



THE **MARSHALL** PLAN
a savings plan for all Canadians

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I. BACKGROUND

In 1957 it was recognized by politicians from all parties that Canadians who belonged to employer pensions had an advantage over those Canadians who did not, since those with pensions were contributing from before-tax earnings, where those without pensions had to contribute from after-tax earnings. To deal with this unfair discrimination, the RRSP was born, to create a level playing field between these two groups of Canadians on something of major importance affecting Canadians standard of living in retirement.

Fast forward to 2006 and the taxation of income trusts. The 2006 income trust policy is in gross violation of why RRSPs were created in the first place, for three main reasons:

1) The policy rationale for the income trust tax was the argument of “tax leakage”. Tax leakage only arises when the deferred taxes paid by RRSPs are arbitrarily EXCLUDED. Since the deferral of taxes is the only benefit that an RRSP confers on taxpayers, to turn around and exclude from consideration the fact that these taxes are paid, is to undermine the entire concept of what an RRSP is from a policy analysis perspective.

2) The 31.5% income trust tax only applies to “publicly listed” income trusts and not private income trusts. Since RRSPs can only hold public securities, whereas pensions funds can own private securities, means that, for example OMERs can own Teranet Income Fund and NOT PAY the 31.5% tax whereas that same trust held in an RRSP would have to. This means that OMERs can access the earnings of businesses and its pension beneficiaries only pay tax ONCE, whereas Canadians not so privileged have to pay tax TWICE through their RRSP.

3) Pension funds have a broad array of other investment options that are available to them to access a company’s pre tax cash flow/earnings and only have their beneficiaries pay TAX once, such as leveraged buyouts like the LBO of BCE by Teachers’, which was only made possible when BCE was prevented from becoming a trust, even though the government would have collected \$793 million more from BCE as an income trust than BCE as an LBO owned by Teachers. The LBO of BCE by Teachers’ is nothing more than Teachers’ owning the equivalent of an income trust and is something a pension fund can do but not an RRSP.

Income trusts became so popular with Canadians in part because they allowed average Canadians the opportunity to replicate the many and varied investment alternatives

available to pension funds to access a company's pre tax earnings and only pay tax once. The income trust tax that was founded on the false argument of tax leakage took that alternative away from RRSPs but preserved it for pensions funds. This is grossly unfair and discriminatory.

The Marshall Savings Plan overcomes this discrimination by restoring income trusts by dealing head on with the government's erroneous claims of tax leakage. By eliminating any validity to the argument that income trusts cause tax leakage, will serve to invalidate the entire policy. The Marshall Plan does this by ELIMINATING the issue of deferred taxes. The Marshall Savings Plan can be thought of as exactly like an RRSP, with one exception, which is that income received from investments held inside an MSP have to be taken into income and taxes remitted in the year in which they are received. As such what was formerly a deferred tax for an income trust held inside an RRSP, becomes a cash tax for an income trust held inside an MSP and hence there is no longer any tax leakage that arises. In addition any income received inside an MSP is eligible to be paid out in the year in which it is received to create an income stream and to provide the means to service the payment of taxes. Income trusts held inside of RRSPs will still be subject to the 31.5% tax, however those same income trusts held inside an MSP will not, since holding income trusts inside an MSP does not cause tax leakage, and hence there is no need for the income trust tax to apply to income trusts held in MSPs.

Since 38% of income trusts reside in MSP and because the plan calls for the ability to transfer income trusts into an MSP at any time in the next year without triggering a taxable disposition, all the income trusts will move from RRSPs to MSPs and the "overhang" of 38 of the outstanding income trusts becoming double taxed will be removed and the market will rebound to its former vibrancy and valuation levels, reducing significantly the risk of continued trust takeover, and the resultant loss of taxes to the government that has equaled \$1.5 billion in lost annual taxes from the 51 trust takeovers to date. As such the Marshall Savings Plan is revenue positive for the government as it will turn alleged tax leakage into cash taxes and will preserve the \$6 billion in taxes that are presently paid by the remaining 169 income trusts, whilst in Canadians taxable hands.

There are other policy purposes and goals to which the basic Marshall Savings Plan could

be put to that are discussed below under “ Additional features of an MSP “extra”.

