

Why the \$10,000 TFSA Limit Will Help the Middle Class

Description

It's been said that the "ruthless arithmetic of democracy" generally favours politicians who tax the relatively few "rich" and redistribute the proceeds to the far more numerous middle class.

In retrospect, Justin Trudeau's election platform of imposing a new 33% federal tax on taxable incomes above \$200,000 and cutting the middle-income federal tax from 22% to 20.5% for incomes between \$44,700 and \$89,400 was a no-brainer from a vote-getting perspective.

Clearly, it worked politically, even if it means high-income earners now face a top marginal tax rate of 50% in most provinces. (Generally, if the federal tax rate is 33%, you can add roughly another 50% of that to account for provincial income taxes and often surtaxes.)

However, another Liberal promise seems to be more of an attack on the middle class than on the "Top 1%" of wage earners. The Liberals pledged to cut the annual contribution limit of tax-free savings accounts (TFSAs) almost in half from the \$10,000 a year that the Conservatives implemented this past summer to the previous \$5,500 limit.

When you think about it, there's nothing more middle class than ordinary Canadians striving to build retirement savings with TFSAs. Unlike public-sector workers and our elected officials, most middle-class wage earners in the private sector lack the inflation-indexed defined benefit pensions the public sector enjoys, which are ultimately backstopped by taxpayers.

Perhaps that's why a [recent poll by Angus Reid](#) found that more than half of the 11 million Canadians who have TFSAs do *not* want the Liberals to keep their election promise to cut back TFSA limits. While a majority (83%) supported the middle-class tax cut, only 36% supported the cut to TFSA limits. Half opposed the cut, while another 15% said they don't know. The poll also found that 75% of Conservative voters opposed the cut, but even among Liberal voters, almost half (49%) don't want the TFSA limit rolled back.

In other words, at least 5.5 million Canadians want the chance to maximize their TFSA contribution room. On the strength of that, a group called Working Canadians—spearheaded by the inimitable Catherine Swift, well known as the former head of the Canadian Federation of Independent Business—has launched an [online petition](#) urging TFSA fans to ask the new Liberal government to retain the \$10,000 annual limit.

In an accompanying fact sheet, Swift and her group point out that "Half of [adult] Canadians have a TFSA, and of the TFSA holders who have topped up their contributions to the maximum limit, fully 60% earn less than \$60,000 per year." Once again, it's the middle class being affected here.

"One of the most glaring inequalities in Canada today is pension inequality," Swift told me in an interview. "The 20% of Canadians who work for government enjoy generous, inflation-indexed pensions ?paid for by the rest of us. Leaving the TFSA limit at \$10,000 is one important way to reduce

this pension inequality for the vast majority of Canadians.”

Also consider something I've long argued since TFSAs were unveiled in 2009: there would be less political opposition to them if the original name for the concept had been used: *tax-prepaid* savings plans. That's because TFSAs are *not* completely tax free. In fact, they are mirror images of the RRSP. When you put \$10,000 into a TFSA, you first have to pay income tax to come up with that capital in the first place. So, in the case of one of those allegedly “rich” top-bracket taxpayers, they'd have to earn roughly \$20,000 and pay \$10,000 income tax in order to have \$10,000 net to put into the TFSA.

Unlike RRSPs, Ottawa gets its take right up front. TFSAs are really only preventing such double taxation (or triple, if you count consumption taxes such as HST when the money is ultimately spent). The only tax break the TFSA holder gets is that once in the TFSA, the capital is no longer subject to annual rounds of tax on dividend and interest income, and, in some cases, capital gains.

Swift also makes the point that “TFSAs are an excellent tool for seniors who can no longer contribute to an RRSP after the age of 71.” Here again, Ottawa gets its take when money that is withdrawn from RRSPs or RRIFs is taxed; only then can the net proceeds be put into a TFSA.

Similarly, Ottawa is paid up front when investments in non-registered accounts make “transfers in kind” into TFSAs. Capital gains taxes must be paid before taxable investments are transferred into a TFSA.

This is why I support Working Canadians's TFSA petition. In fact, I suggest that merely signing it is not enough. If every TFSA holder contacts six others who feel the same (either via email or social media), then there's a decent shot that many millions of unhappy middle-class TFSA holders will have their opinions heard in Ottawa.

CATEGORY

1. Investing

Category

1. Investing

Date

2025/09/10

Date Created

2015/11/19

Author

jchevreau

default watermark