

Investment income of Canadians

Jason Siroonian

In 1990, more than 9.5 million Canadians, or just over one-half of all taxfilers, reported interest, dividends or both. The total amount they obtained from these sources surpassed \$39 billion and accounted for 13% of their total income.

Investments commonly produce a stream of income. For example, Regular Interest Canada Savings Bonds dispense interest annually to the owner over the lifetime of the bonds. As well, holders of corporate stocks generally receive dividends.

In addition, the value of some investments may increase or decrease over time. For these investments, the difference between the purchase and selling prices results in what is known as a capital gain or loss. The following analysis, however, does not consider capital gains or losses but focuses instead on interest and dividends, which are referred to as investment income (See [Definitions and data source](#)).

Interest and dividends in the 1980s

During the 1980s, reported interest income was related to interest rates ([Chart A](#)). In 1981 and 1982, when interest rates were exceptionally high, investors received more interest income than they did in the mid-1980s, when interest rates were comparably lower. After 1987, in tandem with rising interest rates, interest income steadily climbed till the end of the decade.



Chart A For most of the 1980s, interest and dividend income generally moved in tandem.

Source: Small Area and Administrative Data Division

Similar to interest income, dividends reported during the 1980s were-for the most part-also associated with interest rates.

Older Canadians and investment income

In 1990, Canadians 75 years and over had the highest median investment income (\$4,450) of all age groups ([Chart B](#)). This income was almost five times that of 45 to 54 year-olds (\$900), and nearly fifteen times more than the median for individuals under 25 (\$300). As a result, taxfilers 75 and over received 20% of all investment income, although they accounted for only 9% of recipients.



Chart B Investment income increased with age in 1990.

Source: Small Area and Administrative Data Division

Note: The population includes only taxfilers reporting investment income.

Both the median investment income and the proportion of taxfilers who received this type of income increased with age ([Table 1](#)). In 1990, 81% of taxfilers 75 and over had investment income compared with 27% of taxfilers under 25.



Table 1 Taxfilers reporting interest and dividends, by age and income, 1990

Source: Small Area and Administrative Data Division

High-income recipients are major investors

There exists a positive relationship between median investment income and total income. However, the level of investment income of some lower income groups rivals those with middle to high incomes. For example, individuals reporting investment income with total incomes between \$10,000 and \$19,999 had a median investment income of \$1,050, almost the same as the amount received by taxfilers with incomes of \$60,000 to \$69,999 (\$1,150). The high investment income reported by taxfilers with low total incomes reflects the presence of elderly individuals in these income groups.

Nonetheless, total income is still a major determinant in the distribution of investment income. Of all taxfilers reporting investment income, only 2% had total incomes over \$100,000. This small group received approximately 19% of all investment income (\$7.4 billion), and their median investment income was \$7,200, the highest of all groups.

For taxfilers with incomes of \$100,000 or more, investment income, on average, accounted for a substantial share (20%) of their total income ([Chart C](#)). Although less in nominal value, investment income also constituted an important share of the total income of some low-income recipients. [\(1\)](#)



Chart C **Some lower-income recipients relied heavily on investment income in 1990.**

Source: Small Area and Administrative Data Division

Note: The population includes only taxfilers reporting investment income.

A preference for interest

In 1990, interest income was widespread. Almost all taxfilers reporting investment income (98%) received interest ([Table 1](#)). Furthermore, interest made up the bulk (83%) of the \$39 billion of investment income reported in 1990.

As a proportion of investment income, interest income varied by age and total income ([Chart D](#)). Nonetheless, interest was the main source of investment income for all groups.



Chart D **In 1990, the proportion of dividends reported...**

Source: Small Area and Administrative Data Division

Note: The population includes only taxfilers reporting investment income.

Dividend income

Whereas interest income is widespread, dividend income is not. As total income increases, taxfilers are more likely to report dividend income ([Table 1](#)); thus, dividends are largely reported by high-income recipients. In 1990, taxfilers with total incomes of \$100,000 or more reported 44% of all dividend income.

Furthermore, as a proportion of investment income, dividends increased as total income rose ([Chart D](#)). There are several reasons for this phenomenon.

First, individuals with higher than average incomes are more likely to have discretionary income ([Owens, 1991](#)). Since discretionary income is money that can be spent freely, without affecting one's standard of living, it lends itself to higher-risk investments. On the other hand, individuals with little or no discretionary income tend to save their money, often in low-risk, interest-bearing financial instruments, such as bank accounts, Canada Savings Bonds and Guaranteed Investment Certificates (GICs).

Second, the difference between how interest and dividends are taxed may affect the investment decisions of high-income recipients ([Jenkins, 1989](#)). For example, while the Dividend Tax Credit reduces the tax paid on dividend income, no comparable credit exists for interest.

