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ASSOCIATION OF CANADA

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ASSOCIATION CANADIENNE DES
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Industry Relations and Representation

Consolidated Reporting of Return of Capital on T3 Slips

Background

Following the 2004 Federal Budget, trust issuers have been required to report to their unit holders the portion of their distribution classified as Return of Capital (ROC). In compliance with this requirement, our Members issued T3 slips to unit holders in 2004, which included in Box 42, a consolidated ROC amount from all of the account's income trust holdings. In addition, all clients were provided with a summary information statement which showed the unconsolidated ROC amounts by income trust and by month of receipt.

The Canada Revenue Agency (CRA) has since notified our Members that the current practice of consolidated T3 reporting of ROC does not meet with the government's intended objectives, and requested that future reporting be done on an unconsolidated basis whereby separate T3 slips be provided for each income trust holding per account.

In June 2005, following discussions with representatives from CRA and our Members, the IDA wrote on behalf of its Members to the Minister of National Revenue requesting that he not proceed with the proposed changes. Our letter argued that the proposed changes would: 1) impose unnecessary operational costs on our Members, 2) would result in additional workloads that would not be manageable within the current, very tight timeframes allowed for T3 reporting, and 3) would result in no incremental benefits in the quantity and quality of information now being provided to clients or the CRA.

Update

Earlier this month, the IDA received a reply from CRA acknowledging that their intended objectives of encouraging the retention of records and improved awareness of the tax results to which ROC from trusts give rise may, in certain cases more easily be achieved by methods other than requiring separate T3 slips to be issued for each trust holding. As a result, CRA has indicated it will accept applications for its approval of customized T3 slips for issue to beneficiaries. Once approved, the custom slips could be used for the 2005 and subsequent reporting seasons. CRA officials in the Business Returns and Payments Processing Directorate will have the responsibility of setting criteria for and approving custom T3 slips. Those officials are currently developing for release in August detailed instructions for the customized T3 slips. Instructions will reflect a “willingness to approve” forms that satisfy requirements including, but not limited to:

- Ensuring trust beneficiaries receive on a single sheet of paper no larger than a legal size: two copies of the standard T3 and one table that prominently reports Box 42 amount on a trust-by-trust basis for each trust in respect of which the custom form provides reporting.
- The table must identify each separate trust and set out for each the portion of the amount reported in Box 42 of the standard T3 that pertains to it.

The IDA has since discussed CRA’s revised proposal with Members and will be drafting a reply. We are pleased that CRA has recognized it can meet its intended objectives with a consolidated approach to T3 summaries. We would however like to see further refinements to their proposal and will be working with them to achieve a mutually acceptable solution.

Kenneth A. Nason
Association Secretary