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INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIERES

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

March 18, 2013

Mr. Mickey Sarazin
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Dear Mr. Sarazin:

Re: Proposed CRA/Tax Reporting Financial Institutions Advisory Group

We are writing to you on behalf of our member institutions that have significant responsibility for reporting of tax information relating to both registered and non-registered investment products to the CRA. IFIC and IIAC members are comprised of broker/dealers, mutual fund managers and mutual fund dealers. The nature of the products our industries offer often leads to a significant amount of complexity that needs to be addressed when implementing new CRA tax reporting requirements. It is for this reason, that we are suggesting that IFIC and IIAC be the initial industry representatives on the proposed advisory group. However, the benefits of such an advisory group would also accrue to banks, trust companies, credit unions, insurance companies, custodians, and others, who we refer to collectively in this letter as "tax reporting financial institutions" or TRFIs.

This letter outlines the mutual advantages that we believe having a formal consultative process between the CRA and TRFIs, as exists between the CRA and certain other groups, would bring. Over the years, our members' interactions and communications with CRA staff have become more effective at identifying and resolving issues that arise relating to tax reporting of investment income and other related matters. The growing success of our efforts has led us to conclude that formalizing a consultative relationship and process between the Canada Revenue Agency and the TRFI stakeholders would greatly enhance our ability to deal with outstanding and emerging issues in an effective and timely manner to ensure CRA's tax reporting goals are met.

We have found that there is tremendous value in government and industry sitting down together to discuss and find common ground that leads to more effective ways to implement CRA requirements and government policy. Working together has led to quicker and more effective enactment of new government regulations, reduction in taxpayer confusion and decreases in administration costs for both government and TRFIs, a material number of which are small businesses. Formalizing this process would assist both the CRA and the industry to address the challenges of implementing changes in reporting requirements and dealing with the implications for system changes and government prescribed deadlines.

Three recent examples of very productive discussions with the CRA – with IFIC and IIAC on behalf of their TRFI members – may be useful illustrations of the consultation we are proposing.

- **Make CRA reviews easier:** In the first case, CRA recently held a post mortem with several industry associations (IFIC, IIAC, CLHIA and the CBA) to discuss how the first year of the T3 matching audit program went and what could be done to improve the process going forward. The program was designed so that the CRA could reconcile the distributions paid out to trusts with the tax slips and trust returns that are filed with the government. The post mortem discussions clearly demonstrated that effective communication earlier in the process would have prevented many of the problems that had arisen.

  At the meeting, financial institutions noted that they had received assessment notices without any prior communication about the new process and had difficulties completing and returning the required information because the assessments did not always make it clear what numbers the financial institutions needed to reconcile against. The lack of prior notification, combined with the assessments being issued just prior to year-end, meant that financial institutions had little flexibility to add resources, nor could they pull resources away from their tax season production to meet the prescribed deadlines in the assessment notices.

  During the recent consultations, we believe that the CRA learned useful information about practices and problems TRFIs were having with the information reporting requirements, and also obtained useful feedback on the T3 matching program and the issues it raised. CRA's presentation regarding common filing errors was very helpful and will lead to fewer TRFI's errors in the future. All agreed that a government/industry working group would be beneficial to make the program more efficient in the future and reduce the number of assessments and re-assessments that would need to be issued. This will diminish the amount of work needed to be done by the CRA and the industry, while also reducing the time it would take the industry to get the requested information to the CRA. Additionally, this initiative will include discussing ways to make the trust reporting forms easier to fill out correctly, providing feedback for any CRA Q&A documents on the process and relying on IFIC acting as a communications hub to disseminate important information to TRFIs.

- **Avoid inadvertent problems for TRFIs:** A second example, while dealing with what might be considered a very minor formatting matter, would have significantly increased TRFI costs with no identified benefits conveyed to us. In 2012, the IIAC was made aware by a member that had by chance noticed a reporting change in October 2012 in a limited-access CRA database – too late in the 2012 tax-reporting-preparation cycle for TRFIs to do anything – that would have mandated a new format for T4RSP and T4RIF slips resulting in a change from a three-to a two-slip-a-page format. While possibly seeming trivial, this would have required TRFIs, and their service providers, and their print vendors to re-program systems, and move to a differently sized and more expensive envelope to mail out the slips to taxpayers – envelopes demanding increased postage of $1.05, up from $.63, a 72% cost increase on postage alone. A CRA staff member contacted acted quickly to avert this problem, however, working to avoid these issues from an earlier stage would save the CRA the time and development costs associated with a proposal that would have led to considerably more costs for TRFIs and ultimately client-taxpayers.

- **Devise ways to save CRA and TRFIs money:** The third example is the one where TRFIs proposed changes to the NR7-R withholding tax reclaim process to save time, money and client frustration. The original proposal was firmly rejected by the CRA and we very much appreciated that the CRA officers were still willing to discuss our proposal, in a thorough way, even though it appeared to be an open-and-shut case from their perspective. Once we understood their concerns, we were quickly able to agree on a new process that will save three or four minutes per incremental payment now covered with an NR7-R form. As this process becomes adopted by our members, it should save the CRA money, as CRA staff will be able to handle, say, 10 payments per one NR7-R form (two pages, i.e., one form and one spreadsheet), rather than only one payment per form (i.e., 10 NR7-Rs in this example).