While total income and dividend income are clearly linked, the relationship between dividends and the age of the taxfiler is less straightforward. The share of investment income made up of dividends peaks among taxfilers aged 35 to 44 ([Chart D](#)). In 1990, dividends accounted for 28% of the investment income reported by taxfilers in this group. The data suggest that these taxfilers are somewhat less risk averse than others. However, of taxfilers aged 35 to 44 with investment income, only 16% reported dividends.

Women and investment income

Although nearly equal numbers of men and women reported investment income, the composition of this income was quite different. In 1990, interest income was fairly evenly distributed between men and women. This was not the case for dividends. Among dividend recipients, 57% were male and they received 65% of all dividends reported. For men, those dividends made up 22% of their investment income; for women, the figure was 12%.

Of taxfilers with investment income, women had a median total income of \$18,600 compared with \$31,500 for men. Since investment income is positively related to total income, one would expect women in general to have less investment income than men. However, in 1990, women's aggregate investment income (\$19.3 billion) was only marginally below that of men (\$19.8 billion). The phenomenon can be explained by women's longevity. [\(2\)](#)

Since wives generally outlive their husbands, the inheritance of their spouses' financial assets, in addition to their own, results in an increased level of investment income. This investment income, which in the past may have been divided and claimed on the tax forms of both spouses, or solely on the husband's, is

now claimed only by the widow ([Table 2](#)).



Table 2 **Income of unattached taxfilers by age and sex, 1990**

Source: Population includes only taxfilers reporting investment income.

In 1990, 45% of taxfilers reporting investment income aged 75 and over were unattached women (single, divorced or widowed). The comparable figure for unattached men is 12%.

Summary

Investment income is generally an important income source for the elderly and high-income recipients of all ages. However, the two groups differ considerably.

Taxfilers 75 years and over who reported investment income had a median total income of \$15,700, 43% of which, on average, was generated by investments. This investment income, in turn, consisted mostly of interest (90%). In contrast, investment income accounted for 20% of the total income of those earning \$100,000 or more and reporting investment income. Of this investment income, 40% was received in the form of dividends.

Investment income is of particular significance to elderly women. A longer life span, as compared with men, means that women spend a greater number of years depending on this source of income.

Definitions and data source

Interest income refers to the amount Canadians claimed on line 121 of the 1990 T1 tax return. This includes interest generated from bank deposits, Canada Savings Bonds, corporate bonds, treasury bills, annuities, mutual funds, life insurance policies and all foreign investment income. In 1990, total foreign investment income, which includes foreign dividends, represented only 1.5% of the total amount claimed on line 121. Due to the very small proportion of foreign dividends, the item is considered to be wholly interest.

The taxable amount of dividends from Canadian taxable corporations is reported on line 120 of the 1990

T1 return. This amount is adjusted downward so that dividend income refers to the amount received and not the taxable amount. Investment income is the sum of interest and dividends as defined above.

An individual with investment income may have reported interest, dividends or both. Of taxfilers reporting investment income in 1990, 85% had interest income only. Just 2% had dividend income only, and 13% had both. Therefore, 98% of taxfilers reporting investment income had interest income, whereas 15% had dividend income.

Total income represents the sum of a taxfiler's income from various sources before taxes. These sources of income include the following: gross income from employment less employment deductions and other allowable deductions, net income from self-employment, gross pension income, government transfer payments (for example, the Federal Sales Tax Credit and the Child Tax Credit) and income from other sources (for example, Unemployment Insurance benefits and investment income). Taxable capital gains are not included in the calculation of total income.

Just over 50% of taxfilers reported investment income. One reason for this seemingly low proportion may be that individuals with low levels of interest income do not report it on their income tax return. Since information slips are not prepared for all recipients (for example, those with interest income less than \$100 are often excluded), some taxfilers may mistakenly conclude that they need not report this income.

Median versus mean income

For a group of individuals, the mean income, commonly referred to as the average income, is calculated by summing their total incomes and then dividing by the number of individuals. In contrast, median income is determined by sorting the list of total incomes in order of magnitude. The middle figure in the list is the median.

For the analysis of personal income and, specifically, investment income, medians were chosen as representative measures. Averages were not used for the following reason. The presence of a few extremely high or low values in a range of figures being averaged will significantly pull the average towards these outliers. In other words, a few individuals with very high incomes tend to bias the average upwards and overstate the true situation for the majority of individuals in the group. The median, however, is unaffected by the presence of outliers at both ends of the distribution and is therefore a more representative measure. In 1990 for example, \$4,119 was the average amount of investment income reported by taxfilers with this income. On the other hand, the median amount was only \$850.

Data on interest and dividends reported in this article were retrieved from the T1 Family File produced by the Small Area and Administrative Data Division of Statistics Canada. This file also contains data on other types of investment income such as net limited partnership income, net rental income, and taxable capital gains. Data for provinces, cities and other sub-provincial areas are also available. For further information on the T1 Family File, contact the Small Area and Administrative Data Division of Statistics Canada at (613) 951-9720.

