



**A Brief submitted to
the House of Commons
Standing Committee on Finance
for the
2006 Pre-Budget Consultations**

on

**A Request for Allowing
Pension Splitting
to all Canadian Senior Couples**

Submitted by the
Federal Superannuates National Association

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The Canadian Income Tax system taxes couples whose income is not earned evenly between spouses more heavily than couples whose income is evenly earned. A one-income couple can accordingly pay up to \$15,000 more in federal and provincial income taxes. This tax differential, which results from the progressive nature of the Canadian Income Tax system, is judged to be unfair by many Canadians.

In Canada, there have been very limited attempts to alleviate the impact of the requirement of individual filing. Examples of these kinds of measures are the tax credit for a dependent spouse, the ability to transfer certain credits between spouses and the ability to share CPP and QPP pensions. For the most part, however, these measures fail largely to address the problem adequately.

The taxation unit should be the basic income-user, decision-making entity, which, in modern society, is typically the family. In the majority of households, spending decisions are made jointly on the basis of the pooled income of the family.

The rich and the self-employed classes of families can effectively circumvent the rule that all income should be taxed in the hands of the individual that receives it, while wage earners and pensioners cannot do this effectively. When they were employees, pensioners had the opportunity to contribute to spousal RRSPs. But because they were contributing to private pension plans, their ability to contribute to RRSPs, and thus to split some income in retirement, was strictly limited. Thus the same families that were treated unfairly during their working years continue to be treated unfairly in retirement.

The Department of Finance has estimated the revenue loss from allowing income splitting for all age groups to be in the range of \$4 billion. However, were income splitting allowed for seniors, that cost would be much less because there are many fewer seniors than there are younger people and because seniors have much lower family incomes.

At a time when the Government of Canada is running huge multi-billion dollar surpluses, the revenue loss of allowing income splitting for seniors does not seem too great a cost for making the taxation system much fairer.

FSNA Position

FSNA believes that a fair tax system is a critical requirement for Canada. Such a system would promote efficiency in revenue collection and in the allocation of capital. The United States allows joint filing of income tax returns. While such a system may have some negative impacts on both government revenue and the labour force participation of secondary earners, those negative impacts have to be carefully weighed against the reduction in costs that would accrue from having a more enforceable tax system and the overall social benefits that would accrue to all Canadians from having a more equitable tax system.