

The Joint Committee on Taxation of  
The Canadian Bar Association  
and The Canadian Institute of  
Chartered Accountants

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June 21, 2005

Mr. Bob Hamilton  
Assistant Deputy Minister  
Tax Policy Branch  
Department of Finance  
140 O'Connor St.  
Ottawa, ON K1A 0G5

Dear Mr. Hamilton:

**Re: Personal Tax Relief — Offset Mechanism for Interest**

We are writing about a measure that was announced in the budget of February 28, 2000 but has not yet been enacted. The measure would allow an offsetting of interest on personal tax overpayments and underpayments, thereby removing an inequity faced by individual taxpayers. Our purpose in writing is to ensure that you are aware that this measure remains outstanding.

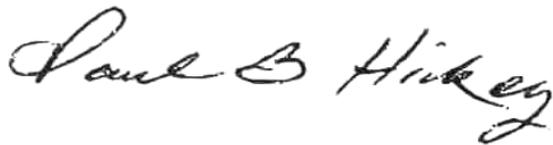
This measure is intended to provide relief when an individual owes tax for a year, on which arrears interest has accrued for a period, and has overpaid tax for another year, on which refund interest has accrued for all or part of the same period. This concurrent accrual of arrears and refund interest most commonly occurs when the CRA has adjusted a taxpayer's returns so that income that was reported in one year is shifted to another year.

Currently, refund interest is taxable to an individual even though the individual is not entitled to any deduction for arrears interest. To the extent that the arrears interest and the refund interest accrue over a common period, this result is inherently unfair to taxpayers. Resolution 23 in the February 28, 2000 budget announced a mechanism that would offset the taxable amount of refund interest by any arrears interest accruing over the same period. The resolution stated that the measure would apply to interest accruing over any period after 1999. A similar offset measure has already been enacted for corporations and applies to interest amounts that accrue after 1999.

On December 11, 2000, Finance Minister Paul Martin indicated in a press release that the Department of Finance and the Canada Revenue Agency were working to develop a mechanism under which the proposal could be implemented at the earliest opportunity. It appears that nothing related to this measure has been announced since then.

We urge the Department to recommend to the Minister that the offsetting mechanism for individuals be enacted. This measure would remove an element of unfairness in the tax system. We also urge the Department to recommend retaining the announced effective date for this measure, since there are taxpayers who are expecting relief for this period based on the budget announcement.

Yours truly,



Paul B. Hickey, CA  
Chair, Taxation Committee  
Canadian Institute of Chartered Accountants



Brian R. Carr  
Chair, Taxation Section  
Canadian Bar Association

Cc: Hon. Ralph Goodale, Minister of Finance  
Mr. Brian Ernewein, Dept. of Finance  
Mr. Len Farber, Dept. of Finance