The $300 Million Question

Is the uncertainty about income trusts behind us?

EDITORIAL

Institutions and income trusts have had a tough time getting to know each other. It wasn't long ago that the limited liability question kept many plan sponsors far away from trusts. However, when that issue was put to rest through provincial legislation awhile back, it seemed that income trusts were finally free to proliferate and move securely into the investment mainstream in Canada.

Until September 19 that is, when the Department of Finance threw another veil of uncertainty over the future of trusts by announcing a suspension of advanced tax rulings pending a consultation process to explore whether or not they are a threat to the Canadian economy. Why? Well, in part, because they felt that income trusts had cost the federal tax base a whopping $300 million.

It might be helpful to look at how that figure plays out compared with what went on in the markets in the wake of that announcement. In this issue's Field Notes, Sean Cleary and Greg MacKinnon observe that between the September 19 announcement and the announcement on November 23 that the feds were levelling the playing field between trusts and corporations with an enhanced dividend tax credit, the S&P/TSX Income Trust Index dropped over 9%. $300 million or not, it can be certain that those losses resonated through the Canadian economy—as of June 30, 2005, income trusts represented 9% of the quoted market value of the TSX. Bottom line—those 209 income trusts listed on Canada's biggest stock exchange represent a total of $147.6 billion.

The November 23 announcement led to a collective sigh of relief that materialized in a 5.9% jump in the S&P/TSX Capped Income Trust Index during the two days following the announcement (again, see Cleary and MacKinnon).

But while the federal-level debate over income trusts seems to have ended for now, there's still an election on the horizon and the measure hasn't yet been passed into law by parliament. While the income trust saga continues, *Canadian Investment Review* will continue to offer plan sponsors the research and insights they need to make their tough decisions. We can't promise that the future of trusts is set in stone. But articles like Felipe Aguerrevere's piece on what drives corporations to convert to income trusts and Cleary and MacKinnon's observations in this issue could be a good start.

—*Caroline Cakebread*

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