BLAIR CORKUM
FINANCIAL PLANNING INC.

P.O. Box 1201
Charlottetown, PE
C1A 7M8

T. 902-393-1248 (direct)
CorkumFinancial@pei.sympatico.ca
www.CorkumFinancial.ca

July 29, 2016

House of Commons Standing Committee on Finance
Pre-budget consultation submission

Executive Summary

"What federal measures would help Canadians and generally maximize, in the manner of their choosing, their contributions to the country's economic growth?" Economic growth results from investment in Canadian enterprise, increasing the workforce, and by increasing productivity. These lead to more money to spend, which creates economic spinoffs.

How do we get more people working? Three important components are getting more people trained and willing to work, giving them a reason to want to work, and giving them a tax system that is understood and perceived to be fair. My focus will be on education and improving fairness in the tax system.

Summary of recommendations, with detail in the main body of my submission:

1. The proposed Canada Pension Plan amendments only go part way – more is needed. Retirement savings, including the CPP, is a reason people should want to work:

   Further enhancement of the CPP:

   a. Although I believe the enhanced CPP should require mandatory contributions by employees, but not by employers, employers may be more willing to participate if more steps are taken. The new CPP should allow additional voluntary contributions by employees, and by employers, beyond the legislated amounts.
   b. Voluntary contributions by non-working Canadians, to create a retirement pension should be an option.

   For encouraging Canadians to save for retirement:

   - The government needs to prioritize and do more promotion of financial literacy education as part of the National Strategy for Financial Literacy.
   - Provinces need to add mandatory financial literacy courses to their school curriculums.
   - Individual Canadians should be able to claim a tax deduction for financial planning fees and tuition fees for financial literacy education.
   - Employers should be encouraged to provide financial planning services as a tax-free employee benefit.

For education in general

Interest on any loans from a financial institution where the proceeds are used for post-secondary education purposes should be eligible for a tax credit.

2. Amend the Canada Pension Plan Act to remove the limitations on the amount of a survivor's benefit paid to a survivor already receiving their own retirement pension. A refund of premiums with interest should be payable to the deceased's estate for the Canadians that die within five years of commencing CPP where there is no survivor.
3. The Income Tax Act should be amended to provide income splitting and the $2,000 pension amount to RRIF withdrawals from age 55 or later with qualifying RRSP income being the amount of minimum/maximum withdrawals allowed under legislation related to Life Income Funds.
4. Amendment to Income Tax Act subsection 118(5.1) to allow it to function whether or not a set-off amount of child support for shared custody situations is stated in the child support agreement.

Details and Reasoning

My recommendations relate to, "What federal measures would help Canadians and generally maximize, in the manner of their choosing, their contributions to the country's economic growth?" Economic growth results from investment in Canadian enterprise, increasing the workforce, and by increasing productivity in the workplace. All of these lead to more money to spend, which creates the economic spinoffs. How do we get more people working? Three important components are getting more people trained, giving them a reason to want to work, and giving them a tax system that is understood and perceived to be fair. My focus will be on education and improving fairness in the tax system, including CPP:

1. **The proposed Canada Pension Plan amendments only go part way – more is needed. Retirement savings, including the CPP, is a reason people should want to work:**
   The Government of Canada and the provinces have agreed in principle to amend the Canada Pension Plan because Canadians are not saving enough money for retirement. The CPP proposal must be accompanied by further encouragement to save; otherwise the assumption that the enhanced CPP has solved their retirement concerns will be an easy conclusion for many people. If Canadians wish to continue to spend as they do on current lifestyles, they will need to work harder, earn more, and set money aside for their future.

   Common sense says that quality education is the long-term solution to building economic growth and solving many problems in society, including poverty, crime and health issues. Financial literacy is a required component of this education. The government needs to improve access to education, particularly for the poor and those whose families have never had exposure to higher education and do not recognize the benefits.

   With respect to CPP and education, I propose the following:

   For fairness and effectiveness within the new CPP proposal:

   - Although I believe the enhanced CPP should require mandatory contributions by employees but not by employers, employers may be more willing to participate if more retirement education steps are taken. The new CPP should allow additional voluntary contributions by employees, and by employers, beyond the legislated amounts.

- Voluntary contributions by non-working Canadians to create a retirement pension should be an option.

For encouraging Canadians to save for retirement:

- The government needs to prioritize and do more promotion of financial literacy education as part of the National Strategy for Financial Literacy.
- Provinces should be encouraged to add mandatory financial literacy courses to their school curriculums.
- Individuals should be able to claim a tax deduction for fees paid to professional financial planners to provide financial advice, and for tuition fees for financial literacy education courses. At present, the deduction for investment counsel fees is only for fees paid to licensed investment sales people (which is not education). Further, short courses do not qualify for the tuition education credit. Expand the law to allow these two add-ons to encourage people to understand the need for and to obtain retirement planning education.
- Employers should be encouraged to offer financial planning services as a tax-free employee benefit.

