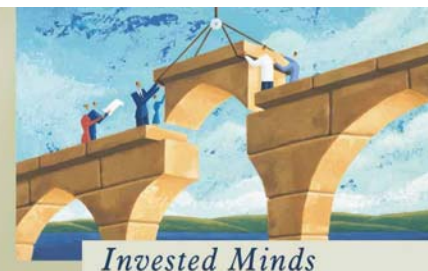




Global Asset Management Inc.

Market Insight



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Government Intervention on Income Trust Taxation Highly Unlikely

The *Globe & Mail's* Report on Business (March 3, 2004) featured an article suggesting the tax advantages of the income trust structure would be reduced or eliminated by the federal government in their upcoming budget. "Ottawa mulls tax changes for trusts" drew conclusions from a study co-authored by Jack Mintz of the C.D. Howe Institute on the impact of income trusts on government tax revenues.

The income trust market promptly sold off in what we believe is an irrational response to a misunderstood situation. Any government intervention on the income trust structure is highly unlikely for many reasons. Some of the most compelling of these include:

- **Missing the point:** The Mintz study is not suggesting the government address income trust taxation. Rather, it's suggesting intervention for dividend income taxation treatment to make dividends just as competitive as income trusts.
- **A drop in the bucket:** The potential tax loss to the government as a result of the tax-efficient income trust structure has been estimated at as low as \$350 million or as high as \$1 billion. The number is generally accepted to be around \$600 million. This represents less than a third of a percentage point of the government's total tax revenues each year. Surely they have bigger fish to fry.
- **It's an election year:** Income trusts have become an important source of income supporting Canada's aging demographic. Canadians have upwards of \$80 billion invested in income trusts, and the political repercussions of unfavourable intervention could be strong enough to impact an already tenuous election.
- **Cutting off the nose to spite the face:** It's debatable that the growth in the income trust market has positively impacted government tax revenues, not taken from them. For example, many of the businesses underlying trusts were not paying much tax before converting, there are tax consequences embedded in the conversion process, and investors pay a higher tax rate than corporations do on the distributions. Not to mention the U.S. assets that income trusts bring to the table for tax revenue collection.
- **Wealth creation:** The income trust structure has been criticized for attracting capital to low-growth businesses, however these mature companies are the foundation of our economy. The structure demands that all growth initiatives of the business be immediately accretive so that less opportunity exists for "strategic transactions" which can erode shareholder value.

"This is a far more complex issue than it appears and debate will likely continue for a long while," says Gaelen Morphet, TAL's leading income trust manager, who has been following trusts for eight years. "Independent studies are providing some interesting counterpoints to the tax loss argument, with more experts weighing in on the subject every day."

The Bottom Line

We do not believe investors are at risk of losing the advantages of income trusts.
Any government intervention at this point is highly unlikely.