COMMON WEALTH common good

Backgrounder: Canada Saver's Credit

The problem

Modest-income Canadians face challenges when it comes to building asset wealth. Studies estimate that half of Canadian households are "asset poor" – meaning they lack savings to live for three months above the poverty threshold. Sixty per cent of Canadians with incomes below $50,000 do not contribute to a tax-advantaged savings account, whether a TFSA, a Registered Retirement Savings Plan (RRSP), or a workplace pension plan. Canadians with lower incomes are considerably less likely to have access to a workplace pension, and the median retirement savings of Canadians aged 55-64 without pensions is a meagre $3,000.

Canada's tax system could do more to help modest-income Canadians build savings. Although the federal government reports $45 billion dollars in tax expenditures to confer advantages on RRSPs and pension plans, most of this spending benefits middle- and upper-income Canadians. Lower-income Canadians saving in RRSPs receive little in the way of tax deductions for their contributions, and risk being subject to a punitive Guaranteed Income Supplement (GIS) "clawback" of 50 per cent or more when they use these savings for retirement income. The savings incentives embedded within our tax system are effectively "upside down."

The solution

Although Tax-Free Savings Accounts (TFSAs) are generally considered a better savings vehicle for lower- and modest-income Canadians, there is no up-front incentive for these modest-earners to open or save in one. A Canada Saver's Credit (CSC) could remedy this by providing lower- and moderate-income Canadians with a refundable, dollar-for-dollar match of up to $1,000 per year for contributions into a TFSA.

The CSC is not an entirely new idea. It builds on, and attempts to improve on the shortcomings of, a U.S. program called the Saver's Credit that was enacted in 2001. In a Canadian context, it is a more detailed version of an idea first proposed by two social policy experts who were among the original proponents of the TFSA as a savings instrument for modest-income Canadians: John Stapleton and Richard Shillington.

The costing and fiscal impacts of the proposal require more sophisticated modeling, but an initial estimate suggests that the proposed design would cost between $275 million and $550 million – or roughly one per cent of the $45 billion in current Government of Canada tax expenditures on RRSPs and pension plans.

The details

The CSC would be a simple, flexible way to help Canadians with low and modest incomes increase their savings – whether for improved day-to-day financial security, major purchases, or retirement.

Its design features would include:

- **Refundable tax credit aimed at households on low and modest incomes**, offering a dollar-for-dollar match up to 100 per cent of an eligible saver's TFSA contributions (or an employer's contributions made on behalf of an eligible employee) during the calendar year to a cap of $1,000 annually (thereby increasing the TFSA account balance by up to $2,000 annually).
- **Eligibility would mirror the GST/HST credit**, with the full matching amount available to savers with a family net income of about $36,000, with a smoothed phase-out.
- Like the GST/HST credit, the **Canada Revenue Agency (CRA) would administer the credit and automatically determine eligibility** through the annual tax-filing process. Savers would be notified of their Saver's Credit entitlement through the annual Notice of Assessment.
- The credit would be **deposited directly into the saver's TFSA account**, with funds flowing from the Government of Canada to the financial institution that maintains the TFSA. This would discourage immediate consumption, while offering the saver flexibility in accessing their funds.
- **Both individual and group TFSA accounts would be eligible for the credit**. Given evidence of the effectiveness of workplace-based plans, efforts should be made to **encourage employers to offer group plans** to employees with automatic payroll contributions and the option of offering additional employer contributions.
- The design should **limit negative interactions with income-tested or retirement benefits** (e.g., GIS, family responsibility), and help reduce barriers to accessing financial services.
- **The roll-out of the CSC** should be complemented by consumer awareness programs and initiatives (e.g., financial literacy, tax filing, behavioural "nudges" that can encourage uptake) engaging employers, financial institutions, tax preparers, and the range of civil society and social services entities that support greater savings and financial security.

For more information, read the report The Canada Saver's Credit:
https://maytree.com/publications/the-canada-savers-credit/