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# C-Suite Survey On Income Trusts

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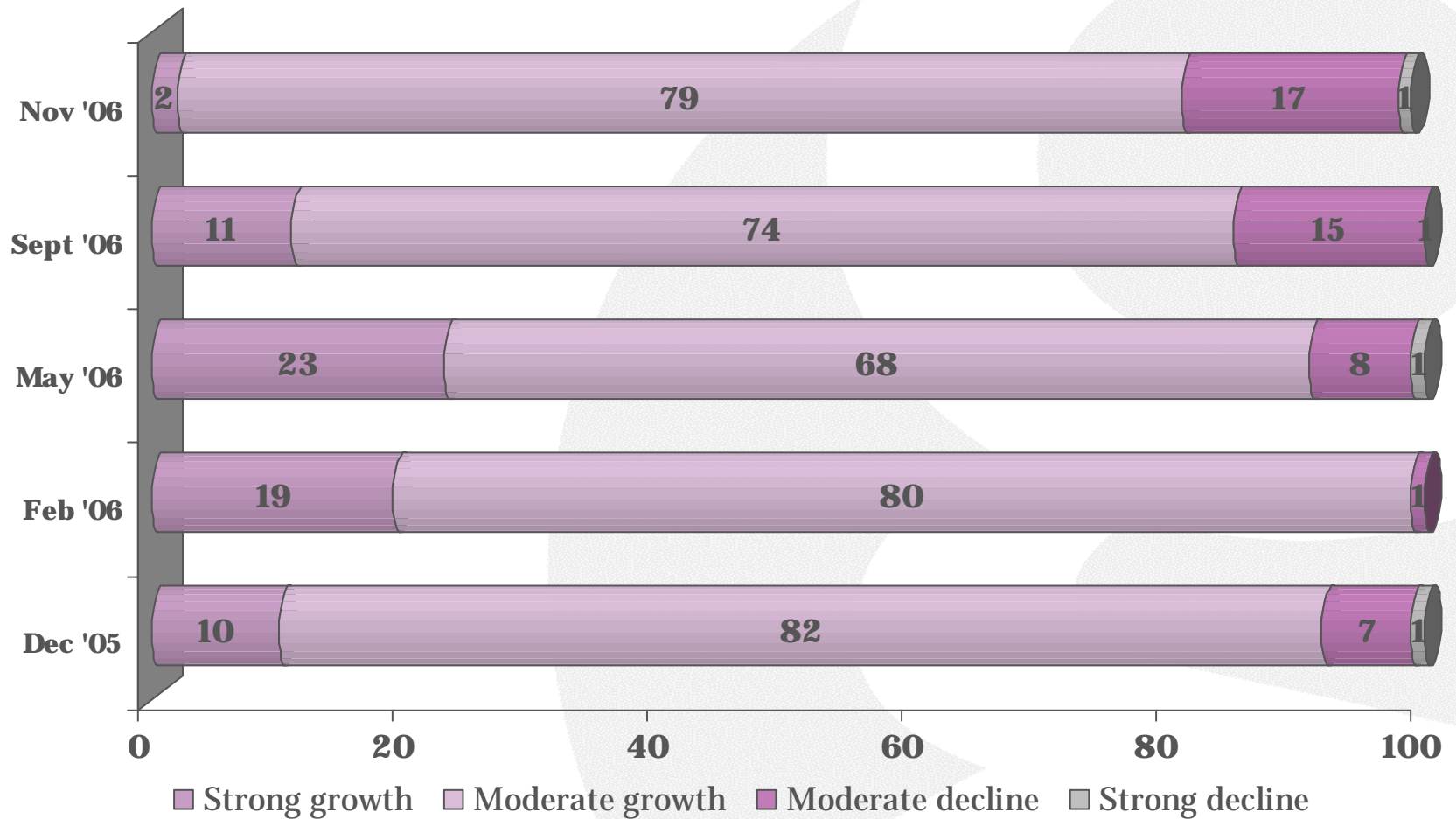
## Economic Expectations

- ❑ Modest downturn in expectations for the Canadian economy ...
  - Strong optimists disappear altogether
  - Expectations of a recession now double what they were six months ago
  - Central Canadian manufacturing sector is still the most negative about the economy
- ❑ Despite an improvement in expectations for the US economy
  - Manufacturing sector is most strongly sensing improvement in the US economy
- ❑ Our lowest ever numbers for strong growth expected in the respondent's business
  - Mostly driven by a lot of caution among income trust executives about the near term performance of their business



# Expectations: Canadian Economy

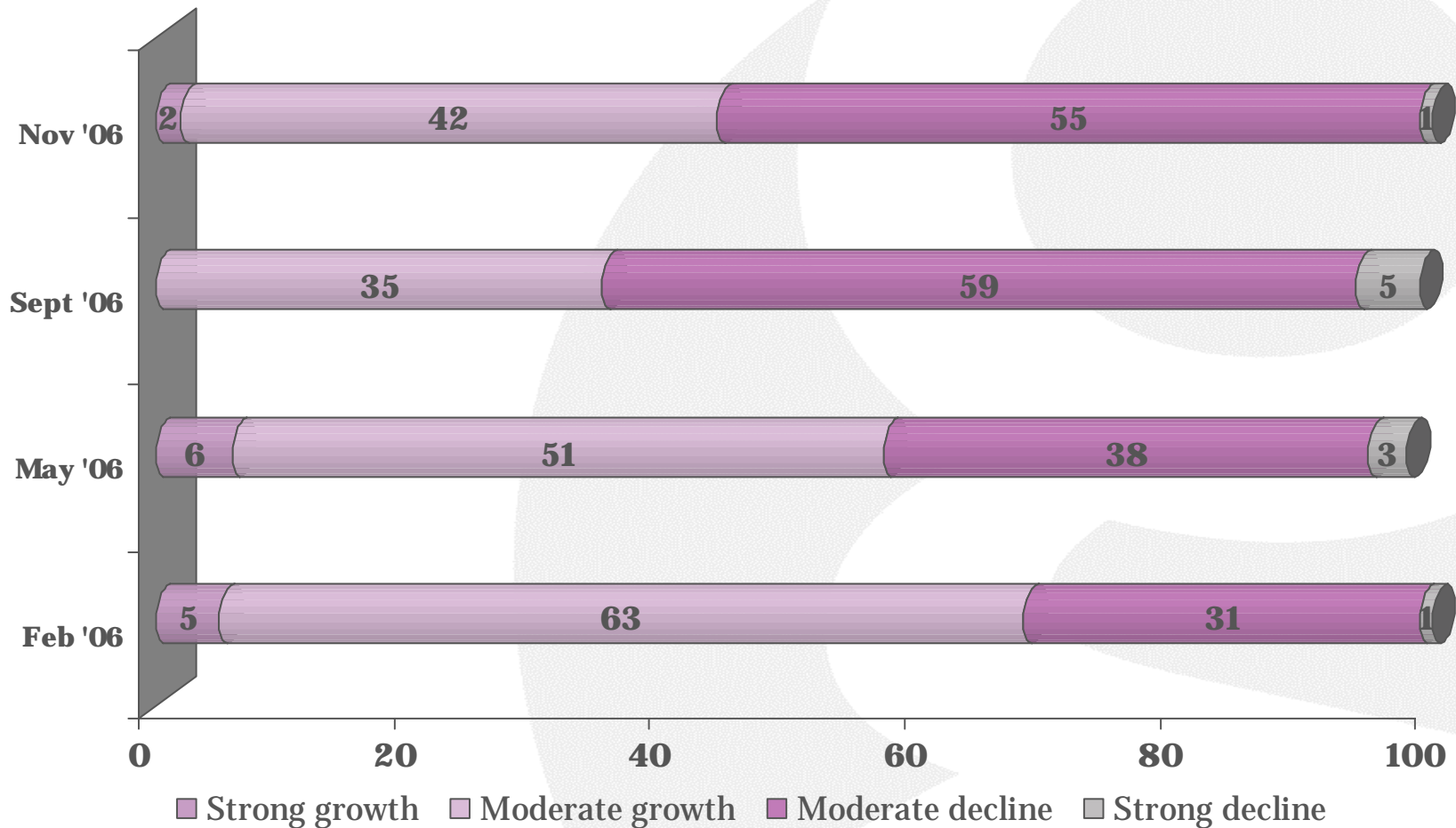
What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





# Expectations: U.S. Economy

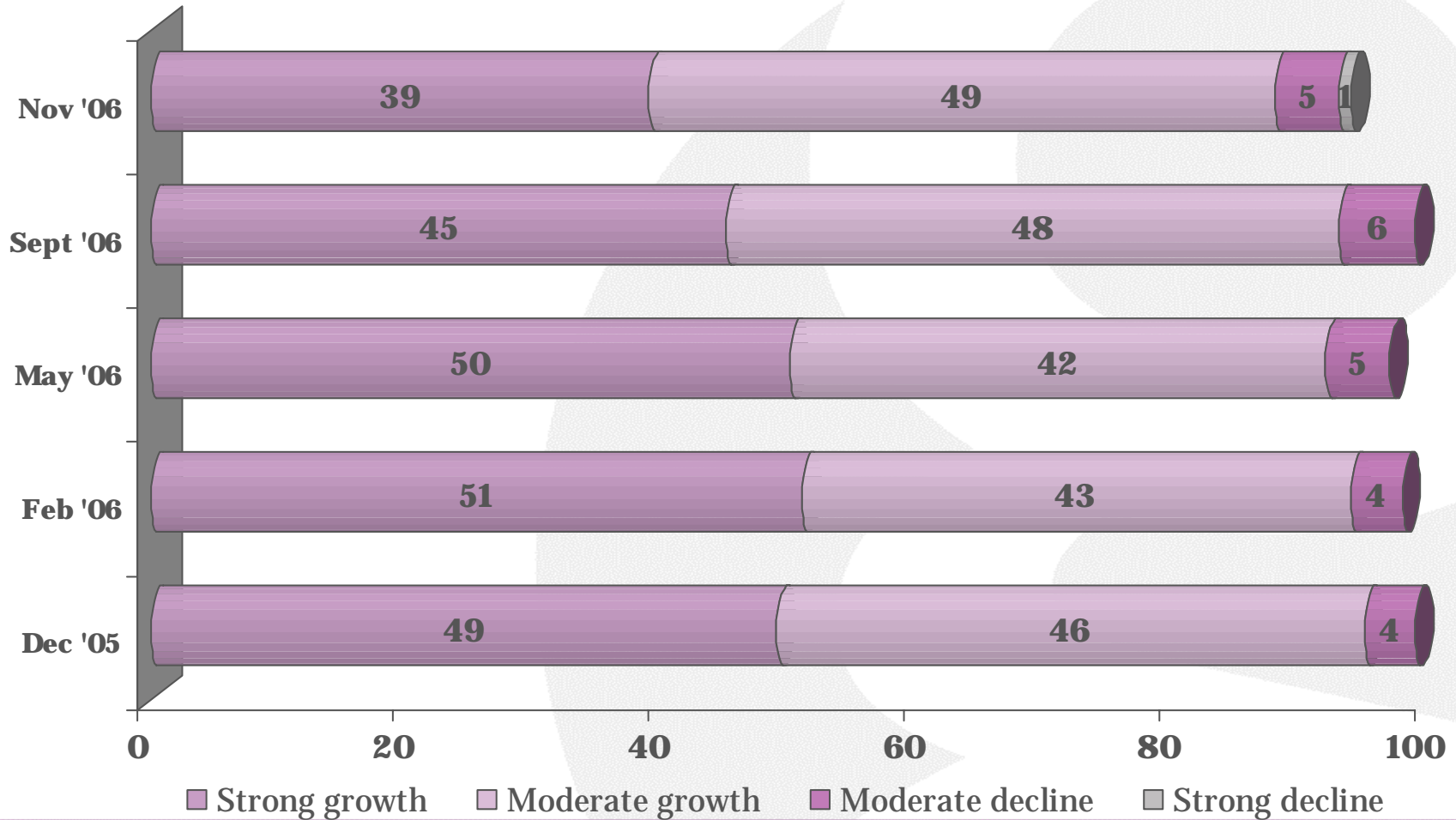
What are your expectations for the U.S. over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





# Expectations: Company

What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?



