



Tax Literacy

How do we ensure people are better aware of tax entitlements available to them?

As financial advisors, we often do as much as we can to educate our clients about tax matters, especially when it comes to their investments, financial, retirement, estate, and insurance planning. After all, once our clients understand the fundamentals of how different types of income are taxed, we can provide tremendous value by showing them ways to legally minimize the taxes they might otherwise pay on their investment income.

As the federal government predicted back in 2008 when the TFSA was launched, “As the TFSA matures over the next 20 years, it is estimated that, in combination with existing registered plans, it will permit over 90 per cent of Canadians to hold all their financial assets in tax-efficient savings vehicles.” But without a good knowledge of how our tax system works, Canadians may be paying too much tax on their income and not fully taking advantage of all the tax sheltering available, be it in RRSPs, RRIFs, TFSAs, RESPs, RDSPs, or tax-sheltered permanent life insurance.

Earlier this summer, the C.D. Howe Institute published a report entitled, “*The Knowledge Deficit about Taxes: Who It Affects and What to Do About It*,” in which it analyzed the results of a general tax survey of 1,000 Quebecers. The report’s authors, Antoine Genest-Grégoire, Luc Godbout, and Jean-Herman Guay, all from the Université de Sherbrooke, surveyed Quebecers on their “tax literacy” and offer practical advice on how to close the so-called “tax knowledge gap.”

“While the survey was conducted in Quebec, the lessons learned can be applied across the country,” said Genest-Grégoire in a press release. The authors measured the knowledge and skills of Canadians on personal income tax, sales tax (like GST/HST), as well as on social transfers.

The results found three main characteristics that best predict tax literacy: age, fam-

ily income, and level of education. Perhaps not surprisingly, older and more educated individuals were found to have a greater knowledge of the tax system, while lower income groups had less knowledge. In addition, those individuals who took an active role in preparing their own tax returns (37 per cent), rather than handing the job off to a tax preparer or accountant, generally had a better grasp of tax concepts. The study also found that women seem to consistently underestimate their knowledge of tax.

The Canada Learning Bond offers grants to low-income parents who open RESP accounts for their kids. The program reaches just 32 per cent of the families it seeks to help.

Why does any of this matter? After all, can’t we just simply hire a knowledgeable tax professional to help us navigate our overly complex tax system on our behalf?

For low-income earners, who are generally unable to afford professional tax help, a lack of knowledge lessens the take-up of government social programming. The authors also found that a lack of knowledge is associated with lower trust levels in the tax system, which in turn can lead to higher rates of tax avoidance or even tax evasion, which increases the tax burden for all Canadians.


The report concludes with a number of recommendations on how governments can help create an overall higher level of understanding of taxes. First, it suggests that governments publish more information aimed

at seniors about the various programs that are targeted to them. Indeed, a 2010 paper authored by Richard Shillington at the request of the Task Force on Financial Literacy, estimated that roughly 160,000 eligible seniors do not receive the Old Age Security benefit (representing almost \$1 billion in pre-tax benefits), while about 150,000 eligible seniors do not receive the Guaranteed Income Supplement. Approximately 55,000 eligible Canadians are not receiving Canada Pension Plan benefits to which they are entitled.

The C.D. Howe report also recommended making more data on the use of public programs and their intended recipients available for research purposes and to offer better education initiatives, such as changes in school curriculums, employer-provided ongoing education, or public education campaigns.

Finally, the report suggested that government establish auto-enrolment in social programs to increase participation. It cites the example of our underutilized Canada Learning Bond (CLB) program. This program offers grants to low-income parents who open RESP accounts for their kids. The CLB can reach a total value of \$2,000 per child toward higher education payments without the parents ever having to contribute their own money. The reports cites the British equivalent to this program having a take-up rate of nearly 100 per cent of the target population because of its automatic enrolment feature. The CLB program reaches just 32 per cent of the families it seeks to help.

The report concludes that, “policies that use the tax administrative apparatus as a delivery system cannot reach their full potential if citizens don’t understand how taxes work in general and how they are affected specifically.”

Curious how you or your clients might do on the C.D. Howe survey? You can see all 12 questions in the survey, along with the correct answers and the percentage of Quebecers who got the answers right, in the appendix at the back of the report, which can be found at cdhowe.org. 

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