Tax-Free Savings Accounts: Expanding, Restricting, or Refining?

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Editors’ note: This article was written before the 2015 federal election. During the election campaign, the Liberal Party indicated that, if elected, it would reverse the expansion of the tax-free savings account (TFSA) contribution limit introduced by the Conservative government in the 2015 budget. However, at the time the article went to press, the new government had made no formal announcement about the specific changes it proposes to make to the TFSA regime.

PRÉCIS
Le fait que le plafond de cotisation au compte d'épargne libre d'impôt (CELI) ait doublé en 2015 soulève des questions fondamentales sur les avantages potentiels de ce compte pour les particuliers et l'économie; il représente également une occasion d'examiner les lacunes du régime initial du CELI. Cette étude fournit la première analyse critique et en profondeur de la politique sous-jacente au CELI, en s'appuyant sur les principales statistiques disponibles. Il est constaté que le plafond de cotisation au CELI préexistant était plus qu'adéquat pour presque tous les particuliers, à l'exception des particuliers gagnant un revenu très élevé ainsi que certains travailleurs âgés et retraités. Une proportion relativement faible et décroissante des personnes admissibles cotisait le maximum, même avant la hausse de plafond. Le taux de maximisation relativement élevé du CELI par les personnes âgées qui ont un revenu moyen ou intermédiaire s'est révélé être transitoire et découler de la brève existence du régime. À long terme, la hausse marquée du plafond du CELI avantageera de façon disproportionnée les particuliers qui gagnent les revenus les plus élevés et les détenteurs de patrimoine, mais peu la grande majorité des travailleurs et des aînés. Les niveaux préexistants d'accès aux régimes d'épargne comme les CELI, les REER, et les régimes de retraite d'entreprise étaient plus qu'adéquats pour la majorité des particuliers. Il est constaté que les plus avantagés par le plafond de cotisation plus élevé recourent plus au transfert d'actifs imposables dans

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L’étude examine aussi les preuves du coût à long terme du CELI sur les recettes fiscales des gouvernements fédéral et provinciaux et sur les programmes de la Sécurité de la vieillesse et le Supplément du revenu garanti; bien qu’il soit impossible de les établir avec certitude, les chiffres sont très élevés. La perception du public voulant que la hausse du plafond du CELI bénéficiera au plus grand nombre et aura peu de conséquences sur ceux qui ne l’utilisent pas est donc erronée. Ni l’économie ni le principe d’équité ne peuvent justifier l’augmentation inconditionnelle du plafond de cotisation au CELI. Ce régime comporte également d’autres lacunes qui nécessitent des réformes politiques.

L’étude explore diverses solutions de rechange, comme procurer aux particuliers qui ont des droits de cotisation excédentaires à un REER l’option d’augmenter leur plafond de cotisation au CELI; imposer des limites au plafond cumulatif des cotisations au CELI ou aux soldes cumulés; limiter l’admissibilité au CELI aux particuliers dont le revenu est inférieur à un certain seuil; limiter l’immunité illimitée actuelle du CELI pour les programmes de prestations fondées sur un examen du revenu; et permettre aux régimes de pension agréés collectifs d’offrir le CELI. En bref, il est plus que temps de réformer le régime du CELI de manière à étendre et à restreindre certains de ses aspects tout en l’améliorant afin d’obtenir de meilleurs résultats.

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**ABSTRACT**

The 2015 near-doubling of the contribution limit for tax-free savings accounts (TFSAs) raises fundamental questions about the potential benefits for individuals and the economy; it also presents an occasion for examining deficiencies of the original TFSA scheme. This study provides the first in-depth critical policy analysis of TFSAs based on an assembly and synthesis of key available statistics on the provision. The pre-existing TFSA contribution limit is found to be more than adequate for almost all individuals, except for very high earners along with some older workers and retirees. Relatively low and declining proportions of eligible persons were utilizing the maximum limit even prior to the hike. Fairly high TFSA maximization rates by seniors at moderate and middle incomes are found to be transitory phenomena resulting from the scheme’s short existence. The sharp increase in the TFSA limit will, over the long run, be of highly disproportionate benefit to top earners and wealth holders and of little benefit to the great majority of workers and seniors. The pre-existing levels of access to tax-sheltered saving via TFSAs, registered retirement savings plans (RRSPs), and workplace pensions were more than adequate for most. Those most able to exploit the higher limit are found to be engaged more in shifting taxable assets into their TFSAs and income splitting with their spouses via TFSAs than undertaking new saving. Thus, the higher TFSA limit will also yield minimal, if any, benefits for the economy at large.

The study further assesses evidence on the long-run cost of the TFSA provision for federal and provincial income tax revenues and the old age security and guaranteed income supplement programs; the resulting figures, though subject to considerable uncertainty, are very large. Public perceptions that enlarged TFSAs will be of widespread benefit to many individuals and of little consequence for others not utilizing TFSAs are thus incorrect. The unconditional increase in the TFSA limit cannot be justified on economic or equity grounds, but the scheme has additional deficiencies that also require policy reforms. The study explores a range of possible remedies for TFSAs that would provide
individuals who have excess RRSP contribution room with the option of increasing their TFSA limit; place bounds on lifetime TFSA contributions or accumulated balances; limit TFSA eligibility to individuals below a specified income level; constrain the currently unlimited immunity of TFSAs from income-tested benefit programs; and/or allow pooled registered pension plans to offer TFSAs. In short, the TFSA provision is overdue for reforms that could expand or restrict it in various ways while refining the scheme for more effective outcomes.

KEYWORDS: TAX-FREE SAVINGS ACCOUNT ■ REGISTERED RETIREMENT SAVINGS PLAN ■ CONSUMPTION TAXES ■ PROGRESSIVE TAXES ■ SAVINGS PLANS

INTRODUCTION

The tax-free savings account (TFSA) has proved highly popular since its launch in 2009. As of 2013, nearly 11 million Canadians had opened a TFSA. In 2012, annual contributions to TFSAs already surpassed deduction claims for contributions to registered retirement savings plans (RRSPs), a scheme that had existed for 55 years. It is projected that by 2017 total unused TFSA room would exceed total unused RRSP room even with an annual TFSA contribution limit of $5,500. The near-doubling of
the TFSA contribution limit to $10,000 in the 2015 budget\(^1\) presents an opportunity to evaluate that initiative as well as to assess carefully the features and structure of the TFSA relative to its original goals. As the 2015 federal election approached, both major opposition parties had committed to reversing the TFSA hike and restoring the previous $5,500 annual contribution limit. However, neither party had proposed any restrictions on or refinements of the TFSA’s essential structure.

The attractions of TFSAs to both the public and federal policy makers might be ascribed to the low initial revenue costs and the perception that the scheme is broadly beneficial to savers of all kinds and at all income levels. Yet these notions are belied by projections of very large long-run revenue costs, which will burden both federal and provincial governments several administrations into the future. And despite the relatively widespread takeup of TFSAs in the early years, the benefit patterns are already showing a tilt toward high-income and wealthy individuals as well as some seniors. This pro-rich tilt is projected to become steeper in the years ahead and to be accelerated and exacerbated by the hike in the TFSA limit. Moreover, despite initial hopes that TFSAs would increase total personal saving, evidence to date suggests that the scheme is mainly diverting savings from RRSPs and assets held in taxable accounts, as well as facilitating interspousal income splitting.

This study describes the key features and operation of the tax-prepaid TFSA and assesses similarities and differences with the major tax-deferred schemes, RRSPs and registered pension plans (RPPs). The original goals motivating the institution of TFSAs are reviewed to provide a benchmark for evaluating the scheme’s performance, and several emerging issues are identified. My study then examines the distribution of TFSA usage in several dimensions with a focus on the numbers and characteristics of individuals who have maximized their contribution limit. Despite the scheme’s popularity, fewer than two out of five eligible persons had even opened a TFSA by the end of 2013. Key findings are that the TFSA’s previous $5,500 limit was more than adequate for the great majority of eligible Canadians and that a shrinking minority were able to maximize even that limit. The scheme’s likely impact on household savings and the economy and its projected long-run revenue costs are assessed. These findings demonstrate the deficiencies of the recent TFSA hike as well as flaws in the original scheme. I then canvass potential remedies for these problems, including a version that would render the TFSA limit more accessible and flexible for many while moderating the adverse effects on revenues and distribution. Varied options are available to expand, restrict, and refine the TFSA scheme, with the choices hinging upon the assumed policy goals and preferences.

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1. Canada, Department of Finance, 2015 Budget, Budget Plan, April 21, 2015, at 232-36. The Conservative Party’s 2011 campaign pledge was to double the TFSA annual contribution limit from its then-current figure of $5,000 to $10,000: Conservative Party of Canada, Here for Canada: Stephen Harper’s Low-Tax Plan for Jobs and Economic Growth (Ottawa: CPC, 2011), at 28-29. After the contribution limit was raised to $5,500 in 2013, there was widespread speculation that it would be doubled effective in 2014.
BASIC FEATURES AND OPERATION OF THE TFSA

Since 2009, individuals have been able to establish and make non-tax-deductible contributions to TFSA. These accounts permit contributions up to an annual limit—initially set at $5,000—unrelated to the individual's current earnings or income, and any unused part of the annual limit can be carried forward for future contribution. The annual limit was originally indexed to inflation but increased only in $500 increments, rising to $5,500 for 2013 and 2014 before the 2015 increase to $10,000 along with abolition of the indexation feature. Funds in each TFSA accumulate free of tax on the investment earnings, and withdrawals are also tax-free. Moreover, at the time of the TFSA’s introduction, the government pledged that account withdrawals and accruals would not be counted in any federal income-tested tax or transfer programs. For provincial cash and in-kind benefit programs, TFSA balances are typically counted in asset tests, but no income is attributed to TFSA. Various features of the TFSA make it well suited for individuals to draw on for unexpected needs and to be a part of retirement saving strategies for particular groups.

Several other similarities and differences of the TFSA relative to the RPP and RRSP are worth noting. All three schemes are forms of a consumption-based tax, but with an important difference in the time of payment. The tax on TFSA contributions has been “prepaid” since those contributions are made out of taxable funds and no tax deduction is allowed for them. The tax on RPPs and RRSPs is “deferred” because an upfront tax deduction can be claimed for contributions and withdrawals are taxable. The TFSA exempts the investment returns to saving, since the interest, dividends, and capital gains accruing in the account are never taxed. The tax-deferred accounts exempt the saving itself from tax on account of the deductibility of contributions. Both are equivalent to not taxing investment income in the respective accounts, and both remove the bias implicit in an income-based tax system against saving for future consumption. The two genres do differ in their sensitivity to changes in the individual’s marginal tax rate between the time of saving and consumption. TFSA contributions are after-tax earnings and taxable assets, so they hinge only on the tax rate at the point of contribution. In contrast, the individual’s net benefit to saving in a tax-deferred scheme hinges on differences in his or her marginal tax rate at the time of contributing and the time of withdrawing funds; if these tax rates are equal, the two types of scheme are equivalent.

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2 Provisions immunized against TFSA include guaranteed income supplement (GIS) and old age security (OAS) benefits, the Canada child tax benefit, the goods and services tax/harmonized sales tax (GST/HST) credit, and the age credit in the income tax.

3 Even though withdrawals of funds from a tax-deferred account are taxable, the account holder has had the benefit of earning investment returns on funds that would otherwise have been paid in tax up front and of deferring income tax on annual accruals in the account for the entire holding period. That explains the equivalence of the two types of plans.

4 For further explanation, see Jonathan Kesselman and Finn Poschmann, A New Option for Retirement Savings: Tax-Prepaid Savings Plans, C.D. Howe Institute Commentary no. 149 (Toronto: C.D. Howe Institute, February 2001), and Jonathan R. Kesselman and Finn
Both tax-prepaid and tax-deferred saving schemes allow for carryforward of any unused contribution allowance from a given year to future years. Additionally, withdrawals from a TFSA can later be “recontributed” to the account via a provision that allows the contribution limit to increase by the amount of any withdrawals;5 the tax-deferred plans offer no comparable feature. Allowable contributions to the tax-deferred schemes are linked to and limited by the individual’s earned income—wages and salaries, net self-employment income, commissions, and bonuses—whereas the ability to make TFSA contributions does not require earned income or income of any kind or amount. Contributions to the tax-deferred schemes are subject to a ceiling that is the lesser of 18 percent of the individual’s earned income and a specified dollar limit (nearly $25,000 in 2015) indexed to wage inflation. Allowable total contributions to RPPs and RRSPs are integrated by a “pension adjustment,” so that each extra dollar going into an RPP reduces the individual’s allowable RRSP contribution by one dollar.

