

Attention Business/News Editors:

A Letter to the Liberals and Bloc Québécois from CAITI on the Public Hearings of the Finance Committee Concerning Income Trusts

TORONTO, Feb. 13 /CNW/ -

Mr. McCallum and M. Pacquette:

I would like to express our association's gratitude to you and your parties for making the Public Hearings on the proposed taxation of income trusts possible.

Much like the process of panning for gold, public hearings can be a very effective means to wash away fiction from fact.

A motherlode of truth was revealed by these hearings, namely:

1. Tax leakage was both a baseless assertion and a policy outcome driven result designed to achieve objectives not contained in the enabling legislation, The Ways and Means Motion, and therefore not explicitly agreed to by parliament.
2. All five provisions of the Ways and Means Motion remain unproven and therefore baseless. Considerable credible and factual information, studies and testimony that are now part of the public record prove these five assertions to all be false.
3. Canadians and foreign investors have sustained a loss of \$35 billion in their hard earned savings. Lesser amounts being quoted are only reflective of the myriad variables that have affected markets since the close of trading on November 2, 2006.
4. Canadians, in particular those 70% who are not members of employer pensions, will lose an important investment choice, and will have to resort to a reduced style of living and/or invest their life savings in foreign markets.
5. The savings of Canadians will become more captive to the securities of corporations and the products of certain financial services companies, notably life insurance companies like Manulife, who's CEO gave vigorous testimony against income trusts. His testimony was highly conflicted on at least two levels, as the CEO of a Corporation proper and the marketer of products competing with income trusts for "shelf space". His comments about capital adequacy are worthy of greater study by the Finance Committee as perhaps Mr. D'Alessandro was telling you that the Tier 1 Capital Adequacy Ratios for life insurance

companies should be raised to enhance the capital adequacy of these market participants.

6. The letters and testimony of Provincial Finance Ministers raise issues that, if valid, can be readily dealt with through the provincial sharing formula, which coincidentally is presently being negotiated by these very individuals with the federal Finance Minister.
7. The Governor of the Bank of Canada has based all his comments premised on the words "limited evidence suggests".
8. The PricewaterhouseCoopers study of December 11, 2006 (Income Trust Report) and the HLB Decision Economics Study of April 6, 2006 (Income Trusts and the National Economy) are based on exhaustive evidence and prove the Governor wrong on all accounts. All these reports are publicly available and have been provided to the Governor of the Bank of Canada following his testimony.
9. It appears that The Governor of the Bank of Canada may have allowed himself, and/or his office, to be politicized in this matter that is before parliament.
10. Individuals gave credible and compelling testimony on the losses they have suffered at the hands of the Tax Fairness Plan and this policy's impact on their future lives and the lives of their affected family members. These people have lost money, investment choice, and confidence in their government and our capital markets. This is also true for foreign investors who did not testify.
11. The question concerning the policy reasons behind why Canada's largest pension plans will be able to hold the economic equivalent of income trusts in their private equity portfolios and be free of tax and yet average Canadians will experience double taxation of comparable investments in their RRSPs, remains wholly unanswered. This is a gross inequity that further exacerbates Canada's two tiered pension system, defined by those with employer pensions and those without. How can this be labeled tax fairness? How can this inequity be voted into law?
12. The inevitable hostile take out of this important sector of the Canadian economy by foreign private equity and foreign corporations that many had predicted at the time of this policy's announcement has already begun, as witnessed by the announced takeovers of Calpine Power by US-based Harbinger Capital, Lakeport Brewing by Belgian-owned Labatts, Great Lakes

Carbon by Bombay-based Rain Commodities and Norcast by Swiss-based Pala Investments.

13. This takeout by foreign investors will result in tax leakage and is the sole consequence of a policy designed to stem tax leakage, tax leakage that was proven not to exist in the first place.
14. The conversion of BCE and Telus would actually have been tax positive to Ottawa, in light of the fact that both of these companies are not paying taxes for four years and two years respectively, a so called "tax holiday" only available to corporations seeking to minimize taxes.
15. Canadian corporations on average pay taxes at the rate of 6.3% of earnings, not the statutory rates of taxation.
16. Canada's largest securities regulator will unveil new rules by year-end to more clearly define how income trusts report distributable cash.

Conclusion:

Therefore as a result of these findings, our association is calling for a full repudiation of the Tax Fairness Plan in the name of fairness and good governance.

As such, all the existing income trusts should be fully grandfathered and be free of growth constraints. Measures should be taken for a transition period to protect these companies from the takeover frenzy that this policy has induced. Future conversions should be the subject of further study and policy evaluation involving stakeholder input through public consultation.

Thank you,

Brent Fullard

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