Executive Summary

PricewaterhouseCoopers LLP ("PwC") research and an in-depth analysis of the current income trust market in Canada sheds new light on the real performance of income trusts, their role in the Canadian economy and the tax implications of trusts in the period prior to the recent federal *Tax Fairness Plan*. This new information has the potential to markedly affect our understanding of the income trust sector.

This report includes:

- **A comprehensive look at estimates of federal tax leakage from income trusts**
  - there is little consensus on estimates of the total lost corporate tax revenue due to income trusts.

- **A review of the economic implications of income trusts**
  - There is little evidence supporting the hypothesis that income trusts hinder capital expenditure, productivity or economic growth.

- **A review of macroeconomic considerations**
  - With the challenges in improving productivity and the role of income trusts in creating a new avenue in capital markets perhaps there is the latitude and the incentive to consider alternatives to the tax system that recognizes the role of income trusts.

- **New information on the economic performance of income trusts**
  - The economic contribution of income trusts and other benefits, and a new threat to growing companies posed by the *Tax Fairness Policy*, requires further consideration.

- **PwC's proposal for policy alternatives**
  - Among the many alternatives proposed, two additional positive steps should be considered: make the proposed tax on trusts refundable to all Canadian investors (including pension funds and RRSP-holders), and eliminate double taxation of income earned and distributed as dividends by corporations by making the dividend tax credit fully refundable to all Canadian investors (including pension funds and RRSP-holders).

  - Consider sector specific exemptions, such as those proposed for certain Real Estate Investment Trusts ("REITs"), for certain sectors where warranted by economic policy. These sectors may include the energy and infrastructure sectors.

Our Position

We believe a confluence of events has delivered a rare opportunity for our capital markets. Not only could we improve the fairness of the Canadian tax system, but also streamline the performance of our capital markets, give our businesses an opportunity for more disciplined capital reinvestment and help them be more competitive, and enhance returns for tax-exempt investors like pension funds and RRSP-holders. These changes could be achieved at the same time as the government considers other alternatives including applying these changes to future conversions and limiting the negatives consequences associated with the inevitable alternative investment strategies for those investor groups most impacted by these changes. It is the ideal time to make the changes that will benefit current and future generations.