Calculation of $35 billion loss:

The income trust market closed on October 31, 2006 at 164.86 as measured by the S&P/TSX Income Trust Index.

On the evening of that same day, Finance Minister Jim Flaherty announced that he would introduce a 31.5% tax on income trusts. Two days later the index was at 138.21. This represents a loss of 16.2% which on a $200 billion market represents a loss of $32.5 billion. Two weeks later the index was at 135.51 representing a loss of 17.8% or $35.6 billion.

It is for this reason that we calculate the loss to be about $35 billion. To the extent that the Income Trust index has subsequently risen to higher levels does not diminish this “loss”. This is for two reasons. First, some investors may have sold immediately following this devastating announcement. Second, the subsequent increase in the index may itself be as a result of the effectiveness of advocacy against the trust taxation and therefore the market will have rebounded to reflect this degree of optimism. To the extent that this tax policy is actually enacted, this positive anticipation will dissipate and the index will drop to reflect this new reality. Second, there are an infinite number of variables that affect markets that would have intervened in the meantime that make it impossible to isolate the ongoing amount of the loss associated strictly with this policy. Those who cite loss numbers less than $35 billion are making the false assumption that the market, absent Flaherty’s devastating tax, would not currently be at a higher level than it was on October 31, 2006, namely 164.86. Their loss analyses incorrectly make this assumption. The correct loss figure is $35 billion.