We believe these three examples illustrate the benefits that both the CRA and TRFIs could derive from a more formalized program of consultation by and with the CRA on new developments, emerging issues and budget and audit initiatives. The CRA's resources are limited and scarce, and we fully appreciate that the CRA cannot consult with every taxpayer group or organization that wishes to have a better line of sight into tax developments and tax administration. However, we strongly urge you to consider the very important role that TRFIs play in ensuring tax compliance for many "ordinary Canadians" who report their income using the tax slips they receive. As an industry group, TRFIs take their compliance role in the Canadian tax system very seriously and want to help make that system work more efficiently, cost-effectively and smoothly. We believe that the input from TRFIs on tax reporting matters is not available or currently being provided to CRA by any other consultative group, and so this input is otherwise not available to the CRA in a systematic way.

For all of these reasons, we hope that you will consider implementing a formal consultative process for TRFIs and attach a possible terms of reference for such a forum for your consideration. We would be pleased to discuss our request with you at your earliest convenience.

Yours sincerely,

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PROPOSED TERMS OF REFERENCE OF CRA-TRFI ADVISORY GROUP

Purpose of a CRA-TRFI Advisory Group: To ensure highly efficient and cost-effective compliance with government tax initiatives. To be accomplished through identification of opportunities for long-term improvements in the straight-through processing of tax slips and other matters related to TRFI involvement in delivering tax programs to Canadians and Canadian businesses. To provide an opportunity for the CRA to test, pre-announce possible changes/initiatives and obtain useful feedback on timing/systems changes and feasibility.

Members: The CRA and TRFI associations involved in tax reporting and federal program delivery with appropriate experts from their membership and service providers (possibly starting with the Investment Industry Association of Canada and the Investment Funds Institute of Canada given the level of complexity of the tax reporting issues that securities dealers and investment funds and dealers must address).

Agenda: Both the CRA and TRFIs can propose issues (see attached for possible topics). The agenda would not include individual issues or concerns arising for any particular TRFI.

Frequency: Quarterly; first meeting in Ottawa.

EXAMPLES OF POSSIBLE AGENDA TOPICS

Long-term planning:

- Automatically seek input from TRFIs on macro issues going forward that can affect systems builds

- Discuss implementation of major budget measures and timelines for publishing the new requirements and technical specifications

- Arrange a face-to-face meeting of senior but hands-on CRA and TRFI professionals to discuss strategic initiatives (e.g., the furtherance of Vision 2020, a concerted move to e-filing and paper elimination), how it could affect TRFIs and how TRFIs could provide useful input

Consultation:

- Create a "self-serve" TRFI-specific webpage portal for CRA to use for information dissemination/ soundings, and through which TRFIs can provide input on large macro issues and smaller, but important issues like plans to change forms. The "self-serve" portal could also point to the many different pages and locations that impact financial institutions and act as a one-stop shop for the industry. The CRA and TRFIs could work jointly on documents that should be available through it

- Use financial industry associations as an additional way to disseminate information to their members for greater consistency in tax reporting, etc.

- Provide "push" delivery of important (e.g., new forms, what's new in terms of technical issues), in a similar manner to the Registered Plans Administrator webpage function with with e-mail sign-up for emails whenever something new is posted) to ensure timely receipt of information, to ensure consistency and appropriate input at the right stage of development of new forms and processes

Follow-up/communication:

- Use the above-noted portal through which to track the status of discussion threads and submissions.

- Provide a Q&A function to support TRFIs with tax reporting queries that require guidance, possibly with an online issue "ticket" list using standard software to allow TRFI associations (and the CRA) to enter and track issues

- Maintain up-to-date contact lists for CRA personnel on key TRFI matters, ensure CRA point person has access to appropriate contacts and formalize a way of communicating new contacts when responsibilities change or staff transfer/leave

Paper reduction strategies:

- Review and develop a phased plan to eliminate all remaining TRFI paper requirements, subject to legal requirements

- Longer term, consider redirecting TRFI investor tax information to taxpayers' "myaccount" (at least in the case of errors), avoiding delays in receipt of, and lost tax slips

Slip errors:

- Provide consistent minimum thresholds below which amended tax slips are not required to be filed
- Identify better ways to address issuer errors, particularly when identified more than a year after the fact

Valuation:

- Discuss whether there are standards that could be applied to simplify key problem areas, such as valuation of "hard-to-value" securities

International issues:

- Develop a file feed of withholding tax rates per revenue types for all countries
- Champion work to develop tax forms that can serve multiple country purposes (this may also be welcomed favourably by other countries and industry groups – especially as FATCA Inter-Governmental Agreements lead to more countries exchanging tax reporting information)

Emerging issues such as the aging population:

- Discuss challenges associated with Baby Boomers retiring and then passing away, which will present increasing challenging related both to those living in retirement (e.g., RRIF transfers) and estates (e.g., the need for clearance certificates)
- Review issues surrounding allowing TRFIs to transmit minimum RRIF amount information among transferring and receiving institutions
- Consult with provinces to see whether it is possible to harmonize fully RRIF rules to reduce complexity