II. PURPOSE: WHAT THE MSP WILL ACHIEVE

The Marshall Savings Plan will:

- Resolve Jim Flaherty's income trust policy fiasco
- Preserve income trusts as an essential "profit sharing" investment choice for ALL Canadians
- Create a massive new stream of cash tax revenue for the government (\$6 Billion per year)
- Provide a new source of revenue equal to 0.75% GST increase, but with no GST increase required
- Help the 75% of Canadians without pensions and preserve the means to a decent retirement income and standard of living
- Halt the continued rash of takeovers of vulnerable income trusts (eg. state-owned Abu Dhabi Energy acquiring Prime West etc)
- Restore a level playing field between the 75% of Canadians without pensions (RRSPs) and the 25% of Canadians with pensions
- Promote saving and investment in Canada by Canadians
- Direct the vast pool of Canadians retirement savings into real investment in the Canadian economy
- Avoid the systemic risks to our economy from toxic investments like ABCP

III. OVERVIEW: HOW THE MSP WORKS

The Marshall Savings Plan (MSP) is like an RRSP, with one major exception: income received from investments held inside an MSP is taxable in the year in which that income is received. Unlike income trusts held inside an RRSP, where the tax is deferred, an income trust held inside an MSP is immediately taxable, hence there is no longer any tax leakage.

Any income received inside an MSP is eligible to be paid out in the year in which it is received to create an income stream and to provide the means to service the payment of taxes. Income trusts held inside of RRSPs will still be subject to the 31.5% tax, however those same income trusts held inside an MSP will not, since holding income trusts inside an MSP does not cause tax leakage, and hence there is no need for the income trust tax to apply to income trusts held in MSPs.

In brief, the MSP is a savings vehicle that serves the needs of the 75% of Canadians without pensions, while restoring a more level playing field between pension funds and individuals.

IV. MARKET DYNAMICS

- 1) The Government's 31.5% tax would still apply to income trusts in RRSPs (for face saving reasons only)
- 2) MSPs would not attract the 31.5% tax, since they are no deferred taxes arising from MSPs and therefore there is no tax leakage and therefore no policy justification for the 31.5% tax applying to income trusts inside MSPs.
- 3) Canadians would have 12 months to transfer income trusts from their RRSP to an MSP
- 4) The 38% of income trusts that are presently held in RRSPs and double taxed under the Government's 31.5% tax is where the wheels fell off the car for the income trust market. The MSP has fixed these broken wheels. As such the entire market would regain its viability and vibrancy now that this huge "overhang" has been lifted. Without an MSP there is no way to get the 38% of trusts out of RRSPs/RIFs/LIFs without incurring huge capital gains.

V. POLICY GOALS

How the Marshall Plan, in its final form would work is a function of what policy purpose(s) it is intended to serve. The following are recommended basic policy goals:

- 1) stop foreign and private entity takeovers by eliminating the artificial devaluation of trusts in the public market
- 2) move these trusts to an MSP: the distributions are now declared by the account holder each year and taken into income, the deferred taxes of yore (RRSP) become taxable (tax revenue) in the MSP payable to Revenue Canada.
- 3) Eliminate the discrimination that exists allows pension plans (including the government's own) to own trusts but denies this to individual Canadians, 75% of whom have no pension plan.
- 4) Capital gains inside of an MSP should be treated exactly like an RRSP

VI. IMPLEMENTATION IN BUDGET 2010

The implementation of the Marshall Savings Plan is one of those rare decisions with no “trade-offs”. Creating a new plan provides the means to effect changes to the negative consequences of the "Tax Fairness Plan", rather than explicitly recanting on the policy itself, thereby providing a remedy for the government in office.

As such, adoption of the Marshall Plan becomes a simpler decision to make in light of the political realities of the day. Realities such as: protecting Canada’s tax base to deal with Canada’s present day budget deficit crisis, while at the same time preserving a form of profit sharing investment vehicle essential to the 75% of Canadians without pensions. This favorable outcome of pro-actively adopting the Marshall Savings Plan contrasted with the immense adverse outcome associated with the “do nothing” alternative and the moral hazard therein, creates the political dynamic whereby the Conservative government (to whom the Marshall Savings Plan was first submitted on January 15, 2010) of its own

initiative will see the political benefit of incorporating this Plan in Budget 2010, and/or find themselves called upon to do so, by one or more of the three opposition parties, given the minority nature of today's Canadian Parliament and the desire to achieve political advantage, and benefits for all Canadian taxpayers.

