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TAX ASSISTANCE TO REGISTERED/QUALIFIED PENSION PLANS AND RRSP's/IRA's: DEFERRAL OR WAIVER?

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Abstract:

Public policy makers acknowledge that there exist significant tax incentives for the use of Registered/Qualified Pension Plans and RRSP's/IRA's. In general, employer contributions, within limits, are tax deductible to the employer and non taxable to the employee. Employee (and in the case of RRSP's and IRA's, qualified individual) contributions, within limits, are also tax deductible. More importantly, investment income is not taxed until taken. On the other hand, monies received from funds having such tax assistance are taxable in full as income to the recipient when taken.

This paper first analyzes these tax advantages as to the component source (i.e. how much of the advantage can be attributed to the tax deductibility of contributions and how much is because of the non taxation of the investment income until taken). The paper then attempts to determine and illustrate whether or not these elements of tax assistance should be viewed as tax deferral or tax waiver.

The analysis shows that any tax advantages associated with the deductibility of contributions is only tax deferral. However, the paper proves that there is a permanent loss to the taxpayers associated with the non-taxation of earned investment income until taken which should be viewed as a tax subsidy or tax waiver.

The paper ends with a short discussion of the public policy issues raised by these findings.