Other differences between the TFSA and tax-deferred saving plans further increase the attractions of the former for short-term savings and, for some groups, for retirement savings. Unlike the workplace RPPs and individual RRSPs, the TFSA imposes no age limit on making contributions and no mandatory withdrawals after age 71. The only requirement for eligibility to open a TFSA is that the individual be a Canadian resident aged 18 years or more. Funds for TFSA contributions can come from the contributor’s own savings or be a transfer from anyone, including a spouse, parent, or other person, yielding attractive income-splitting and asset-shifting opportunities for those with the financial resources.

The immunity of TFSA incomes and withdrawals from federal tax and benefit clawbacks is helpful for savers with lower lifetime earnings who expect to be beneficiaries of the income-tested guaranteed income supplement (GIS) in retirement. Individuals who exhaust their RPP/RRSP contribution limits can use the additional contribution room afforded by TFSA to enhance their scope for tax-favoured saving. Workers at moderate incomes approaching retirement can withdraw their RRSP funds early, facing their current marginal tax rate rather than the higher GIS clawback.

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5 Recontributions to a TFSA in the same year as the withdrawal can result in a penalty tax if the total amount contributed in that year exceeds the individual’s contribution limit (with carryforward); waiting until the following year to re contribute can avoid this penalty. Excess TFSA contributions are subject to a penalty tax of 1 percent per month of excess. In 2014, a Bank of Montreal survey reported that 1 in 10 TFSA holders had overcontributed in the past, incurring an average of $412 in penalties. See Bank of Montreal, “BMO Annual TFSA Report: Contributions Expected To Rise 34 Per Cent,” November 6, 2014 (http://newsroom.bmo.com/press-releases/bmo-annual-tfsa-report-contributions-expected-to—tsx-bmo-201411060977357001).
rate, and contribute the proceeds to a TFSA. Moreover, individuals over age 71 can use TFSAs to extend the tax shelter on their mandatory withdrawals from tax-deferred retirement funds that exceed their current consumption needs.

**ORIGINAL TFSA OBJECTIVES AND EMERGING ISSUES**

Factors motivating a tax-prepaid saving plan (TPSP) were articulated in 2001 research studies by Kesselman and Poschmann. These goals provide useful benchmarks for assessing the structure and performance of TPSPs, including the scheme subsequently implemented as the TFSA. Kesselman and Poschmann envisaged four main benefits of introducing a Canadian TPSP:

1. Persons with low to moderate lifetime earnings are penalized on their saving through RRSPs and RPPs, since any GIS benefits received in retirement are reduced by 50 percent of the disbursements from those schemes (including both the initial saving and cumulative investment returns). Incentives for lifetime saving could be restored by offering a tax-prepaid option in which disbursements would not affect GIS benefits.

2. Governments had repeatedly resisted raising the dollar limit for RRSP/RPP contributions out of concern for the revenue cost and the public perception of undue tax relief for high earners. In 2001, the RRSP dollar limit was a comparatively low $13,500, which corresponded to annual earnings of $75,000 at the allowable contribution of 18 percent of earnings. A TPSP offered the potential to break this political deadlock with a format that did not entail an upfront revenue cost for government or immediate tax relief for individuals, thus restoring saving incentives for upper-middle income earners.

3. Providing both lower and higher earners with a greater incentive to save could yield long-run gains for economic growth through increased funds available for business investment. Even if aggregate savings were not greatly increased (a prospect that Kesselman and Poschmann entertained), economic

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6 The full statement and analysis were provided in Kesselman and Poschmann, “Expanding the Recognition of Personal Savings,” supra note 4, preceded by a shorter version (Kesselman and Poschmann, *A New Option for Retirement Savings*, ibid.).

7 One might also add as a policy goal eliminating the taxation on the pure inflation component of investment incomes, particularly on interest income given the extremely low rates of recent years. However, this goal would be more effectively met by a system of tax indexation or possibly a limited tax exclusion for interest income.

8 Richard Shillington, *The Dark Side of Targeting: Retirement Saving for Low-Income Canadians*, C.D. Howe Institute Commentary no. 130 (Toronto: C.D. Howe Institute, September 1999) referenced the US tax-prepaid saving scheme (the Roth individual retirement account or Roth IRA) as a potential remedy for this problem facing low earners.

9 See the policy chronology leading up to 2001 in Kesselman and Poschmann, “Expanding the Recognition of Personal Savings,” supra note 4, at 45.
performance could be improved by affording a more efficient allocation of resources over time and between sectors such as business and housing.\textsuperscript{10}

4. At the level of individuals, both efficiency and equity could be augmented through TPSPs. As recognized in the economic literature, efficient lifetime allocation of resources requires that individuals have access to both tax-deferred and tax-prepaid saving options; this combination further facilitates lifetime averaging of individual tax burdens for greater equity.\textsuperscript{11} A partial shift of the tax base toward consumption also improves the equitable taxation of high savers versus high spenders at any given level of lifetime earnings.\textsuperscript{12}

One of the early motivations for introducing a TPSP is no longer salient, as a result of subsequent sharp increases in the dollar limit for RRSP contributions. As noted above, in 2015 that limit is nearly $25,000, far outstripping the increase in average earnings since 2001. The current RRSP dollar ceiling combined with the previous $5,500 TFSA limit corresponds to annual labour earnings of nearly $170,000 for a person saving as much as 18 percent of gross income (or nearly one-quarter of net income).\textsuperscript{13} Many of the highest earners have further access to exceptional limits for tax-favoured saving through individual pension plans and retirement compensation arrangements.\textsuperscript{14} Thus, with respect to the saving needs of most high earners apart from the wealthy, little basis exists for raising the TFSA limit beyond $5,500.

Furthermore, with the low interest rates of recent years and increasing longevity, there has been growing concern about the high mandatory distribution rates for registered retirement income funds (RRIFs). TFSA s have assisted seniors facing what some feel to be excessive RRIF distributions in sheltering part of those excess sums from further tax on their returns. Ironically, the 2015 budget significantly reduced


\textsuperscript{11} This finding was recognized in Institute for Fiscal Studies, The Structure and Reform of Direct Taxation: Report of a Committee Chaired by Professor J.E. Meade (London: Allen & Unwin, 1978) and many subsequent economic analyses.

\textsuperscript{12} The tax-rate structure can still be adjusted to the desired degree of progressivity, but the equity goal will be more closely related to individuals’ total lifetime financial resources than their varying annual incomes.

\textsuperscript{13} The earlier $13,500 limit for RRSP/RPP contributions was intended to cap access to tax-favoured savings for those with earned income that is more than twice the amount of average full-time earnings; in contrast, the $30,500 total RRSP/RPP/TFSA limit (prior to the TFSA hike) capped access only for those with earned income of more than four times the average.

the mandatory RRIF withdrawal rates, thus relieving the need for a higher TFSA limit to shelter RRIF income at the same time as it raised that limit.

In addition to the retirement saving goal stressed by Kesselman and Poschmann, when the federal government introduced the TFSA, it also cited short- and intermediate-term saving objectives for individuals. The 2008 federal budget stated, “Many Canadians may prefer to use a TFSA to save for pre-retirement needs given the absence of tax consequences on withdrawals and the ability to avoid the use of RRSP room for non-retirement savings needs.”15 Related to this point, the inclusion of the recontribution feature clearly enhances the options for individuals to use TFSAs for shorter-term saving and consumption spending goals without losing any of their cumulative contribution limits. Evidence in this study validates the expectation that many TFSA holders would use their accounts for frequent withdrawals to cover episodic spending needs. The 2008 budget further anticipated that, on the basis of observed saving patterns, seniors would receive one-half of the total benefits of TFSAs.

Reviewing the initial objectives for instituting tax-prepaid savings, the third and fourth items identified by Kesselman and Poschmann remain compelling reasons to retain some form of TFSA. However, several emerging issues suggest the need for reforms of the TFSA policy:

- The government is apparently committed to unlimited immunity of TFSA holdings from the income tests of public pension programs such as the GIS and the tax recovery on payments to higher-income old age security (OAS) recipients. Yet large TFSA balances already accumulated by some individuals raise concerns over whether such unlimited immunity will prove to be fiscally sustainable or publicly acceptable. Kesselman and Poschmann had noted that “the use of TPSPs to avoid the high taxback rates of public retirement benefit programs might not be acceptable if carried too far.”16 They suggested, as solutions, the deregistration of TPSPs at age 69 or mandatory TPSP disbursements after age 69 (then the age for conversion of RRSPs to RRIFs), although other approaches are possible.

- Evidence of the sharp and growing tilt of TFSA benefits favouring high-income and high-wealth individuals suggests failure to meet some of the original policy objectives. Kesselman and Poschmann had suggested a program format integrating the TPSP contribution limit with the limits for RRSP/RPP contributions, so that higher earners would still be able to access TFSAs but would not gain outsized benefits in total tax-favoured savings. This approach would also give individuals who had excess RRSP/RPP room the flexibility to contribute more to TFSAs, and thus further assist seniors who have had few years to

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15 Canada, Department of Finance, 2008 Budget, Budget Plan, February 26, 2008, at 78.
16 Kesselman and Poschmann, A New Option for Retirement Savings, supra note 4, at 26.
cumulate their limits since the TFSA’s 2009 implementation. Other policy reforms, such as setting an income limit on individuals accessing TFSA, are also worthy of consideration.

- Individuals amassing large sums in their TFSA, exceeding half a million dollars, and attempts by the Canada Revenue Agency (CRA) to constrain particular TFSA investing practices have been reported. The CRA relies on legislation with criteria to assess whether a TFSA holder is deemed to “carry on a securities trading business,” in which case the income in the TFSA can be deemed taxable. However, some non-professional TFSA investors will—through skill, leverage, and/or luck—accumulate multimillion-dollar tax-free balances over the years, and one might question the acceptability of this in terms of equity and revenue. Mooted policy reforms such as setting limits on lifetime TFSA contributions or on cumulative TFSA balances warrant consideration.

**STATISTICAL SOURCES FOR TFSA**

A Department of Finance study provides statistics on various aspects of TFSA usage patterns through 2011. The CRA has released detailed online statistics on TFSA usage through 2013. Official estimates of the revenue cost, or tax expenditure, of TFSA through 2014 are also available from the Department of Finance. This study draws on those three sources and for 2014 uses limited data from a proprietary source. Institutions administering the TFSA (such as banks and trust companies) are required to file CRA annual year-end information reports on each account’s contributions, withdrawals, and fair market value—but not on the incomes generated within each account. This gap in the institutional reporting requirements, combined with the tax-free nature of investment earnings inside TFSA, means that these incomes do not appear in the CRA’s reporting of income tax statistics. However,
aggregate TFSA incomes by year can be computed from the aggregate figures on annual balances, contributions, and withdrawals.\(^{22}\)

I begin my analysis of TFSA statistics by reviewing aggregate patterns of contributions, withdrawals, and account balances from 2009 through 2014. I next examine TFSA participation rates over time and by various characteristics of individuals. Most discussion of the adequacy of TFSA contribution limits has focused on the patterns among Canadians who hold such accounts. The TFSA has often been described as a provision that can benefit “all Canadians” regardless of age, income, or situation.\(^{23}\) The untold story relates to the patterns among all persons eligible to have TFSA\(s\) including those who have chosen not to open an account. My discussion thus refers to TFSA “eligibles,” a term that includes both “holders” (who have a TFSA) and “eligible non-holders” (who could, but do not, have a TFSA). I then investigate in detail the rates and patterns of maximizing cumulative TFSA limits over time and by age and income of both holders and eligibles. These findings provide the most important insights into the adequacy of TFSA limits prior to the 2015 increase. Note that all official statistics on TFSA\(s\) relate to individual account holders; I later present some calculations on TFSA usage patterns among families in various income groups.

**AGGREGATE TFSA STATISTICS**

Table 1 presents key aggregate and average figures for measures of TFSA holders’ contributions, withdrawals, and year-end balances from 2009 through 2013 and more limited measures for 2014. TFSA enrolment in the first year was a robust 4.8 million and rose to 10.7 million separate individuals holding accounts (many with multiple accounts) by year-end 2013. Total annual TFSA contributions have risen each year, surpassing total RRSP deductions in 2012\(^{24}\) and hitting $40.2 billion in 2013.\(^{25}\) Total withdrawals from TFSA\(s\) have also risen over time but have been outpaced by the mounting contributions. In 2013, aggregate TFSA withdrawals were $14.6 billion or 36 percent of the year’s total TFSA contributions. The aggregate market value of all

\(\text{footnotes}\)

\(^{22}\) My estimates of aggregate annual incomes generated in TFSA\(s\) have been computed using the method applied by the Department of Finance in *Tax Expenditures and Evaluations 2012*, supra note 19, at 34, note 3: for the relevant year take the year-end balance, subtract the previous year-end balance, subtract contributions, and add withdrawals.


