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March 23, 2009

The Honourable Dwight Duncan
Minister of Finance and Chair of Management Board of Cabinet
7 Queen's Park Crescent, 7th floor
Toronto, Ontario
M7A 1Y7

Dear Minister Duncan,

Re. GST-PST Harmonization

Advocis, the Financial Advisors Association of Canada, would like to raise serious concerns about the impact of harmonization of the Ontario retail sales tax (PST) to the federal goods and services tax (GST) on investors of mutual funds and other professionally managed investment funds.

Advocis is the largest and oldest voluntary professional membership association of financial advisors and planners in Canada. Our association was founded in 1906, as the Life Underwriters Association of Canada. We have more than ten thousand members across Canada, five thousand of them in Ontario.

Advocis members provide comprehensive financial planning and investment advice, retirement and estate planning, risk management, employee benefit plans, disability coverage, long-term care and critical illness insurance to more than a million Ontario households and businesses. Our members are provincially licensed to sell life and health insurance, mutual funds and other securities. They are primarily owners and operators of their own small businesses, who create thousands of jobs across the province.

Ordinary Ontarians, in all walks of life, need financial advice, to help them to save and invest and plan for the future. Advocis financial advisors maintain lasting relationships with their clients based on trust. They take a long-term planning perspective and are helping to guide clients, young and old, individuals, families and businesses, especially during these times of economic and financial market uncertainty.

We understand that the Government is contemplating harmonization of the PST with the GST. Tax harmonization does offer economic benefits in terms of taxation and administrative efficiency. While there are definite advantages to harmonization, there also are serious disadvantages for Ontarians whose savings are managed through mutual funds, segregated funds, and other investment management vehicles.

For example, moving to the GST tax base and rate has major implications for the tax status of mutual funds as the PST does not currently apply to mutual funds. The move would mean that a combined sales tax rate of 13% would be applied to the annual servicing costs of mutual funds, up from the current GST rate of 5%. This tax is embedded in a fund's service costs, and would reduce investors' returns on their investments. The overall impact on mutual funds alone has been estimated by the Investment Funds Institute of Canada to be in the neighbourhood of \$500 million, based on current mutual fund assets under management. This would be a significant hit to Ontario investors' portfolios and investment returns.

Such a tax increase is particularly unwelcome at a time when most investment portfolios are reeling from a market downturn, and as investors are hoping to rebuild their portfolio values. It is vitally important to encourage people to save and invest for retirement, and investment funds play an important role in this. Reducing investment returns on mutual funds and other professionally managed investment funds is likely to foster a perception that they are an expensive and inefficient investment alternative.

We would be pleased to work with you and your officials to develop viable options to ensure that tax harmonization does not have a detrimental impact on Ontario investors.

Sincerely yours,

A handwritten signature in black ink, consisting of a stylized 'G' followed by a long horizontal line that ends in a small arrowhead pointing to the right.

Greg Pollock
President and CEO

A handwritten signature in black ink, appearing to be 'Kristan K. Birchard' written in a cursive, flowing style.

Kristan K. Birchard, CFP, CLU, CH.F.C., TEP
Chair, National Board of Directors