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Reference: Page 23, Lines 10-17

Q. Under the Income Tax Act (Canada), pension funding, and not pension expense, is tax deductible. In this respect, pension costs are no different than OPEBs costs.

In this context, how do the income tax rules support using an accounting methodology for OPEBs costs (ie. retain the cash basis) that is different from the accounting methodology for pension costs (ie. accrual method)?

A. As the question recognizes, the costs that are deductible for income taxes purposes are not pension expenses or OPEBS expenses as they are recognized in the financial accounts of the company. The deductible expenses are the amounts actually paid by the company to either fund the pension plan or make OPEBs payments (in the absence of funding).

Funding of pension plans is based on the accrual method; hence, the accrual method is recognized for tax purposes in that case. Payments for OPEBs are made on a cash basis and the cash basis is recognized for income tax purposes in that case. Hence, the approach used for income tax purposes does not require the use of the accrual approach. Instead it focuses on the payment obligations of the company.

The point being made in the evidence was simply that under the Income Tax Act (Canada), the accrual method of determining expenses is used when the accrual method is used to determine payments (i.e., the accrual based on the actuarial estimate that is used for pension funding); whereas the cash method is used when the cash method is used to determine payments, as in the case of OPEBs expenses.