

HST on Managed Assets Cuts Investors Assets by Over \$1.9 Billion Annually

On July 1, 2010 the federal government facilitated the implementation of harmonization of the GST with provincial sales taxes in Ontario and B.C. While providing streamlined reporting and numerous cost savings for businesses, the implementation of the harmonization has resulted in Canadian investors paying the price on their retirement assets.

The Government of Canada has recognized that Canadians need to save more for their retirements, while at the same time they have implemented an increased tax on saving.

Many people are of the understanding that financial services are a GST exempt service. Individuals do not pay GST on their mortgage, their credit cards, bank accounts or Guaranteed Investment Certificates. However, many do not realize that the provision of asset management services, as defined by Canada Revenue Agency, is not GST-exempt services. Investors are paying GST on the management fees for mutual funds, segregated funds, exchange traded funds, hedge funds and managed pension plans.

With the harmonized sales tax, asset management services are now subject to the combined tax rate. Asset managers must collect and remit the HST that is applicable on their management fees. Managed Asset products are distributed to investors in provinces that are subject to the HST as well as provinces, which are not subject to HST. However, due to the pooled nature of expenses in an asset management account, all expenses are pro-rated to all investors.

The HST implementation rules drafted by the federal government require that the HST be calculated in proportion to the amount invested by residents of HST-participating provinces when compared to non-participating provinces. This results in a "blended rate" of tax for each pooled investment.

Hypothetical blended rate calculation:

Province	Tax Rate (%) (A)	% Invested (B)	Weighting (A) X (B)
British Columbia	12%	12%	1.44%
Nova Scotia	15%	3%	0.45%
Other HST Provinces	13%	55%	7.15%
Non-HST provinces	5%	30%	1.50%
Rate applied to all investors			10.54%

Investor Economics reported in November 2010 the following value of managed assets in Canada:

Value of Canadian mutual fund assets: \$720-billion
Value of Canadian-listed exchange-traded funds: \$36.2-billion
Value of segregated fund assets in Canada: \$83.3-billion
Value of hedge fund assets in Canada: \$45.7-billion
Value of closed-end funds: \$24.1-billion
Source: Investor Economics

The following chart summarizes the impact of the new HST on each of the various managed assets:

	Assets as of Nov 2010	Average Management Fees (%)	Average Management Fees (\$)	Assumed Blended HST rate (%)	Blended HST (\$)
Mutual Funds	\$ 720,000,000,000.00	2.00%	\$ 14,400,000,000.00	10.54%	\$ 1,517,760,000.00
Exchange-Traded Funds	\$ 36,200,000,000.00	0.45%	\$ 162,900,000.00	10.54%	\$ 17,169,660.00
Segregated Funds	\$ 83,300,000,000.00	2.50%	\$ 2,082,500,000.00	10.54%	\$ 219,495,500.00
Hedge Funds	\$ 45,700,000,000.00	2.50%	\$ 1,142,500,000.00	10.54%	\$ 120,419,500.00
Closed-end funds	\$ 24,100,000,000.00	2.00%	\$ 482,000,000.00	10.54%	\$ 50,802,800.00
	\$ 909,300,000,000.00	2.01%	\$ 18,269,900,000.00	10.54%	\$ 1,925,647,460.00

Value-added taxes, such as the GST and HST, are to by their nature supposed to be transparent to the taxpayer. With the inclusion of GST/HST in the reported Management Expense Ratio of managed assets, investors do not see the GST/HST. Most Canadians would be shocked to know that the provincial and federal governments are taxing their investments to the tune of \$1.9 Billion per year.

Recommendations

That the federal government continue to encourage Canadians to save for their own futures by exempting asset management services from the Goods and Services Tax.

Submitted by the Red Deer Chamber of Commerce

The Taxation Committee supports this resolution