

Honest and constructive social policy discourse requires clarity and consistency in the use of poverty measures. It is clearly the case that many people are concerned about absolute poverty—even in fairly rich countries such as Canada. There are hungry people in Canada. There are households that lack some of the basic necessities of life. It is important to measure the number of people who are in that situation, and track that number over time to see if we are making any progress in reducing absolute poverty.

This does not preclude the use of relative measures as well. However, if a common perception of poverty is one of serious deprivation, then we should at least measure that. Indeed, as mentioned in a previous article in *Fraser Forum* (Sarlo, 2008a), Canada made a firm commitment in 1995 (as part of the Copenhagen declaration) to both measure and eradicate absolute poverty. But apparently, 13 years later, we have done nothing to keep that commitment.

References

- Broadbent, Ed (1989). Speech recorded in the House of Commons Hansard, November 24, 1989. p. 6173–75.
- Gordon, D., and P. Townsend (2000). *Breadline Europe: The Measurement of Poverty*. The Policy Press, Bristol, UK, 465
- Ross, D., and R. Shillington (1989). *Canadian Fact Book on Poverty*. Canadian Council on Social Development.
- Sarlo, C. (2001). *Measuring Poverty in Canada*. Fraser Institute.
- Sarlo, C. (2006). *Poverty in Canada: 2006 Update*. Fraser Alert. Fraser Institute.
- Sarlo, C. (2007). Measuring Poverty – What Happened to Copenhagen? *Journal of the Institute of Economic Affairs* 27, 3 (September): 6–14.
- Sarlo, C. (2008a). Measuring Poverty in Canada. *Fraser Forum* (February): 11–12.
- Sarlo, C. (2008b). *What is Poverty? Providing Clarity*. Fraser Alert. Fraser Institute. ■

Income taxes just a fraction of Canadians' total tax bill

Niels Veldhuis and
Milagros Palacios

As we come to the end of another tax season, some Canadians will be eagerly awaiting an unexpected refund, while others will be frustrated by having to dig deep to pay an amount owing. For most Canadians, regardless of unexpected refunds or balances owing, the tax deadline provides a sobering reminder of just how much income tax they paid last year.

Of course, there are many of us who happily pay our income tax, thinking of the numerous government programs that our tax dollars finance: health, education, the military, etc. But the question all Canadian taxpayers must answer for themselves is whether or not we are getting our money's worth for the taxes we pay. To answer this question, we need an accurate picture of our total tax bill. For this, we must look well beyond our income tax returns.

The reality is that income taxes form only a portion of the total tax bill imposed on us by Canadian governments—federal, provincial, and local. In 2007, the average Canadian family consisting of two or more people earned approximately \$83,775 in income, and paid \$13,510 in income taxes, representing 16.1% of their income (table 1). While personal income taxes are the single largest tax Canadians pay, they represent only about one-third of our total tax bill (figure 1).

Two other significant taxes that we deal with on our tax returns are the Canada Pension Plan (CPP)—Quebec Pension Plan if you're a resident of *la belle province*—and Employment Insurance (EI). For one reason or another, we are forced to prove that we paid the correct amount of CPP and EI at income tax time. In addition, residents of British Columbia, Alberta, Ontario, and Quebec also pay health care taxes through either direct premiums or payroll taxes. All told, the average Canadian family paid some \$8,045 in CPP, EI, and health taxes in 2007. Payroll taxes are second only to income taxes as the single largest government levy.

There are two other relatively visible taxes that we pay, but thankfully not at the same time as our income tax bill: property taxes and sales taxes. The average Canadian family paid about \$2,800 in property taxes in 2007. One of the common misconceptions is that only homeowners pay property taxes. The truth of the matter is that property taxes for renters are included in their monthly rent, so in one way or another we all pay property taxes. For homeowners, at least the cost of property taxes is transparent since we each receive an annual bill.

Sales taxes are visible whenever we make a purchase upon which the tax is applied. However, calculating the amount of sales taxes paid is difficult in that it requires people to track all of their purchases of taxable goods and services. Our estimates indicate that

the average Canadian family pays about \$6,070 a year in sales taxes, representing almost 16% of their total tax bill.