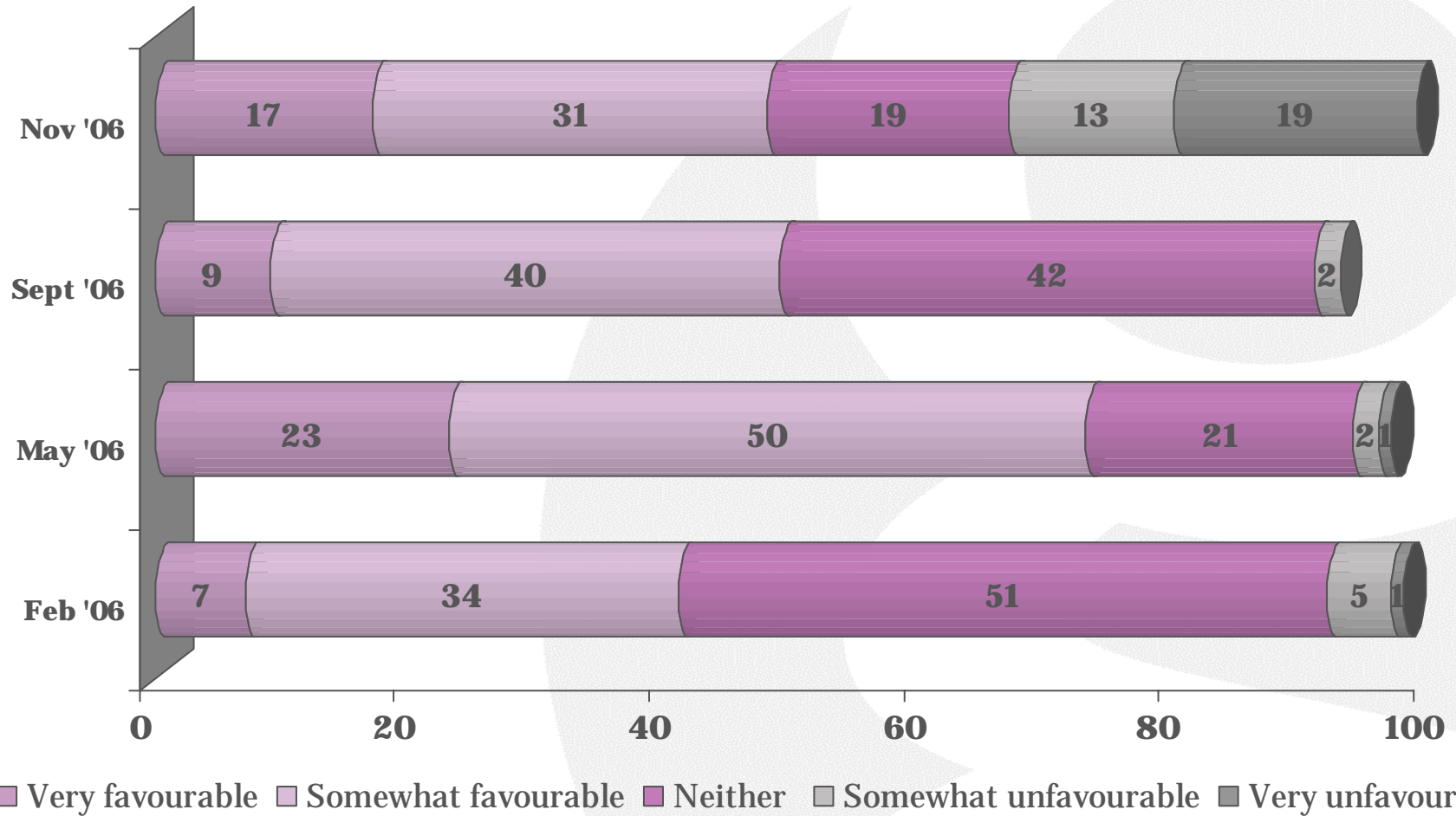


- ❑ There is a remarkable surge in negativity about the Minister this quarter
- ❑ It is entirely driven by the income trust decisions, as those who oppose that decision have a strongly negative view of the Minister and the Government
  - Some who support the decision also have a negative impression because of the broken promise and the surprise of the announcement
  - Most of those who support the income trust decision say their impression of the Minister has improved
  - Negative impressions of the Minister are most strongly held among resource executives in western Canada
- ❑ The Minister does not have a fully formed profile with the business community yet, which is a bit surprising. His image is buffeted by events, without a strong core sense of him. So after a well received budget his positives are very high. After a controversial decision on income trusts his negatives are very high. Between major events many executives withdraw to a position of neutrality about him.



# Impression of Jim Flaherty

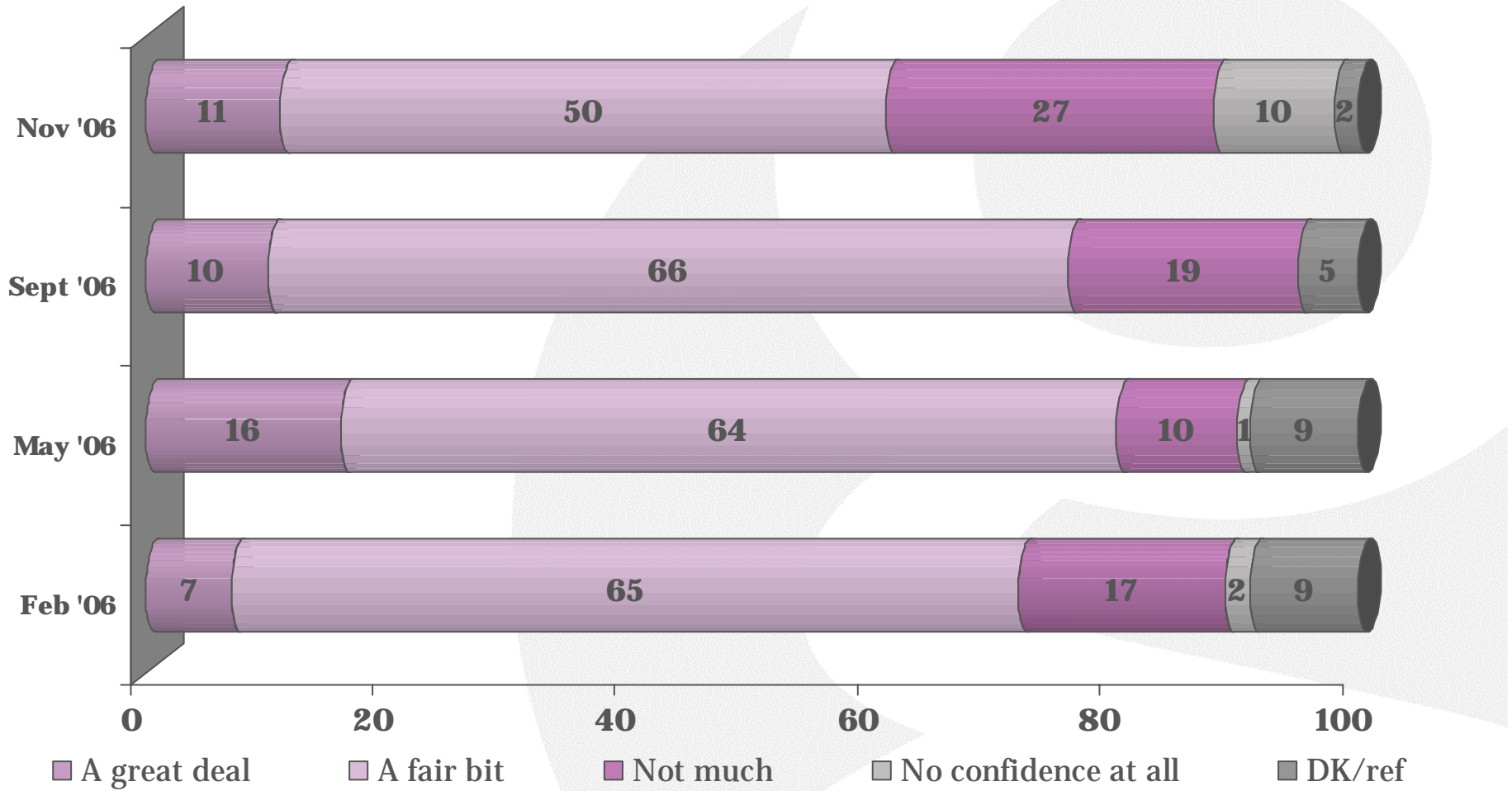
How favourable or unfavourable is your impression of Jim Flaherty in his role as Minister of Finance?





# Confidence Jim Flaherty

How much confidence do you have in Finance Minister Flaherty's management of the economy?







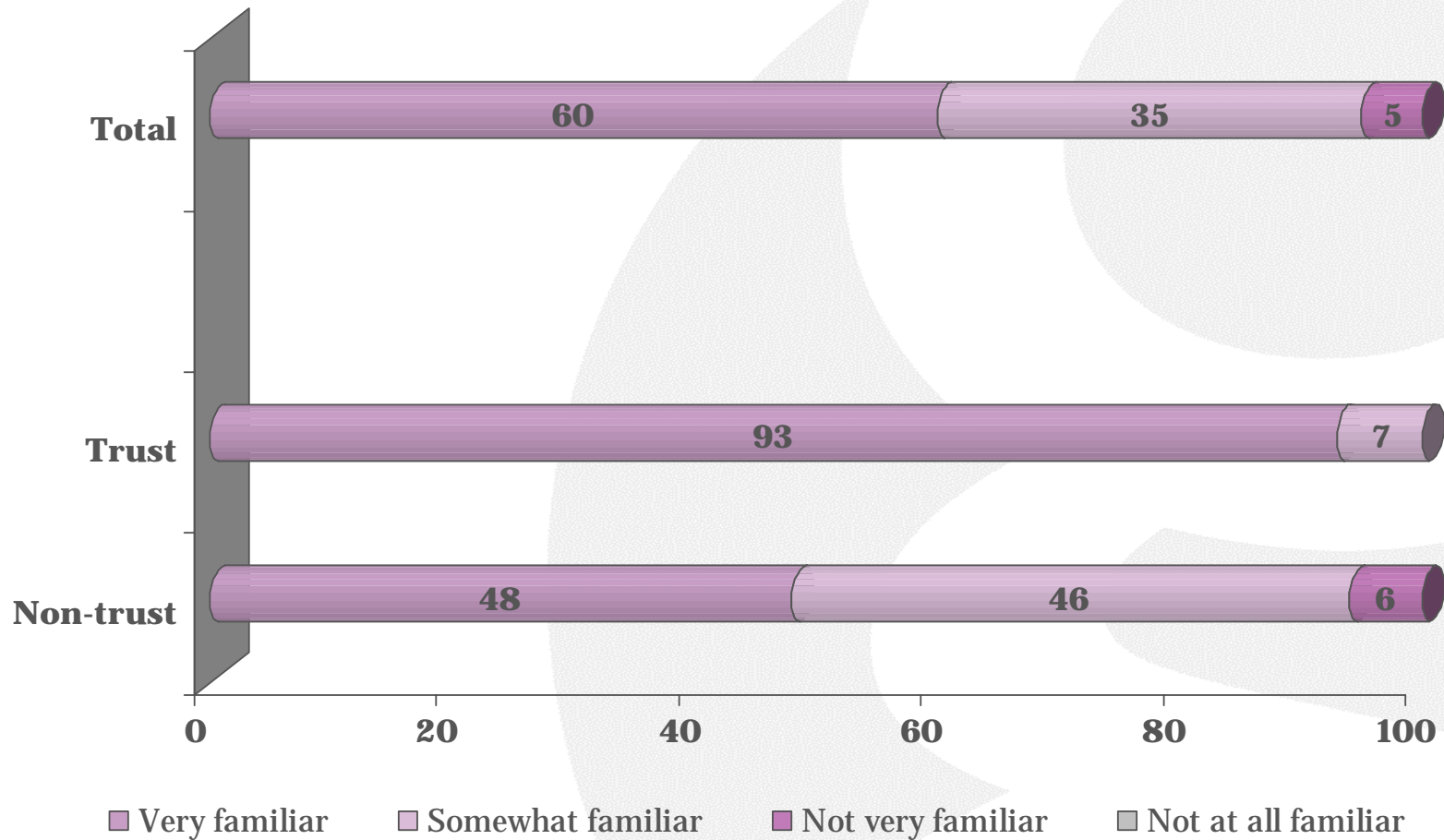
## Reaction to the Trust Decision

- Virtually every C Suite executive paid some attention to this decision, but with varying degrees of commitment
  - 48% of non trust executives were very familiar with the decision, and another 46% were somewhat familiar
  - 93% of trust executives were very familiar with the decision
- Those who support the decision do so not because they worry about the effects of trusts on the economy, but because they think the Government could not afford to lose that much tax revenue – and despite the fact that they think it is a clear broken promise
- Most people acted in their self interest. Income Trust executives had been hurt, both professionally and in terms of their personal wealth, and they overwhelmingly (but not unanimously) opposed the Government's decision. Non Trust executives had been at minimum not affected, but likely benefited from the Government's decision. There are, however, many people who support the decision but are disapproving of the broken promise



