

## Update of PBO's Tax-Free Savings Account Analysis

Budget 2015 proposes to increase the annual contribution limit on the Tax-Free Savings Account (TFSA) program beginning in the 2015 tax year, from \$5,500 to \$10,000.<sup>1</sup> Unlike tax years prior to 2015, this amount would not be indexed to inflation in \$500 increments.

TFSA fiscal and distributional effects were examined by the PBO in a [February 2015 report](#). This analysis updates those past PBO estimates for proposed Budget 2015 changes.<sup>2</sup>

### Fiscal Impact

Under the proposed rules, PBO estimates that TFSA program costs will roughly double in four years' time, measured as a share of the economy (Figure 1). As is the case for the existing program, fiscal impacts would be split between foregone revenues and increased transfer benefits payable for both the federal government (two-thirds) and provinces (one-third).

Proposed changes would account for \$550 million, or roughly 20 per cent of the estimated fiscal impact in 2019-20.<sup>3</sup> PBO projections of the incremental federal fiscal

impact of proposed changes are broadly consistent with the government's fiscal estimates in Budget 2015 for the period 2015-16 through 2019-20 (Figure 2).

**Figure 1: TFSA medium-term fiscal impact**

\$ millions

	2015- 2016	2016- 2017	2017- 2018	2018- 2019	2019- 2020
Total	1,440	1,900	2,320	2,740	3,150
<i>Federal</i>	970	1,260	1,540	1,830	2,090
<i>Provincial</i>	480	640	780	920	1,060
% of GDP	0.07	0.09	0.10	0.12	0.13

Source: Parliamentary Budget Officer.

Note: Inclusive of the changes proposed in Budget 2015. Fiscal year basis.

**Figure 2: Incremental fiscal impact of Budget 2015 changes to the TFSA program: medium term**

\$ millions

	2015- 2016	2016- 2017	2017- 2018	2018- 2019	2019- 2020
PBO total	80	210	320	450	550
<i>Federal</i>	50	140	210	300	370
<i>Provincial</i>	30	70	110	150	180
% increase from status quo	5	12	16	20	21
Budget 2015					
<i>Federal</i>	85	160	235	295	360
<i>Provincial</i>	-	-	-	-	-

Sources: Parliamentary Budget Officer, Budget 2015.

Note: Exclusively the changes proposed in Budget 2015. Fiscal year basis.

<sup>1</sup> Budget 2015, p. 232.

<http://www.budget.gc.ca/2015/docs/plan/budget2015-eng.pdf>.

<sup>2</sup> A discussion of PBO methods and assumptions begins on p. 1 of *The Tax-Free Savings Account*, February 2015. [http://www.pbo-dpb.gc.ca/files/files/TFSA\\_2015\\_EN.pdf](http://www.pbo-dpb.gc.ca/files/files/TFSA_2015_EN.pdf).

<sup>3</sup> Analysis of status quo fiscal estimates begins on p. 9 of *The Tax-Free Savings Account*, February 2015.

PBO also projects that the proposed changes would increase the long-term fiscal impact of the TFSA by roughly one-quarter on average, though the incremental contribution limit increase is estimated to have a diminishing relative fiscal impact over time (Figures 3 and 4). The long-term total fiscal impact of the TFSA is estimated to be roughly proportional to the current federal fiscal impact of Registered Retirement Savings Plans.<sup>4</sup>

**Figure 3: TFSA long-term fiscal impact**

\$ billions							
	2020	2030	2040	2050	2060	2070	2080
Total	3.4	13.5	26.9	44.4	63.6	93.9	132.0
Federal	2.3	9.0	17.9	29.4	42.2	62.2	87.2
Provincial	1.2	4.5	9.1	15.0	21.5	31.7	44.7
% of GDP	0.14	0.40	0.56	0.64	0.64	0.66	0.65

Source: Parliamentary Budget Officer.

Note: Inclusive of the changes proposed in Budget 2015. Tax year basis.

**Figure 4: Incremental fiscal impact of Budget 2015 changes to the TFSA program: long term**

\$ billions							
	2020	2030	2040	2050	2060	2070	2080
Federal	0.4	2.1	3.8	5.7	6.4	8.5	10.7
Provincial	0.2	1.0	1.9	2.9	3.2	4.2	5.4
Total	0.6	3.1	5.7	8.6	9.5	12.7	16.1
% increase from status quo	22	27	27	24	18	16	14

Sources: Parliamentary Budget Officer.

