

**Income Trust Imbroglia:  
Business Panel Has Mixed Opinion**

**BDO Dunwoody Weekly CEO/Business Leader Poll  
by COMPAS in the *Financial Post*  
for Publication April 9, 2007**



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## 1.0. Introduction

A public affairs and media-advertising campaign by the income trust sector has brought back income trust taxation policy into the news. The position of the COMPAS panel of CEOs and business leaders is mixed. From the perspective of the Harper government, the positive news is that panellists are virtually as convinced as in November, that income trusts are a threat to government revenues. Furthermore, the government earns a moderately positive performance score for its handling of the issue.

From the perspective of the Harper government, the bad news is that some panellists are beginning to see the Flaherty income trust taxation policy as a potential threat to Canadian ownership and control of the oil and gas industry.

These are the key findings from the past week's web survey of the COMPAS CEO and business leader panel undertaken for *The Financial Post* under sponsorship of BDO Dunwoody LLP.

## 2.0. Good and Bad News for the Harper Government

For the Harper government, the imbroglia over income trusts is not all bad news. The government continues to earn a moderately positive performance score (62%).<sup>1</sup> Though not as high as other Harper government scores, it is higher than most of the scores earned in the late Chretien and Martin periods.

Another item of goods news is that a majority of CEOs and business leaders on the panel see income trusts as a threat to economic growth, as indeed they did in November (see table 2). Most respondents agree in varying degrees with the notion that "income trusts were an increasing threat to economic growth because income trusts, unlike normal companies, were obliged to distribute their earnings and could not readily reinvest." Most also agree in varying degrees with the idea that "Income trusts were a threat to government because they deprived governments of necessary income."

The bad news for the government is that sizeable minorities believe that

- The government's taxation policy on income trusts will ultimately drive control of much of the energy sector

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<sup>1</sup> (Q1) On a 100 point performance scale, what grade would you give the federal government for its income trust policy?



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and its infrastructure into the hands of foreign trusts or entities that don't pay Canadian taxes;

- ❑ Income trusts are an efficient way of attracting capital for investing in the economy; and
- ❑ Income trusts are a constructive way of attracting capital for investing in the economy.

The following verbatim from a respondent captures the essence of the concern about the negative impact of Flaherty policy: "Watch for many more US based 'corporate raiders' coming to pick-off income trusts and their underlying businesses while their market prices are still at fire sale levels due to the Halloween 2006 broadside from the Federal Government."

*Table 2: (Q2) To what extent do you agree with the following opinions about income trusts, using a 7 point scale where 7 means agree strongly and 1, disagree strongly...RANDOMIZE*

	Mean	7	6	5	4	3	2	1	DNK
Income trusts were an increasing threat to economic growth because income trusts, unlike normal companies, were obliged to distribute their earnings and could not readily reinvest									
April 2007	4.6	14	19	20	12	8	9	8	11
November 2006	4.6	15	23	23	16	4	9	10	1
Income trusts were a threat to government because they deprived governments of necessary income									
April 2007	4.5	17	21	16	13	8	6	13	6
November 2006	4.7	18	24	20	10	9	9	9	1
Income trusts are a constructive way of attracting capital for investing in the economy									
April 2007	4.1	9	13	16	20	14	13	9	6
The government's taxation policy on income trusts will ultimately drive control of much of the energy sector and its infrastructure into the hands of foreign trusts or entities that don't pay Canadian taxes									
April 2007	4.0	11	13	13	13	12	16	9	15
Income trusts are an efficient way of attracting capital for investing in the economy									
April 2007	4.0	9	16	16	17	9	14	11	8

For other critics, the concern was less over substance than process. "Even if the government did need the tax money from income trusts," said one respondent, "they



broke their word and that is something that government needs to learn they cannot get away with.” “The Government's only error,” opined another panellist, “was in not fully setting up the policy change, not the policy change itself - they did the right thing the wrong way.”

One senior business leader wrote at length about the economics of the Flaherty policy. “One thing needs to be kept in mind is that public companies did not always have distributions, whereas trusts needed to have distributions to unit holders. The question is ‘was the reduction in corporate taxes through conversion offset by the taxes on the distributions.’ I feel this question has not been answered.”

### **3.0. Methodology**

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted April 3 -5, 2007. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of 128 are deemed accurate to within approximate 8.7 percentage points 19 times out of 20. The principal and co-investigator on this study are Conrad Winn, Ph.D. and Tamara Gottlieb.