# Changes Regarding Income Trusts

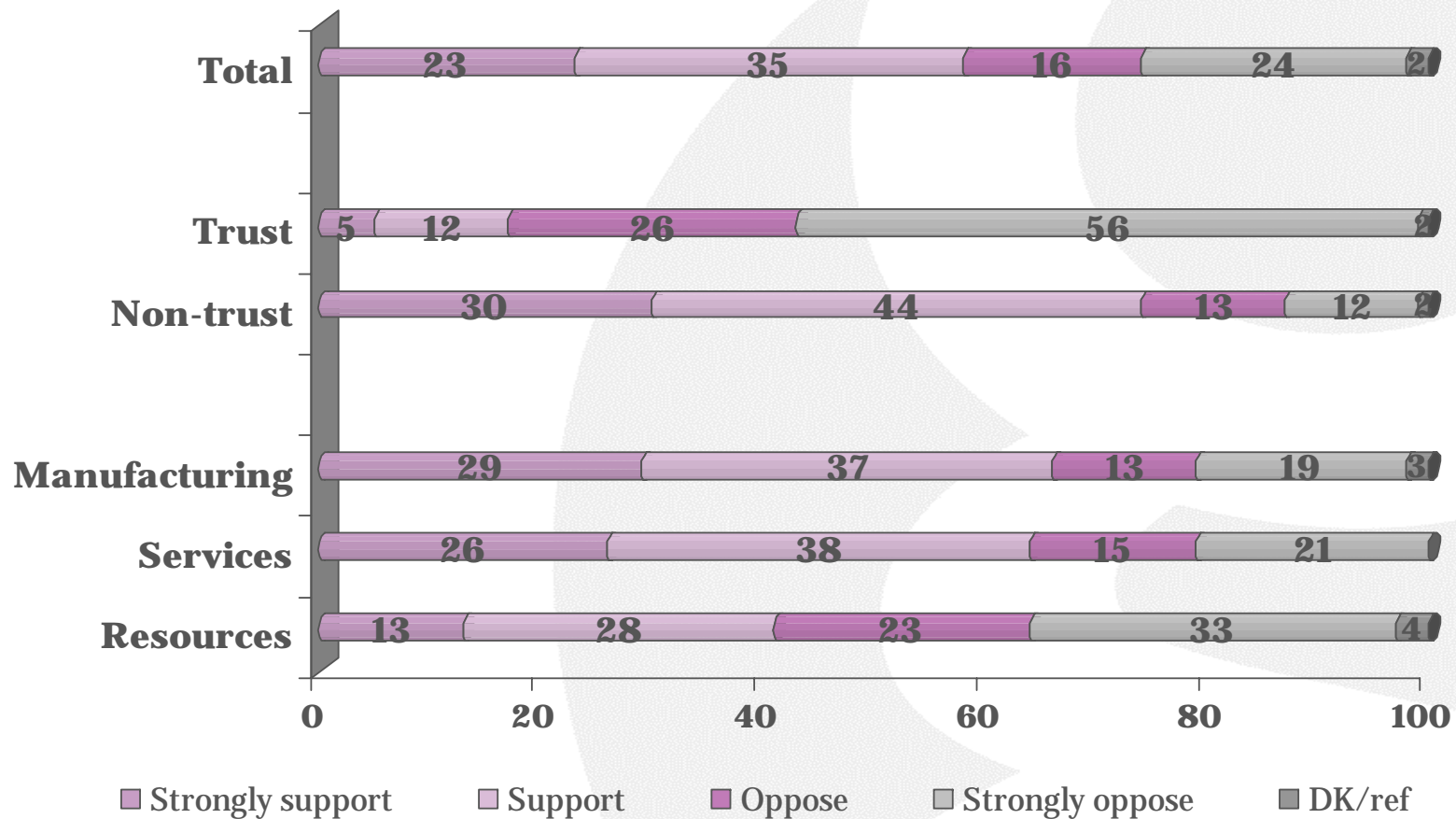
How familiar are you with the changes announced by the government regarding the tax treatment of Income Trusts – very familiar, somewhat familiar, not very familiar or not at all familiar?





# Support Taxing Income Trusts?

Do you strongly support, support, oppose, or strongly oppose the government's decision to tax Income Trusts?

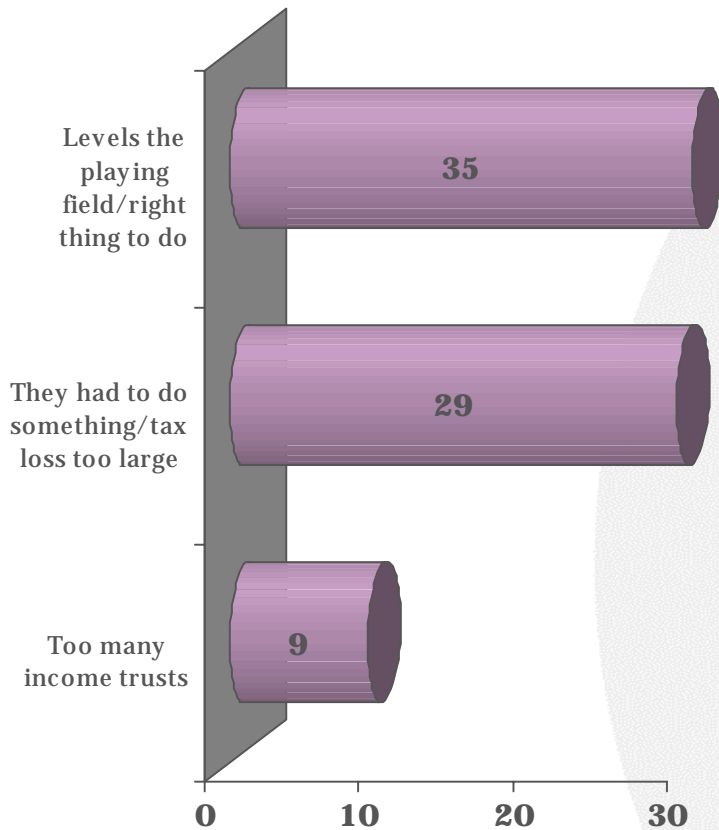




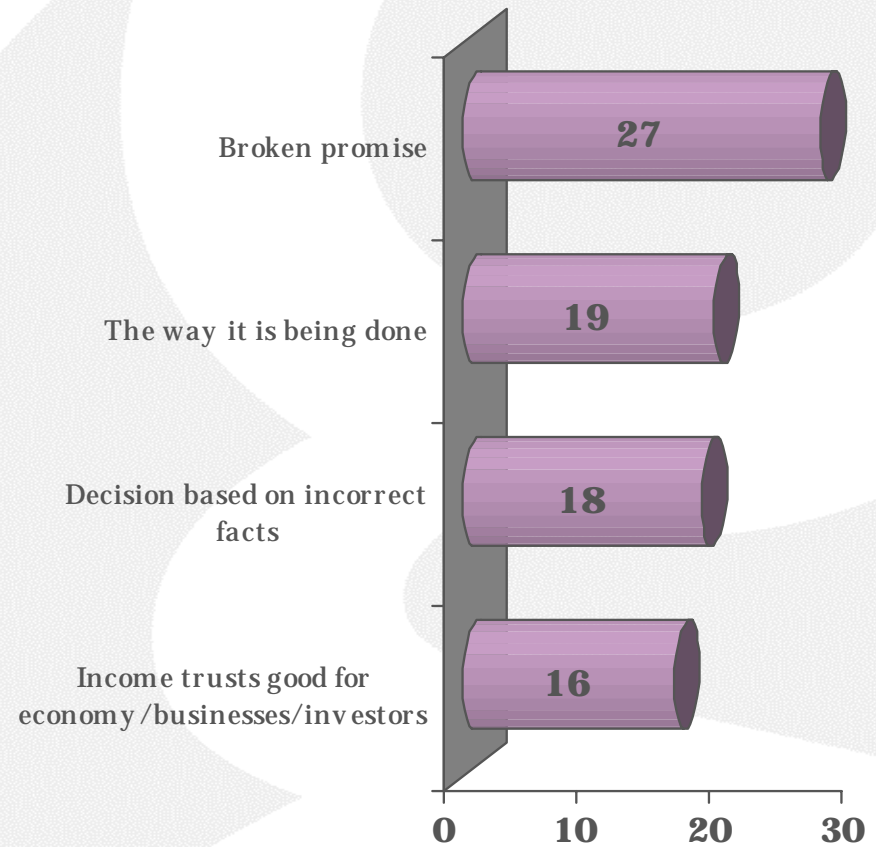
# Reason for Support/Opposition

Why is that?

## Support Taxing Income Trusts



## Do Not Support Taxing Income Trusts



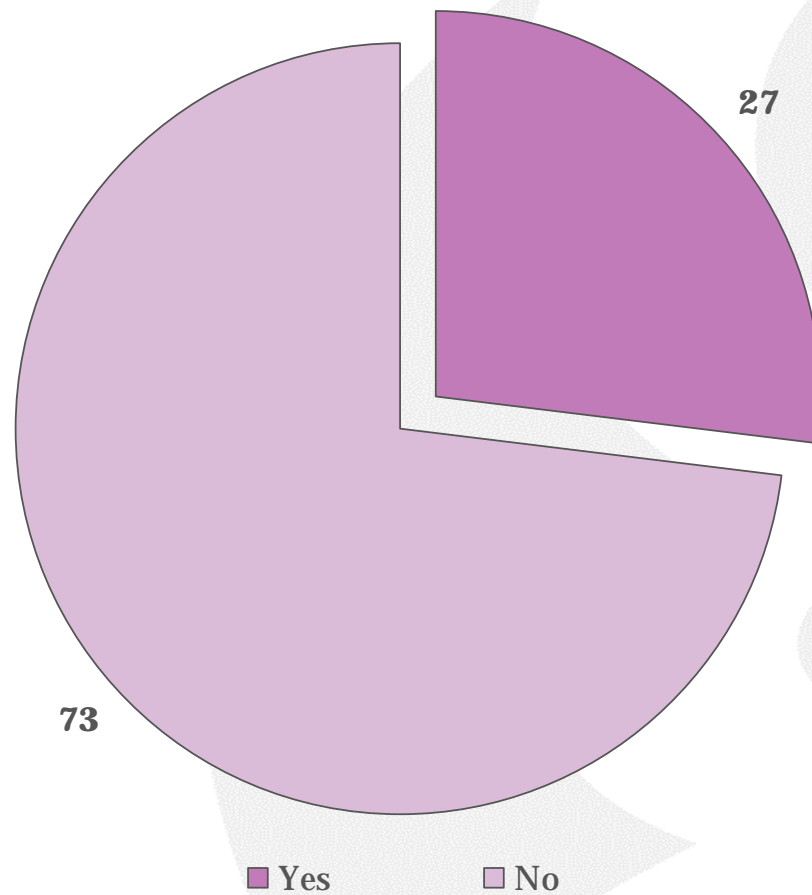


- ❑ Income Trusts are much more likely to be found in western Canada and in the energy business
  - Most likely to employ between 50 and 100 people
- ❑ The decision affects energy trusts much more strongly than it does other trusts
  - Energy trusts are much more likely to say that the number one reason they are a trust is the fact that their business is well suited to the income trust structure
  - 80% of resource trusts say that the Government's policy decision will have a very negative impact on their business compared to about 50% of manufacturing or service sector trusts
- ❑ Great uncertainty going forward
  - 42% set to reorganize out of an income trust structure
  - Another 42% do not know what business organization is best suited to their company
- ❑ Perhaps as a reflection of a greater entrepreneurial culture in the west, western executives are more likely to have taken a personal hit as a result of the decision to tax trusts than are central Canadian executives



