

Why your lack of knowledge about taxes is hurting your pocketbook

Jamie Golombek: A new report says older and more educated individuals were found to have a greater knowledge of the tax system, while lower income groups had less knowledge



[JAMIE GOLOMBEK](#)

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Do you have to pay tax on a mystery novel? What about a dental check-up? If two couples earn \$100,000 in combined income, but Couple A's income is entirely earned by one spouse while couple B's income is equally earned by each partner, which, if either couple, will face a higher tax bill?

These were some of the questions posed in a general survey of 1,000 Quebecers, the results of which were analyzed and published this week in a C.D. Howe report, "The Knowledge Deficit about Taxes: Who It Affects and What to Do About It."

The report's authors, Antoine Genest-Grégoire, Luc Godbout and Jean-Herman Guay, all from the Université de Sherbrooke, surveyed Quebecers on their tax literacy and offer practical advice on how to close the so-called tax knowledge gap.

"While the survey was conducted in Quebec, the lessons learned can be applied across the country," Genest-Grégoire said in a release.

The authors measured knowledge and skills around personal income tax, sales tax (such as GST/HST) and social transfers, and concluded there are three main characteristics that best predict tax literacy: age, family income and level of education.

Perhaps not surprisingly, older and more educated individuals were found to have a greater knowledge of the tax system, while lower income groups had less knowledge.

In addition, individuals who took an active role in preparing their own tax returns (37 per cent), rather than handing the job off to a tax preparer or accountant,

generally had a better grasp of tax concepts. The study also found that women seem to consistently underestimate their knowledge of tax.

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

For low-income earners, who are generally unable to afford professional tax help, a lack of knowledge lessens the take-up of government social programming.

The authors also found that a lack of knowledge is associated with lower trust levels in the tax system, which, in turn, can lead to higher rates of tax avoidance or even tax evasion, which increases the tax burden for all Canadians.

The report has a number of recommendations on how governments can help create an overall higher level of understanding of taxes.



First, it suggests governments publish more information aimed at seniors and the various programs that target them.

A 2010 paper authored by Richard Shillington at the request of the Task Force on Financial Literacy estimated that roughly 160,000 eligible seniors do not receive the Old Age Security benefit (representing almost \$1 billion in pre-tax benefits), and about 150,000 eligible seniors do not receive the Guaranteed Income Supplement.

Approximately 55,000 eligible Canadians are not receiving Canada Pension Plan benefits to which they are entitled.

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

Finally, the report suggested government establish auto-enrolment to increase participation in social programs such as the underutilized Canada Learning Bond (CLB) program, which offers grants to low-income parents who open Registered Education Savings Plan accounts for their kids.

The CLB program can reach a total value of \$2,000 per child toward higher-education payments without the parents ever having to contribute their own money.

The program reaches just 32 per cent of the families it seeks to help, while a British equivalent has a take-up rate of nearly 100 per cent due to automatic enrolment.

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

Curious how you’d do on the C.D. Howe survey? You can see all 12 questions in **the survey, along with the correct answers and the percentage of Quebecers who got the answers right in the report’s appendix.**

But, rather than keep you in too much suspense, here are the answers, results and explanations of the three questions posed at the beginning.

Do you have to pay tax on a mystery novel?

Yes, but you only have to pay the 5-per-cent federal GST portion. All provinces except Newfoundland and Labrador exempt books from provincial sales tax or the provincial portion of the HST. Only 21 per cent of survey respondents got that one right.

What about dental check-ups?

Dental exams are free from sales tax in all provinces in Canada, yet just 32 per cent of Quebecers knew the correct answer to that one.

If two couples earn \$100,000 in combined income, but Couple A’s income is entirely earned by one spouse while couple B’s income is equally earned by each partner, which, if either couple, will face the higher tax bill?

Couple A will face the higher tax bill due to the progressive nature of our tax system, where the higher your income, the higher your tax bracket.

For example, assuming only the basic personal and spousal or partner amounts and no other deductions or credits, couple A, living in, say, Ontario, would have paid \$23,563 in 2016 total federal and provincial tax while Couple B’s tax bill would be a combined \$18,010.

Only 32 per cent of Quebecers got the answer to this one right while 24 per cent said they simply didn't know.

Jamie Golombek, CPA, CA, CFP, CLU, TEP is the managing director, Tax & Estate Planning with CIBC Wealth Strategies Group in Toronto. Jamie.Golombek@cibc.com