



THE INVESTMENT
FUNDS INSTITUTE
OF CANADA

L'INSTITUT DES FONDS
D'INVESTISSEMENT
DU CANADA

**Written Submission for the Pre-Budget
Consultations in Advance of the 2020 Budget**
Helping Canadians Achieve Retirement Security

By: The Investment Funds Institute of Canada

August 1, 2019

The Investment Funds Institute of Canada submits the following recommendation:

- **Recommendation 1:** That the government help Canadians strengthen their financial stability in retirement by discontinuing the GST/HST charged on mutual funds held in RRSP accounts.

Helping Canadians Achieve Retirement Security

Summary

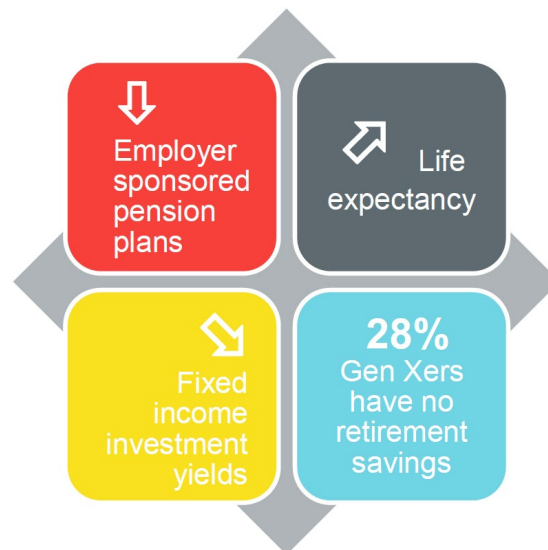
The Investment Funds Institute of Canada (IFIC) is the voice of Canada's investment funds industry. IFIC brings together 150 organizations, including fund managers, distributors and industry service organizations to foster a strong, stable investment sector where investors can realize their financial goals.

Today, it is increasingly challenging for Canadians to achieve financial readiness for retirement. With fewer workers covered by an employer pension plan, persistently low interest rates and longer life expectancies, the need for personal savings is more important than ever. While government programs like registered retirement savings plans (RRSPs) and tax-free savings accounts (TFSAs) are designed to encourage Canadians to save for retirement, these efforts are undermined by sales taxes that continue to be unfairly applied to investment fund management fees, reducing the retirement savings in Canada's most popular retirement investment vehicle.

IFIC recommends that the government end the application of GST/HST on mutual funds held in RRSP accounts. This efficient and effective solution enables Canadians to keep more of their retirement savings; it is also firmly aligned with the government's policy priority to help Canadians save more.

Personal savings are critical for retirement

Today, it's increasingly challenging for Canadians to achieve financial readiness for retirement. With fewer workers covered by an employer pension plan, persistently low interest rates and longer life expectancies, the need for personal savings is more important than ever.



The number of Canadians who have employer sponsored pension plans continues to decline. Today, less than a third of Canadian workers can count on an employer sponsored pension plan in retirement, and even fewer are covered by a defined benefit pension plan.

Increased life expectancy is also intensifying the retirement concerns of Canadians. According to research from Matthew Greenwald & Associates, only 45 per cent of Canadians are confident they'll be able to maintain their standard of living in retirement to a life expectancy of 85. However, confidence levels fall to only 42 per cent for a life expectancy of 90 and continue to decline from there.

Contributing to concerns about retirement readiness, low interest rates have decreased the yields of many fixed income investments (bonds, Guaranteed Investment Certificates, etc.), which traditionally played a significant role in retirement planning.

According to research from Franklin Templeton Investments Corp., 28 per cent of generation Xers in Canada haven't saved anything for retirement. Citing reasons including income, high expenses and the need to prioritize paying down debt, 56 per cent of Canadian generation Xers would consider retiring later if they don't have enough savings.

