

PENSION SPLITTING

A. INTRODUCTION

The concept of splitting the revenues of a couple for income tax purposes has been around for a while. Several industrialized countries, including the US, allow income splitting. In Canada, income splitting may apply only to retirement pensions payable under the Canada Pension Plan (CPP) and the Quebec Pension Plan (QPP). When applied to pensions, this concept allows spouses to split their pensions for income tax purposes in order to reduce the total amount of income taxes paid by both spouses, as is done by many couples through spousal RRSPs, income trusts and other tax reduction methods.

B. Scenarios

1. Only one pension of \$60,000

For income taxes purposes, this amount could be reported as \$30,000 for each of the two spouses.

2. Two pensions, one amounting to \$60,000 and the other to \$30,000

For income taxes purposes, the total income of \$90,000 could be reported as \$45,000 for each of the spouses.

Comparing income taxes under the 2 pension splitting scenarios				
	SCÉNARIO 1		SCÉNARIO 2	
Total income (line 150)	\$60,000	\$30,000	\$90,000	\$45,000
Net income (line 236)	60,000	30,000	90,000	45,000
Taxable income (line 260)	60,000	30,000	90,000	45,000
Federal income taxes (Annex 1)		4,800	18,417	7,764
line 8line 350 (non reimbursable tax credits)line 19 (federal income tax)	11,064 1,811 9,253	1,811 2,989	1,544 16,873	1,811 5,953
Provincial income taxes (Ontario)		1,815	7,623	3,064
line 8line 6150 (non reimbursable tax credits)line 71(provincial income taxes)	4,436 562 4,324	562 1,553	562 7,811	562 2,952
Total federal and provincial income taxes	13,577	4,542	24,684	8,905
Reduction in income taxes		\$4,493		\$6,874

NOTES

Scenario 1

- A pension of \$60,000 is payable to only one of the two spouses. Income taxes amount to \$13,577 if this pension is the sole income of the two spouses.
- With the splitting of this pension between the two spouses, the total amount of income taxes is two times \$4,542, i.e. \$9,084, therefore representing a reduction of \$4,493 in income taxes for the two spouses.

Scenario 2

- A pension of \$90,000 is payable to one of the two spouses. Income taxes amount to \$24,684 if this pension is the sole income of the two spouses.
- With the splitting of this pension between the two spouses, the total amount of income taxes is two times \$8,905, i.e. \$17,810, therefore representing a reduction of \$6,874 in income taxes for the two spouses.

Further scenario

- Two pensions of \$30,000 and \$60,000, respectively.
- With pension splitting, so that each spouse reports a pension of \$45,000, which corresponds to the transfer of \$15,000 from one of the spouses to the other, income taxes

amount to two times \$8,905, i.e. \$17,810, and therefore represents a tax reduction of \$309 for the two spouses.

C. Concerned taxpayers

The federal government is asked that the option of splitting pension between spouses be offered to couples as soon as one the spouses reaches age 65.

D. Recommended Approach

Provide senior couples taxpayers with the option to split pensions of all kinds, i.e. those payable pursuant to a Registered Pension Plan (RPP), a Registered Retirement Saving Plans (RRSP), a Registered Retirement Income Funds (RRIF), federal and provincial public pension plans etc.

Total pensions payable to the couple would split equally between the two spouses.

E. Rationale

1. Pension Splitting (PS) is consistent with a fiscal policy that is family based.
 - According to family law, each spouse has rights on the family assets and income. Why should such income not explicitly include pensions?
 - Retirement pensions payable under the Canada and the Quebec Pension Plans may be split for income tax purposes. Moreover, pensions may be split between spouses upon marital union breakdown under private and public pension plans. These are actual precedents. Mechanisms are accordingly already in place for dealing with PS and could easily apply to seniors' pensions.
 - There is a lack of consistency in government fiscal policies. Indeed, pensions may be split between divorced spouses but this privilege is denied to couples that are still cohabiting. This is discriminatory.
 - By not allowing PS to cohabiting spouses, the Canadian tax system overtaxes families, especially those where there is a material difference between each spouse's pensions.
 - The family is an important entity of the Canadian society. Within it, there is much sharing of financial resources, tasks and decision taking. Therefore, it is important that such sharing be fiscally extended to seniors' pensions.

2. PS aims, in respect of seniors, at improving their economic situation, ensuring them a better quality of life and maintaining their autonomy and independence.
 - Recent changes to some fiscal rules have undermined the economic well-being of seniors: mandatory withdrawals from RRIF, withdrawals of all outstanding RRSP by age 69 instead of 71, clawback of the Old Age Security pension etc. These changes have reduced or put a ceiling on the amounts an individual wants to set aside as retirement savings, have forced such individuals to make higher and/or premature RRIF withdrawals, to reduce his/her net investment earnings and to reduce or eliminate some of those advantages. PS would attenuate those harmful effects.

3. PS would follow though subsection 15 of the Canadian Charter of Rights and Freedoms.
 - The norm used to be that one of the spouses would be the labour force while the other would stay home for child rearing and homemaking. Under such circumstances, only one of the spouses could be entitled to a pension, which may not be split for income tax purposes.
 - The individuals most affected by the present income tax system are women and seniors: many had chosen to be homemakers while some have had to let go jobs pursuant to discriminatory measures such as being forced to leave in case of pregnancy or marriage, no maternity leave and lack of accessibility to jobs at the executive level. Women live longer than men on average and many will face difficult financial conditions resulting from those past practices.
 - A single source of family income means only one income tax return and higher taxes to pay.
 - The current tax system does not properly recognize the contribution of one of the two spouses, normally the wife, to the well being of the family and the society in general.

- Some more fortunate taxpayers may set up a family trust that allocates portions of the family income to all members of the family.
- Likewise, several entrepreneurs hire members of their family in order to so allocate the family income.
- PS would ensure a fairer tax treatment to a larger number of taxpayers.

4. There are precedents: the Canada and Quebec Pension plans (C/QPP) and spousal RRSP.

- Firstly, spouses may split their C/QPP retirement pensions.
- Secondly, a spouse may contribute to a spousal RRSP, which corresponds to eventual PS giving rise to reductions in the couple's total income taxes. These rules are well established.

5. The cost is affordable.

- According to a recent study, allowing PS to all senior couples would entail a reduction in the government tax revenues that would be relatively modest in comparison to the current annual budgeted federal surpluses in the order of 10 to 12 billion of dollars.
- PS would mean lesser income tax disbursements for senior couples, which would reduce the cost of social services.

6. PS is essentially a matter of fairness and equity for all taxpayers.

- The family, as opposed to the individual, should be the basis of the Canadian income tax system. Such approach would merely be consistent with current social realities.
- Even if the current basis is the individual, the family is used as a basis for some social insurance programs such as those providing social assistance benefits, guaranteed income supplements and reimbursements of portions of the goods and services taxes. As a matter of fairness and consistency, a unique basis should prevail.
- Two families with the same level of family income should be treated equally by the income tax system whether only one or the two spouses generate the income.
- It is a fact that most fortunate taxpayers, who have the greatest ability to pay, have more means of reducing their income taxes.