\(^{25}\) The aggregate value of TFSA contributions exceeds that for RRSP\(s\) by a large margin if one considers that, unlike TFSA\(s\), RRSP contributions have deferred tax embedded in them.
TABLE 1 Aggregate Statistics on Tax-Free Savings Account (TFSA) Holders (Individuals), 2009-2014

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of accounts&lt;sup&gt;a&lt;/sup&gt; (millions)</td>
<td>5.3</td>
<td>7.9</td>
<td>10.1</td>
<td>11.9</td>
<td>13.9</td>
<td>na</td>
</tr>
<tr>
<td>Number of individuals with a TFSA (millions)</td>
<td>4.8</td>
<td>6.9</td>
<td>8.4</td>
<td>9.6</td>
<td>10.7</td>
<td>na</td>
</tr>
<tr>
<td>Total annual contributions ($ millions)</td>
<td>18,963</td>
<td>25,399</td>
<td>31,105</td>
<td>33,503</td>
<td>40,164</td>
<td>na</td>
</tr>
<tr>
<td>Average contribution per TFSA holder ($)&lt;sup&gt;b&lt;/sup&gt;</td>
<td>3,918</td>
<td>3,701</td>
<td>3,718</td>
<td>3,491</td>
<td>3,749</td>
<td>na</td>
</tr>
<tr>
<td>TFSA holders who made contributions (%)</td>
<td>93.4</td>
<td>74.2</td>
<td>69.4</td>
<td>64.3</td>
<td>63.1</td>
<td>na</td>
</tr>
<tr>
<td>Total annual withdrawals ($ millions)</td>
<td>1,937</td>
<td>4,912</td>
<td>8,129</td>
<td>11,175</td>
<td>14,603</td>
<td>na</td>
</tr>
<tr>
<td>Average withdrawal per TFSA holder ($)&lt;sup&gt;b&lt;/sup&gt;</td>
<td>400</td>
<td>716</td>
<td>972</td>
<td>1,165</td>
<td>1,363</td>
<td>na</td>
</tr>
<tr>
<td>TFSA holders who made withdrawals (%)</td>
<td>14.5</td>
<td>20.7</td>
<td>24.2</td>
<td>26.1</td>
<td>27.6</td>
<td>na</td>
</tr>
<tr>
<td>Total year-end fair market value ($ millions)</td>
<td>18,156</td>
<td>40,701</td>
<td>62,584</td>
<td>87,503</td>
<td>118,259</td>
<td>135,660</td>
</tr>
<tr>
<td>Average fair market value per TFSA holder ($)</td>
<td>3,751</td>
<td>5,931</td>
<td>7,481</td>
<td>9,118</td>
<td>11,037</td>
<td>na</td>
</tr>
<tr>
<td>Estimated investment income/loss&lt;sup&gt;c&lt;/sup&gt; ($ millions)</td>
<td>1,130</td>
<td>2,058</td>
<td>-1,093</td>
<td>2,591</td>
<td>5,195</td>
<td>na</td>
</tr>
<tr>
<td>Federal tax expenditure on TFSA ($ millions)</td>
<td>65</td>
<td>165</td>
<td>160</td>
<td>305</td>
<td>435</td>
<td>520</td>
</tr>
<tr>
<td>Share of TFSA funds in mutual funds, equities (%)</td>
<td>37.3</td>
<td>44.4</td>
<td>45.7</td>
<td>48.0</td>
<td>52.4</td>
<td>56.9</td>
</tr>
<tr>
<td>Share of TFSA funds in fixed-term securities and savings deposits (%)</td>
<td>62.7</td>
<td>55.6</td>
<td>54.3</td>
<td>52.0</td>
<td>47.6</td>
<td>43.1</td>
</tr>
</tbody>
</table>

<sup>a</sup> An individual may hold more than one TFSA, similar to other tax-assisted savings vehicles; figures are full-year or year-end.

<sup>b</sup> Calculated for all TFSA holders in that year (not just those making contributions or withdrawals).

<sup>c</sup> Although TFSA holders sustained a net investment loss at the aggregate level in 2011, about three-quarters of TFSA holders had positive investment income in the year; TFSA investment income is estimated by the author using CRA data and the method described in Canada, Department of Finance, *Tax Expenditures and Evaluations 2012* (Ottawa: Department of Finance, 2013), at 34, note 3.

Sources: Canada Revenue Agency, *Tax-Free Savings Account Statistics*, tables, miscellaneous years (www.cra-arc.gc.ca/gncy/stts/tfsa-celi/menu-eng.html); tax expenditure figures from Canada, Department of Finance, *Tax Expenditures and Evaluations 2014* (Ottawa: Department of Finance, 2015), at 18; estimated 2014 year-end market value and all figures for share of TFSA funds by asset type were provided by Investor Economics from a proprietary source.
TFSAs grew from $18 billion at year-end 2009 to an estimated $136 billion at year-end 2014, representing a compound annual growth rate of 50 percent.

Estimated aggregate incomes realized in TFSAs have been substantial, although the figures dipped into negative territory in 2011 because of equity market downturns. Still, even for that year about three-quarters of TFSA holders had positive investment income because they were heavily invested in more stable fixed-income and dividend-yielding assets. In the initial year, TFSA holders had their account portfolios weighted most heavily in relatively secure fixed-term investments and savings deposits, at nearly 63 percent. The succeeding years have exhibited a continuing shift of TFSA balances toward greater holding of more risk-oriented equities and mutual funds, with that proportion rising to nearly 57 percent by 2014. This shift may reflect, in part, the fact that as time progresses more lower-income, lower-wealth TFSA holders will have depleted their previous cash savings for transfer into the account, so that incremental TFSA contributions will come proportionately more from higher-wealth individuals who are more risk-tolerant and investment-savvy.

**TFSA PARTICIPATION RATES**

Statistics on TFSA participation rates are computed relative to the total number of persons aged at least 18 years—the minimum age for TFSA eligibility. The first column of table 2 shows aggregate participation rates over the first five years of the TFSA’s operation. While the proportion of eligibles with TFSAs has grown from 18.1 percent in 2009 to 38.0 percent in 2013, it is rising ever more slowly and will likely top out in the lower 40 percent range. The data thus show that by the end of 2013, when the scheme had been operational for five years, more than three out

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26 Note that eligible dividends on Canadian shares held in TFSAs are excluded from the dividend tax credit, as are such holdings in tax-deferred accounts.

27 Contrasting figures on the composition of TFSAs come from a Bank of Montreal survey, supra note 5: “cash” at 60 percent, mutual funds at 25 percent, and guaranteed investment certificates (GICs) at 20 percent (total exceeding 100 percent).

28 A much stronger preference for holding equities versus cash among higher-income account holders compared to lower-income account holders is confirmed by a report on the United Kingdom’s tax-prepaid saving scheme (the individual savings account, or ISA): United Kingdom, HM Revenue & Customs, Individual Savings Account (ISA) Statistics (London: HM Revenue & Customs, 2014), at 13.

29 TFSA participation rates reported later in this section for 2011 (taken from Tax Expenditures and Evaluations 2012, supra note 19) are based on the numbers of taxfilers aged 18 and over rather than individuals in that age group. My computations of participation rates and maximization rates relating to income for eligibles reported throughout this study are based on CRA data on numbers of individuals who filed returns and thus do not compensate for filers under age 18 (who are ineligible to open a TFSA) or individuals not filing returns. My computations of rates for 2013 are based on the CRA preliminary data for 2012, with numbers filing returns scaled up to reflect the data set’s 95 percent sample size and increased by the average annual rate of growth in all returns filed between 2009 and 2011 (1.1 percent).
of five eligible Canadians did not have a TFSA. Many individuals will never choose to open a TFSA, for various reasons: for example, they may lack the need, means, or ability to save; belong to an adequate workplace pension plan; or meet all of their saving needs through Quebec and Canada Pension Plan contributions, investment in their home or family business, and/or RRSP contributions.\textsuperscript{30} These 17 million eligible persons without a TFSA are an essential part of any understanding of who does and who does not benefit from the scheme or from a hike in its contribution limit.

Another pertinent fact in understanding TFSA participation is that many of the accounts have very small balances, making the official count of TFSA holders somewhat deceptive. This situation can be attributed in part to the common use of TFSAs for short-term saving, with many account holders making frequent withdrawals. In 2013, for example, 2.9 million TFSA holders (28 percent of the total) made a total of 12 million withdrawals from their accounts (averaging 4 per person), and the total withdrawals for each averaged $4,940. Clearly, many Canadians are using their TFSAs as a short-term saving vehicle rather than for their retirement saving; they will never be constrained by the contribution limits. CRA data do not provide any direct handle on the distribution of account sizes. However, analysis of Statistics Canada’s 2012 data set from the Survey of Financial Security reveals that nearly 900,000 families had TFSAs with total balances under $1,000 each, and the average of those

\begin{table}
\centering
\begin{tabular}{lrrrr}
\hline
Year & Participation rate\textsuperscript{a} & Holders & Maximization rate\textsuperscript{b} & Number maxing their TFSA limit \\
\hline
2009 & 18.1 & 64.0 & 11.6 & 3,099,830 \\
2010 & 25.4 & 39.6 & 10.0 & 2,716,940 \\
2011 & 30.5 & 30.2 & 9.2 & 2,522,750 \\
2012 & 34.5 & 23.5 & 8.1 & 2,254,030 \\
2013 & 38.0 & 17.7 & 6.7 & 1,897,220 \\
\hline
\end{tabular}
\caption{Aggregate Rates of Tax-Free Savings Account (TFSA) Participation and Maximization, 2009-2013}
\end{table}

Note: Computations by author.

\textsuperscript{a} Participation rate is the percentage of eligibles who are holders.

\textsuperscript{b} Maximization rate is the percentage among the relevant group who have fully utilized their cumulative TFSA limit in the respective year.

\textsuperscript{c} Eligibles in a given year are the total Canadian population aged 18 years and older.


\textsuperscript{30} For most middle- and higher-earning workers, contributing to an RRSP is financially more attractive than contributing to a TFSA because of the upfront tax deduction on the former. Mainly those constrained by the RRSP contribution limits might additionally find TFSA contributions attractive; others might hold TFSAs for short-term saving purposes.
holdings was just $215.\textsuperscript{31} Thus, the rising figures on TFSA participation rates overstate the extent to which TFSAs are substantively held.

Distinct patterns of TFSA participation arise with respect to province, age, and sex.\textsuperscript{32} Geographically, TFSA participation rates in 2013 were highest in Ontario, Alberta, and British Columbia, lying in the low- to mid-40 percent range. Participation rates were lowest in the Atlantic provinces, in the mid-20 percents, other than Nova Scotia at about 30 percent. Participation rates in the remaining provinces ranged between the two extremes. Participation rates in 2013 with respect to age were lowest at 29.5 percent for the 18-29 age group, rising to 33.9 percent for ages 30-49, rising further to 40.9 percent for ages 50-64, and topping out at 50.2 percent for ages 65 and higher. For all ages between 18 and 59 years, the rate was just above one-third. In 2011, individuals older than 71 years—who cannot make further contributions to RRSPs and must begin depleting those funds—constituted 15 percent of TFSA holders and made nearly 20 percent of all contributions. Females accounted for 55 percent of TFSA holders and total contributions in 2011, and their participation rate was 33 percent versus 29 percent for males.\textsuperscript{33}

The profiles of TFSA participation and holdings by income are of particular interest for the purposes of assessing the scheme and the recent hike in the contribution limit. Unfortunately, the TFSA provision allowing an individual to contribute to his or her spouse’s account makes the official statistics suspect for those reporting low individual incomes.\textsuperscript{34} Interspousal TFSA contributions are an attractive means for income splitting in cases where incomes of the spouses are divergent; interspousal TFSA contributions do not trigger the income attribution rules for tax that apply to most other interspousal asset transfers. One index of how these interspousal TFSA transfers obscure the true income distribution of account holders is that in 2011

\textsuperscript{31} Statistics Canada, Survey of Financial Security for 2012; tabulations of the survey data for this purpose and for table 5 below were undertaken by Richard Shillington of Tristat Resources (www.shillington.ca).


\textsuperscript{33} The results reported for 2011 are drawn from Tax Expenditures and Evaluations 2012, supra note 19, at 35 (for age over 71), and at 38 (for gender). This gender differential might be explained in part by the income splitting by couples explained next in the text.