For education in general

Students may obtain a tax credit for interest paid on student loans. The tax credit applies to interest payments on new and current loans made under the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act*, the *Apprentice Loans Act*, and corresponding provincial or territorial government laws for post-secondary education. Students who do not qualify for these loans may still need to borrow from a financial institution because of individual circumstances. Their interest on loans where the proceeds are used for education purposes should be eligible for this tax credit.

2. Fairness to retired employees receiving CPP

An amendment to the Canada Pension Plan Act is required to remove the limitations on the amount of a survivor's benefit paid to a survivor already receiving their own retirement pension. Contributions by working Canadians should be accruing to their own family's benefit, at least to the extent of their own contributions, not to other Canadians who will receive the benefit of these premiums. In a typical defined benefit pension plan, individuals who die without a spouse before receiving any of their pension have a certain guarantees, whereas the CPP has none. Such guarantees may be a refund of premiums with interest, a payment of a lump sum if death occurs within a certain period after retirement, etc. Are there any pension plans that do not pay a survivor's pension if the spouse is still living, unless the spouse has waived their right to the benefit?

For the CPP, I propose a refund of premiums with interest should be payable to the deceased's estate for those Canadians that die within five years of commencing their retirement pension where there is no survivor. I acknowledge that CPP premiums would need to be adjusted upwards by a small amount to account for the increased costs to the CPP.

Many families are dual income households, and those that plan for retirement expect to receive their CPP well into retirement. If one spouse dies early, the survivor can possibly receive 60% of the deceased person's retirement pension. However, if the survivor already receives the maximum survivor pension, the lifetime payments paid by the deceased person are lost because no survivor pension will be paid. The total lost premium is in today's dollars could exceed $100,000 for an employee, and twice that for a self-employed person. The CPP should pay a survivor benefit in all circumstances as many Canadians are counting on it, and it is the fair thing to do.

3. **Equality among pensioners**
For their tax returns, Canadians who retire and draw a defined pension benefit plan are entitled to pension income splitting with their spouse, and can claim the $2,000 pension amount immediately. Canadians with an RRSP cannot access these tax benefits until they reach at least age 65 and convert their RRSP to a RRIF (or access certain insurance products at age 65 or later). The rationale presented for this difference is that Canadians with an RRSP have more flexibility than those with the defined pension plan. However, the majority of Canadians are required to make 100% of their RRSP contributions themselves, with no employer participation.

   I propose Canadians with an RRSP should be able to access income splitting and the pension amount under similar terms to defined pension recipients, or the latter should have their tax benefits restricted until age 65. Using the former approach, the tax benefits could be available to a RRSP holder upon converting the RRSP to a RRIF at age 55 or later (similar to the age that many pensions can commence). The qualifying pension income would be limited to any amount between the minimum RRIF withdrawal and the maximum limits that would be applicable if the RRIF was a Life Income Fund (LIF). These limits could be set out by the financial institution on the annual tax reporting forms.

4. **Correcting an imperfection in the law and restoring the ability to enforce child support payments**
An amendment to Income Tax Act subsection 118(5.1) is required to allow it to function whether or not a set-off amount of child support for shared custody situations is stated in the child support agreement. Currently, a separate "side" agreement stating the set-off payment allows parents flexibility on claiming the eligible dependant amount, but a side agreement may not be enforceable by provincial maintenance enforcement agencies. Stating the same information within the child support agreement does not allow this based on court interpretation of S. 118(5.1).

   Where both parties are required to pay support to each other in a shared custody situation, subsection 118(5.1) applies. That is, as long as both parties are required by the agreement to make a payment to each other, either parent (if single) may claim the eligible dependant amount, or when there is more than one child, both parents may claim it. If the agreement calculates the amount payable by each parent to the other, and both obligations are clearly stated in the agreement, <u>but</u> then states that only a net "set-off" amount needs to be paid, subsection 118(5.1) no longer applies. A set-off payment is a practical approach for the convenience of the parties, requiring only one net payment to be made. This also assists with enforcement. However, the courts concluded that the set-off amount creates an obligation by only one party, not by both. Hence, subsection 118(5.1) is not applicable when a set-off amount is stated in the agreement. This court interpretation creates a situation where the most practical form of payment to help children is no longer favoured. What makes this situation unpalatable is the fact that subsection 118(5.1) will apply if the parties create a "side" agreement stating that only the "set-off" amount need be paid. This is set out in interpretation 2013-0502091E5, and has been confirmed by the

CRA Rulings Directorate. Unfortunately, some provincial child maintenance offices have indicated that they cannot enforce the "side agreement"; hence, the need for a fix.

My summary of recommendations is effectively my executive summary and is not repeated here. Thank you for this opportunity.

Yours very truly,

Blair Corkum

CPA, CA, R.F.P., CFDS, CFP, CLU, CHS

c:\users\blair\documents\personal\budget submissions\2017 budget submission 2016-07-29.docx