

June 2009

# Canadians Celebrate Tax Freedom Day on June 6

## Main Conclusions

- On Tax Freedom Day, the average Canadian family has earned enough money to pay the taxes imposed on it by the three levels of government: federal, provincial, and local.
- In 2009, Canadians celebrate Tax Freedom Day on June 6, which means that Canadians will work until June 5 to pay the total tax bill imposed on them by all levels of government.
- Tax Freedom Day in 2009 arrives three days earlier than in 2008, when it fell on June 9.
- Tax Freedom Day came earlier in 2009 than 2008 due to some minor tax relief. However, much of the decline had nothing to do with tax reduction by either the federal or provincial governments. Given the progressive nature of the Canadian tax system, when the economy slows and incomes stagnate or decline, the tax burden of affected families tends to be reduced to a greater extent than their incomes.
- The latest Tax Freedom Day in Canadian history was in 2000, when it fell on June 24; this is almost two months later than in 1961, the earliest year for which the calculation has been made. Since 2005, Tax Freedom Day for the average Canadian family has steadily decreased.
- In 2009, the average Canadian family earned \$88,432 in income and paid a total of \$37,699 in taxes (42.6 percent).
- Tax Freedom Day for each province varies according to the extent of the provincially levied tax burden. The earliest provincial Tax Freedom Day fell on May 16 in Alberta.
- If, instead of financing their expenditures by deficits, Canadian governments had simply increased tax rates to balance their budgets, the average Canadian family would have to work until June 24 to pay their tax bill. Put differently, the Balanced Budget Tax Freedom Day arrives on June 25, 19 days later than Tax Freedom Day.

## Introduction

It is nearly impossible for an ordinary Canadian to have a clear idea of how much tax they really pay. Most Canadians would have little difficulty determining how much income tax they pay, a quick look at their income tax return or pay stub would suffice; the same is true for Employment Insurance and Canadian Pension Plan premiums. However, there are a host of other taxes that are not so obvious to most Canadians. For instance, while Canadians are painfully aware of sales taxes, calculating the total amount paid would require people

to track all of their purchases over the course of a year. Further, there exists a class of taxes of which Canadians are largely unaware and which are built into the price of goods and services. The most significant of these “hidden” taxes are import duties, excise taxes on tobacco and alcohol, amusement taxes, and gas taxes. Finally, most Canadians are unaware that they pay the employers’ portion of payroll taxes such as EI and CPP premiums and other taxes levied on businesses. In other words, although businesses pay these taxes directly, the cost of business taxation is ultimately passed onto ordinary Canadians.

## About the authors



**Milagros Palacios** is a senior economist with the Fiscal Studies Department of the Fraser Institute.



**Niels Veldhuis** is the Director of Fiscal Studies at the Fraser Institute.

**Table 1: Tax Freedom Days\***

|                                  | <b>1981</b> | <b>1985</b> | <b>1995<sup>re</sup></b> | <b>2000<sup>re</sup></b> | <b>2005<sup>re</sup></b> | <b>2008<sup>re</sup></b> | <b>2009<sup>pe</sup></b> |
|----------------------------------|-------------|-------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Newfoundland and Labrador        | May 18      | May 9       | May 24                   | June 8                   | June 25                  | July 3                   | June 16                  |
| Prince Edward Island             | May 6       | June 7      | May 26                   | June 8                   | June 15                  | June 4                   | June 3                   |
| Nova Scotia                      | May 11      | May 17      | May 31                   | June 12                  | June 19                  | June 12                  | June 11                  |
| New Brunswick                    | May 6       | June 2      | June 1                   | June 10                  | June 12                  | June 3                   | May 31                   |
| Quebec                           | June 7      | June 17     | June 9                   | July 3                   | June 30                  | June 16                  | June 12                  |
| Ontario                          | May 29      | May 26      | June 8                   | June 15                  | June 15                  | June 2                   | June 1                   |
| Manitoba                         | May 17      | May 5       | June 14                  | June 22                  | June 22                  | June 10                  | June 7                   |
| Saskatchewan                     | May 24      | May 17      | June 18                  | June 29                  | July 6                   | June 29                  | June 20                  |
| Alberta                          | May 30      | May 22      | June 2                   | June 20                  | June 14                  | May 24                   | May 16                   |
| British Columbia                 | June 9      | June 16     | June 13                  | June 25                  | June 24                  | June 9                   | June 8                   |
| Canada                           | May 30      | June 6      | June 11                  | June 24                  | June 23                  | June 9                   | June 6                   |
| <i>Without Natural Resources</i> |             |             |                          |                          |                          |                          |                          |
| Newfoundland and Labrador        | May 17      | May 8       | May 23                   | June 7                   | June 17                  | May 30                   | May 29                   |
| Saskatchewan                     | May 15      | May 9       | June 11                  | June 17                  | June 23                  | June 6                   | June 4                   |
| Alberta                          | May 6       | May 3       | May 25                   | May 27                   | May 24                   | May 12                   | May 10                   |
| BC                               | June 6      | June 12     | June 8                   | June 17                  | June 17                  | June 5                   | June 4                   |
| Canada                           | May 27      | June 4      | June 9                   | June 19                  | June 19                  | June 6                   | June 4                   |

