



NDP questions accounting practices, urges freeze on income trust conversions

Wed Oct 18, 6:42 PM

OTTAWA (CP) - The federal New Democrats want the government to freeze new income trust conversions and re-assess the whole idea of income trusts.

NDP Finance Critic Judy Wasylycia-Leis cites new research on questionable accounting practices by income trusts, and on the trust conversion of large corporations to avoid income taxes.

Wasylycia-Leis says Canadians face a dual threat from income trusts because they stand to lose billions in corporate taxes that support health care, pensions and other programs while ordinary investors could lose money from income trusts' "exaggerated performance expectations."

She said halting new income trust conversions to allow an in-depth study should have been done long ago.

A new report by financial analyst Diane Urquhart - entitled "Income Trusts: Heads I Win, Tails You Lose" - attributes billions of dollars in lost trust investments to a series of fundamental flaws unique to the industry structure.

Telus announced earlier this year it plans to convert into an income trust, which would cut corporate taxes for the company but increase payments to investors.

The telecommunications company's president said some of the people criticizing income trusts don't know what they're talking about.

Darren Entwistle said government coffers will benefit from a variety of tax revenues that will offset the loss of corporate taxes.

"A lot of the discussion, conjecture and analysis that has transpired thus far is very superficial," he said Wednesday after a speech to the Canadian Chamber of Commerce in Ottawa.

"Think about all the tax consequences holistically."

Assuming his company's shift to an income trust results in a \$40 capital gain per share, government coffers will be able to impose a capital-gains tax of about 25 per cent on each of the company's 344 million shares.

"That's a nice revenue flow to the government," Entwistle said.

He added government will also see much higher revenues from dividend taxes, and will receive greater tax revenues from foreign investors.

Entwistle also disputed the common argument that income trusts discourage investments in future technology and innovation.

He said Telus owes its success to such technological investments and will make clear its continued commitment in just a few weeks.

"Judge for yourself when we communicate the capital investment that we will make in 2007, and judge it relative to the investment we have made in 2006," he said.

"See whether I'm true to my word."