\textsuperscript{34} Tax Expenditures and Evaluations 2012, supra note 19, at 41, asserts that most married and common-law TFSA contributors whose individual income was below $20,000 came from households with total income below $80,000, but insufficient detail is presented to dismiss the notion that reported participation and contribution rates for the lowest income brackets are skewed by interspousal transfers. Maureen Donnelly and Allister Young, “Policy Forum: Tax-Free Savings Accounts—A Cautionary Tale from the UK Experience” (2012) 60:2 Canadian Tax Journal 361-74, discuss a comparable bias in reporting of participation in the United Kingdom’s tax-prepaid ISA program.
about 162,000 spouses and common-law partners—of whom almost 80 percent were female—made TFSA contributions that exceeded their individual income.\(^{35}\)

With the cited caveat in mind, I present results for the distribution of TFSA participation and contributions by individual income. In 2013, the approximate TFSA participation rates were 26 percent for incomes between $10,000 and $20,000; 45 percent for incomes from $45,000 to $55,000; 65 percent for incomes from $150,000 to $250,000; and 71 percent for incomes above $250,000.\(^{36}\) Individuals reporting incomes above $200,000 in 2011 accounted for about 2.5 percent of all account holders and 3 percent of total TFSA contributions while constituting just 1.3 percent of all taxfilers.\(^{37}\) Many top earners were constrained by the TFSA’s $5,000 limit that year and would have taken up an even more disproportionate share of total contributions had a higher limit been in place.\(^{38}\) These patterns reflect individuals’ varying ability to undertake new saving, their holdings of taxable financial assets for shifting to TFSAs, and incentives to use TFSAs for income splitting—all factors correlated with age and income.

TFSA MAXIMIZATION PATTERNS

Aggregate Maximization Patterns

The second column of table 2 shows the percentages of all TFSA holders maxing out their cumulative contribution limits in each year. The rate of TFSA maximizing among holders has declined sharply from 64.0 percent in 2009 to just 17.7 percent in 2013. This steep decline could be explained by two alternative hypotheses. First, since TFSA holders enjoy a cumulatively growing limit each year, many exhaust their taxable assets by shifting them into their TFSAs over time; that is, the main source of TFSA contributions may be existing taxable assets that are transferred into TFSAs rather than new saving. If an individual’s TFSA contributions came mainly out of saving from current income, it is improbable that his or her saving rate would decline sharply from one year to the next. In the aggregate, it would similarly be unlikely that overall TFSA maximization rates among holders would be declining over the years if contributions came predominantly from new saving.

An alternative hypothesis that may account for declining maximization rates among TFSA holders is that individuals who open their accounts in successive years possess a smaller amount of taxable assets to shift or have less ability to save than earlier account holders. The last column of table 2 shows that the actual numbers of TFSA holders who maximized their limits each year fell sharply—by nearly

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\(^{35}\) Tax Expenditures and Evaluations 2012, supra note 19, at 35.

\(^{36}\) See supra note 29 for the source of these computations.

\(^{37}\) Tax Expenditures and Evaluations 2012, supra note 19, at 37.

\(^{38}\) A similar steep income gradient of participation and average balances has been observed in the tax-deferred saving program of the United States (David Joulfaian and David Richardson, “Who Takes Advantage of Tax-Deferred Saving Programs? Evidence from Federal Income Tax Data” (2001) 54:3 National Tax Journal 669-88) and the tax-prepaid saving program (the ISA) of the United Kingdom (HM Revenue & Customs, supra note 28).
40 percent—between 2009 and 2013. Although the number of TFSA holders over this period more than doubled, the number who were actually able to maximize the TFSA limit was in virtual free-fall. This evidence strongly supports the first hypothesis of asset shifting, which finds further validation in the results disaggregated by age and income reported in the sections that follow.

The third column of table 2 shows the pattern of TFSA maximization rates computed for all eligible persons, including those who do not have a TFSA. These figures are weighted averages of maximization rates for holders and non-holders, with zeros for the latter group. Clearly, maximization rates for all TFSA eligibles are much lower than for TFSA holders alone, falling from 11.6 percent in 2009 to just 6.7 percent in 2013. That is, barely 1 out of 15 Canadians eligible to have a TFSA utilized the maximum available contribution limit in 2013, and the rate has undoubtedly declined further by 2015. Note that the rising proportion of holders partly offsets the decline in maximization rates among the eligibles. Nevertheless, despite the continuing rise in eligibles starting TFSA over time, few of these later starters will ever max out their cumulative TFSA limit, which was $36,500 at the start of 2015—before the subsequent hike to $41,000—and continues to grow over time.

**TFSA Maximization Rates by Age**

I next examine the data on rates of TFSA maximization disaggregated by age of the account holder or eligible. Table 3 presents the results for 2009, 2011, and 2013 for TFSA holders and TFSA eligibles in the following age groups: 18-29, 30-49, 50-64, and 65 and over (65+), with a supplementary group aged 18-59. For TFSA holders (shown in the left-hand panel), in 2009, the TFSA’s first year, the percentage of those opening an account who contributed the $5,000 maximum in that year was relatively high across all age groups, albeit displaying a significant upward tilt with increasing age. For the group aged 18-29, the maximization rate was 39.3 percent or nearly half the 82.1 percent rate of the oldest group, aged 65 and over. By the fifth year, 2013, when it would take cumulative contributions of $25,500 for an individual to max out the TFSA limit, the maximization rates for all age groups of holders had fallen substantially. However, in relative terms, the rates fell most sharply for the youngest age groups; by 2013, the rate for holders aged 18-29 (5.4 percent) was now only about one-sixth the rate for those aged 65 and over (31.7 percent). Even for the more inclusive group of holders aged 18-59, the maximization rate fell from 55.2 percent to just 11.3 percent over this period.

Table 3’s results display vividly the much lower and faster declining maxing out rates for all TFSA holders who are not at or near retirement age relative to those who are 65 and over. The decline is particularly steep for the youngest group of TFSA holders, aged 18-29. This pattern reinforces the hypothesis that TFSA contributions are heavily sourced from asset shifting rather than new saving. Older cohorts have

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39 Mathematically inclined readers will understand that the maximization rates for eligibles in table 2 are the product of the maximization rates for holders and the participation rate. For example, for 2009, 11.6 percent = 64.0 percent × 18.1 percent.
accumulated far more taxable financial assets that can be shifted into TFSSAs purely to reduce their taxes, whereas younger cohorts generally have more modest asset holdings. As each individual’s cumulative TFSA limit rises each year, account holders in the younger groups will run out of assets for transfer to their TFSSAs more quickly than account holders in the older groups, resulting in a sharp divergence in their respective maximization rates.

The analogous results for TFSA eligibles are shown in the right-hand panel of table 3. The rates for eligibles in all age groups are much lower than those for their counterparts in the holder category, because the non-holders now included have, by definition, zero rates of maxing out. However, in relative terms, the maximization rates for each age group of eligibles fell less sharply than those for holders alone, because the rates for eligibles are computed relative to much more stable population figures, given the growing numbers of holders. Nevertheless, the absolute rates of maxing out TFSSAs among all persons eligible to have an account had fallen to very low levels by the program’s fifth year. For those aged 18-29, the 1.6 percent rate meant that just 1 out of 60 had maxed out; for those aged 18-59, the 3.8 percent rate corresponds to just 1 out of 25; and even for those aged 65 and over, the 15.9 percent rate corresponds to fewer than 1 out of 6. The maximization rates held up relatively more strongly for eligibles aged 65 and over than for those in the other age groups. Figure 1 provides a graphic picture of the findings in table 3, showing clearly how TFSA maximization rates by age diverge sharply for eligible persons versus those holding accounts, with the largest differences arising for younger age groups.

### TFSA Maximization Rates by Income

An independent analysis of TFSA maximization disaggregated by the incomes of account holders and all eligibles became feasible only recently, when the CRA released the TFSA data by income in early May 2015. Table 4 displays my computed
maximization rates for TFSA holders and TFSA eligibles for the years 2009, 2011, and 2013 relative to the individual’s total income assessed. As seen in the left-hand panel, in a pattern somewhat like that with respect to age, the maximization rates for TFSA holders in 2009 all began relatively high (above 50 percent) and rose with income. The rates for that year peaked at nearly 80 percent for account holders with income of $250,000 or more. Surprisingly high maximization rates in 2009, even at incomes below $20,000, might be explained in part by the transfer of funds from higher- to lower-income family members.40

Despite the high initial values, for almost all income groups the TFSA maximization rates of holders declined sharply over the period from 2009 to 2013. They fell

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40 Apart from the fact that most individuals with income below $20,000 would not have substantial savings or taxable assets to contribute to a TFSA, the large majority would pay no tax or only a small amount of tax on taxable assets. Another explanation relates to seniors seeking to maximize their GIS benefits; I return to this issue later.
most steeply for the lower-income groups, such as account holders with income between $20,000 and $25,000, who experienced a decline from 66 percent to just under 17 percent. For all income groups under $100,000, the maximization rates fell by two-thirds or more. Only for account holders with income exceeding $250,000 did the rates fall by less than half—from approximately 79 percent in 2009 to a still robust 44 percent in 2013. Thus, the highest-income TFSA holders are the ones with the most to gain from increasing the contribution limit. Once again, the behavioural patterns support the hypothesis that TFSA contributions come largely from shifting of taxable assets rather than new saving.

The right-hand panel of table 4 displays the patterns of TFSA maximization by income for all eligibles, not just those who held an account.\textsuperscript{41} As with the TFSA

\textsuperscript{41} Caution is in order with respect to the rates shown in table 4 for eligibles with income under $10,000. Those rates are likely underestimates on account of my using CRA data on the

\begin{table}
\centering
\caption{Tax-Free Savings Account (TFSA) Maximization Rates by Income of TFSA Holders and TFSA Eligibles (Percent), 2009, 2011, and 2013}
\begin{tabular}{lrrrrrr}
\hline
\multicolumn{1}{c}{\textbf{Income ($)}} & \multicolumn{3}{c}{\textbf{TFSA holders}} & \multicolumn{3}{c}{\textbf{TFSA eligibles}} \\
\hline
\textbf{<5,000} & . & . & . & 55.6 & 20.5 & 10.3 \\
\textbf{5,000-9,999} & 53.8 & 20.0 & 10.1 & 4.1 & 2.9 & 1.9 \\
\textbf{10,000-14,999} & 58.6 & 23.0 & 11.6 & 6.0 & 4.5 & 2.8 \\
\textbf{15,000-19,999} & 65.1 & 28.4 & 14.8 & 8.7 & 6.9 & 4.2 \\
\textbf{20,000-24,999} & 66.0 & 30.2 & 16.9 & 11.2 & 9.0 & 6.1 \\
\textbf{25,000-29,999} & 64.8 & 29.6 & 16.6 & 11.8 & 9.3 & 6.3 \\
\textbf{30,000-34,999} & 64.9 & 30.6 & 17.4 & 12.9 & 10.2 & 6.9 \\
\textbf{35,000-39,999} & 64.5 & 30.5 & 17.8 & 13.6 & 10.6 & 7.3 \\
\textbf{40,000-44,999} & 65.1 & 31.7 & 19.0 & 15.0 & 11.7 & 8.3 \\
\textbf{45,000-49,999} & 63.9 & 30.8 & 18.5 & 14.8 & 11.5 & 8.2 \\
\textbf{50,000-54,999} & 63.8 & 30.6 & 18.5 & 15.2 & 11.6 & 8.3 \\
\textbf{55,000-59,999} & 63.7 & 31.0 & 18.8 & 15.8 & 12.0 & 8.6 \\
\textbf{60,000-69,999} & 64.6 & 31.9 & 19.3 & 16.9 & 12.9 & 9.1 \\
\textbf{70,000-79,999} & 64.9 & 31.9 & 20.5 & 17.7 & 13.2 & 10.3 \\
\textbf{80,000-89,999} & 65.4 & 32.8 & 20.4 & 18.7 & 14.0 & 10.4 \\
\textbf{90,000-99,999} & 66.8 & 33.7 & 20.9 & 20.2 & 14.9 & 11.1 \\
\textbf{100,000-149,999} & 69.8 & 38.2 & 24.2 & 23.4 & 18.2 & 13.9 \\
\textbf{150,000-249,999} & 74.4 & 46.0 & 31.7 & 29.2 & 25.2 & 20.7 \\
\textbf{250,000+} & 79.3 & 57.0 & 43.6 & 35.5 & 35.2 & 31.1 \\
\hline
\end{tabular}
\end{table}

Note: Computations by author; also see notes 29 and 41.

maximization rates by age, the rates for any given income level are substantially lower for eligibles than for holders. For example, in 2009 the rate at incomes between $25,000 and $30,000 was just 12 percent for all eligibles versus 65 percent for holders. The positive relationship between higher incomes and higher maximization rates is notable for eligibles in all years. The rates for eligibles fell over time, but they fell the least for eligibles at the highest incomes. The rate for eligibles with income of $250,000 or more remained steady at about 35 percent between 2009 and 2011, and then slipped to just 31 percent in 2013. This pattern again illustrates that individuals with the largest initial stocks of taxable assets have the ability to continue contributing at the TFSA limit over successive years. Figure 2 depicts the results in table 4, showing the sharply lower TFSA maximization rates by income for all eligible persons versus account holders, with the largest gaps at low and middle incomes.

