

Tax Tip
Week of February 8, 2010

Impact of HST on Investments

Ontario and British Columbia will harmonize their PST with the GST on July 1, 2010. There is a concern that the harmonization will have a negative impact on investments, including individuals that do not reside in these two provinces.

Currently there is no PST on management fees of mutual funds or exchange traded funds. Effective in July, the provincial sales tax component of the HST will be levied on such funds. Thus, a mutual fund with a value of \$200,000 may pay an additional \$400 per year in fees. This has created two concerns for the industry:

- Is it reasonable to charge different levels of management fees based upon the province of residence? If the fund decides against such a strategy, all investors, regardless of their province may end up paying higher fees
- exchanged traded funds have a lower management expense ratio, so the impact of the fees will be more noticeable against the index they are tracking. It may put them at a competitive disadvantage against foreign funds

If the company that manages your investments intends to pass on the increased fees to investors who do not live in Ontario or British Columbia, this may put them at a competitive disadvantage against firms that charge higher fees to Ontario and BC residents as compared to say an Alberta customer.

Investors who do not live in BC or Ontario should monitor the situation to ensure their management fees have not increased because of tax harmonization in a province in which they do not live.