedure whereby T3 information is consolidated, statements breaking down the various types of income (Canadian dividends, foreign income, and other income), tax credits (dividend tax credit, foreign tax credit), capital gains and ROC on a fund-by-fund basis are provided to investors along with the T3 slips.

We have attached an actual T3 slip that clearly shows that the investor has the necessary information needed to properly calculate the adjustment to their ACB as a result of receiving a reported ROC.

Issuing separate slips will not provide any more useful information to investors. As well, investors will be receiving more paperwork and thus may have a harder time keeping track of whether they have received all the required slips. This may lead to increased errors in tax reporting to the CRA by investors, as well as calls to mutual fund companies requesting duplicate slips (or just to find out why there are so many slips issued).

3. Timing

There is some urgency to our request as fund companies need to know as soon as possible whether they will need to modify their systems to accommodate the CRA's new request. This will involve major programming changes to their current extract systems (i.e. to get the programs to recognize when to combine and when not to combine) that would have to be undertaken and tested throughout the summer months to ensure accuracy in time for year end.

We hope that CRA reconsiders this matter and allows the continued use of consolidated T3 slips. Members of our Taxation Working Group would be pleased to meet with you at the earliest possible opportunity to discuss any further concerns you may have with respect to our request.

Please do not hesitate to contact John W. Murray, Vice President, Regulation & Corporate Affairs directly at (416) 363-2150, extension 225, to discuss further or to arrange a meeting at your convenience.

Yours truly,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

By: *“Original signed by Hon. Thomas A. Hockin”*

Hon. Thomas A. Hockin
President & Chief Executive Officer