Notes

Note 1

Since the likelihood of reporting investment income was positively related to total income, a smaller proportion of lower-income taxfilers reported investment income than did higher-income taxfilers. Only 40% of taxfilers with total incomes under \$20,000 reported investment income as compared with 92% of taxfilers with incomes of \$100,000 or more.

Note 2

Among married couples, the wife generally outlives her husband. "In fact, half of all marriages end with the death of the man while only one-fifth end with the death of the woman. Beyond the fact that most wives outlive their husbands, grooms are, on average, two and one-half years older than their brides. It should not be surprising, then, that the 'average' woman (which includes all women, widowed or not) spends four times longer in the widowed state than does the average man - 8 years versus 2 years" ([Adams and Nagnur](#), 1988).

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Author

Jason Siroonian is with the Labour and Household Surveys Analysis Division of Statistics Canada.

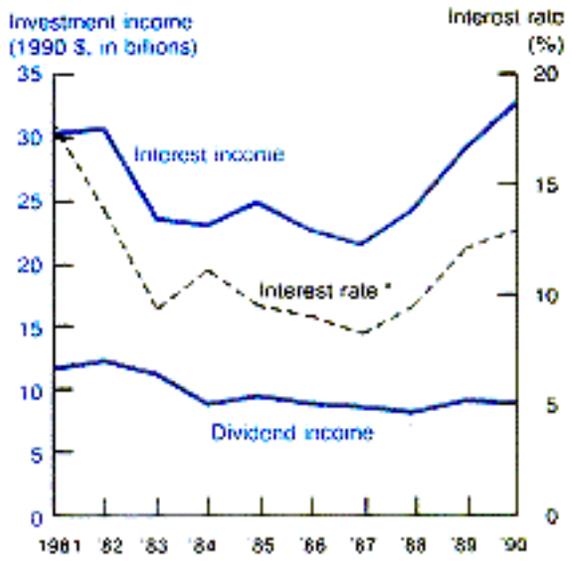
Source

Perspectives on Labour and Income, Summer 1993, Vol. 5, No. 2 (Statistics Canada, Catalogue 75-001E). This is the sixth of seven articles in the issue.



Chart A

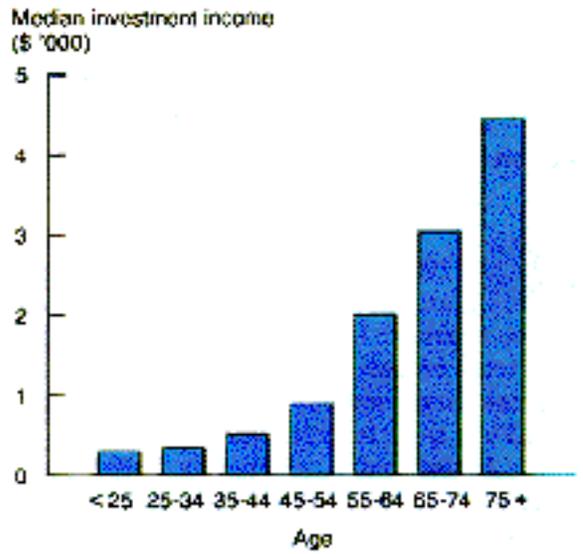
For most of the 1980s, interest and dividend income generally moved in tandem.



Source: Small Area and Administrative Data Division
* 90-day treasury bill rate, annual average

Chart B

Investment Income Increased with age in 1990.



Source: Small Area and Administrative Data Division
Note: The population includes only taxfilers reporting investment income.

Table 1

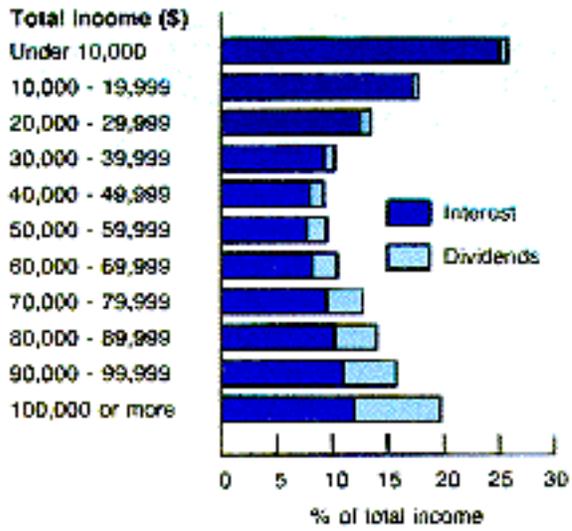
Taxfilers reporting interest and dividends, by age and income, 1990