In a much-publicized statement, the government claimed that in 2013 “59.4 per cent of TFSA max contributors make less than $60,000 ... [P]eople of all ages and income levels max out their TFSA contribution limits—in fact the vast majority are low to middle income earners.”42 If the maximization rate in 2013 is computed for all eligibles with income below $60,000, the result is that just about 5 percent of that income group maxed out their TFSA limits in 2013. The large divergence between this result and the government’s version is explained by the fact that the overall maximizing rate was only 6.7 percent for all eligible persons in 2013, and the government focused on those with TFSAs rather than the entire eligible population. Moreover, the government relies on official statistics that cover only individuals and neglect family patterns of TFSA usage.

**FAMILY VERSUS INDIVIDUAL TFSA USAGE PATTERNS**

The CRA statistics report surprisingly high proportions of all TFSA holders with very low levels of assessed income. For example, 20.6 percent of all holders had income below $20,000 in 2013. This figure might be explained in part by individuals who had higher incomes in preceding years but suffered an income decline in 2013. Since individuals with income below $20,000 would pay little or no income tax, this raises the question of why individuals who normally earned such low income would value the tax-free advantage of TFSAs. Additionally, the average fair market value for

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42 Then minister of finance Joe Oliver, “Re: Tax Free Savings Accounts (TFSAs),” memorandum to the Conservative caucus, April 7, 2015 (http://ipolitics.ca/wp-content/uploads/2015/04/Minister-Oliver-Memo-to-CPC-Caucus_EN.pdf); these figures were reconfirmed in the 2015 federal budget, supra note 1, at 235.
account holders with income below $20,000 was $8,462—not radically below the average of $11,037 for all account holders in 2013. Thus, the high takeup and significant balances by many individuals with a very low income appears puzzling. One possible explanation is that assets are shifted within higher-income families to lower-income members (spouse, children aged 18 and over living at home, and other relatives) so as to exploit larger total TFSA contributions.43

To cast light on this phenomenon, I draw on data from Statistics Canada’s Survey of Financial Security reporting TFSA asset holdings on a family basis and compare

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43 The income attribution on most interspousal transfers is waived on transfers made for the purpose of TFSA contributions, thus creating a new avenue for income splitting by couples with spouses having discrepant incomes and/or wealth.
them with the CRA data on TFSA assets on an individual basis. The last two columns of table 5 present the results using 2012 data from both sources, and they yield a radically different picture. Whereas for income below $20,000 the individual data show 16.9 percent of all TFSA assets held, the family data show less than one-quarter of that share (3.9 percent). For individual TFSA holders with income below $60,000, the share is 63.4 percent, but on a family basis the share for that income range is less than half that figure (31.2 percent). In contrast, at incomes of $150,000 and higher, TFSA holdings are 6.5 percent of the total for individuals but nearly four times that share (24.0 percent) at the family level. These results show clearly that many TFSA holders recorded with low individual income are members of families with a significantly higher total income. The results are also suggestive of intrafamilial income splitting and asset shifting via TFSA.

Table 5 provides further insights into TFSA usage patterns at the family level. The participation rate in 2012 for families with incomes above $200,000 (at 59.0 percent) was nearly four times the rate for families below $20,000 (at 15.6 percent). Average TFSA balances held by all family members in 2012 show a sharp gradient with respect to family income. For families in which one or more members hold TFSA, the $25,000 average balance at incomes above $200,000 was more than three-and-a-half times the average balance of $7,026 at incomes below $20,000. The TFSA income gradient is even steeper among all eligible families; the $14,757 average balance for those with income above $200,000 was more than 13 times the average balance of $1,098 at incomes below $20,000. The 2012 average balance for families holding any TFSA was $13,386, which exceeded the corresponding average for individual holders at $9,118 because some families included more than one person with a TFSA.

TFSA USAGE BY OLDER WORKERS AND SENIORS

Another possible, and parallel, explanation for substantial participation in TFSA by individuals at low and moderate incomes relates to the behaviour of older workers and seniors. In 2013, TFSA holders aged 55 and over with an individual income below $40,000 accounted for 28.3 percent of all persons maximizing the TFSA limits. Holders aged 65 and over with income below $60,000 accounted for 32.4 percent of all maximizers. These figures suggest that TFSA are particularly attractive to many older individuals not only as a means of reducing their income tax, but also as a way to increase their entitlements to GIS and OAS benefits (dodging the tax recovery

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44 See supra note 31. Note that the concept of families for the purposes of the survey includes unattached individuals. Almost all families contain at least one TFSA-eligible person aged 18 or over.

45 These figures are derived from a table accompanying the memorandum referred to above (Oliver, supra note 42); apart from the information in this memorandum, which covers only the distribution of maximizers, figures on TFSA activity cross-tabulated by age and income of the account holder are not publicly available.
on higher-income recipients). Financial advisers have begun devising various strategies for retirees and those approaching retirement to game the TFSA.46

An ironic aspect of the comparatively heavy use of TFSAs by retirees is that the provision was intended to encourage saving.47 Most persons aged 65 and over have stopped working, and most are no longer at the saving stage of their lives, with many being at the dissaving stage. Thus, for this group the TFSA serves mainly as a tax minimization and benefit maximization device with minimal impact on net savings. Significant additional saving is an unlikely outcome of the scheme for this age group; rather, shifting of taxable asset holdings into TFSAs is the more likely

### Table 5: Tax-Free Savings Account (TFSA) Statistics for Families and Individuals, 2012

<table>
<thead>
<tr>
<th>Income group—family or individual ($)</th>
<th>TFSA participation rate (%)</th>
<th>Average TFSA balance: holders ($)</th>
<th>Average TFSA balance: eligibles ($)</th>
<th>Share of all TFSA assets (%)</th>
<th>Share of all TFSA assets (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;20,000</td>
<td>15.6</td>
<td>7,026</td>
<td>1,098</td>
<td>3.9</td>
<td>17.2</td>
</tr>
<tr>
<td>20,000-39,999</td>
<td>28.0</td>
<td>10,828</td>
<td>3,032</td>
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<tr>
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<td>12,051</td>
<td>3,837</td>
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<td>&lt;60,000</td>
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<td>13.0</td>
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<td>80,000-99,999</td>
<td>38.4</td>
<td>13,882</td>
<td>5,324</td>
<td>12.0</td>
<td>7.9</td>
</tr>
<tr>
<td>100,000-149,999</td>
<td>43.1</td>
<td>13,659</td>
<td>5,880</td>
<td>18.1</td>
<td>8.0</td>
</tr>
<tr>
<td>&gt;150,000</td>
<td>52.8</td>
<td>20,730</td>
<td>10,951</td>
<td>24.0</td>
<td>6.7</td>
</tr>
<tr>
<td>&gt;200,000</td>
<td>59.0</td>
<td>25,000</td>
<td>14,757</td>
<td>14.3</td>
<td>na</td>
</tr>
<tr>
<td>Total or average</td>
<td>33.7</td>
<td>13,386</td>
<td>4,511</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Note: Computations by author.


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47 In 2013, holders aged 65 and over constituted 45.1 percent of all TFSA maximizers, and holders aged 75 and over constituted 22.6 percent of all TFSA maximizers.
outcome. Moreover, the relatively high rates of TFSA maximization by middle-income seniors observed in the early years of the scheme’s existence are unlikely to persist long into the future; over time, maxing out will become much more concentrated among high-income and high-wealth individuals. The reason is that younger cohorts will have had many years to contribute to TFSA such that they will reach retirement with far less or even nil taxable asset holdings.

UNUSED TFSA CONTRIBUTION ROOM

Another measure of the adequacy of the TFSA contribution limit prior to the recent increase is the extent to which aggregate contribution room has gone unused. In 2013, among TFSA holders, the average fair market value of holdings was $11,037, and the average unused contribution room was $13,550. That is, on average, TFSA holders had actually utilized less than half of their allowable contribution room by 2013. Total unused TFSA contribution room among all eligibles—holders and non-holders—was an estimated $592 billion in 2013. This unused contribution room accumulated after only five years of TFSA operation, while for RRSPs $790 billion of unused contribution room had accumulated by 2013, a little more than two decades after the introduction of the RRSP carryforward provision in 1991. With unused RRSP contribution room rising by about $50 billion per year and unused TFSA contribution room rising at more than twice that rate, total unused room for TFSA could be projected to exceed that for RRSPs by 2017 even with a $5,500 TFSA contribution limit.

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48 One cannot rule out the possibility that some seniors are induced by the higher net rates of return afforded by TFSA to reduce their rates of dissaving (equivalent to an increase in saving), but the low sensitivity of saving rates to net returns suggests that this would be a minor factor.

49 On account of investment earnings on TFSA balances, one would expect that the two figures added together would exceed the year's cumulative limit of $25,500 in 2013. Instead the total falls short of that figure, likely on account of TFSA withdrawals in 2013 not yet credited to the TFSA holder's limit.

50 Viewing the average unused TFSA contribution room by income of the holder, the figures are remarkably stable near the aggregate average for incomes between $15,000 and $100,000, then decline with higher incomes and drop sharply to $7,000 for incomes of $250,000 and over.

51 The aggregate amount of unused TFSA contribution room in a given year was computed by taking the amount for holders (the number of holders multiplied by their reported average unused room) and adding the amount for eligible non-holders (the total population of eligible age minus the number of holders, with that number being multiplied by the full cumulative limit in the respective year).

52 Figures on aggregate unused RRSP contributions by year are taken from Statistics Canada, CANSIM table 111-0040, “Registered Retirement Savings Plan (RRSP) Room.” Year-to-year changes in aggregate amounts of unused contribution room for RRSPs (with comparative figures for TFSA) were as follows: 2010-2011, $51 billion ($113 billion); 2011-2012, $32 billion ($119 billion); and 2012-2013, $54 billion ($132 billion). If substantial future TFSA contributions are diverted funds that would otherwise have been contributed to RRSPs, it could take longer for the crossover in unused room to arise.
ECONOMIC IMPACTS OF TFSAs

A principal argument for TFSAs—and one that is advanced by proponents of higher TFSA limits—is to encourage personal saving. This goal relates to both enhancing individual financial security and augmenting aggregate savings to benefit the economy. Whether TFSAs actually increase the net new saving of individual account holders hinges on the specific source of their account contributions. Possible sources other than net new saving fall into two broad categories:

1. Asset shifting. Financial assets already held by the individual are used to fund the TFSA; these include
   a. taxable assets and
   b. tax-deferred assets such as RRSPs and registered education savings plans.
2. Savings diversion. Saving that would have been undertaken in the absence of TFSAs is diverted
   a. from tax-deferred accounts,
   b. from taxable financial accounts, and
   c. from other uses such as home equity or family business.

Note that any of these asset-shifting and savings-diversion sources for funding TFSAs can be combined with the use of TFSAs for income splitting with a spouse.

Only incremental saving that would not have been undertaken in the absence of TFSAs will generate net new saving. For higher-income and higher-wealth individuals with large amounts of taxable asset holdings, both asset shifting and savings diversion are likely to fund most contributions to TFSAs. In that group, couples and

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53 Jonathan Rhys Kesselman and Peter S. Spiro, “Challenges in Shifting Canadian Taxation Toward Consumption” (2014) 62:1 Canadian Tax Journal 1-41, cite reasons why even increased net saving by the household sector might fail to provide significant stimulus to real business investment in Canada. Also see Kesselman’s application of this analysis to the economic impacts of the TFSA in Jonathan Rhys Kesselman, Double Trouble: The Case Against Expanding Tax-Free Savings Accounts (Ottawa: Broadbent Institute, 2015), at 10-12.
54 Financial assets can be shifted directly into TFSAs, but any accrued capital gains on the assets become taxable; alternatively, the assets can be sold and proceeds contributed to the TFSA.
55 Withdrawals are taxable, and the net-of-tax sums can then be contributed to a TFSA.
56 If individuals divert retirement saving from RRSPs to TFSAs and have specified net-of-tax retirement income targets, their current savings will actually decline since they will no longer need to save amounts that will later need to be paid in tax on RRSP disbursements. This conclusion is well known in the economic analyses comparing a “wage tax” with an “expenditure tax.” See Lawrence H. Summers, “Capital Taxation and Accumulation in a Life Cycle Growth Model” (1981) 71:4 American Economic Review 533-44.
57 Usually an individual’s motivation for income splitting is to shift income to a spouse who has a lower income and is taxed at a lower rate, but with TFSAs, the dollar ceiling on contributions can also induce splitting for the donor spouse to access the additional limit afforded the donee spouse, even in the absence of discrepant earnings.
particularly single-earner couples are additionally likely to use TFSAs for income splitting. While higher-income and higher-wealth individuals are observed to make the largest per capita TFSA contributions, little is likely to constitute net new saving since those individuals’ marginal incentives to save are unaffected when constrained by the contribution limit. On the other hand, the groups whose TFSA contributions are more likely to constitute net new saving are earners at low to moderate income levels, anticipating high benefit clawback rates in retirement. But those groups are able to make only the smallest amounts of TFSA contributions, and for many of them the funding source will be diversion from RRSP contributions or shifting via RRSP withdrawals.