# Is Your Company an Income Trust

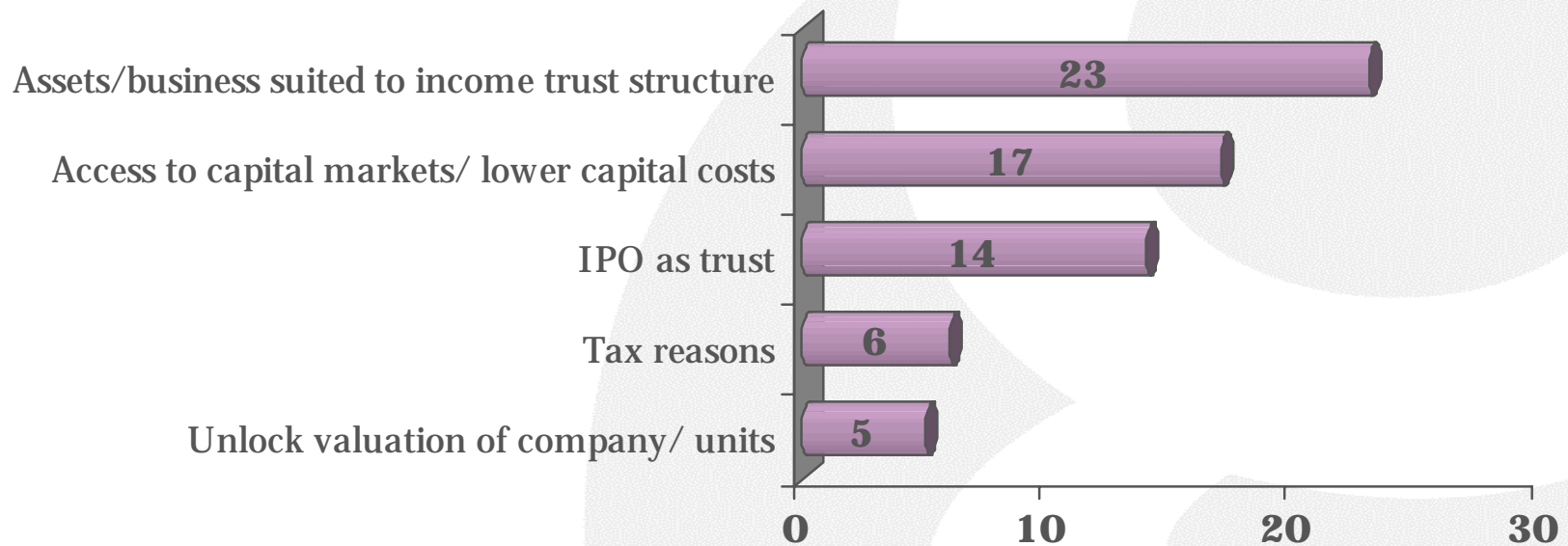
Is your company or any part of it currently an income trust?





## Reason for Converting to an Income Trust

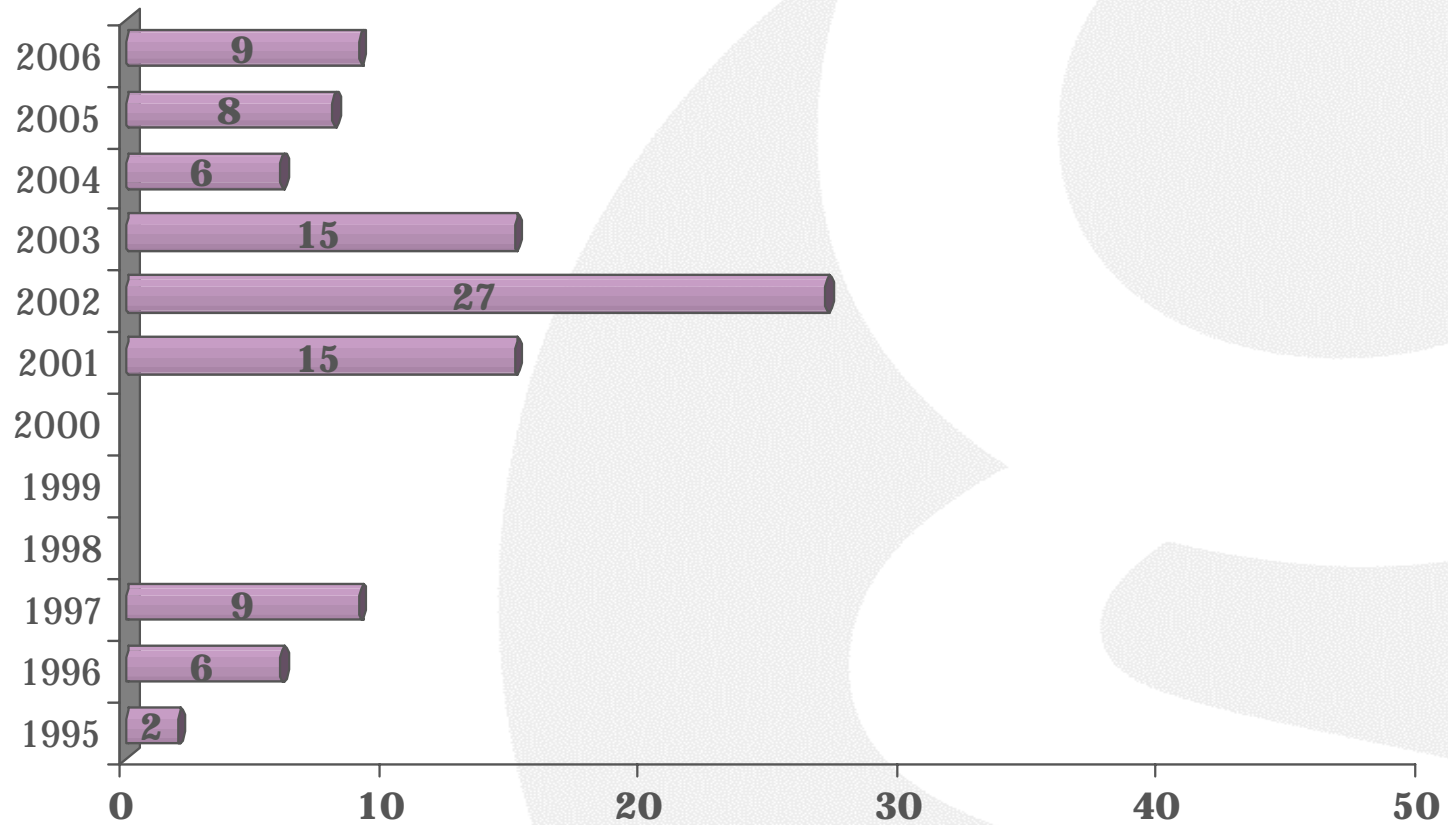
What was the main reason why you converted to an income trust?





# Year Converted to Income Trust

In what year did you company, or part of it, become an income trust?

