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REGISTERED MAIL

Burnaby-Fraser Tax Services Office
9737 King George Boulevard
Post Office Box 9070, Station Main
Surrey, BC V3T 5W6

Winnipeg Tax Centre
66 Stapon Road
Winnipeg, MB R3C 3M2

Summerside Tax Centre
275 Pope Road
Summerside, PE C1N 6A2

Shawinigan-Sud Tax Centre
Post Office Box 3000, Station Bureau-chef
Shawinigan, QC G9N 7S6

International Tax Service Office
Post Office Box 9769, Station T
Ottawa, ON K1G 3Y4

Dear Sirs and Madams:

Re: Taxpayer Relief for the Limited Partners of SHAAE (2001) Master Limited Partnership ("SHAAE")

I writing on behalf of the taxpayers listed in Schedule "A" hereto (the "Taxpayers") to request that the Minister of National Revenue (the "Minister") exercise her discretion under subsection 220(3.1) of the *Income Tax Act* (the "Act") to waive accrued interest on taxes that may be owing in respect of the Taxpayer's 2001, 2002 or other taxation years after a final determination of the legitimacy of the Minister's disallowance of losses realized by SHAAE in its 2001 and 2002 fiscal periods.

The Taxpayers are all limited partners of SHAAE. SHAAE was involved in providing film production services. The tax consequences of the structure were sanctioned by the Canada Customs and Revenue Agency (as it then was, referred to herein as "CRA") by way of an advance income tax ruling dated December 13, 2000 (the "Ruling"). The Taxpayers relied on the Ruling when they decided to purchase units in SHAAE.

Although the film arrangement and corresponding tax shelter were sanctioned by way of the Ruling, the Minister issued determinations for SHAAE's 2001 and 2002 taxation years that disallowed the losses. On March 29, 2005, the Minister issued a Notice of Determination for SHAAE's taxation year ending December 31, 2001 (the "2001 Determination"). On March 30, 2005, the Minister issued a Notice of Determination for SHAAE's taxation year ending December 31, 2002 (the "2002 Determination").

On June 27, 2005, SHAAE delivered a Notice of Objection to the Minister in respect of the 2001 Determination and the 2002 Determination. After the Minister failed to respond within 90 days, SHAAE filed a Notice of Appeal to the Tax Court of Canada (the "Tax Court Appeal"). The original Notice of Appeal for the Tax Court Appeal was filed July 7, 2009.

The result of the Tax Court Appeal will affect all of the limited partners. Because of the complexity of the issues raised, the Tax Court Appeal is progressing slowly through the various litigation steps. It is not yet known when the Tax Court Appeal will be resolved.

Although it is atypical for taxpayers to apply for interest relief while an appeal is before the Tax Court, Information Circular IC07-1 "Taxpayer Relief Provision" (May 31, 2007) instructs taxpayers facing expiry of the 10-year limitation period for making such an application to apply on a protective basis:

¶15. If an assessment or reassessment for a tax year is issued by the CRA in a later year, or if an objection or appeal filed by a taxpayer may take considerable time to resolve, the taxpayer should send in their request for any potential relief before the 10-year time limit for that tax year expires.

In light of the decision of the Federal Court of Appeal in *Bozzer v The Queen*, 2011 FCA 186, it is now unnecessary to submit an application for interest relief within ten years from the end of the taxation year in which the tax arose that gave rise to the interest accrual. Subsection 220(3.1) has now been interpreted as being in the nature of a "lookback" rule, permitting the Minister to waive or cancel interest in the ten taxation years preceding the date of the application. Therefore, this application applies to any interest accruing on unpaid taxes from and after the 2001 taxation year.

The guidelines established by the Minister, as set out in IC07-1, allow for interest relief where:

¶26. Penalties and interest may also be waived or cancelled if the penalty and interest arose primarily because of actions of the CRA, such as:

- (a) processing delays that result in the taxpayer not being informed, within a reasonable time, that an amount was owing;

- (b) errors in material available to the public, which led taxpayers to file returns or make payments based on incorrect information;
- (c) incorrect information provided to a taxpayer, such as in the case where the CRA wrongly advises a taxpayer that no instalment payments will be required for the current year;
- (d) errors in processing;
- (e) delays in providing information, such as when a taxpayer could not make the appropriate instalment or arrears payments because the necessary information was not available; or
- (f) undue delays in resolving an objection or an appeal, or in completing an audit.

In this case, the Minister induced the Taxpayers to invest in SHAAE when the CRA issued the Ruling. Further, as early as April 10, 2001, the CRA had begun its audit of predecessor partnerships to SHAAE. The general partner of SHAAE, through counsel, requested that the audit of SHAAE begin by way of a letter sent in mid-2003. On May 18, 2004, counsel for the general partner of SHAAE again requested that the Canada Revenue Agency commence its audit of SHAAE. However, audit did not begin until late in 2004. The first of the determinations was issued in mid-2005. The Minister did not respond to Notices of Objection promptly filed. As a result of the Minister's delay the general partner of SHAAE commenced and has since then diligently prosecuted the matter in the Tax Court Appeal. The Tax Court Appeal will not be concluded in the near future. The Taxpayers' position is that given the errors on the Minister's part and the systemic delays, the interest relief requested herein is warranted and within the guidelines established by the Minister.

More detailed submissions can be provided at this time, or following resolution of the Appeals. My understanding of the current practice of the CRA in this regard is to wait until the appeals are resolved before requesting detailed submissions. Please advise if my understanding is correct.

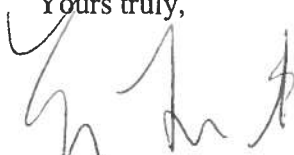
In accordance with RC4288 "Request for Taxpayer Relief" I am delivering the request to:

- Burnaby-Fraser Tax Services Office on behalf of Taxpayers resident in British Columbia and Yukon;
- Winnipeg Tax Centre on behalf of Taxpayers resident in Alberta, Saskatchewan, Manitoba, and the Northwest Territories;
- Summerside Tax Centre on behalf of Taxpayers resident in Ontario, Nunavut, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador;
- Shawinigan-Sud Tax Centre on behalf of Taxpayers resident in Quebec; and
- International Tax Service Office on behalf of Taxpayers resident outside Canada.

Attached as Schedule "A" to this letter, is a table of the names, last known addresses, and Social Insurance Numbers or Business Numbers for all of the limited partners that our firm represents. I have sorted the table by province and city so that you may identify the Tax Service Office to which the taxpayers are assigned. The addresses are the most current ones we have in our files, but I expect that some of the over 2200 investors may have since moved. I ask that you keep this restriction in mind and confirm that this request is noted on the file for every one of the Taxpayers listed in Schedule A.

Please confirm receipt of this application on behalf of the Taxpayers.

Yours truly,



David R. Davies



DRD:ELF

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