This study’s findings on TFSA maximization patterns by age and income—as well as my comparative analysis of individual versus family TFSA statistics—strongly suggest the presence of substantial asset-shifting and income-splitting responses. Even the Department of Finance study noted the potential for asset-shifting behaviour by individuals who “redirect their stock of existing savings to tax-assisted accounts such as the TFSA.”58 It concluded cautiously, “An empirical assessment of the long-term impact of TFSAs on savings behaviour would require much longer time series on individual savings and other economic variables.”59 The parliamentary budget officer (PBO) was less reserved in asserting, “TFSA contributions are expected to mostly originate from the reallocation of existing savings in taxable accounts. . . . [The] PBO therefore expects a comparatively small proportion of TFSAs will be the result of new savings.”60

LONG-RUN COSTS OF TFSAs

The impacts of the TFSA provision on income tax revenues and on the costs of income-tested benefit programs present challenges for forecasting. These impacts hinge on individuals’ behavioural responses to the TFSA and the sources they use to fund their TFSA contributions. As suggested by the discussion above, our understanding of the extent to which each of the various possible sources of TFSA funding is being used, and by which groups, is very imperfect. Some types of behavioural responses would increase tax revenues in the short run; individuals who divert their savings from RRSPs to TFSAs will pay more tax currently, albeit less tax in future years, and will generate higher future benefit costs. However, because much remains unknown, forecasts of the revenue and cost impacts many years into the future will vary widely, depending on the exact assumptions. With these cautionary notes in mind, I proceed to review the available forecasts.

58 Tax Expenditures and Evaluations 2012, supra note 19, at 36.
59 Ibid., at 31.
Impacts on Income Tax Revenues

A tax-prepaid scheme like the TFSA has an interesting feature in terms of its forgone revenue cost, or its so-called tax expenditure. Because the funds that an individual contributes to such an account are not tax-deductible, they have fully borne tax and thus impose no immediate revenue cost. The revenue cost of the TFSA stems from the tax exemption for the investment earnings on those funds, which presumably would otherwise have borne tax at the account holders’ ordinary rates. The forgone revenue is initially very small since little investment income arises in the year of contribution; it then grows over time with the compounding of investment returns in the account plus the return on additional contributions made in future years. Accordingly, the aggregate tax expenditure of the TFSA begins very small but grows over time to be much larger. Table 1 shows the official estimate of the TFSA’s federal revenue cost at a meagre $65 million in the first year, 2009; by 2014, just five years later, that amount had increased to $520 million.61 Steep growth in the revenue cost is bound to continue, reflecting the subsequent and ongoing growth of TFSA contributions and compounding tax-free investment earnings, not to mention the 2015 hike in the TFSA limit.

One way to measure the loss of tax revenues attributable to the TFSA is to examine taxfiler data on taxable investment income. The Department of Finance reported that the share of taxfilers reporting any taxable interest and dividend income declined from 37 percent in the two years preceding the TFSA’s introduction to 33 percent, 30 percent, and 29 percent, respectively, in years 2009 through 2011.62 But these were just the first three years of a tax-deferred scheme that is far from mature; it will take 50 years or longer to observe the full effects on individuals who have been able to access the TFSA from age 18 onward. Milligan has simulated the potential impact of a mature TFSA system on the proportion of families with taxable assets exceeding their cumulative TFSA contribution room.63 With cumulative room of $200,000 (say, 36 years at $5,500 per year in real terms), only 3.3 percent of families would have any taxable assets; with cumulative room of $300,000 for a couple (less than 28 years

61 The methodology used in computing these tax expenditure figures is described in Tax Expenditures and Evaluations 2012, supra note 19, at 44. Some key assumptions were that there were no behavioural changes (hence, no substitution of RRSP contributions for TFSAs and no impact on GIS costs) and that only one-fifth of capital gains accruing within TFSAs would be realized in the relevant year.

62 Ibid., at 42.

63 Kevin Milligan, “Policy Forum: The Tax-Free Savings Account—Introduction and Simulations of Potential Revenue Costs” (2012) 60:2 Canadian Tax Journal 355-60. Milligan’s method assumes that the individual will hold all financial assets within the TFSA, subject to the contribution limit, though this assumption somewhat overstates the situation for individuals wishing to hold some readily available balances to cover cash flow needs. However, even as a limiting bound, the results are striking. For more complex methodologies, see Pablo Antolín, Alain de Serres, and Christine de la Maisonneuve, “Long-Term Budgetary Implications of Tax-Favoured Retirement Saving Plans” (2004) 39:2 OECD Economic Studies 25-72.
tax-free savings accounts: expanding, restricting, or refining?

Milligan’s simulation exercise next estimates the revenue loss for a mature TFSA with the indexed $5,000 contribution limit. Subject to several assumptions, Milligan reports a potential decline in the total federal tax base of 5.4 to 6.0 percent. Because the lost taxable income would have been taxed at a higher than average rate, this yields an estimated 10.6 percent loss of federal personal income tax revenues. Translated into contemporary dollar figures, this would constitute a federal revenue cost of $15 billion based on forecasted income tax revenues of $143 billion in 2015-16. On top of the federal revenue cost, one must also reckon the related revenue loss to provincial income taxes; at about 60 percent of the federal cost, this amounts to another $9 billion annually for a mature TFSA. Using different assumptions, the PBO has produced long-run fiscal cost estimates for TFSA that are about half that magnitude: by 2060, a cost to federal revenues of 0.4 percent of gross domestic product (GDP) plus another 0.2 percent of GDP cost to provincial revenues. In terms of today’s economy, these figures translate to annual revenue costs of $8 billion for the federal government and $4 billion for the provinces.

The preceding estimates do not consider the 82 percent increase in the TFSA contribution limit from $5,500 to $10,000 implemented in 2015. If sustained, this hike would clearly raise the revenue costs for both levels of government, but those cost increases would be proportionately less than the increase in the limit for two reasons. First, indexation would no longer be applied to the contribution limit, but if the prior limit of $5,500 remained in place, it would take another 30 years for it to reach $10,000 with indexing at a 2 percent annual inflation rate. The more important factor explaining the less than proportionate increase in revenue costs is that few individuals would be able to make annual contributions above $5,500. My earlier finding that only a small and declining share of holders could maximize even the lower limit supports this conclusion. The PBO forecasted that the increase to $10,000 would raise the TFSA’s total costs for both levels of government by 27 percent

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64 Tax Expenditures and Evaluations 2012, supra note 19, at 42.
65 Alternative and more complex computation methods could consider behavioural effects such as the extent to which the provision or expansion of TFSA results in the creation of new savings versus the diversion of existing savings, but the empirical factors are unresolved; see Organisation for Economic Co-operation and Development, Encouraging Savings Through Tax-Preferred Accounts, OECD Tax Policy Studies no. 15 (Paris: OECD, 2007). Milligan, supra note 63, at 356, note 4, notes that his methodology understates the potential revenue loss because it ignores the tax sheltering of investment returns accumulating within the TFSA. Also see Kevin Milligan, “How TFSA Expansion Will Hit Future Tax Revenues,” Globe and Mail, April 7, 2011.
66 See the 2015 Budget Plan, supra note 1, at 364.
by 2030, a figure that would gradually decline to 14 percent by 2080. The 2015 budget forecast of the federal revenue cost of the higher contribution limit was $1.1 billion for the 2015-16 to 2019-20 period.

Impacts on Cost of Old Age Security

The government’s commitment to disregard TFSA in all federal program income tests will impose significant costs for seniors’ income support programs over the long run. This immunity will affect both the income-tested GIS and the universally paid OAS. GIS benefits are based on income of the claimant, but incomes generated within TFSA and account withdrawals are disregarded in this income test. In contrast, all RRSP and RRIF disbursements, annuity payments, non-sheltered investment incomes, and private and public pension receipts constitute taxable income and thus affect GIS eligibility and benefits. OAS benefits are phased out at higher incomes via a recovery tax, but TFSA incomes and withdrawals are disregarded for the purposes of this provision. TFSA holdings could thus pose increasing costs for governments as their balances rise over time. Already by 2011, about 440,000 GIS recipients held $4.3 billion in their TFSA, accounting for 7 percent of total TFSA assets. They constituted 6 percent of TFSA holders and had a 23 percent participation rate (3 percentage points higher than those in the same age cohort with income under $20,000).

Accumulations in TFSA could over time significantly increase the total number of GIS beneficiaries, benefits paid, and program costs. The Office of the Superintendent of Financial Institutions (OSFI) is required to undertake detailed actuarial projections of the OAS program’s finances every three years. Using ad hoc assumptions about future TFSA saving behaviour, the OSFI’s 12th actuarial report on the OAS program offers long-range forecasts of these impacts. It projects the proportion of the cohort attaining age 67 in 2050 receiving full or partial GIS benefits at

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68 Office of the Parliamentary Budget Officer, *Update of PBO’s Tax-Free Savings Account Analysis* (Ottawa: PBO, April 2015) (herein referred to as “the PBO update”), at 2. The PBO’s estimated revenue impacts of the TFSA hike are $50 million for the federal government and $30 million for the provinces in 2015-16, rising to $370 million and $180 million, respectively, for 2019-20 (ibid., at 1).

69 See the 2015 Budget Plan, supra note 1, at 236.

70 For commentary on this looming problem, see, for example, Jonathan Chevreau, “How the Guaranteed Income Supplement Is on a Collision Course with TFSA,” *Financial Post*, November 29, 2014.

71 In 2015, the recovery tax reduces benefits at 15 percent of net income between $71,592 and $116,103, above which the benefit is fully clawed back.

72 *Tax Expenditures and Evaluations 2012*, supra note 19, at 41.

73 Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *Actuarial Report (12th) on the Old Age Security Program at December 31, 2012* (Ottawa: OSFI, 2014). The report states that its estimated TFSA impacts “should be interpreted with caution” (ibid., at 75 and 79) because of the lack of long historical data on TFSA. The report itself does not explain its assumptions about future TFSA saving behaviour, but the OSFI provided a detailed description in private correspondence.
30.9 percent—5 percentage points higher than would arise without TFSAs.74 A background document to the report projects that TFSAs will boost GIS expenditures in 2050 by $2.8 billion to $35.6 billion, an increase of 8.6 percent relative to the absence of TFSAs.75 The report also forecasts that TFSAs will reduce the amount of OAS recovery tax collected in 2050 by $1.2 billion to $5.4 billion.76 Based on these figures, the projected future annual fiscal cost of the TFSAs with respect to the total OAS program including the GIS could exceed $4 billion.77

A study by Horner uses economic modelling to predict long-run impacts of the TFSAs on GIS participation rates and program costs far larger than the OSFI projections.78 Horner’s study found that of the three-quarters of households who need to undertake saving beyond public pension provisions in order to maintain their accustomed living standard at retirement, almost 60 percent would be better off saving solely through TFSAs.79 This group includes all those with family earnings up to about $80,000, very few of whom were found to be constrained by the TFSA’s contribution limit of $5,000. Instead of the current 32 percent of seniors receiving GIS benefits, the shift of saving toward clawback-immune TFSAs could raise this figure

74 Ibid., at 78-79. The report also presents “low-cost” and “high-cost” projections for alternative assumptions about the growth of TFSA balances, yielding GIS recipient rates ranging between 27.4 percent and 37.2 percent (ibid., at 92).