In addition to personal income taxes, payroll taxes, property taxes, and sales taxes, which are all visible to a certain degree, there are a host of taxes that we pay but do not see. For instance, profit taxes amounting to approximately \$3,440 in 2007 were assessed indirectly on average Canadian families. Taxes on liquor, tobacco, and amusement amounted to \$2,320 for the average Canadian family, while automobile and gas taxes totalled about \$975. Finally, average Canadian families were assessed about \$320 in import duties in 2007, another cost which is not easily discernable.

Summed up, the average Canadian family faced a tax bill of \$38,992 in 2007 against income of \$83,775. The total taxes imposed on the average Canadian family consumed 46.5% of income. In other words, average Canadian families hand over nearly half of their income to Canadian governments.

It is critical that Canadians understand that the taxes delineated on our income tax returns represent less than half of our total tax bill. Understanding our total tax bill will enable each of us to better assess whether or not we, as taxpayers, are receiving value for our money. Our hope is that this understanding will lead to more pressure for real and meaningful tax relief for Canadians in the future. At the very least, we should be able to hold our politicians much more accountable for the resources they extract from us.

Reference

Palacios, Milagros, and Niels Veldhuis (2007). *Canadians Celebrate Tax Freedom Day on June 20*. Fraser Institute. <http://www.fraserinstitute.org/commerce.web/publication_details.aspx?pubID=4531>. □

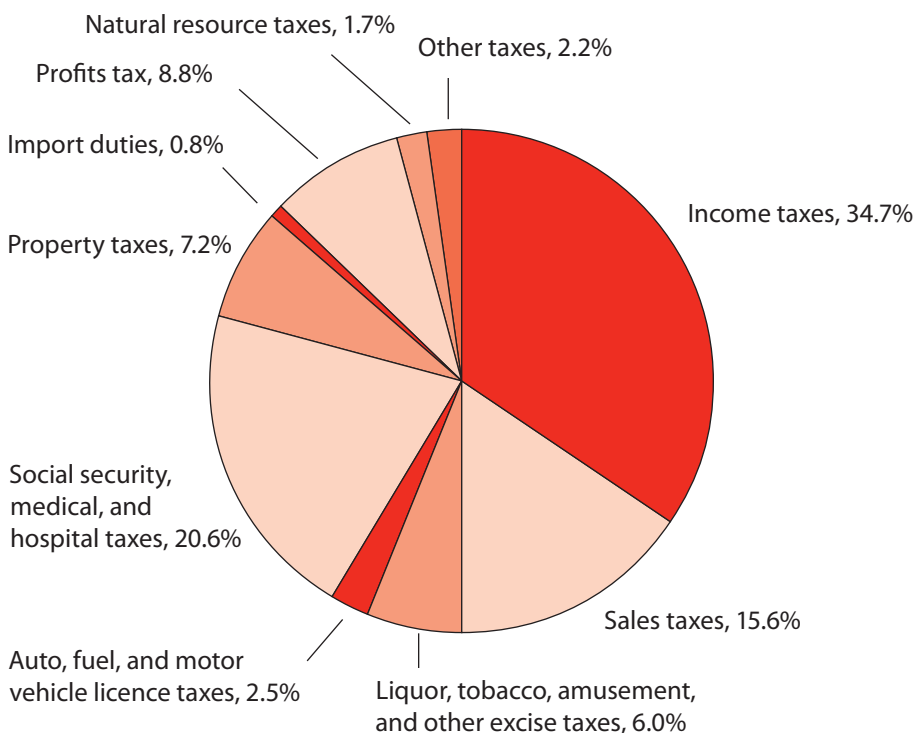
Table 1: Tax bill of the average Canadian family (two or more individuals), 2007

Total cash income	83,775
Taxes	
Income taxes	13,513
Sales taxes	6,069
Liquor, tobacco, amusement & other excise taxes	2,321
Auto, fuel & motor vehicle licence taxes	975
Social security, medical & hospital taxes	8,045
Property taxes	2,801
Import duties	317
Profits tax	3,440
Natural resource taxes	658
Other taxes	853
Total taxes	38,992
Taxes as a percentage of cash income	46.5%

Note: Tax and income calculations for 2007 are preliminary and subject to revision when final tax revenue and income data become available.

Source: The Fraser Institute's Canadian Tax Simulator, 2007.

Figure 1: Breakdown of the average Canadian family's total tax bill, 2007



Note: Tax and income calculations for 2007 are preliminary and subject to revision when final tax revenue and income data become available.

Source: The Fraser Institute's Canadian Tax Simulator, 2007.