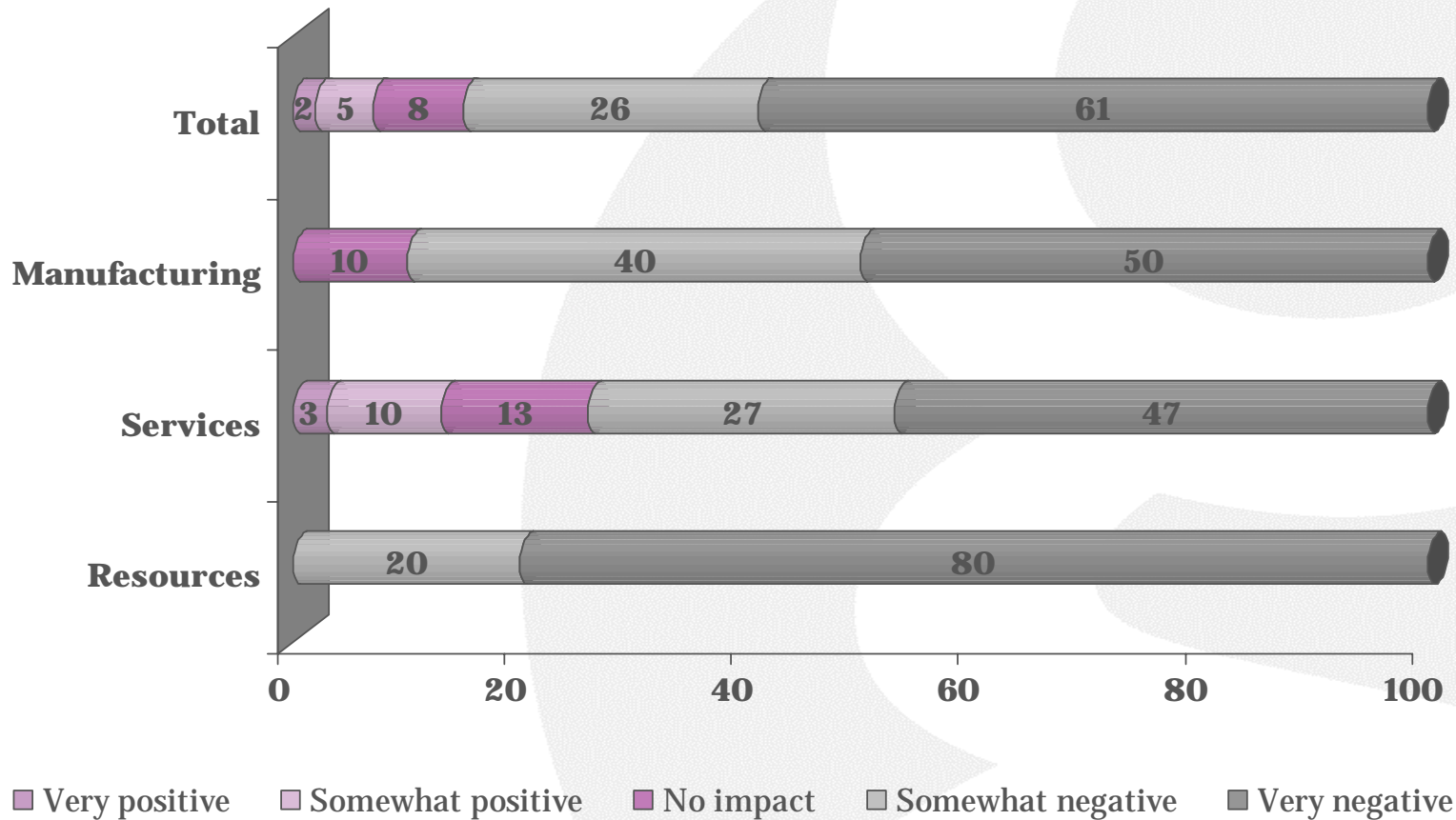






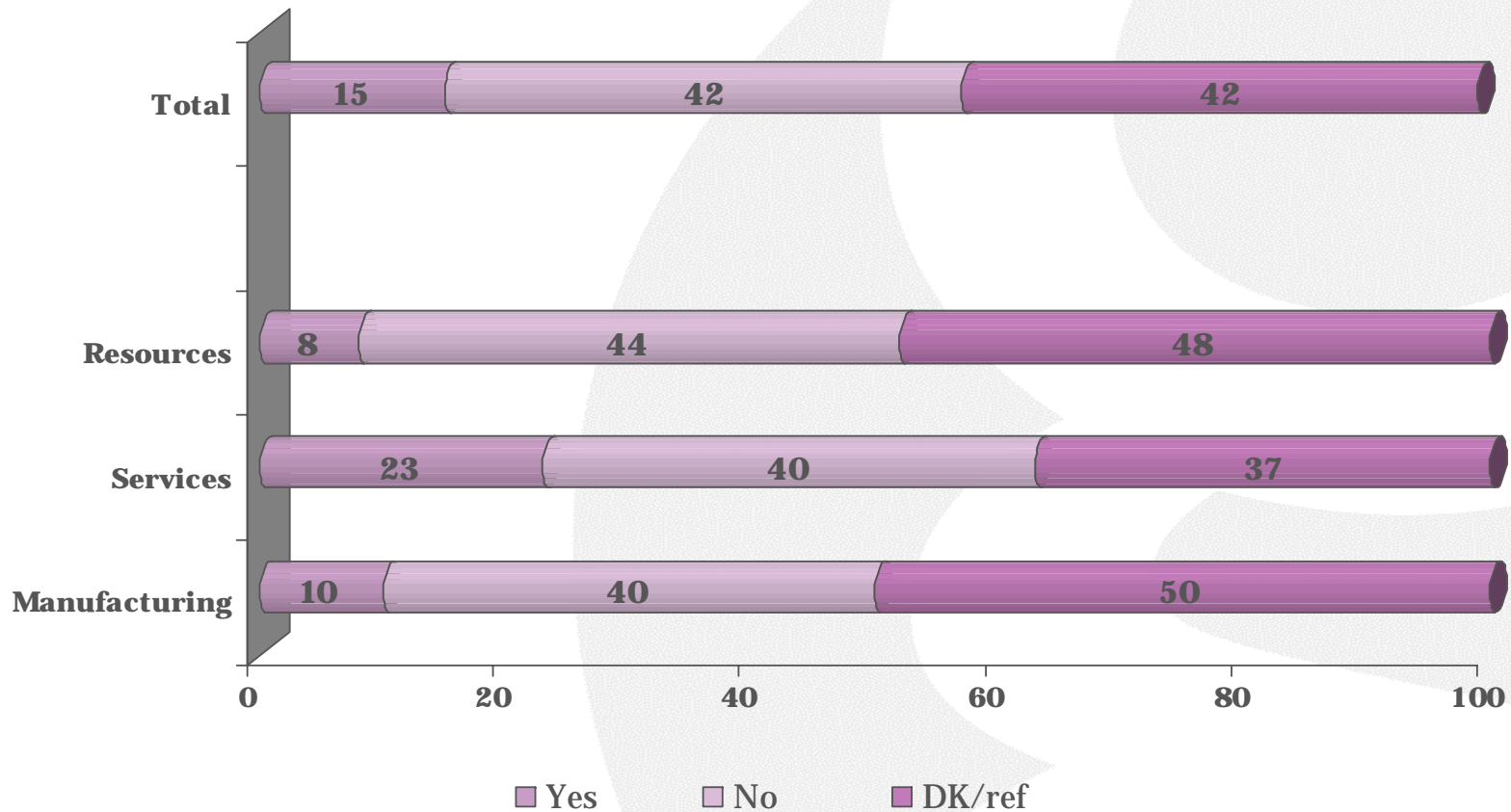
# Impact on Your Business

Will the changes announced by the government have a very positive, somewhat positive, somewhat negative or very negative impact on the part of your business that is an income trust, or will the changes have no impact?





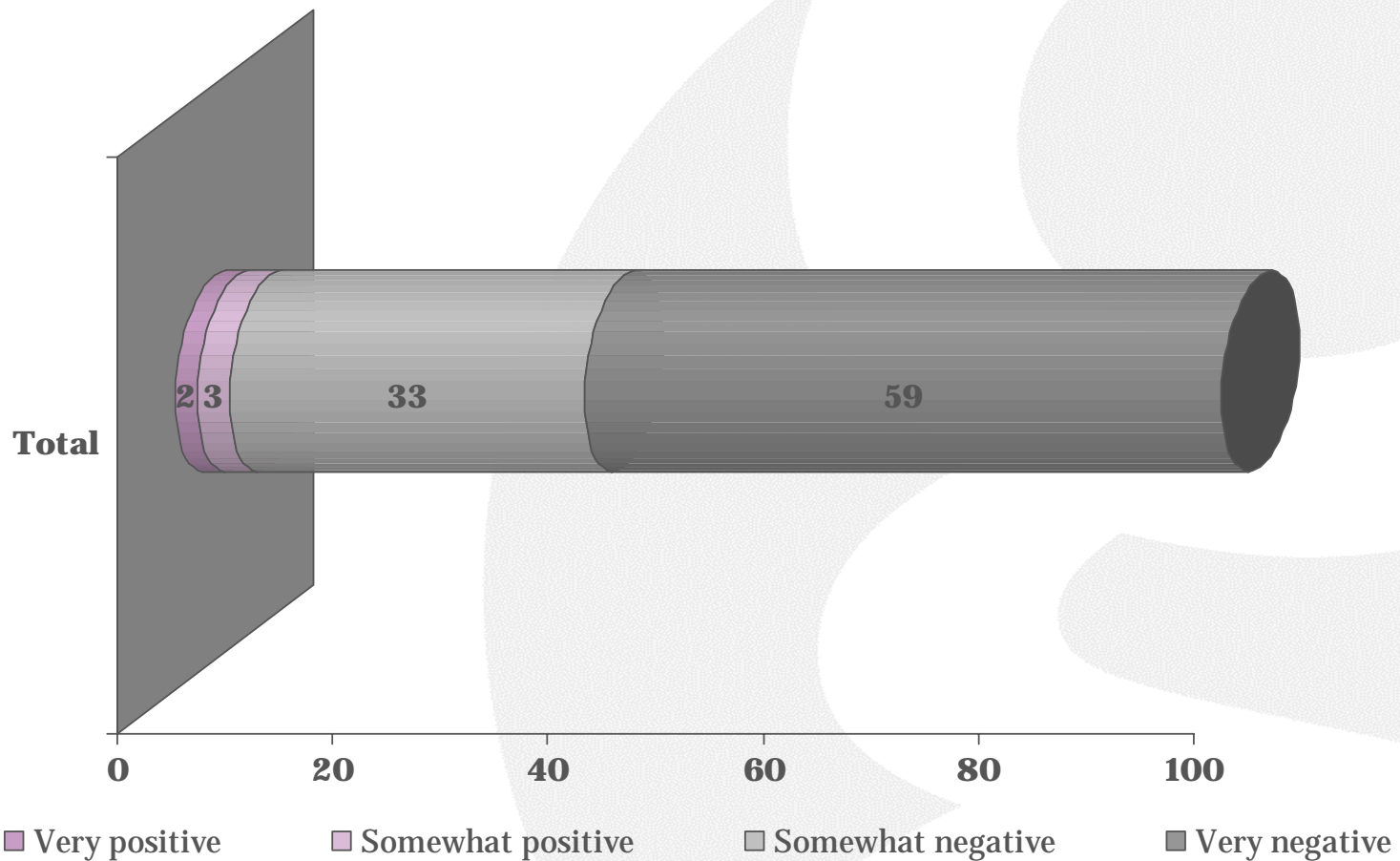
Is an income trust still the best business model for you going forward now that the tax treatment has been changed?





# Impact on Your Net Wealth

Will the changes announced by the government have a very positive, somewhat positive, somewhat negative or very negative impact on your personal net wealth?



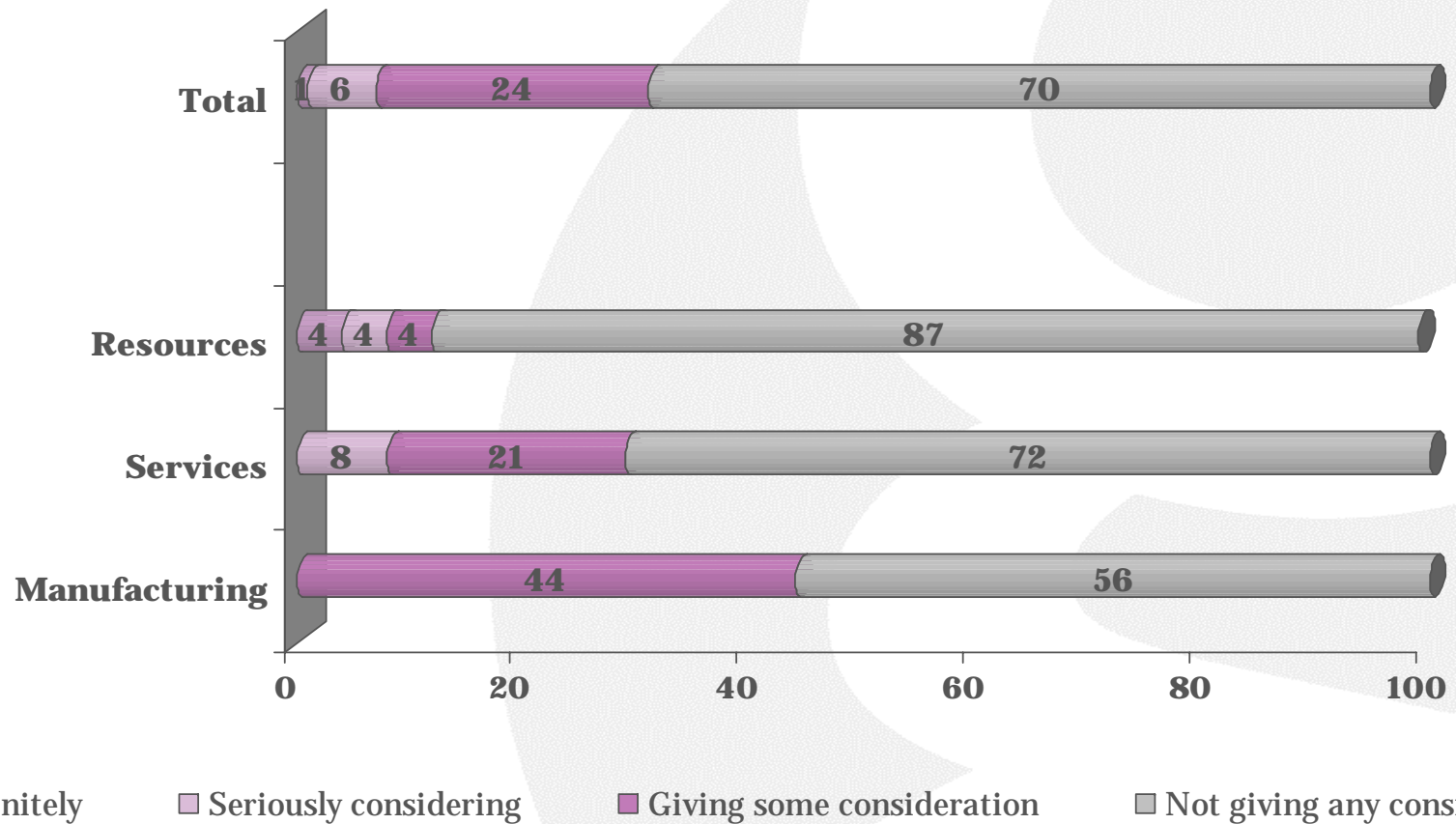


- The pattern of conversions to income trusts in corporate Canada did not appear to be slowing down
  - Most converted 4-6 years ago, but many companies converted in the last three years
  - The trend looks like it was set to jump sectors, with most of those considering converting in the future being in the manufacturing sector, which had the lowest penetration of income trusts



## Considering Converting to Income Trust

Before the changes to the tax treatment of income trusts was announced, were you definitely going to, seriously considering, giving some consideration to, or not giving any consideration to converting all or part of your company to a trust?