re = revised estimate; pe = preliminary estimate

\*Based on total taxes as a percentage of cash income for families with two or more individuals.

Source: The Fraser Institute’s Canadian Tax Simulator, 2009.

**Table 2: Taxes of the Average Family (with two or more individuals), 2009, preliminary estimates (\$ Cdn)**

|     | Cash<br>Income | Income<br>tax | Sales<br>taxes | Liquor,<br>tobacco,<br>amuse-<br>ment, &<br>other<br>excise<br>taxes | Auto,<br>fuel, &<br>motor<br>vehicle<br>licence<br>taxes | Social<br>security,<br>pension,<br>medical,<br>&<br>hospital<br>taxes | Property<br>taxes | Import<br>duties | Profits<br>tax | Natural<br>resource<br>levies | Other<br>taxes | Total<br>tax bill |
|-----|----------------|---------------|----------------|----------------------------------------------------------------------|----------------------------------------------------------|-----------------------------------------------------------------------|-------------------|------------------|----------------|-------------------------------|----------------|-------------------|
| NL  | 62,074         | 7,042         | 4,947          | 2,179                                                                | 1,092                                                    | 5,032                                                                 | 946               | 215              | 2,609          | 3,059                         | 1,033          | 28,154            |
| PE  | 68,611         | 9,350         | 5,750          | 2,116                                                                | 1,066                                                    | 6,063                                                                 | 1,936             | 258              | 1,494          | 7                             | 664            | 28,704            |
| NS  | 72,640         | 10,627        | 5,388          | 2,272                                                                | 1,054                                                    | 5,516                                                                 | 2,998             | 290              | 3,094          | 265                           | 373            | 31,876            |
| NB  | 71,666         | 9,172         | 5,299          | 2,009                                                                | 1,109                                                    | 5,586                                                                 | 3,258             | 256              | 1,914          | 149                           | 518            | 29,271            |
| QC  | 74,767         | 10,891        | 5,462          | 1,805                                                                | 832                                                      | 8,280                                                                 | 2,751             | 295              | 2,425          | (12)                          | 435            | 33,165            |
| ON  | 92,609         | 13,016        | 6,346          | 2,007                                                                | 941                                                      | 9,141                                                                 | 3,070             | 382              | 2,486          | 21                            | 822            | 38,231            |
| MB  | 83,469         | 12,377        | 6,071          | 2,683                                                                | 864                                                      | 6,254                                                                 | 3,028             | 322              | 2,581          | 57                            | 1,612          | 35,849            |
| SK  | 82,929         | 12,561        | 4,751          | 2,632                                                                | 1,702                                                    | 5,800                                                                 | 2,500             | 327              | 3,582          | 3,584                         | 1,045          | 38,485            |
| AB  | 122,921        | 21,318        | 3,123          | 4,029                                                                | 928                                                      | 7,764                                                                 | 1,975             | 503              | 1,812          | 1,970                         | 1,809          | 45,230            |
| BC  | 84,749         | 11,316        | 5,377          | 2,581                                                                | 1,190                                                    | 7,124                                                                 | 3,266             | 350              | 2,959          | 981                           | 1,438          | 36,583            |
| CDA | 88,432         | 12,972        | 5,832          | 2,306                                                                | 1,014                                                    | 8,360                                                                 | 2,913             | 360              | 2,547          | 476                           | 918            | 37,699            |

Source: The Fraser Institute's Canadian Tax Simulator, 2009.

The Fraser Institute annually calculates Tax Freedom Day in order to provide a comprehensive and easily understood indicator of the overall tax burden faced by the average Canadian family. This Alert presents preliminary Tax Freedom Day calculations for 2009.