VII. ADDITIONAL FEATURES OF AN MSP "EXTRA":

The base Marshall Savings Plan will be revenue positive to the government by fully capturing the value of what was previously alleged to be tax leakage, as well as protecting the tax revenue that is at risk from the continued takeover of the remaining 169 income trusts, that is averted if the base Marshall Plan is implemented in Budget 2010. The amount of tax revenue that the Marshall Plan produces is \$6 billion versus the "do nothing" alternative. Some of this found tax revenue should be used to extend the features of the Marshall Plan to make the Marshall Plan a larger policy vehicle than simply dealing with the income trust mess, but also create a true level playing field as between income trusts and common shares, in what is Canada's single largest pool of investment capital in the country, namely the \$600 billion in RRSPs.

It should come as no surprise to policy makers in Ottawa that Canadians at large made the decision to invest in income trusts in their RRSPs. This is because other types of investments, specifically common shares are ill suited to investment for an RRSP, for the simple fact that there is an adverse tax treatment of dividends and capital gains from a common share investment when held inside an RRSP. People at large, tend to do what the incentives and disincentives drive them to logically do. Owning common shares in an RRSP is a tax inefficient thing to do as the returns that take the form of dividends and capital gains get, unfairly transformed into income that is taxed as if it were interest income and taxable upon withdrawal at full rates of taxation. Income trusts, on the other hand, when held in an RRSP preserved their treatment as interest both entering and exiting an RRSP, and since these distributions are paid from a businesses pre tax earnings, there is a degree of tax incentive built in by Ottawa for Canadians to hold

income trusts in their RRSPs.

The forced conversion of income trusts to corporations brought about by the governments income trust policy represents just the latest chapter of abuse that investors who took Stephen Harper at his word have experienced. They did what any trusting and rational person would do with their RRSP investments by owing income trusts. Prior to 2006 that was the optimal thing to do. Forcing conversion of trusts into dividend paying corporations will, come at a great cost to these income trust holders in terms of the absolute dividend rate paid versus the old trust distribution level, what that trading value of what that new security will be, BUT ALSO, these Canadians will be now holding an instrument namely common shares that is the LEAST optimal instrument to hold in an RRSP, through NO FAULT of their own.

For this reason alone, the Marshall Savings Plan should be designed in such a way that the dividend characteristics of dividends are preserved within an MSP in the way in which they are not preserved within an RRSP, as follows:

1) Having established a plan with the above noted attributes, which is nothing more than an RRSP that declares and pays taxes on all trust distribution received in a given year, it could also be made into a vehicle that makes the ownership of dividend paying common shares more efficient and therefore attractive. Dividends that are earned inside an RRSP lose their treatment as dividends when paid out. Now that the MSP declares taxes annually there is no reason why the MSP could not be made into a vehicle that preserves the dividend gross up tax treatment for dividends earned inside an MSP , on which taxes are remitted annually.

2) This would be a huge boon to the common share market as well as the income trust market and would create a true “level playing field” between these two competing models, however coming at it from the INVESTOR side of the equation, by making it attractive for the \$600 billion in RRSPs (now MSPs) to be invested in common shares with dividends rather than simply income trusts.

3) The MSP could also provide a contained means to create fair treatment between those with pensions who are eligible for “pension income splitting for seniors” and those Canadians who are without “pension income” to split, by including annual dividends/distributions from MSPs as part of the definition of “pension income”.

VIII, CONCLUSION

The MSP can become whatever the elected Members of Parliament want to make it and defined by what policy goals it would be put to. In any of its various forms it will be a huge boon to the 75% of Canadians without pensions by placing them on a more equal footing with the 25% of Canadians with pensions. It will also make it vastly more efficient for people to make contributions to a plan that has real benefits and efficiencies and will encourage people to become more responsible in providing for their inevitable retirement, and would likely go a long way to reducing the decline that we have witnessed in Canadians contributing to their RRSP each year. The MSP will make that decision an easier and more efficient decision to make.