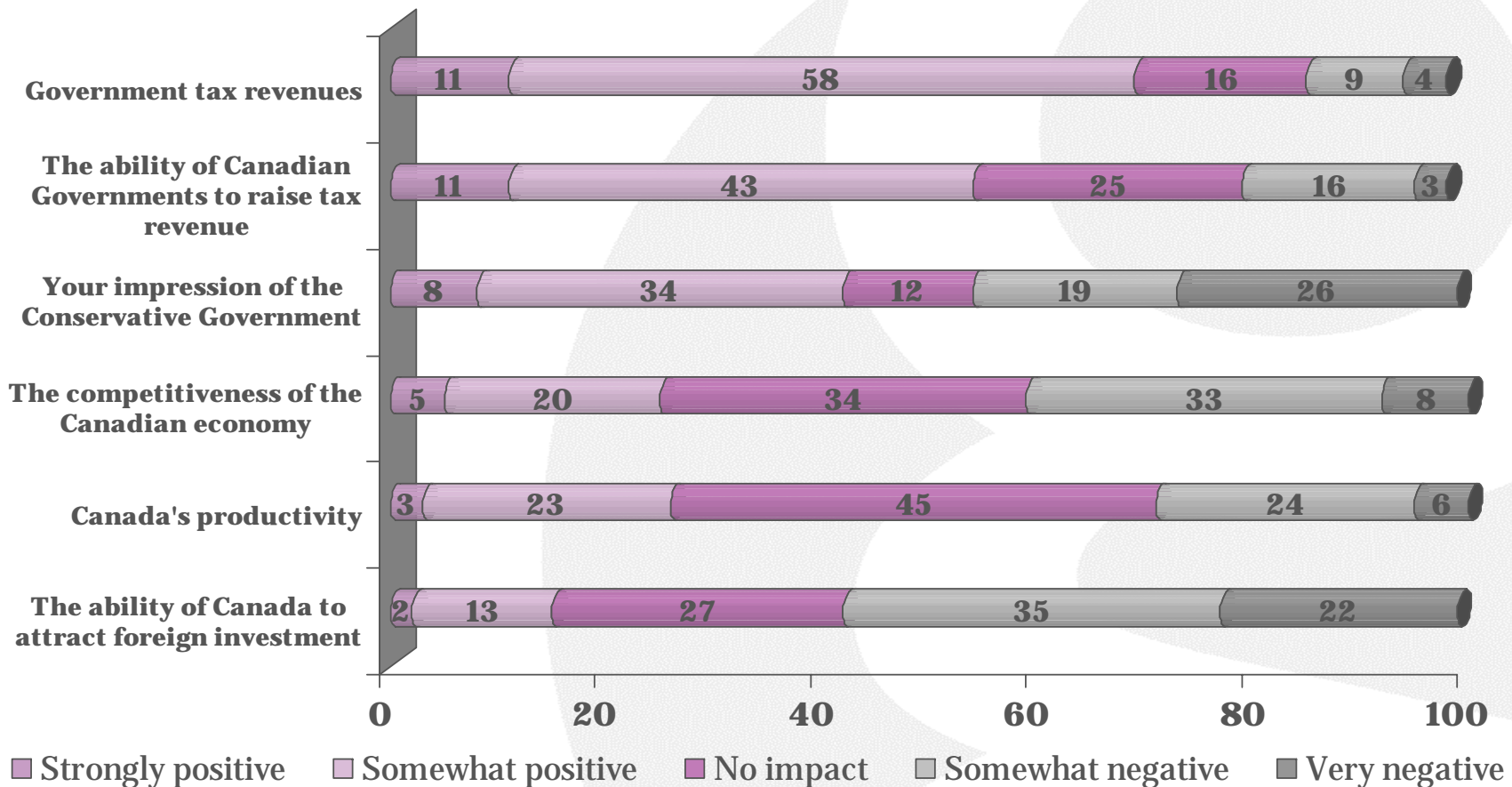
## Perceived Impacts of the Policy

- ❑ Two successive governments, of two different political stripes, have made the argument that income trusts reinvest less than corporations with a resulting negative impact on productivity, innovation and competitiveness. Most executives reject this. Fewer than one in four executives thinks the Government's policy will have a positive impact on competitiveness or innovation. In fact, more think it will have a negative impact than a positive impact.
- ❑ There are significantly more executives who say that the decision has made their opinion of the Conservative Government more negative than there are executives who oppose the decision.
- ❑ Most executives were not troubled at the idea of a major bank, energy company or telco converting to an income trust
- ❑ Most executives think Government needs to consult more openly about decisions like this



# Government's Decision's Impact

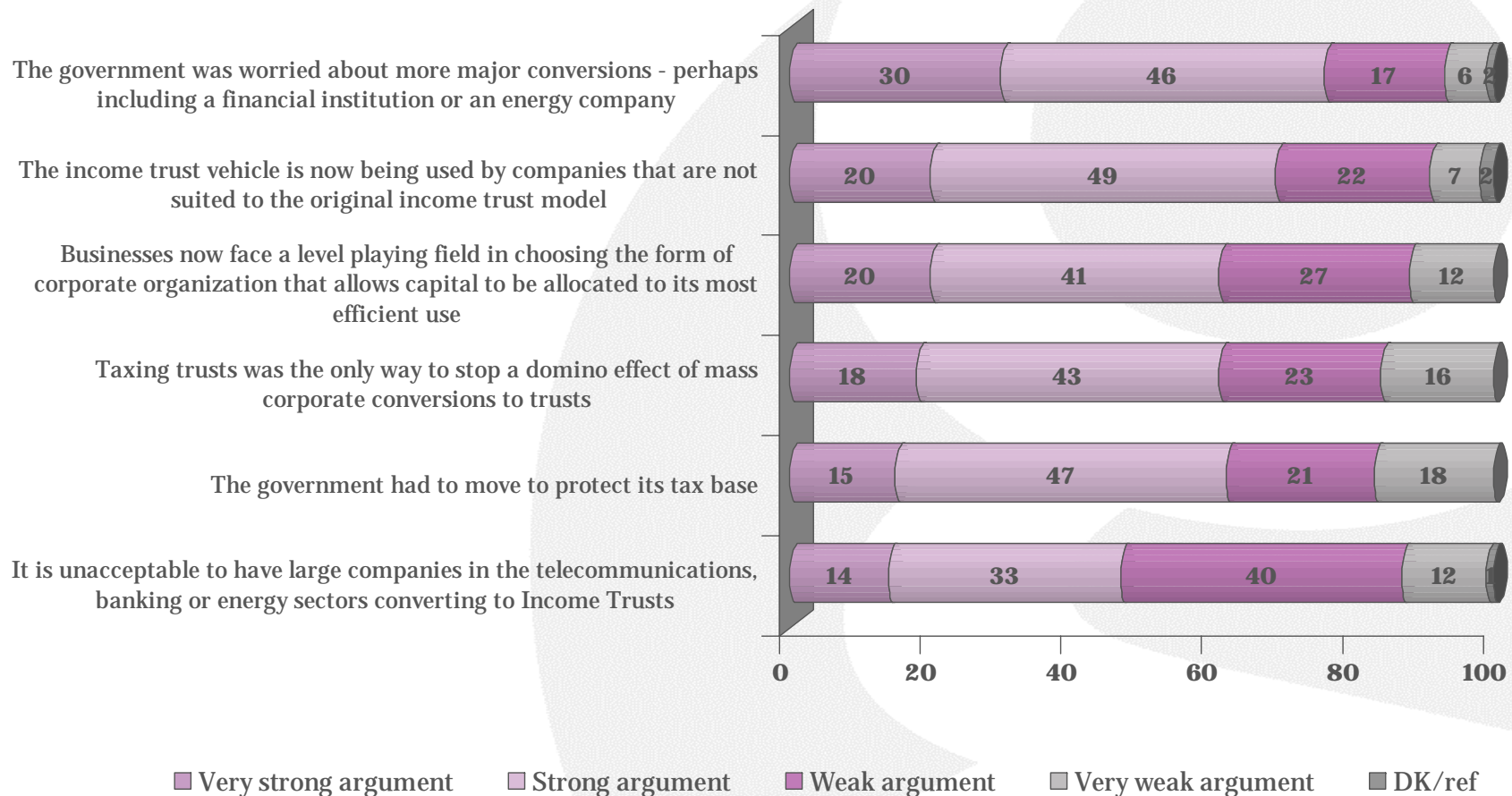
Would you say that the Government's decision to tax income trusts will have a strongly positive, somewhat positive, somewhat negative, very negative, no impact on \_\_\_\_\_?





# Statements: Top Tier

I'd like to read you some statements the government has made in support of its decision. I'd like to ask you whether you think each is a very strong argument, a strong argument, a weak argument or a very weak argument.







## Statements: Bottom Tier

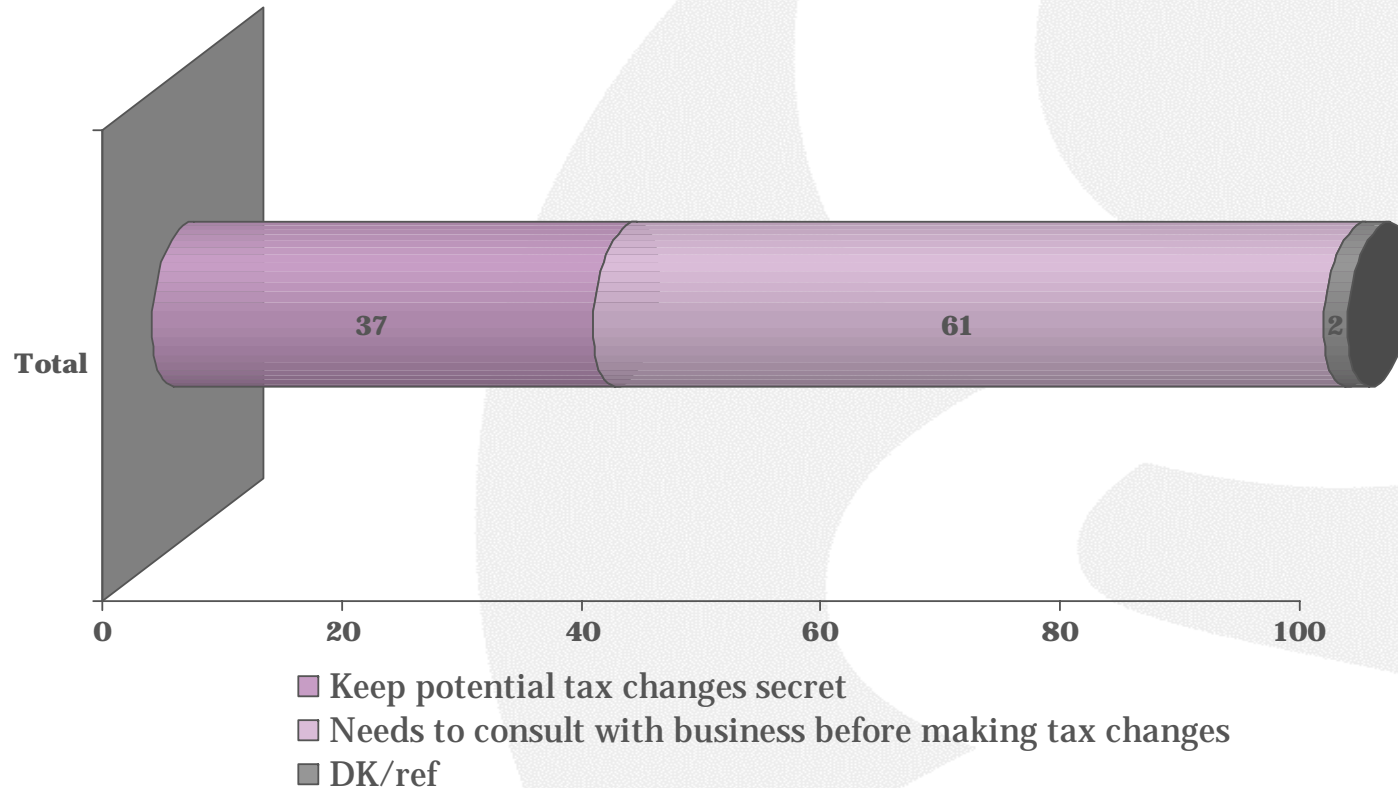
I'd like to read you some statements the government has made in support of its decision. I'd like to ask you whether you think each is a very strong argument, a strong argument, a weak argument or a very weak argument.