## Tax Freedom Day

Tax Freedom Day is the day in the year when the average Canadian family has earned enough money to pay the taxes imposed on it by the three levels of government: federal, provincial, and local. In other words, if Canadians were required to pay all of their taxes up front, they would have to pay each and

every dollar they earned to governments prior to Tax Freedom Day.

Taxes used to compute Tax Freedom Day include income taxes, property taxes, sales taxes, profit taxes, health, social security and employment taxes, import duties, license fees, taxes on the consumption of alcohol and tobacco, natural resource fees, fuel taxes, hospital taxes, and a host of other levies.

In 2009, Canadians start working for themselves on June 6 (table 1). That is, Canadians will have worked until June 5 to pay the total tax bill imposed on them by all levels of government. From June 6 to the end of the year, taxpayers can keep all the income they earn. This represents a three day improvement over

2008 when Tax Freedom Day fell on June 9.

It is important to note that Tax Freedom Day is not intended to measure the benefits Canadians receive from governments in return for their taxes. Rather, it looks at the price that is paid for a product—government. Tax Freedom Day is not a reflection of the quality of the product, how much of it each of us receives, or whether we get our money's worth. These are questions only each of us can answer for ourselves.

Canadians can calculate their personal Tax Freedom Day using the Fraser Institute's Personal Tax Freedom Day Calculator; go to [www.fraserinstitute.org](http://www.fraserinstitute.org).

**Table 3: Taxes of the Average Family (with two or more individuals), 2008, revised estimates (\$ Cdn)**

|     | Cash Income | Income tax | Sales taxes | Liquor, tobacco, amusement, & other excise taxes | Auto, fuel, & motor vehicle licence taxes | Social security, pension, medical, & hospital taxes | Property taxes | Import duties | Profits tax | Natural resource levies | Other taxes | Total tax bill |
|-----|-------------|------------|-------------|--------------------------------------------------|-------------------------------------------|-----------------------------------------------------|----------------|---------------|-------------|-------------------------|-------------|----------------|
| NL  | 65,401      | 8,233      | 5,043       | 2,255                                            | 1,129                                     | 5,088                                               | 1,011          | 226           | 2,595       | 6,054                   | 1,106       | 32,739         |
| PE  | 70,016      | 9,711      | 5,799       | 2,122                                            | 1,061                                     | 6,178                                               | 1,892          | 268           | 1,837       | 7                       | 742         | 29,616         |
| NS  | 73,806      | 11,109     | 5,369       | 2,223                                            | 1,044                                     | 5,613                                               | 2,694          | 294           | 3,339       | 603                     | 458         | 32,746         |
| NB  | 72,502      | 10,046     | 5,621       | 2,080                                            | 1,093                                     | 5,646                                               | 3,013          | 261           | 1,940       | 149                     | 585         | 30,434         |
| QC  | 75,571      | 11,365     | 5,658       | 1,853                                            | 831                                       | 8,256                                               | 2,694          | 300           | 2,935       | (10)                    | 518         | 34,401         |
| ON  | 95,244      | 14,054     | 6,491       | 2,076                                            | 948                                       | 9,228                                               | 2,891          | 392           | 2,757       | 20                      | 900         | 39,757         |
| MB  | 84,358      | 13,126     | 6,116       | 2,656                                            | 841                                       | 6,259                                               | 2,919          | 328           | 2,980       | 127                     | 1,685       | 37,037         |
| SK  | 83,782      | 13,174     | 4,805       | 2,638                                            | 1,670                                     | 5,831                                               | 2,582          | 334           | 3,616       | 5,258                   | 1,134       | 41,041         |
| AB  | 128,344     | 23,033     | 3,286       | 3,940                                            | 964                                       | 8,592                                               | 1,670          | 522           | 2,177       | 4,259                   | 1,900       | 50,344         |
| BC  | 87,535      | 12,098     | 5,529       | 2,636                                            | 1,054                                     | 7,298                                               | 3,075          | 363           | 3,498       | 1,117                   | 1,532       | 38,200         |
| CDA | 90,677      | 13,866     | 6,000       | 2,351                                            | 999                                       | 8,496                                               | 2,742          | 370           | 2,909       | 810                     | 1,002       | 39,544         |

Source: The Fraser Institute's Canadian Tax Simulator, 2009.

