



THE INVESTMENT FUNDS INSTITUTE OF CANADA  
L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

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[Translation]

November 8, 2006

Francois T. Tremblay  
Assistant Deputy Minister  
Revenu Quebec  
3800, rue Marly, 6<sup>e</sup> étage  
Dépôt 6.2.5  
Québec (Québec) G1X 4A5

Dear M. Tremblay,

**RE: Income Tax Withholding on Periodic Excess RRIF Withdrawals**

The Quebec Investment Funds Council (CFIQ) represents the majority of fund companies, mutual fund dealers and their service providers in the province of Quebec. Members manage 80 billion dollars worth of assets. CFIQ is the local chapter of the Investment Funds Institute of Canada (IFIC) representing assets under management totalling more than 600 billion dollars.

We would like to bring to your attention an issue in respect of withholding of Quebec income tax on certain withdrawals from registered retirement income funds (“RRIFs”).

Typically, an annuitant of a RRIF will arrange to receive withdrawals at periodic intervals (for example, monthly or quarterly). The total sum of periodic withdrawals in a calendar year will be at least the minimum amount as required by income tax legislation. An annuitant may arrange to withdraw more than the annual minimum amount. Therefore, each periodic withdrawal is made up of a minimum amount portion and an excess portion, if any. We will describe that excess portion as a “periodic excess withdrawal”.

It is clear that Quebec income tax withholding does not apply to the minimum portion of a periodic withdrawal but does apply to the excess portion. However, how withholding is applied to a periodic excess withdrawal has been the subject of some uncertainty and confusion.

Since 2005, many (if not most) registered plan issuers, have implemented a flat withholding rate of 16% applicable to *all* RRIF withdrawals, including lump sum and periodic withdrawals (but excluding minimum amount payments). However, Revenu

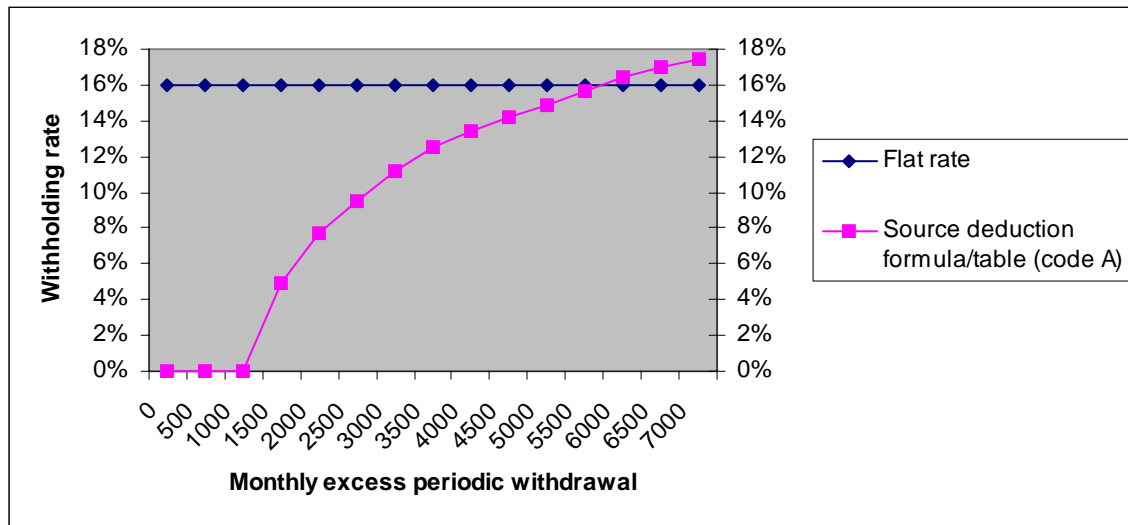
Quebec and the Ministry of Finance have taken the position that withholding on periodic excess withdrawals should be determined by the prescribed source deduction tables or mathematical formulae (“table/formula method”). In other words, withholding on periodic excess withdrawals from a RRIF is to be determined in the same way as withholding on employment income.

This withholding approach to RRIF periodic excess withdrawals stands in stark contrast to the flat rate withholding methodology that is required by Revenu Quebec for all other types of RRIF and RRSP withdrawals and by the Canada Revenue Agency for all RRIF and RRSP withdrawals (excluding minimum amount payments). The table/formula method attempts to approximate the actual rate of tax that would apply to the income, based on certain assumptions. *This stark difference in withholding methodology presents significant systems and process challenges for RRIF issuers.*

To apply the table/formula method, certain assumptions are applied based on the selection of a code. According to Revenu Quebec in its *Guide for Employers*, in the absence of a completed form TP1015.3-V (which would be the case for almost all existing RRIF annuitants), code “A” should be used. The calculation of tax withholding under code “A” applies the basic personal tax exemption of \$9,555.

Under code A, the table/formula method requires withholding from 0% to 16% for total annual periodic excess withdrawals of up to about \$70,000. For total annual amounts over \$70,000, the withholding rate will be more than 16%. For most if not all of our IFIC members, only a very small minority of RRIFs would fall in the over-\$70,000 category.

If a RRIF issuer continues to apply a flat 16% withholding rate, most RRIF annuitants will suffer from overwithholding of varying (sometimes significant) degrees. Underwithholding will result only in the very small minority of annuitants withdrawing more than \$70,000 of total annual periodic excess. Below is a sample chart of withholding based on monthly withdrawals:



The problem of overwithholding can be easily solved if a different code is applied in the table/formula method. The calculation of withholding under code “O” does not consider the basic personal tax exemption. Under code “O”, if the total annual periodic excess withdrawals is approximately \$30,000 or less, the required withholding will be almost the same as the 16% rate required by the flat rate method.

The use of code “O” would provide RRIF issuers with the practical and economical option of maintaining their existing systems which apply the 16% flat withholding rate. Manual withholding processes would be used for the small minority of RRIF annuitants with more than \$30,000 total annual periodic excess withdrawals.

As it stands, code “O” cannot be applied without duly completed form TP1015.3-V. Having every RRIF annuitant complete that form would be highly onerous and impractical. Therefore, we respectfully request that Revenu Quebec allow RRIF issuers to apply code “O” as the default code in calculating withholding on periodic excess withdrawals.

We would be pleased to discuss this submission with you and will contact you in the near future.

ORIGINAL SIGNED BY :

Pierre Hamel  
Chair of the Board  
Conseil des fonds d’investissement du Québec