75 In contrast, the OSFI’s previous triennial report had projected a TFSA impact on GIS expenditures in 2050 of $4.2 billion or 12 percent: Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, Actuarial Report (9th) on the Old Age Security Program at December 31, 2009 (Ottawa: Office of the Chief Actuary, 2011), at 10. In private correspondence, the OSFI attributed the decrease in projected TFSA impacts on GIS expenditures between the 9th and 12th actuarial reports to changed assumptions and the then-anticipated increase in the OAS eligibility age to 67.

76 Supra note 73, at 77. Also in 2050, the TFSA is projected to reduce the numbers subject to OAS recovery tax by 132,000 (from 850,000 to 718,000), with 63,000 relieved of full repayment and 69,000 relieved of partial repayment (ibid., at 76).

77 The 12th actuarial report presents detailed projections of the TFSA impact in 2050 on the distributions of GIS by benefit levels of recipients, but no dollar figure for the impact on aggregate GIS program cost. It also offers “low-cost” and “high-cost” figures for alternative assumptions about TFSA behaviour that would alter GIS benefits by a reduction of 5.6 percent or an increase of 17 percent relative to the best-estimate scenario for 2050 (ibid., at 97); thus, the high-cost estimate of the TFSA impact on GIS expenditures amounts to $8.8 billion ($2.8 billion + 0.17 × $35.6 billion).

78 Keith Horner, A New Pension Plan for Canadians: Assessing the Options, IRPP Policy Study no. 18 (Montreal: Institute for Research on Public Policy, July 2011). Horner’s study implements an economic model of saving behaviour over the life cycle with several simplifying assumptions. It assumes that current holdings in tax-deferred forms would eventually be supplanted with TFSA saving by later cohorts for whom it would be more beneficial and that all households would save solely through TFSAs if that were to their benefit. Thus, the study’s projections represent a long-run, upper bound on potential impacts.

to more than 50 percent. The GIS program’s total cost could rise by as much as 84 percent relative to its cost in the absence of the TFSA. And the number of seniors subject to income tax could decline by 54 percent, from more than half to just one-quarter—though most would have paid more income tax while working, on account of lower RRSP contributions.

WHO WOULD GAIN FROM THE HIGHER TFSA LIMIT?

My preceding analysis of the patterns of TFSA participation, maximization, and balances provides insight into who would gain from the increased TFSA limit. Equally salient is who would not gain anything from the higher limit.80 The overall participation rate of less than 40 percent by the end of 2013 means that 3 out of 5 Canadians had chosen not to open an account after five years of the scheme’s operation. Each of these 17 million non-holder eligibles thus entered 2014 with a cumulative contribution limit of $31,000, which few would fully utilize even if they chose to open TFSAs. Over the 2009-2013 period, rates of maximizing the TFSA limits were low and rapidly declining every year as each individual’s cumulative limit increased. The notable exception to this pattern arose for TFSA-eligible individuals with income of $250,000 or more; their maximization rates held fairly steady in the 30 percent range. By 2013, just 1 out of 15 of all eligible persons was still maximizing his or her TFSA limit.

In short, very few Canadians had any use for a higher TFSA contribution limit by 2013, and even fewer could have exploited a limit higher than $5,500 by 2015. As the PBO observed, “[w]ith time, an increasing share of eligible participants will likely exhaust the financial means to continue TFSA contributions and will not benefit from higher cumulative contribution room.”81 Seniors exhibited above-average maximization rates, but these too were declining over time. By 2013, nearly one-third of seniors holding TFSAs had maxed out their limit, but for all eligible seniors the rate


81 PBO update, supra note 68, at 2.
was just 1 out of 6. Two factors imply that the maximization rates for seniors will decline significantly in the future. The first factor is the 2015-16 budget’s reduction in mandatory distribution rates from RRIFs, which will reduce some seniors’ use of TFSAs for their excess funds. The second factor is the transitory nature of current seniors’ high demand for TFSAs; as future cohorts reach retirement, they will have accessed cumulative TFSA contribution limits for many more years.

Increasingly over future years, the disproportionate gainers from a higher TFSA limit would be those with high incomes and high wealth holdings. This conclusion is clear from the maximization patterns over time and the much larger TFSA balances of account holders at high income levels. Even the figures on relative TFSA balances at lower income levels underestimate the degree to which higher-income account holders are the big gainers. They tend to be more investment-savvy and thus reap higher returns on their TFSA portfolios than more cautious TFSA investors in fixed-income assets. Additionally, the investment returns generated in TFSAs by higher-income holders escape personal tax at higher rates than the rates that moderate-income TFSA holders bear on their taxable income. As the PBO observed, “[t]he contribution limit increases proposed in Budget 2015 would accentuate these distributional disparities [already existing in the TFSA].”

The statistical evidence provides strong support for both income shifting between spouses via TFSA transfers and shifting of taxable assets into TFSAs; these phenomena further suggest that a relatively small share of TFSA contributions originates from new savings. Individuals with very high incomes, most of whom have exhausted their RRSP/RPP limits, face the strongest incentive to shift taxable assets into TFSAs. This group holds very substantial investment assets, a large portion of the income from which is not sheltered from income tax. Of all returns filed for the 2011 tax year, the 0.8 of 1 percent with incomes above $250,000 reported 10.6 percent of all income assessed but 19.5 percent of taxable interest income, 38.1 percent of taxable dividends, and 52.8 percent of taxable capital gains—all of which are types of income that escape tax when held in TFSAs. The higher TFSA limit would allow high-wealth individuals to shift increasing amounts over many years into their tax-free accounts. Not surprisingly, TFSAs have become an important part of tax planning for higher-income individuals.

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82 Over the intermediate term, seniors will garner a disproportionate share of gains from the boosted TFSA limits—about 60 percent of the total in 2019, according to the 2015 Budget Plan, supra note 1, at 237. However, this age skew is transitory and an artifact of the relatively short period since the TFSAs’ launch.

83 PBO update, supra note 68, at 3.


Another significant implication of these findings is that TFSAs will increasingly reduce the progressivity of both federal and provincial tax systems. As noted above, the types of income that TFSAs shield from personal tax include interest, dividends, and capital gains. Taxable income from these sources is concentrated among higher-income individuals, and for all three, the share of total income assessed for tax purposes rises with income. Again taking all returns filed for the 2011 tax year, these types of investment income together constituted just 2.8 percent of incomes below $25,000, rising to 3.6 percent of incomes between $25,000 and $50,000, 5.0 percent between $50,000 and $100,000, 8.6 percent between $100,000 and $150,000, 14.6 percent between $150,000 and $250,000, and 28.7 percent of incomes over $250,000.86 This pattern, along with my evidence on the patterns of TFSA participation and maximization across various income levels, implies that tax progressivity will be increasingly compromised over time—and particularly so with an increased TFSA limit that ever-fewer non-wealthy individuals will be able to access.

**PERFORMANCE AND DEFICIENCIES OF TFSAs**

TFSAs have served a useful purpose for many savers, as evidenced by the large numbers who have opened accounts since 2009. They serve well some of the initial motivations for the scheme, such as facilitating efficient and equitable saving for both short- and long-term goals. They also provide low earners with a rewarding way to save for retirement that will not cut into their income-tested public pensions, although takeup by this group has not been high. Evidence to date suggests that TFSAs have not significantly increased aggregate net saving, but this result was anticipated as a possibility and does not undercut the cited benefits. However, TFSAs have suffered deficiencies from their inception that would be exacerbated by the near-doubling of the contribution limit. Here I summarize these deficiencies, which the next section addresses with potential remedies.

- Although intended in part as a saving vehicle for low to moderate earners, TFSA takeup rates and contribution levels have been significantly tilted toward higher earners.
- Generally low and rapidly declining TFSA maximization rates for both holders and eligibles, even at the $5,500 contribution limit, demonstrate the adequacy of that limit—except for the highest-income and older age groups.87

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86 CRA, *Final Statistics—2013 Edition*, supra note 84. These figures understate the extent to which the tax saving from shifting taxable funds into TFSAs undermines effective tax progressivity, since 63 percent of the cited types of investment income were taxable dividends from Canadian corporations; these apply a dividend tax credit formula that makes the effective personal tax progressivity higher than for other income types.

87 As explained earlier, the relatively high TFSA maximization rates for older age groups are a transitory phenomenon reflecting the newness of the program; since younger cohorts will have much longer periods to contribute to TFSAs, they will approach retirement with significantly lower rates.
The tilt of gains toward individuals at high income and wealth levels is even sharper than suggested by my findings, which do not take into account the greater propensity of those individuals to hold higher-yielding assets and the higher tax rates that their TFSA incomes avoid.

If sustained, the hike in the TFSA contribution limit would in the long run be of even more lopsided benefit to the wealthy and of limited or no benefit for the great majority of moderate- to upper-middle income earners, who already have adequate tax-favoured contribution room.

The lack of immunity from federal program income tests or clawbacks on TFSA holdings regardless of their size raises issues with respect to future beneficiaries’ expectations and the potential for high-wealth individuals to draw benefits intended for low-income individuals.

Both the creation of the TFSA and the increased limit exert drains on provincial revenues that the individual provinces have not consciously chosen; they also reduce the progressivity of provincial income taxes in ways that the provinces have not chosen.

Revelations that some individuals have accumulated extremely large TFSA balances via speculative holdings will challenge the CRA in assessing improper trading activities. The scheme was never intended to provide a tax shelter for the multimillion-dollar balances that some accounts will accumulate over time.88

The exclusion of a TFSA option within pooled registered pension plans (PRPPs) works to the disadvantage of lower-paid earners, who might erroneously be guided to enrol in RRSP-type accounts.89

**POTENTIAL REFORMS FOR TFSA**

Various policy reform options can be considered to address the TFSA’s identified deficiencies. The essential first step would be to reverse the unconditional hike in the annual contribution limit and restore the $5,500 figure with indexation. Some of the options outlined here would expand access to TFSA for most individuals, while others would be restrictive in various ways. In general, these options seek to refine the TFSA for maximum effectiveness and interpersonal and intergenerational equity, with due regard for the revenue costs and distributional impacts. I explore the options individually, but many of them would operate best if undertaken as a joint, comprehensive reform package for the TFSA.

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89 This point was noted by James Pierlot and Alexandre Laurin, *Pooled Registered Pension Plans: Pension Saviour—Or a New Tax on the Poor?* C.D. Howe Institute Commentary no. 359 (Toronto: C.D. Howe Institute, August 2012).
Integrating TFSA Limits with RRSP Limits

The original and current provision for TFSA contributions allows a fixed dollar amount independent of the individual's income. In contrast Kesselman and Poschmann, in their 2001 proposal for a TPSP, suggested a variant that would integrate the individual's contribution limit for the TPSP with the RRSP/RPP limit.90 Access to TPSPs would then be tied to the individual's level of earned income, thus linking access to tax-prepaid saving to lifetime earnings, similar to the structure of the tax-deferred accounts. Along these lines, an integrated TFSA/RRSP approach would constrain the ability of individuals who had fully exhausted their RSPP/RPP limits—typically higher earners and workers with generous pension plans91—to exploit TFSA for undue access to tax-favoured saving. In this way, it would limit the transfer of substantial taxable assets held by higher earners into tax-free status, and it would similarly impede access to tax-free savings on underreported or tax-evaded labour and self-employed earnings. Another feature of this scheme is that it would enable workers who have unused RRSP contribution room to trade it for additional access to TFSA.

In the context of the current TFSA, this scheme of integrated access to tax-deferred and tax-prepaid savings with a tradeoff option could be designed in the following way. Assume first that all eligible persons would still access a restored $5,500 annual TFSA limit independent of any income. Each person with cumulative unused RRSP contribution room could then trade off part of that room for additional access to their TFSA beyond the annual $5,500; this additional access might be limited to $4,500 per year, thus bringing the maximum TFSA contribution to $10,000 per year. Only individuals who had made liberal lifetime use of RPPs and/or RRSPs, exhausting their cumulative contribution room, would be unable to gain increased access to TFSA. The statistics indicate that nearly 80 percent of TFSA-eligible Canadians had unused RRSP room in 2013, so that relatively few persons would be excluded from the TFSA tradeoff option.92

The operation of an integrated TFSA/RRSP limit would be fairly straightforward. An individual wishing to tap unused RRSP room for additional TFSA room would

90 Similarly, Laurin and Poschmann, supra note 79, at 5, suggest “allow[ing] taxpayers more freedom in allocating saving room between RRSP/RPP accounts and TFSA.”

91 James Pierlot and Faisal Siddiqi, Legal for Life: Why Canadians Need a Lifetime Retirement Saving Limit, C.D. Howe Institute Commentary no. 336 (Toronto: C.D. Howe Institute, October 2011), at 17, note 10, state that no reliable data are available on this point but express their expectation that primarily “older, higher-income Canadians without pension coverage [will] use all their RRSP room.”