## An earlier Tax Freedom Day

This year, Tax Freedom Day arrives three days earlier than in 2008, when it was on June 9. The latest Tax Freedom Day in Canadian history was in 2000, when it fell on June 24. Since 2005, Tax Freedom Day for the average Canadian family has steadily decreased.

While recent Tax Freedom Days show a slight reduction in the tax burden, it is nevertheless a fact that Tax Freedom Day this year is still over a month later than it was nearly 50 years ago. In 1961, the earliest year for which the calculation has been made, Canadian Tax Freedom Day was May 3.

There are a number of reasons for the reduction in Tax Freedom Day

in 2009. First, some minor tax relief at the federal level has contributed to the decline. Examples include personal income tax relief in the form of an increased basic personal exemption (the amount of money Canadians can earn free of income tax), increases in the thresholds at which the bottom two personal income tax rates apply, and various new or expanded tax credits (i.e., the Home Renovation Tax Credit and a First-Time Home Buyers' Tax Credit).

In addition, some provinces also decreased taxes in 2009. For example, Saskatchewan reduced its property taxes while New Brunswick decreased its general corporate income tax rate, small business taxes, and all four of its personal income taxes.<sup>1</sup>

However, much of the decline in Tax Freedom Day in both 2008 and 2009 had nothing to do with tax reductions from either the federal or provincial governments. When the economy slows and incomes stagnate or decline, family tax burdens tend to be reduced to a greater extent than incomes. The reason for this accelerated decrease in the tax burden compared to income is the progressive nature of the Canadian tax system. Progressivity means that as one earns more income, one also pays proportionately more tax. The reverse is also true. It is this reverse phenomenon that is driving some of the decrease (improvement) in Tax Freedom Day.

In addition, there are other cyclically-related tax reductions that result in an improvement in Tax Freedom Day during an economic

**Table 4: Difference in the average family's tax bill between 2009 and 2008 (\$ Cdn)**

|     | Cash<br>Income | Income<br>tax | Sales<br>taxes | Liquor,<br>tobacco,<br>amuse-<br>ment, &<br>other<br>excise<br>taxes | Auto,<br>fuel, &<br>motor<br>vehicle<br>licence<br>taxes | Social<br>security,<br>pension,<br>medical,<br>&<br>hospital<br>taxes | Property<br>taxes | Import<br>duties | Profits<br>tax | Natural<br>resource<br>levies | Other<br>taxes | Total<br>tax bill |
|-----|----------------|---------------|----------------|----------------------------------------------------------------------|----------------------------------------------------------|-----------------------------------------------------------------------|-------------------|------------------|----------------|-------------------------------|----------------|-------------------|
| NL  | (3,327)        | (1,191)       | (96)           | (75)                                                                 | (37)                                                     | (56)                                                                  | (65)              | (11)             | 14             | (2,995)                       | (72)           | (4,585)           |
| PE  | (1,405)        | (361)         | (49)           | (6)                                                                  | 5                                                        | (115)                                                                 | 43                | (10)             | (343)          | 0                             | (78)           | (912)             |
| NS  | (1,166)        | (482)         | 19             | 49                                                                   | 10                                                       | (97)                                                                  | 304               | (4)              | (246)          | (338)                         | (84)           | (870)             |
| NB  | (836)          | (874)         | (323)          | (70)                                                                 | 17                                                       | (59)                                                                  | 245               | (5)              | (26)           | 0                             | (67)           | (1,163)           |
| QC  | (804)          | (474)         | (196)          | (48)                                                                 | 1                                                        | 24                                                                    | 57                | (5)              | (510)          | (2)                           | (82)           | (1,236)           |
| ON  | (2,634)        | (1,038)       | (145)          | (69)                                                                 | (7)                                                      | (87)                                                                  | 179               | (11)             | (271)          | 1                             | (78)           | (1,526)           |
| MB  | (888)          | (748)         | (45)           | 27                                                                   | 23                                                       | (5)                                                                   | 109               | (6)              | (399)          | (70)                          | (73)           | (1,188)           |
| SK  | (853)          | (612)         | (54)           | (7)                                                                  | 33                                                       | (31)                                                                  | (82)              | (6)              | (34)           | (1,673)                       | (89)           | (2,556)           |
| AB  | (5,422)        | (1,715)       | (163)          | 88                                                                   | (36)                                                     | (828)                                                                 | 305               | (19)             | (365)          | (2,290)                       | (91)           | (5,113)           |
| BC  | (2,787)        | (782)         | (153)          | (55)                                                                 | 136                                                      | (173)                                                                 | 191               | (14)             | (539)          | (136)                         | (93)           | (1,617)           |
| CDA | (2,245)        | (894)         | (167)          | (45)                                                                 | 16                                                       | (136)                                                                 | 171               | (10)             | (362)          | (333)                         | (84)           | (1,846)           |

Note: numbers may not add due to rounding.

