



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

April 27, 2007

Sales Tax Division, Tax Policy Branch
Department of Finance
Ottawa, Ontario
K1A 0G5

Re: A New GST/HST Rebate for Pension Plan Trusts

The Pension Investment Association of Canada (PIAC) is the representative association for pension funds in Canada in pension investment and related matters. The Member funds of PIAC collectively manage over \$790 billion in assets on behalf of millions of Canadians.

We wish to comment on the proposed amendments to the Excise Tax Act that were outlined in News Release 2007-006.

Current position

Under current rules, CRA allows employers to claim input tax credits for expenses related to the establishment and administration of a pension plan, but not input tax credits for expenses relating to the investment of the pension fund, on the basis that the pension fund is a separate taxpayer. An exception is provided for multi-employer pension plans, which are permitted to claim a rebate of 33% of the GST/HST paid on all of their expenses (that is, administration and investment expenses).

Proposal

We understand that the government proposes to replace the existing rules with a single rebate system, similar to the multi-employer pension plan rebate, for all employer-sponsored pension trusts. The rebate would cover 33% of the HST/GST paid on all expenses relating to pension plans, other than pension plans of listed financial institutions.

Comments

We appreciate the direction of the Department of Finance, but believe the proposed actions need to be significantly strengthened.

- PIAC believes that all pension plans should be treated equally. In general, large pension plans are able to administer pension plans in-house and manage investments in-house. The internal provision of these services by employees does not attract the payment of GST/HST. However, the majority of pension plans need to outsource these same services to pension administration firms and investment management firms. This requires the payment of GST/HST. Under your proposal, there will be winners and losers depending on the respective administrative and investment costs of each plan. In our view, pension plans should not be required to pay GST/HST on services required for the administration of pension plans, similar to the Quebec Sales Tax model, where taxable supplies for listed financial institutions are zero rated.
- What is the rationale for excluding pension plans of financial institutions from getting a rebate?
 - A 33% rebate seems to be an arbitrary number. One rationale brought forward to us is the belief by some that pension administration expenses were considered to be about 33% of total plan expenses historically. But this number differs based on the plan's cost structure. What is the rationale for a 33% rebate as opposed to a 100% rebate on all expenses?
 - In the case of pension plans that are not jointly trusteeed, it would be preferable to allow the employer to pool all expenses relating to the pension plan and claim the rebate directly.

PIAC would appreciate the opportunity to dialogue further with the Department of Finance on this matter.

Yours truly,

Terri Troy
Chair