

# SLFI Group — Federal Court of Appeal confirms that funds may unbundle and outsource fund managers' exempt financial services

September 27, 2019

SLFI Group v. Canada <sup>1</sup>(SLFI Group) is an important decision from the Federal Court of Appeal (FCA) with respect to the application of GST/HST to fund management activities. The FCA overruled the Tax Court of Canada (TCC) to hold that payments made by a group of investment funds (the Funds) to a U.S. subsidiary of Citibank for financing services was GST/HST exempt. This was the case even though this financing function was originally within the purview of the fund manager (the Manager) and would have been GST/HST taxable if rendered directly by the Manager. By outsourcing the financing function to a third party, the Funds were able to save approximately \$45M in otherwise unrecoverable GST/HST.

The FCA reasons are instructive and provide guidance on how to successfully unbundle, outsource and re-characterize certain activities performed by the fund manager so that they can be treated as GST/HST-exempt financial services.

## Key Takeaways

- **The Court's comments in SLFI Group** present an opportunity for Funds and other taxpayers that incur unrecoverable GST/HST to revisit their current arrangements to restructure and save unrecoverable GST/HST.
- SLFI Group also highlights the risk of investment fund arrangements where a **portion of the fees paid to a third party may be construed as a payment "for the benefit" of the fund manager. If this were the case, the payments could potentially have been treated as consideration for taxable services.**

## Overview of the Facts

The Manager provided management and administrative services to the Funds. As part of its duties, the Manager financed the upfront payment of brokerage selling commissions so that the Funds could offer their investors a deferral or complete

elimination of these commissions. The Manager no longer wanted to finance these selling commissions for business reasons and, as trustee of the Funds, outsourced this function to a U.S. special-purpose subsidiary of Citibank (the Funding Corp.).

The Canada Revenue Agency reassessed the Funds and the Manager to impute GST/HST on those services, for approximately \$45M in unremitted GST/HST. The taxpayers appealed the reassessment to the TCC, where the TCC held that the services **were taxable because the services were part of the Manager's duties and would have otherwise been taxable if rendered by the Manager rather than outsourced to the Funding Corp.** The FCA disagreed with the TCC and held that Funding Corp.'s services were GST/HST-exempt financial services.

For further information on how SLFI Group may affect your GST/HST obligations, feel free to [contact the authors below or any members of our Commodity Tax group.](#)

<sup>1</sup> 2019 FCA 217.

By

[Braek Urquhart](#)

Expertise

[Tax](#), [Commodity Tax](#), [Appellate Advocacy](#)

---

## **BLG | Canada's Law Firm**

As the largest, truly full-service Canadian law firm, Borden Ladner Gervais LLP (BLG) delivers practical legal advice for domestic and international clients across more practices and industries than any Canadian firm. With over 725 lawyers, intellectual property agents and other professionals, BLG serves the legal needs of businesses and institutions across Canada and beyond – from M&A and capital markets, to disputes, financing, and trademark & patent registration.

[blg.com](http://blg.com)

### **BLG Offices**

#### **Calgary**

Centennial Place, East Tower  
520 3rd Avenue S.W.  
Calgary, AB, Canada  
T2P 0R3

T 403.232.9500  
F 403.266.1395

#### **Ottawa**

World Exchange Plaza  
100 Queen Street  
Ottawa, ON, Canada  
K1P 1J9

T 613.237.5160  
F 613.230.8842

#### **Vancouver**

1200 Waterfront Centre  
200 Burrard Street  
Vancouver, BC, Canada  
V7X 1T2

T 604.687.5744  
F 604.687.1415

#### **Montréal**

1000 De La Gauchetière Street West  
Suite 900  
Montréal, QC, Canada  
H3B 5H4

T 514.954.2555  
F 514.879.9015

#### **Toronto**

Bay Adelaide Centre, East Tower  
22 Adelaide Street West  
Toronto, ON, Canada  
M5H 4E3

T 416.367.6000  
F 416.367.6749

The information contained herein is of a general nature and is not intended to constitute legal advice, a complete statement of the law, or an opinion on any subject. No one should act upon it or refrain from acting without a thorough examination of the law after the facts of a specific situation are considered. You are urged to consult your legal adviser in cases of specific questions or concerns. BLG does not warrant or guarantee the accuracy, currency or completeness of this publication. No part of this publication may be reproduced without prior written permission of Borden Ladner Gervais LLP. If this publication was sent to you by BLG and you do not wish to receive further publications from BLG, you may ask to remove your contact information from our mailing lists by emailing [unsubscribe@blg.com](mailto:unsubscribe@blg.com) or manage your subscription preferences at [blg.com/MyPreferences](http://blg.com/MyPreferences). If you feel you have received this message in error please contact [communications@blg.com](mailto:communications@blg.com). BLG's privacy policy for publications may be found at [blg.com/en/privacy](http://blg.com/en/privacy).

© 2025 Borden Ladner Gervais LLP. Borden Ladner Gervais LLP is an Ontario Limited Liability Partnership.