

Tax Tip
Week of May 31, 2010

Abuse of Individual Pension Plans

The Income Tax Act allows individuals to create an individual pension plan, i.e., a pension that has only one member. These are typically created for senior executives. CRA believes there are potential abuses of these plans by individuals who are about to retire and create an individual pension plan in order to transfer benefits from their current plan.

Apparently this strategy has been used by many retiring civil servants to manage their government pension plan that allows such transfers. CRA believes that such a strategy may be offside and the penalty is the revocation of the individual pension plan. In such cases, the amount of the revoked pension plan would be brought into income.

Individuals that are considering such a strategy should immediately seek tax counsel as the tax penalty for being offside is very severe.