A Case Study on Higher Taxes

Tax rates are going up in Canada for the wealthy and the moderately wealthy. This has a significant impact on after-tax investment return when Avenue does retirement projections for many of our clients. It is an obvious statement but one we haven't had to formally address because for the most part the previous federal conservative government had spent the last ten years lowering various tax rates. This is important because we need to make sure we use realistic expectations for planning retirement income.

Who are the wealthy Canadians being targeted? The numbers tell us that they are the top 10% of the population. In Canada the top 10% own roughly 35% of the total value of investments and property. What is interesting is that the average wealth of the top 10% is $1.3 million from combined savings and real estate. So by way of higher house prices and moderate savings, most people who live in Canadian urban centers are in the top 10%.

With provincial Liberal governments in BC and Ontario plus the new Liberal government in Ottawa, overall taxes are up 2% to 6% in many cases for 2016 income. Alberta is going through a transformational change with the new provincial NDP government. In one year, Alberta's taxes went from being the lowest income taxes in the country to closer to the Canadian average.

Taxable income for most retired Canadians is a combination of Old Age Security (OAS), Canadian Pension Plan (CPP), Private Pension payments, RRIF withdrawals and investment interest income. Higher tax brackets start at about $60,000 of income per individual. Thankfully, mandatory RRIF withdrawals were lowered last year and income splitting for seniors will remain for the time being.

Moving the overall tax rate by a few percentage points doesn't sound like much. However, planning a 30 year retirement can be very sensitive to the after-tax rate of return on investments. We would encourage all our clients who are interested to check in with us if you would like to work through an up-to-date financial model to calculate what an appropriate level of spending might be.

As for the cost of living and how much you can buy with your savings, we will save that for another Case Study. Higher HST or GST anyone?