Glossary of Principal Terms, Measures, and Concepts

Indices

(1) ***Index*** is a method of measuring the percentage changes from a base year of a certain item, such as the price, volume, or value of food or the dollar amount of taxes. In order to construct an index, the price, volume, or value of the particular item being indexed in each year is divided by the price, volume, or value of the item in the base year; it is then multiplied by 100. An index has a value of 100 in the base year. In this book, the base year is 1961.

(2) ***Consumer Price Index*** measures the percentage change from a base year in the cost of purchasing a constant "basket" of goods and services representing the purchases by a particular population group in a specified time period. The *Consumer Price Index* (CPI) reflects price movements of some 300 items. The CPI is calculated monthly by *Statistics Canada* (see below).

(3) ***Consumer Tax Index*** measures the percentage change from a base year in the average Canadian family's tax bill. The Consumer Tax Index (CTI) is composed of federal, provincial, and municipal taxes. The CTI, calculated by The Fraser Institute, was introduced by the Institute for the first time in the first edition of *Tax Facts*, which was entitled *How Much Tax Do You Really Pay?*

(4) ***Balanced Budget Tax Index*** is the same as the *Consumer Tax Index* except that also included in the calculation is the amount of tax that

would have to be raised if governments did not issue debt and were, in fact, balancing their budgets. This index was introduced by The Fraser Institute for the first time in the second edition of the *Tax Facts* series, *Tax Facts: The Canadian Consumer Tax Index and You*.

Statistical terms

(5) ***Average Canadian Family*** represents a family that had average income in a particular year. The averages were constructed from Statistics Canada's expenditure and income surveys, details of which appear in the bibliography.

(6) ***Family*** refers to a group of persons dependent upon a common or pooled income for their major expenditure items and living in the same dwelling. The term also applies to a financially independent unattached individual living alone.

(7) ***Family Expenditure Survey*** refers to the Statistics Canada surveys that show patterns of family expenditure for Canada by selected characteristics such as urban or rural area, family type, life cycle, income, age of head, tenure, occupation of head, education of head, country of origin and immigrant arrival year. This survey has been replaced by the Survey of Household Spending (see below).

(8) ***Shelter expenditure*** is included as one of the selected expenditure items in this book. It refers to expenditures on rented or owned living quarters or repairs to these quarters. Mortgage interest and principal payments on owned living quarters (both principal and interest) and expenditures on water and heating fuel are included. The definition of shelter changed beginning in the 1997 reference year; for more information on this change see Statistics Canada (2000).

(9) ***Social Policy Simulation Database and Model (SPSD/M)*** is a static microsimulation model that includes a database, a series of tax/transfer algorithms and models, analytical software and user documentation. The SPSD/M is a tool designed to analyze the financial interactions of governments with individuals and families in Canada. It allows estimation of the income redistributive effects or cost implications of changes in the personal taxation and cash transfer system.

(10) ***Statistics Canada*** is Canada's official statistical agency, often referred to as "StatsCan." Statistics Canada provided much of the published and unpublished data for this book. For a detailed listing of these sources, see *Government sources*, in References.

(11) ***Survey of Consumer Finances*** refers to the survey from Statistics Canada that gives details of the incomes and characteristics of families. Information is given on the incomes (from, *e.g.*, salaries, wages, and pensions) of the head of family and of the spouse, residence (*e.g.*, province, rural or urban), personal characteristics (*e.g.* family size, age and educational level of head and spouse), and labour-related characteristics (*e.g.* occupation, employment status). This survey has been replaced by the Survey of Labour and Income Dynamics (see below).

(12) ***Survey of Household Spending (SHS)*** is a household survey that collects information on how much money households across the country spend on various items such as food, shelter, clothing, entertainment, transportation, health care and other items. This survey includes households of all sizes, be it an individual or a family. The sample for this survey is approximately 24,000 households.

(13) ***Survey of Labour and Income Dynamics (SLID)*** is a longitudinal household survey conducted by Statistics Canada. It is designed to capture changes in the economic well-being of individuals and families over time and the determinants of their well-being. Individuals originally selected for the survey are interviewed once or twice per year for six years to collect information about their experiences in the labour market, income, and family circumstances. In order to obtain complete information on families and to obtain cross-sectional data, people who live with the original respondents at any time during the six years are also interviewed during the time of cohabitation. The sample for this survey is approximately 35,000 households.