## Keep Tax Changes Secret/Consult with Businesses

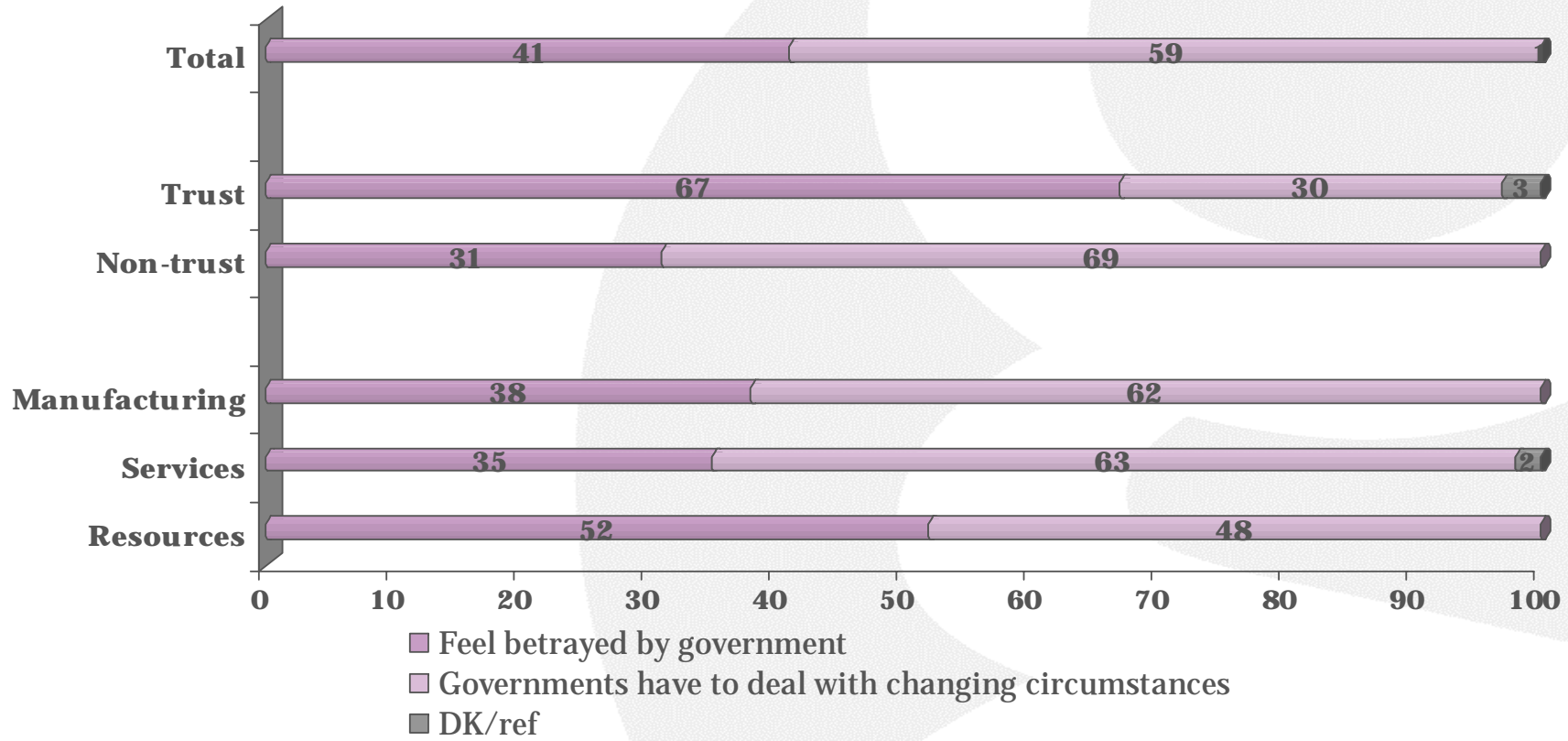
Some people say that it is of the utmost importance for the government to keep consideration of potential tax changes secret so that nobody is able to secure an unfair advantage. Other people say that the government needs to consult with business and others before making tax changes so that business can provide feedback and can prepare itself for potential tax changes. Which of those two opinions would be closer to your own?





## Feel Betrayed by Government/Understand

Some people say that they feel betrayed by the Conservative decision to tax income trusts because they specifically committed not to in the election less than a year ago and parties should keep their election commitments. Other people say that governments have to deal with changing circumstances and if the Conservatives felt that the trend toward income trusts was becoming damaging, they should move on it regardless of their election promise. Which of those two opinions would be closer to your own?





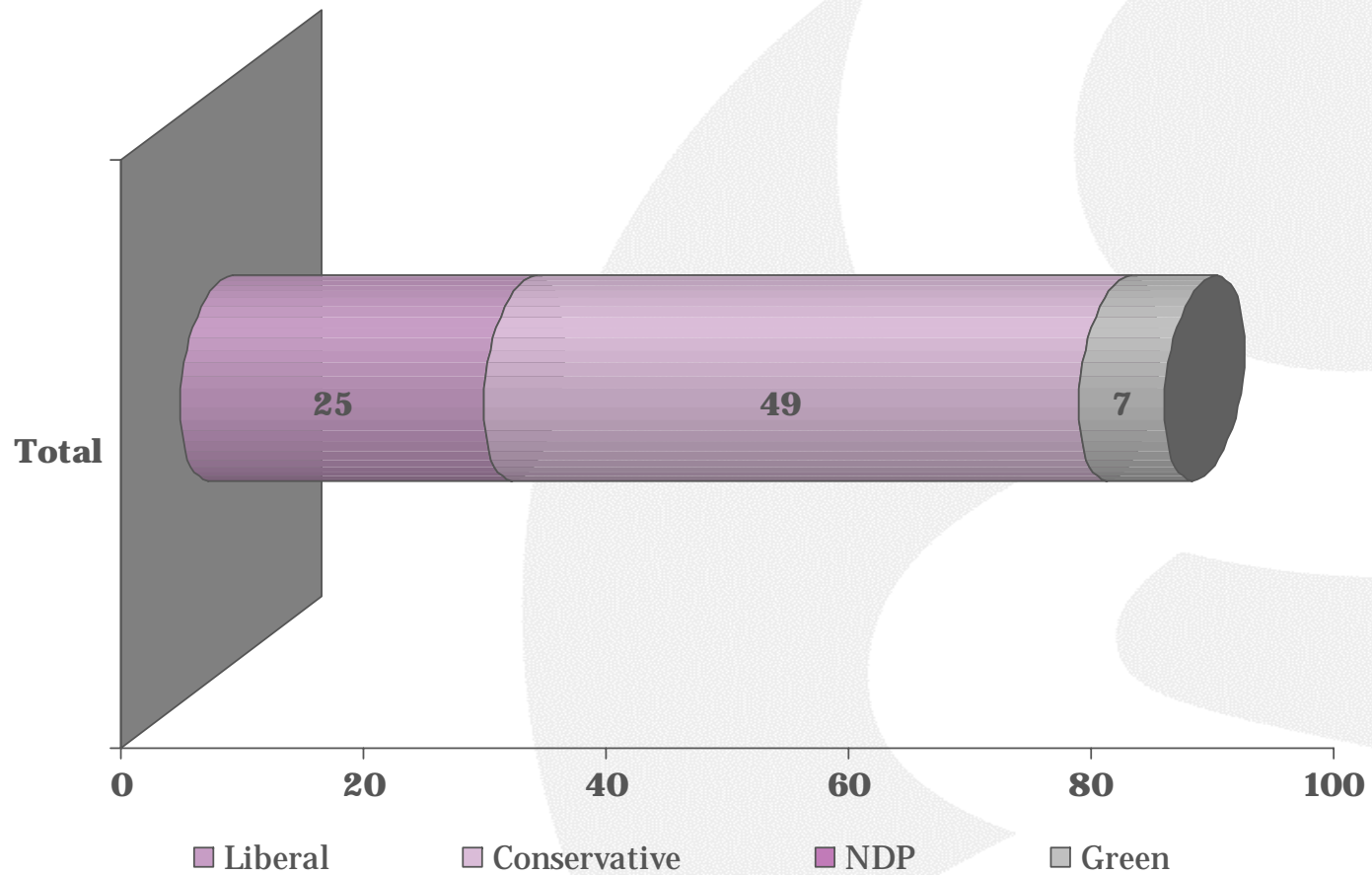
## Political Impact of the Decision

- ❑ Even after this decision, the Conservatives have a commanding lead among C Suite executives
- ❑ Many executives say the decision has made them less likely to vote Conservative. Most of those are energy industry executives from Alberta.
- ❑ There are Green Party supporters in the C Suite (even in the Oil Patch!) but apparently no New Democrats
- ❑ What may have a bigger impact on voting intention in the C Suite than income trusts is Kyoto and the Climate Crisis. Earlier in this year we reported that most executives supported Kyoto and did not want the Government to walk away from it. In this survey 39% said that the Government's decision to scrap previous environmental policies based on Kyoto with the Clean Air Act made them **less** likely to vote Conservative. Only 15% said it made them more likely to vote Conservative.
- ❑ Unrelated, Michael Ignatieff has a narrow lead over Bob Rae as the choice for best Prime Minister among the Liberal leadership candidates. The lead is built primarily in central Canada, where the Ignatieff lead over Rae is very large.



## Federal Bye Election: Vote Intention

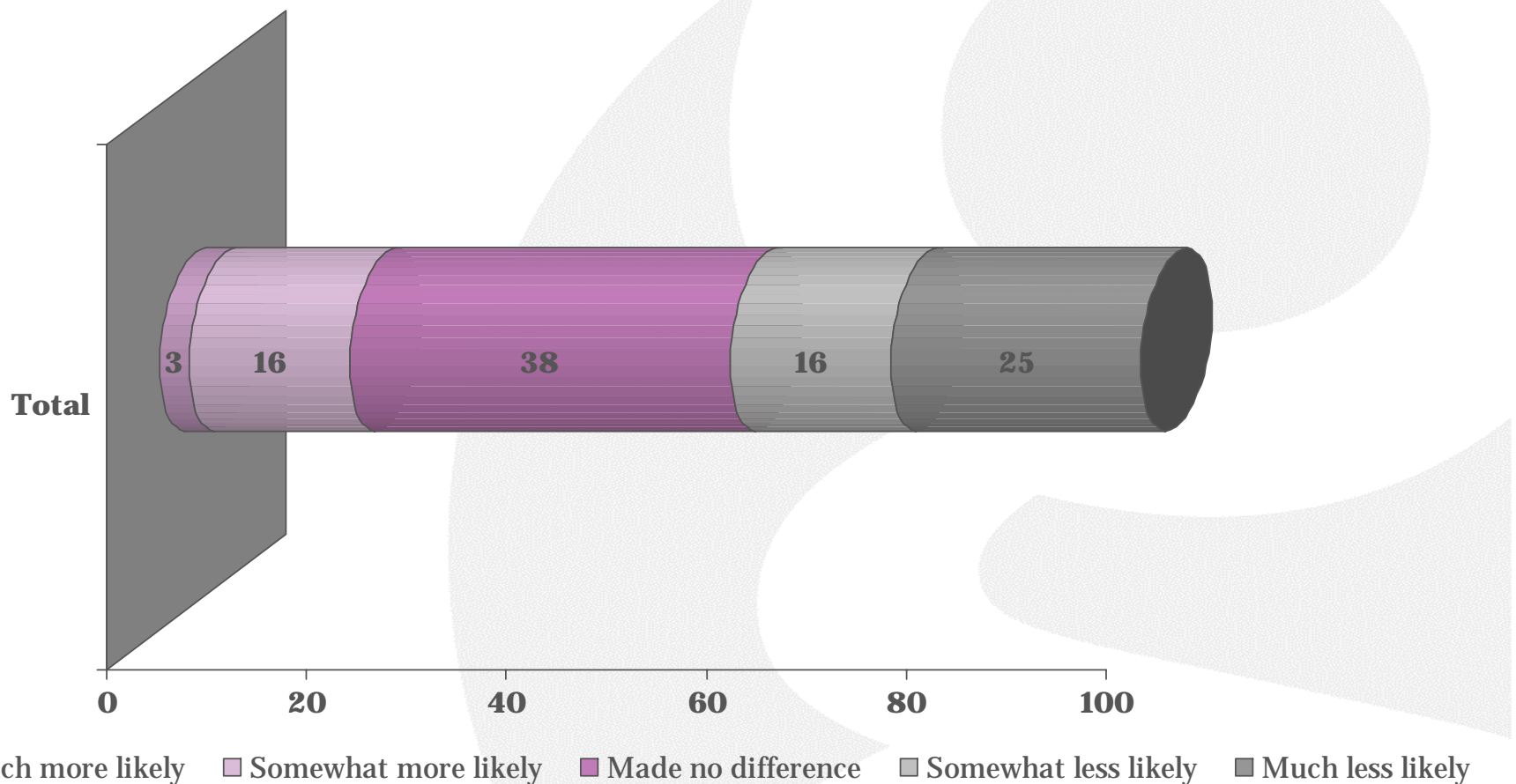
If a federal election were held today, which political party –Liberal, Conservative, NDP or Green would you vote for? (decided only)