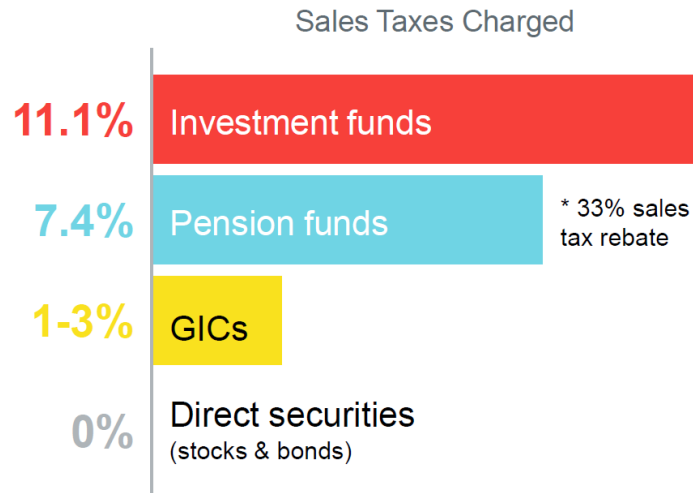
Unfair taxes are diminishing investor returns

While government programs like RRSPs and TFSAs are designed to encourage Canadians to save for retirement, these efforts are undermined by sales taxes that continue to be unfairly applied to investment fund management fees, reducing the retirements savings in Canada's most popular investment vehicle.

Investment funds are the savings vehicle of choice for Canadian investors, with investment funds accounting for 45 per cent of Canadians' \$1.2 trillion in RRSP investments.

The savings that Canadians place in investment funds are taxed unfairly compared to other investment products, for two reasons:

1. While sales taxes account for 11 per cent of mutual fund management expense ratios, Canadians only pay between one per cent and three per cent in embedded sales taxes for a guaranteed investment certificate and no tax at all when they directly purchase securities like stocks and bonds.
2. While pension funds are also subject to GST/HST, unlike investment funds, they can avail themselves of a 33 per cent rebate of sales taxes paid.



The sales taxes on investment funds disproportionately target lower-income investors, for whom investment funds offer an affordable way of getting professional financial advice, accessing equity market returns and diversifying their portfolios. Wealthier investors can access and afford to pay out of pocket for investment management and advice, and are able to deduct those fees from their taxes.

This taxation, unique to investment funds, can represent significant amounts of money particularly when compounded over time:

- For an investor having placed \$5,000 a year for 25 years in a fund with average annual returns of 8 per cent net of fees, these taxes will have cost \$7,307; for an investment of \$10,000 a year for 25 years, the cost will be \$14,614; and for an investment of \$20,000 a year for 25 years, the share of taxes will be \$29,228.10.
- Under the same assumptions, regardless of the amount invested, it will take 6 extra months to save for a goal that would have taken 30 years.

It is important to note that investment funds in Canada bear a greater tax burden than in other comparable markets, including the U.S., U.K., France, Australia and New Zealand.

Reduce tax burden on retirement savings

Discontinuing the GST/HST on investment funds held in RRSP accounts is an efficient and effective solution that is firmly aligned with the government's policy priority to help Canadians save more because it lets Canadians keep more of their retirement savings.

Investment funds are a critical savings vehicle for modest investors. 79 per cent of Canadian households have less than \$100,000 in investable assets. Nearly 39 per cent of all household investable assets are in investment funds because they enable investors to cost-effectively diversify their holdings and access equity market returns.

Targeting investment funds in RRSP accounts for this tax relief is a simple, straightforward and easily-explained approach, and the benefits flow directly to investors. The change would be seamless for government and investment fund investors, requiring no Canada Revenue Agency processing or system changes to implement.

Totalling an estimated \$1.16 billion in tax savings, this measure represents a meaningful tax change for millions of middle class Canadians saving for retirement, while providing a cost-effective solution for furthering the government's policy commitments.

Industry is doing its part

The investment funds industry is committed to delivering ever-greater efficiency and value to investors. As part of that commitment, we are advocating for the sales tax change to help the millions of Canadians saving for retirement through investment funds.

The investment funds industry is doing its part to improve efficiency. In the past five years, the average management fees for Canadian mutual funds have decreased by more than 11 per cent.

The industry does not stand to benefit materially from this change. The total assets under management (AUM) in investment funds in Canada is \$1.7 trillion; the \$1.16 billion in tax relief would increase total AUM by the same amount.

Conclusion

Discontinuing the GST/HST on investment funds held in RRSP accounts would be a simple solution that would immediately deliver important benefits to millions of modest investors in Canada who are working to save enough for their retirements.

Thank you for the opportunity to participate in the pre-budget consultation. IFIC would be pleased to meet with the Committee to discuss this recommendation. We welcome your questions and feedback.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Paul C. Bourque', with a long horizontal line extending to the right.

Paul C. Bourque, Q.C, ICD.D
President and CEO
The Investment Funds Institute of Canada