March 13, 2007

***"VIA FAX AND MAIL"***

**Minister of Finance**
The Honourable James M. Flaherty
Department of Finance Canada
House of Commons
Ottawa, Ontario K1A 0A6

**Re: Federation of Canadian Independent Deposit Brokers Submission:**
**"Deliver a Fair Tax Treatment for Interest Income!"**

Dear Minister,

The Federation of Canadian Independent Deposit Brokers (FCIDB), incorporated in 1987, is a Professional Standards Organization (PSO) with membership from all regions across Canada. It sets standards for its Member's and provides a context within which member deposit brokers operate. The Deposit Brokers and their representatives comprise a distribution channel for the Canadian consumer to access over 30 various Federal and Provincial Regulated Financial Institution members and their various deposit products.

Our member deposit brokers are independent retailers of financial products and services specializing in guaranteed investment products. Member deposit brokers distribute a broad range of financial products such as GICs, short-term instruments of deposit, annuities and a variety of investments that qualify for RRSPs and RRIFs for Canadian banks, Trust and Insurance companies. In addition, certain deposit broker firms are also offering mutual funds and life insurance products and income tax and financial planning services.

## 1. Support Investment and Economic Growth & Help Consumers Save

In 1988 the reigning government of the day eliminated the Investment Income Deduction allowing the Income Tax Act to fully tax interest income at 100% on such interest earning investments as guaranteed investment certificates, Treasury Bills, Canada Savings Bonds (CSBs) and other similar deposit securities. Since that time the elderly, individuals of modest means, conservative investors who cannot handle volatility or risk factors and relatively small depositors

with limited resources have been discriminated against. *These people are the very soul of conservative investing.* These people look for safe investments. They value the fact the capital of their investment is protected. They choose not to pursue huge returns in return for volatility or risk, or they may be just ordinary people who are content with what they have and are not interested in making a fortune or, perhaps, they don't have the sophistication, comprehension or the even dollars to invest in other investment products requiring the services of tax and financial professionals. What they do care about though, is that their investment is safe.

This type of investor realizes they differ from wealthy individuals in their investing habits. They know the investment products, services and the tax advantages that attract wealthy investors are not for them - the average Canadian. Interestingly enough, the present income tax system offers marked advantages to high income earners and those who can handle volatility and risk - not to those looking for safe investments or those who rely solely on interest income. Why is that?

It is because of that question we bring to your attention the inadequate tax provisions in today's tax system for those who rely on interest income. When the government eliminated the Investment Income Deduction, it encouraged investors into riskier investments providing a greater tax advantage than being offered for interest income. Certainly, risk tolerance levels are incorporated at all levels in the investment world, however, having said that, why is the government penalizing or discriminating against Canadians who are comfortable with interest bearing investments, such as guaranteed investment certificates, high-interest bank accounts, CSBs and other interest vehicles.

Grant you, these types of investment products are not entirely without risk either – they provide poor inflation protection, are taxed highly and there may be security risk. As with other investments, these risks can be minimized, and returns maximized, by employing various strategies. But what these investment products do allow, for those who investment in them, is - relief. Relief in knowing that the principle capital invested has insurance protection up to $100,000 for eligible investments. This is the most important factor. In the final report on CDIC's Awareness Survey released in April 2002, the measure of attitude toward deposit insurance indicates that Canadian's are concerned about the security of their money.

By taking a leap in reducing taxes on savings your government would be promoting one of the best ways to support investment and economic growth in addition to helping Canadian families save.

**2. Introduce an Effective Tax Advantage for Interest Income Investments**

Albert Einstein said, “The hardest thing in the world to understand is income tax”. Truthfully, we see such complexities within our own system. However, not only do we see complexities within the tax system but discrimination too. This tax discrimination translates into penalizing the conservative investor who would rather choose lower risk investments than gamble on variable return products and other investments with a risk factor.

The impact taxes have on investment income is huge. Each source of investment income - interest, foreign income, dividends and capital gains - is taxed differently and at different rates. Interestingly enough, interest income is subject to the highest taxed of all types of investment income, followed by capital gains and dividend income. Thus, leaving the conservative investor to bear the brunt of paying higher tax rates.

Yes, there are investment strategies that take into account tax breaks for the investor. Yes, investment choices must take into play the investor's risk tolerance and yes, these strategies must be the right fit for one's overall financial plan and investment program. Grant you these avenues are available to all Canadians but it is apparent these avenues are more suitable for the savvy investor, the wealthy and the risk-taker. What is important here is that we are overlooking a demographic of conservative investors who support and rely on interest income regardless of their wealth. Deposit investments in today's marketplace provide average returns of 4% and yet are subject to full taxation on every dollar earned. There are no tax breaks available. Yet, it should be realized that, interest earned from deposit investments does not make millionaires out of ordinary Canadians. Because of this, the conservative investor needs to take full advantage of tax incentives for their savings.

The Federation of Canadian Independent Deposit Brokers is requesting the Minister, on behalf of our clients and other conservative investor's, to propose:

- a tax fairness plan by creating a level playing field between interest income and other sources of investment income, and,

- introduce a tax-effective benefit for interest income

In summary, we believe that the delivery of a fair and equitable tax treatment for interest income is long overdue and that increasing the tax incentives to earn interest income is right for all Canadians.

The Executive of the Federation of Canadian Independent Deposit Brokers look forward to your immediate response and review of this situation on behalf of all Canadian depositors. I can be reached at my office at (519) 825-8000.

Sincerely,

Brenda Molnar, Executive Director
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