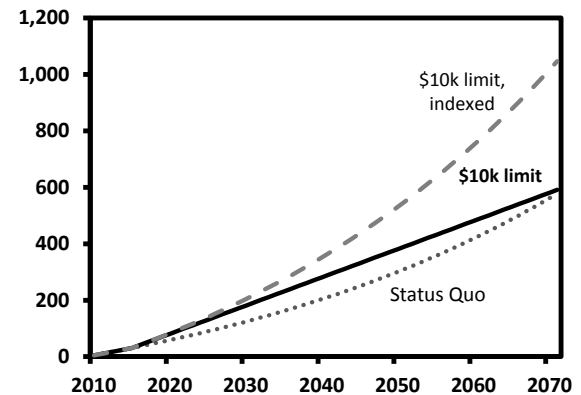
Note: Exclusively the changes proposed in Budget 2015. Tax year basis

With 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. In addition, the annual increment above

the status quo will be reduced by inflation over time (Figure 5).

**Figure 5: Illustrative example of cumulative contribution room under various TFSA rules**

\$ thousands, per person



Source: Parliamentary Budget Officer.

Note: This graphic illustrates TFSA contribution room for an individual aged 18 or over in 2009. It is intended to illustrate the effect of proposed changes to the annual TFSA contribution limit and indexation rules.

## Distributional Impact

The distributional effects of the TFSA program were also examined by the PBO in February 2015. Changes proposed in Budget 2015 would not materially affect PBO's estimated distributional profile, when measured by income.

Current TFSA benefits are balanced, though long-term outcomes would become increasingly regressive by income. Middle- and middle-high income groups are projected to receive the largest gains over the long term (Figure 6).<sup>5</sup>

<sup>4</sup> Measured in percentage of Gross Domestic Product (GDP). <http://www.fin.gc.ca/taxexp-depfisc/2014/taxexp-depfisc14-eng.pdf>.

<sup>5</sup> Analysis of status quo distributional effects begin on p.11 of *The Tax-Free Savings Account*, February 2015.

**Figure 6: Distribution of TFSA benefits, by income**

Per cent of after-tax income

	2015	2030	2045	2060	2075
Lowest	0.1	0.4	0.6	0.6	0.5
	0.2	1.0	1.5	1.6	1.5
Median	0.2	1.3	2.0	2.1	2.0
	0.2	1.2	1.9	2.0	2.0
Highest	0.1	0.9	1.5	1.6	1.7

Source: Parliamentary Budget Officer.

Note: Inclusive of the changes proposed in Budget 2015.

**Figure 7: Distribution of TFSA benefits, by income**

\$ billions

	2015	2030	2045	2060	2075
Lowest	0.0	0	1	1	2
	0.2	1	4	7	12
Median	0.3	3	8	14	23
	0.4	4	10	18	31
Highest	0.5	5	13	24	44

Source: Parliamentary Budget Officer.

Note: Inclusive of the changes proposed in Budget 2015.

Irrespective of new changes, high wealth and older households are projected to receive relatively larger benefits than lower net worth, younger counterparts. The contribution limit increases proposed in Budget 2015 would accentuate these distributional disparities. By 2045, high wealth households are projected to gain 2.3 per cent of income, as compared to 1.7 per cent under the status quo (Figure 8). Low- through middle-wealth households are not projected to be materially affected by the proposed changes.

**Figure 8: Distribution of TFSA benefits, by wealth**

Per cent of after-tax income

	2015	2030	2045	2060	2075
Lowest	0.1	0.2	0.3	0.2	0.2
	0.2	0.8	1.0	1.0	0.9
Median	0.2	0.9	1.4	1.3	1.2
	0.2	1.1	1.8	1.8	1.7
Highest	0.2	1.4	2.2	2.6	2.8

Source: Parliamentary Budget Officer.

Note: Inclusive of the changes proposed in Budget 2015.

**Figure 9: Distribution of TFSA benefits, by wealth**

\$ billions

	2015	2030	2045	2060	2075
Lowest	0.1	0	0	1	1
	0.2	1	3	5	8
Median	0.3	2	6	9	15
	0.3	4	9	16	26
Highest	0.5	6	17	33	61

Source: Parliamentary Budget Officer.

Note: Inclusive of the changes proposed in Budget 2015.