Income concepts

(14) ***Cash income*** is the income that a family would report when completing a government survey, such as the Survey of Household Spending, the Survey of Labour and Income Dynamics, or the Census form. It includes income that one receives regularly, such as salary or wage income (before tax) and payments from government such as old age security, employment insurance and family allowances. Families generally under-report their income so cash income estimates used in this study are "bumped up" using a Statistics Canada adjustment to include income that is often omitted when a family reports its income. Income that is often excluded is bond or bank interest and dividend income.

(15) ***Deciles*** are a way of categorizing families. All families were arranged according to total income before tax, from lowest income to highest, and then divided into 10 groups, i.e. the first decile contains

the 10% of families with the lowest incomes, the second decile contains the 10% of families with the second lowest incomes, and so on.

(16) ***Hidden income*** is income that a family receives but probably does not consider to be a part of its income. Hidden income is largely made up of employer contributions to pension plans, medical premiums, and insurance plans. Another example is imputed non-farm rent. (For a more complete discussion of imputed non-farm rent see The Fraser Institute's publication, *Rent Control—A Popular Paradox,* p. 33).

(17) ***Income from government*** is income that a family receives as payment from the government, whereas taxes are payments to the government. Therefore, income from the government can be considered a "negative tax." It is often referred to as a transfer payment. It includes such items as the Canada Child Tax Benefit (CCTB), old age security payments, veterans' grants, and so on.

(18) ***Total income before tax*** is the term used in this book to designate the amount of income the family would have received before paying tax. It is composed of cash income, which includes income from government (transfer payments), and hidden income.

(19) ***Transfer payments***, see ***Income from government*** above.

About taxes

(20) ***Balanced budget tax rate*** is the tax rate that Canadians would face if governments had to balance their budgets and finance all expenditures from current tax revenue instead of issuing debt.

(21) ***Corporate profits tax*** is the tax paid on the profits of a corporation. This is also referred to as the corporate income tax.

(22) ***Deferred taxation*** is the debt incurred by the various levels of government to finance the expenditures that cannot be met by current tax revenue. It is, in effect, deferred taxation because the debts and interest on them must ultimately be paid out of future tax revenue.

(23) ***Direct taxes*** are taxes that are paid directly by the family. Examples of direct taxes are the personal income tax and property taxes. They are often referred to as explicit taxes.

(24) ***Hidden taxes*** are taxes that are concealed in the price of articles that one buys. Hidden taxes are also referred to as implicit taxes. The

most well-known form of the hidden tax is the indirect tax. Examples of hidden taxes are the tobacco, fuel, and alcohol taxes and import duties.

(25) ***Negative tax,*** see ***Income from government*** above.

(26) ***Progressive, proportional and regressive taxation*** are terms that refer to the proportionality of taxes on income. A tax is called proportional if it takes the same fraction of income from those with a low income as it does from those with a high income. (Employment Insurance payments and Canada Pension payments up to the maximum earnings level are examples of proportional taxes). A progressive tax is one that takes a greater proportion of income from those with a high income than from those with a low income (income tax, for example). A regressive tax is one that takes a greater proportion of income from those with a low income than it does from those with a high income (sales tax, for example).

(27) ***Social security taxes*** are composed of both federal and provincial taxes. The federal category includes employer and employee contributions to public service pensions and to Employment Insurance. Provincial social security taxes include employer and employee contributions to public service pensions, employer and employee contributions to Workers' Compensation and Industrial Employees' Vacations. Also included in this category as taxes are payments to the Canada and Quebec Pension Plans and medical and hospital insurance premiums.

(28) ***Tax burden*** is the means of determining who ultimately pays tax and is synonymous with the term "tax incidence." Tax burden is measured by the decline in real purchasing power that results from the imposition of a tax.

(29) ***Taxation powers under the Constitution of Canada***. The general scheme of taxation in the Constitution Act, 1982 can be summarized in this way:

(1) the federal government is given an unlimited power to tax;

(2) the provinces are also given what amounts to an unlimited power to tax "within the province;" that is to say, an unlimited power to tax persons within their jurisdiction and to impose taxes in respect to property located, and income earned, within the province. But, their taxing powers are framed in such a way as to preclude them from imposing taxes that would have the effect of creating barriers to interprovincial trade and, generally, from taxing persons and property outside the province.