# Impact of Income Trust Decision on Vote Intention

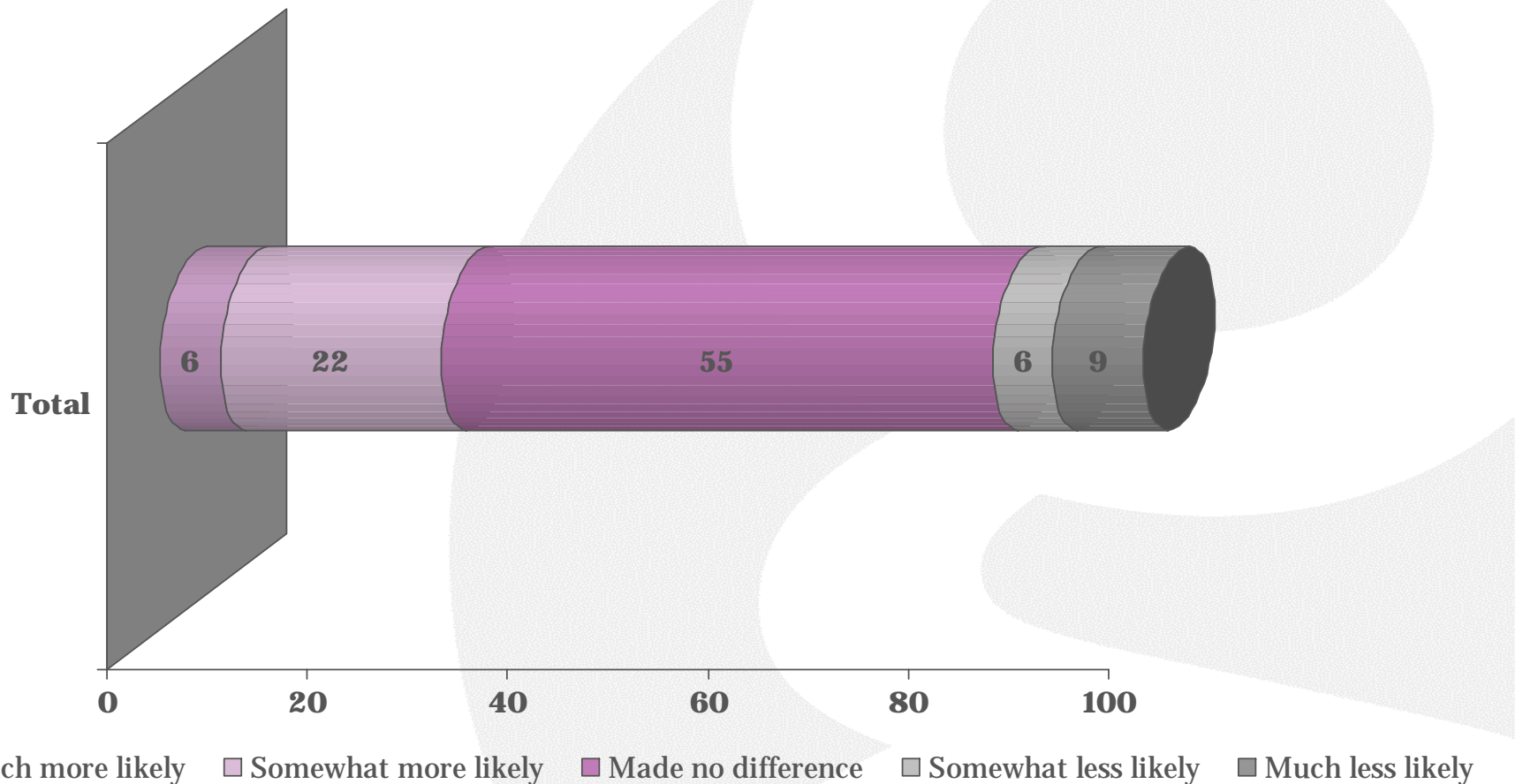
Has the Conservative decision on Income Trusts made you much more likely to vote Conservative in the next election, somewhat more likely, somewhat less likely, much less likely, or has it made no difference to how likely you are to vote Conservative?





## Impact of Extending Afghanistan Mission on Vote Intention

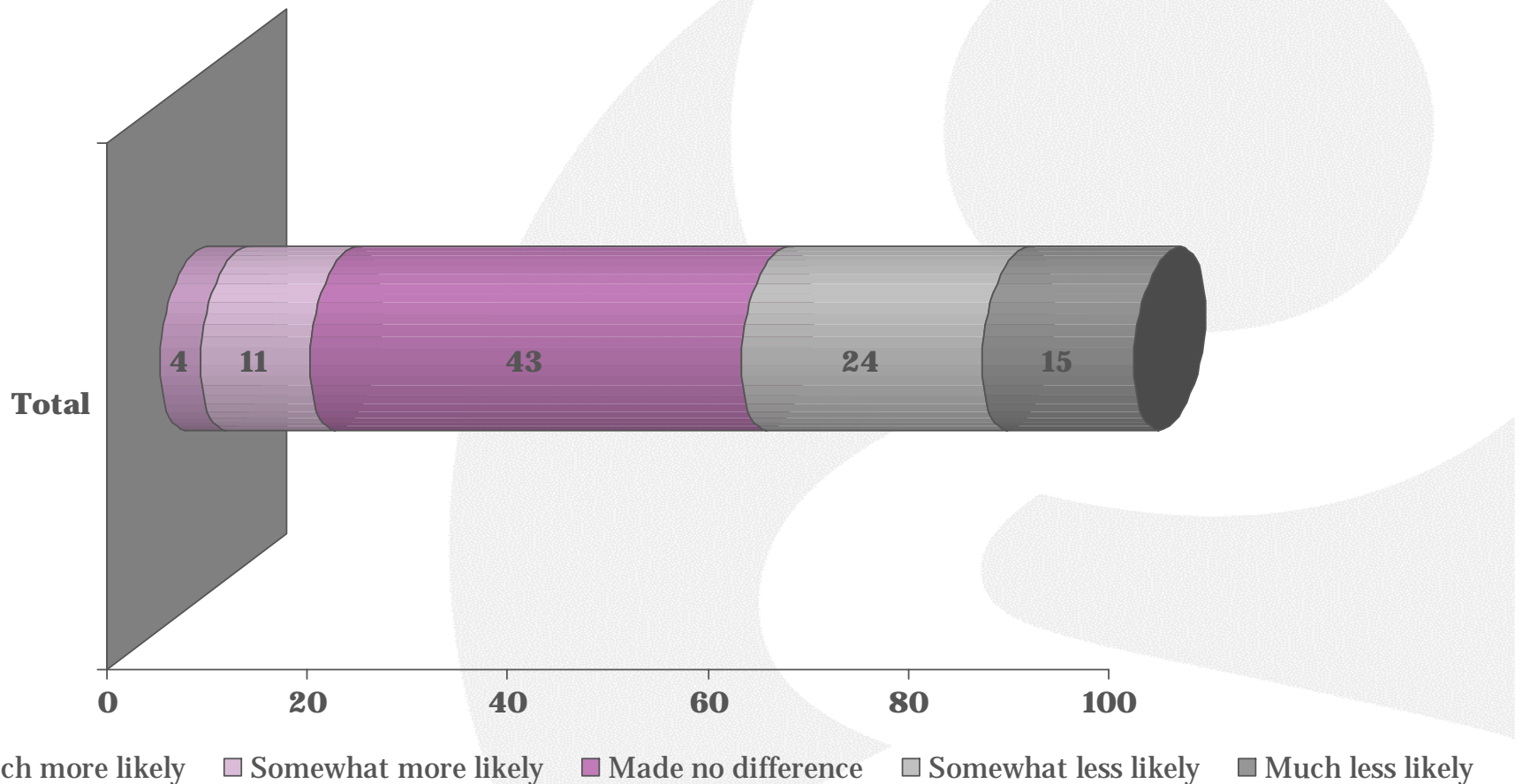
Has the Conservative decision to extend the mission in Afghanistan to 2009 made you much more likely to vote Conservative in the next election, somewhat more likely, somewhat less likely, much less likely, or has it made no difference to how likely you are to vote Conservative?





## Impact of Clean Air Act on Vote Intention

Has the Conservative decision to replace previous environmental plans based on Kyoto with the new Clean Air Act made you much more likely to vote Conservative in the next election, somewhat more likely, somewhat less likely, much less likely, or has it made no difference to how likely you are to vote Conservative?

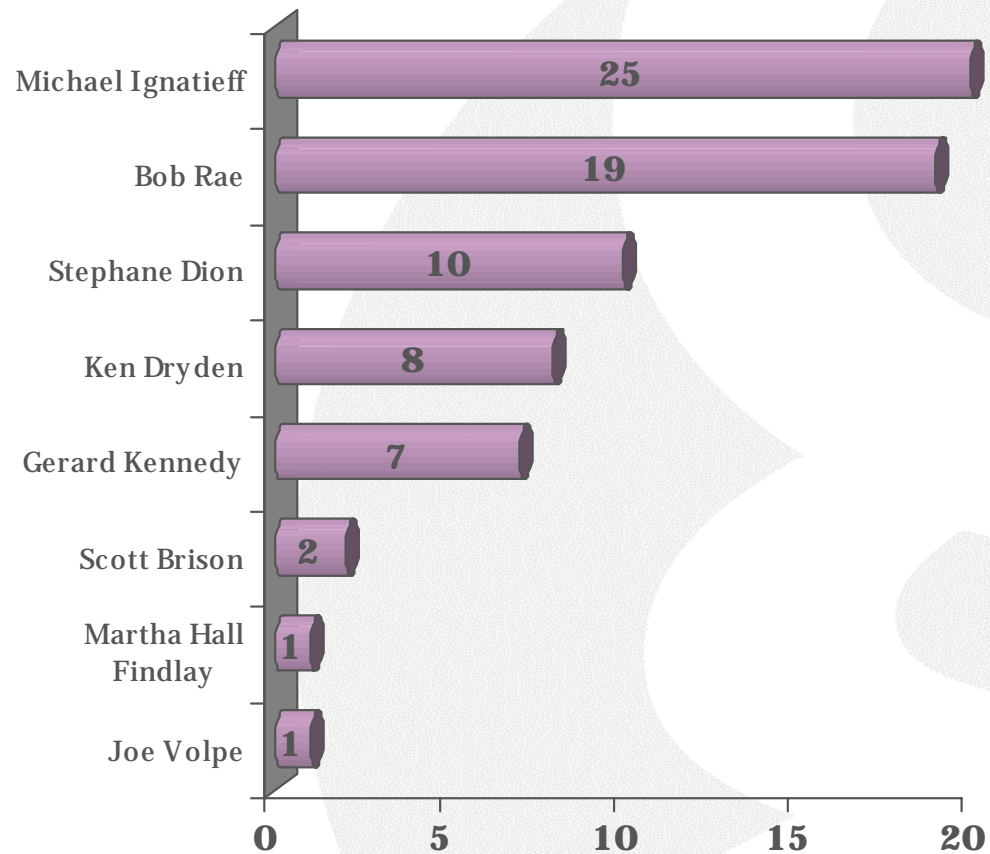






# Best Liberal Candidate

Among the Liberal Leadership candidates, whom do you think would make the best Prime Minister for Canada?





- ❑ The Income Trust decision by Minister Flaherty and the Conservative government captured the attention of the entire C Suite
- ❑ The large majority of those who were not negatively affected by the decision supported it on its merits
  - Not those primarily articulated by the government, but as a practical matter about government revenues
- ❑ However, it has still reflected negatively on the Government because everybody in the C Suite thinks they heard an iron clad promise not to tax trusts, and they think nothing significant has changed to justify the policy virage in moral terms, even if it is the right thing to do substantively.