"Tax Assistance to Qualified Retirement Savings Plans: Deferral or Waiver": Author's Reply to Previous the Discussion*

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I greatly appreciate the fact that Mr. Mark Campbell has drawn attention to the recent Canadian Institute of Actuaries paper entitled: *Troubled Tomorrows—The Report of the Canadian Institute of Actuaries' Task Force on Retirement Savings*. As a member of the task force and one of the authors of the report, I am proud of its quality.

This report points out correctly that the present tax system in both Canada and the United States discourages saving, including saving for retirement. This is because the present tax system taxes the inflation component of any gross rate of return on savings. In this way, the present tax system is confiscatory.

The report then shows that the present tax system does not tax the inflation component of qualified (in Canada, registered) retirement savings. In fact, that is the key tax advantage of such savings. The report proves that if the inflation element of savings were not taxed, then the only tax advantage of qualified (registered) savings would be tax deferral. That is, the only permanent advantage or subsidy of qualified (registered) retirement savings is the nontaxation of the inflation element of its gross investment income.


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The report correctly points out that if these tax advantages were removed by the government, then taxpayers/savers would make different decisions as to the mix of consumption/savings with their scarce dollars. At the present time, the Canadian government states that the tax expenditure associated with the tax deferral and nontaxation of the inflation component of savings, given only to registered plans, totals $14.9 billion (in 1991). Obviously, that amount of money would never be realized if the government changed the tax regime and decreased or removed the present advantages offered to registered plans. The report goes through a believable set of assumptions as to how taxpayers may respond to the removal of these tax advantages and concludes that the government may only be losing $4.0 billion to $5.3 billion because of the use of registered plans.

Mr. Campbell, under a different set of assumptions (namely that there are no government deficits, and that the government only spends money after it has been raised) shows that qualified (registered) savings plans then actually would be beneficial to the government's coffers.

This conclusion is intuitively obvious. If the government charges a constant tax rate (e.g. 40 percent) and the economy is growing in real terms (i.e., after inflation), then the government can expect more tax revenue next year than it got this year.

None of this changes the fact that under today's tax system (which is confiscatory) and under realistic assumptions as to gross and net (after inflation) rates of return, that there is a permanent (i.e., not just tax deferral) tax advantage to using qualified (registered) savings plans.

In that regard, it is both dangerous and misleading for pension experts to state that the tax advantages associated with qualified (registered) funds are only advantages of deferral. This often is stated, however, and was the cause and purpose of my paper.