92 A reported 22.3 million Canadians had unused RRSP contribution room in 2013 (Statistics Canada, CANSIM table 111-0040, “Registered Retirement Savings Plan (RRSP) Room”) and the number of Canadians aged 18 and over that year was 28.2 million (Statistics Canada, CANSIM table 051-0001, “Estimates of Population, by Age Group and Sex for July 1, Canada, Provinces and Territories”). A small proportion of those with unused RRSP room were under age 18 and thus not eligible to have a TFSA.
notify the CRA of the desired amount, which would be added to the individual’s pension adjustment used to compute his or her RRSP room. The tradeoff rate would be about $1.50 of RRSP room to purchase one additional dollar of TFSA room, reflecting the fact that TFSA dollars are tax-prepaid whereas RRSP contributions are tax-deferred. To keep the operation simple, an individual’s choice to convert a specified number of dollars from RRSP room to TFSA room would be irrevocable. Even individuals past age 71, who are not allowed to make further RRSP contributions, could use cumulative unused RRSP room to expand their TFSA contribution room.

Compared to the TFSA limit hike to $10,000, an integrated TFSA/RRSP tradeoff provision along with a restored inflation-indexed unconditional TFSA limit of $5,500 offers several advantages. It prevents the windfalls that would otherwise go to high earners who have already exhausted their cumulative contribution room for RRSPs. It also reduces the scope for income splitting by couples who have divergent earnings. Both of those effects curtail the extent of pure asset shifting to avoid taxes where no new saving arises. At the same time, the scheme provides greater flexibility for moderate earners who do not wish to use all their RRSP room but seek additional TFSA room. It gives a second chance to those who have mistakenly been contributing to RRSPs despite clawbacks that they will be facing in retirement; they will have greater scope to shift those funds into TFSA. And it gives more options to many seniors who are otherwise prevented from adding to their RRSP or are compelled to draw down their tax-deferred savings.

**Setting Limits on TFSA Lifetime Contributions, Balances, or Eligibility**

Various options could be pursued to constrain access to, or balances in, TFSA if that is deemed to be a policy concern. Any of the following approaches could be combined with the tradeoff proposal, so that many individuals would still have increased scope for TFSA contributions:

- Impose a lifetime limit on an individual’s total contributions to TFSA, with that limit being less than the annual limit multiplied by the number of years of an individual’s life expectancy beyond age 18. A drawback of this approach is that those with large holdings of taxable assets could deposit them all at once and thereby extend the period of investment income compounding.

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93 If we assume that the typical total marginal tax rate (combined federal and provincial taxes) on RRSP withdrawals is one-third, each $1.50 contributed to an RRSP will yield the same net value as $1 contributed to a TFSA.

94 Additionally, individuals who temporarily experience low-income years may utilize the option to shift funds from their RRSP to their TFSA, since their RRSP withdrawals are taxed at low rates in such periods.

95 Pierlot and Siddiqi, supra note 91, discuss the mechanics of implementing lifetime limits, albeit in a different context.
This method also would fail to prevent some account holders from accumulating extremely large balances in their TFSA.

- Maintain an annual contribution limit but impose a ceiling on the balance that any TFSA can attain, with that figure being indexed over time for inflation. After an account attained this ceiling, a TFSA holder would be barred from making further contributions, and any subsequent investment income in the account breaching the limit would be disgorged and thus become taxable outside the account.

- In a more restrictive approach, income limits would be imposed on individuals eligible to participate in TFSA so as to exclude those with very high incomes (who are most likely to use TFSA for asset shifting and income splitting). While this approach would complicate the practical operation and public understanding of TFSA, it could be an effective way to contain the revenue cost and reduce the pro-rich distributional tilt.

### Limiting TFSA Immunity from Benefit Clawbacks

The fact that individuals can accumulate very large balances in their TFSA suggests that the immunity of such wealth holdings from the income tests of various tax provisions and benefit programs should be limited. Moreover, rather than waiting until a future time when this problem becomes inescapable, the rules for such limits should be established now to avoid giving savers false expectations. So long as the CRA does not require institutions that offer TFSA to report the annual income on each account (including a breakdown among interest, dividends, and capital gains), several policy options are available:

- A program could simply apply an asset threshold that counts the claimant’s total liquid financial holdings, including his or her TFSA balance. Any amounts below that figure would not disqualify the individual or reduce his or her benefits, and any amount above that figure would lead to disqualification. The threshold should be sufficiently high, such as $100,000 or more, so as not to undermine the TFSA’s goal of encouraging saving by lower earners.

- An income could be imputed on the basis of the individual’s total TFSA balances at year-end, a figure already recorded and reported by the CRA. The imputation rate could be the recent interest rate on term deposits or some other figure. Imputed TFSA income could then be added, possibly allowing an

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96 One analyst recommends limiting both the lifetime contribution to $150,000 and the account balance to $300,000 (see Macdonald, supra note 80). These figures would constrain the scope for long-term investment accumulation in the TFSA.

97 This approach would follow the US tax-prepaid scheme (the Roth IRA), which allows maximum annual contributions of US$5,500 and limits participation to individuals with incomes below specified (albeit fairly high) levels. See United States, Internal Revenue Service, *Amount of Roth IRA Contributions That You Can Make for 2015* (Washington, DC: IRS, 2015); the limit is annual and does not permit carryover of unused contribution room.
exempt amount, to other income sources in applying an income test or clawback to determine a claimant’s net benefits.

- The income actually accruing within each TFSA every year could be computed even if it is not deemed taxable or reported by the CRA. This figure could be used in any tax or benefit program’s income test, with a specified exempt amount of TFSA income. One drawback of this method is that the figure could be highly volatile for TFSAs holding equities, since the accrued capital gains or losses would be fully counted each year.

- A program could simply exempt a specified amount of TFSA withdrawals each year before applying its income test following the example of the GIS, which currently exempts $3,500 of labour earnings from its benefit clawback. Amounts of both TFSA and RRSP withdrawals could be subject to clawback only for amounts exceeding the exemption.

The most suitable option could vary across jurisdictions and programs, with each jurisdiction choosing how to treat TFSAs in its income-tested tax and benefit programs. For example, the federal GIS and OAS might implement an income attribution for TFSAs, while a province might apply a TFSA balance threshold for eligibility in its housing subsidy program.

**Permitting Workplace Pooled TFSAs**

Federal enabling legislation for PRPPs permits plans of the tax-deferred format but not of the tax-prepaid format such as the TFSA. This omission is curious in that employers are allowed to offer group TFSAs outside the pooled plan umbrella. Moreover, for many lower-paid workers, any contributions to tax-deferred schemes could run against their long-run personal financial interests if they are likely to draw GIS benefits when retired. A simple amendment to the PRPP legislation would extend the option for employers to offer TFSA-type plans on a pooled basis, thus allowing their employees to choose a saving vehicle that could better serve their interests.

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98 For the method of calculation, see supra note 22.

99 Moreover, this method cannot distinguish among interest income, capital gains, and dividends, each of which is treated differently and taxed at different rates in the normal income tax.


101 Treating TFSAs and RRSPs the same might be deemed fair to individuals who had “mistakenly” saved in tax-deferred rather than tax-prepaid forms. However, the initial saving in TFSAs would already have been taxed, and amounts above the threshold would be further “taxed” by clawback upon withdrawal; RRSP deposits would not have been taxed initially.

102 Pooled Registered Pension Plans Act, SC 2012, c. 16.

103 See Pierlot and Laurin, supra note 89.
Revenue Impacts of the Reform Options

The revenue impacts of the various reform options canvassed here can be described in very rough qualitative terms. The base reform proposal is simply to reverse the recent TFSA limit hike and restore the $5,500 annual level with indexation. The estimated revenue cost saving of this reform would be the figures cited earlier from the PBO for the revenue cost of the reverse policy change. Adding the option for individuals to trade off excess RRSP room for additional TFSA access up to $10,000 per year would add much less to the tax revenue cost than the unconditional limit hike to $10,000, since it would exclude those who have exhausted their RRSP room and would be most likely to utilize additional TFSA room. Limits on an individual’s lifetime TFSA contributions, ceilings on TFSA balances, or income limits on TFSA eligibility could sharply reduce the scheme’s revenue cost, depending on the specifics. Those types of reforms would also reduce the cost impact on GIS and OAS programs, but more targeted reforms to limit the immunity of benefit program income tests from TFSA would be more effective for that purpose. Permitting PRPPs to offer TFSA should have a small revenue impact because of these plans’ immaturity and the potential diversion of PRPP contributions from the tax-deferred option.

DISCUSSION AND CONCLUSION

The TFSA scheme has proved highly popular and has served some of the key objectives initially identified for a TPSP, such as enabling individuals to engage in efficient and lifetime equitable saving and restoring saving incentives for lower earners. At the same time, significant deficiencies in the original TFSA formulation have emerged, and these problems will be exacerbated by the 2015 hike to contribution limits. The present analysis provides strong evidence that the pre-existing $5,500 limit was more than adequate for the great majority of those eligible to have a TFSA; by 2013, only 1 out of 15 eligible individuals had maximized his or her cumulative limit. The rates of maximizing TFSA limits were low and rapidly declining for all groups except those at the highest income levels and, to a lesser extent, older persons. Individuals in the lower age and income groups had the lowest TFSA participation and maximization rates. Only 1 out of 60 eligible individuals aged 18-29 had maximized his or her TFSA limit by 2013. And at that time 3 out of 5 eligible Canadians had not even opened an account.

Various impacts of TFSA have already become evident in the data, and all will become more acute over future years. The gains from TFSA are already going disproportionately to high earners and large wealth holders, and the near-doubling of TFSA limits in 2015 would steepen this pro-rich tilt. However, the large share of gains reaped by moderate-income seniors to date is a transitory effect reflecting the short time that TFSA have been operating. The TFSA bias favouring seniors, like that more generally favouring the wealthy, can be seen from the evidence to be the result of asset shifting and income splitting more than net new saving. Motivations include both tax minimization and maximization of access to benefits such as public pensions.
The impacts of TFSA\textsuperscript{s} on public finances are already emerging and will grow sharply over time. TFSA\textsuperscript{s} are in the process of changing the face of taxation in Canada by removing increasing amounts of financial income beyond the personal income tax net. The early impacts on federal and provincial revenues are small but growing ineluctably, and they will deprive both levels of government of billions of dollars per year well before mid-century. Personal tax progressivity at both government levels will also be increasingly compromised by TFSA\textsuperscript{s}. The unfettered immunity of TFSA\textsuperscript{s} from the income tests of various federal benefit programs and tax provisions will increase their revenue costs and raise questions about effective benefit targeting.

The TFSA\textsuperscript{'}s deficiencies can be addressed by various reform options, which are canvassed in this study. The clearest recommendation is that the hike in the TFSA limit should be reversed and the $5,500 annual limit with indexation restored. This change would contain both the scheme\textsuperscript{'}s growing revenue cost and the degree of skew favouring high income earners and high wealth holders, who over the long run would be the biggest gainers from the higher limits. To give individuals who have not exhausted their RRSP room greater flexibility, an option to trade off unused RRSP room for additional TFSA contribution room could be introduced; this option would also be available for seniors beyond age 71, who are barred from making further RRSP contributions. With these changes, any additional TFSA access would be confined to those who have not already made maximum use of RRSPs. TFSA\textsuperscript{s} should also be permitted within PRPPs to give moderate earners an appropriate and efficient saving option.

Without further restrictions, some TFSA\textsuperscript{s} would still grow to be extremely large. In less than seven years, some TFSA\textsuperscript{s} have already exceeded $500,000 and even $1 million, through investor skill, leverage, and luck. To forestall these outcomes—which will become both larger and more common with the passage of years—limits could be placed on an individual\textsuperscript{'}s lifetime TFSA contributions, maximum TFSA balances, and/or incomes for TFSA eligibility. In addition, given the substantial sums that some TFSA\textsuperscript{s} will nevertheless accumulate, rules that limit TFSA immunity from the income tests of benefit and tax provisions need to be established. If these rules are not instituted now, many savers will be acting on false expectations about their future access to public benefits intended for individuals with low and moderate incomes, since some form of restrictions will inevitably be applied at some point.

With appropriate reforms, the TFSA could realize its full potential as a flexible scheme providing individuals with efficient options for their short-term and retirement saving needs. Along with the tax-deferred schemes, TFSA\textsuperscript{s} enable more equitable lifetime taxation of high and low savers at any given level of lifetime earnings. These goals can be achieved without undue bias favouring high earners and wealth holders and within acceptable revenue costs. Resetting the annual contribution limit is only the first step in reforming the TFSA; other companion reforms need to be pursued with equal urgency.