	All taxfilers		Taxfilers reporting investment income		
		Total	Proportion of all taxfilers	Proportion reporting interest	Proportion reporting dividends
				%	
	'000				
Total	18,450	9,511	52	98	15
Age					
Less than 25 years	2,717	742	27	98	6
25-34 years	4,600	1,784	39	97	11
35-44 years	3,992	2,003	50	97	16
45-54 years	2,579	1,561	61	98	19
55-64 years	1,991	1,397	70	99	19
65-74 years	1,563	1,209	77	100	16
75 years and over	1,010	815	81	100	16
Total income					
Less than \$10,000	4,705	1,503	32	99	6
\$10,000 - 19,999	4,919	2,392	49	99	8
\$20,000 - 29,999	3,443	1,930	56	98	12
\$30,000 - 39,999	2,334	1,440	62	98	16
\$40,000 - 49,999	1,387	937	68	97	21
\$50,000 - 59,999	748	547	73	96	28
\$60,000 - 69,999	366	285	78	96	34
\$70,000 - 79,999	180	147	82	96	40
\$80,000 - 89,999	101	85	85	96	44
\$90,000 - 99,999	62	54	87	97	47
\$100,000 and over	206	191	92	97	56

Source: Small Area and Administrative Data Division

Chart C

Some lower-income recipients relied heavily on investment income in 1990.



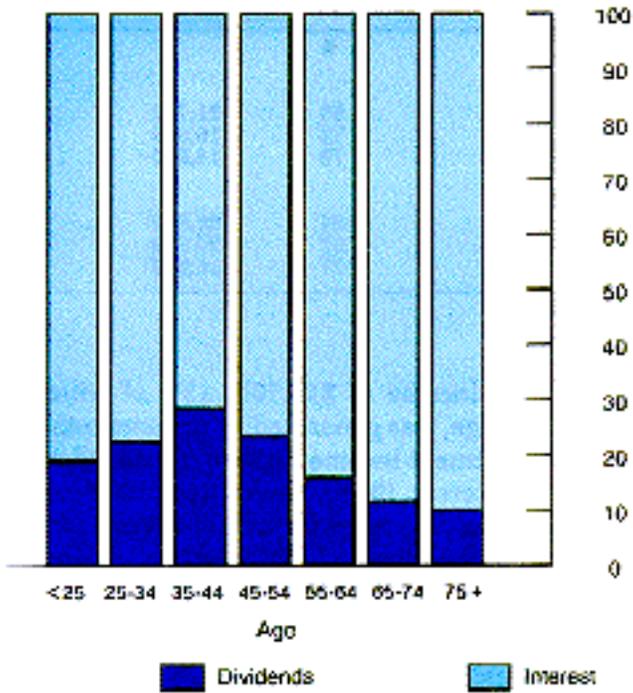
Source: Small Area and Administrative Data Division

Note: The population includes only taxfilers reporting investment income.

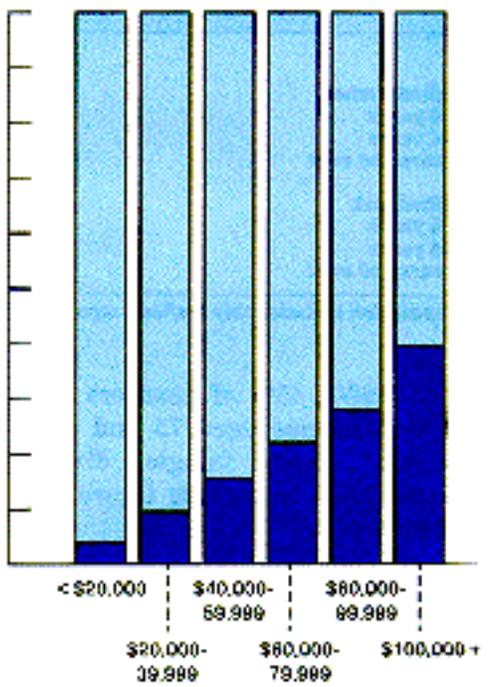
Chart D

In 1990, the proportion of dividends reported...

... peaked for 35 to 44 year-olds.



... increased with total income.



Source: Small Area and Administrative Data Division

Note: The population includes only taxpayers reporting investment income.

Table 2

Income of unattached taxfilers by age and sex, 1990

	All taxfilers		Taxfilers reporting investment income		
		Total	Proportion of all taxfilers	Median total income	Median investment income
		'000	%	\$	
Unattached women					
55-64 years	259	163	63	21,700	2,350
65-74 years	391	288	74	16,800	3,100
75 years and over	465	365	78	14,500	4,400
Unattached men					
55-64 years	169	91	54	28,200	2,150
65-74 years	139	93	67	20,900	2,950
75 years and over	122	94	77	16,600	4,550

Note: Population includes only taxfilers reporting investment income.