Source: The Fraser Institute's Canadian Tax Simulator, 2009.

**Table 5: Tax Freedom Days including government deficits, 2009, preliminary estimates**

|                              | Tax<br>Freedom<br>Day | Balanced<br>Budget Tax<br>Freedom<br>Day | Impact of federal and provincial<br>government deficits on Tax Freedom Day |         |            |
|------------------------------|-----------------------|------------------------------------------|----------------------------------------------------------------------------|---------|------------|
|                              |                       |                                          | Total increase<br>(days)                                                   | Federal | Provincial |
| Newfoundland and<br>Labrador | June 16               | July 12                                  | 26                                                                         | 8       | 18         |
| Prince Edward Island         | June 3                | June 23                                  | 20                                                                         | 11      | 9          |
| Nova Scotia                  | June 11               | June 22                                  | 12                                                                         | 12      | 0          |
| New Brunswick                | May 31                | June 24                                  | 24                                                                         | 11      | 13         |
| Quebec                       | June 12               | June 27                                  | 15                                                                         | 9       | 6          |
| Ontario                      | June 1                | June 23                                  | 22                                                                         | 11      | 11         |
| Manitoba                     | June 7                | June 18                                  | 11                                                                         | 11      | 0          |
| Saskatchewan                 | June 20               | June 25                                  | 6                                                                          | 10      | (4)        |
| Alberta                      | May 16                | June 5                                   | 21                                                                         | 11      | 10         |
| British Columbia             | June 8                | June 21                                  | 13                                                                         | 12      | 1          |
| Canada                       | June 6                | June 25                                  | 19                                                                         | 11      | 8          |

Note: Numbers may not add due to rounding

Source: The Fraser Institute's Canadian Tax Simulator, 2009; 2009 provincial budgets.

**Table 6: Average Income and Tax for Three Different Types of Family, 2009, preliminary estimates (\$ Cdn)**

*1. Families and unattached individuals*

|                                        | NL     | PE     | NS     | NB     | QC     | ON     | MB     | SK     | AB     | BC     | CDA    |
|----------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Avg. Cash Income                       | 53,413 | 56,013 | 56,166 | 57,531 | 58,454 | 74,260 | 65,736 | 64,812 | 96,580 | 65,925 | 69,175 |
| Total Tax                              | 23,454 | 21,346 | 24,090 | 22,743 | 25,589 | 30,744 | 27,712 | 29,331 | 35,480 | 28,795 | 28,878 |
| Tax Rate                               | 43.9%  | 38.1%  | 42.9%  | 39.5%  | 43.8%  | 41.4%  | 42.2%  | 45.3%  | 36.7%  | 43.7%  | 41.7%  |
| Tax Rate (excluding Natural Resources) | 39.1%  | 38.1%  | 42.5%  | 39.3%  | 43.8%  | 41.4%  | 42.1%  | 40.9%  | 35.1%  | 42.5%  | 41.2%  |

*2. Families with two or more individuals*

|                                        | NL     | PE     | NS     | NB     | QC     | ON     | MB     | SK     | AB      | BC     | CDA    |
|----------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|--------|
| Avg. Cash Income                       | 62,074 | 68,611 | 72,640 | 71,666 | 74,767 | 92,609 | 83,469 | 82,929 | 122,921 | 84,749 | 88,432 |
| Total Tax                              | 28,154 | 28,704 | 31,876 | 29,271 | 33,165 | 38,231 | 35,849 | 38,485 | 45,230  | 36,583 | 37,699 |
| Tax Rate                               | 45.4%  | 41.8%  | 43.9%  | 40.8%  | 44.4%  | 41.3%  | 42.9%  | 46.4%  | 36.8%   | 43.2%  | 42.6%  |
| Tax Rate (excluding Natural Resources) | 40.4%  | 41.8%  | 43.5%  | 40.6%  | 44.4%  | 41.3%  | 42.9%  | 42.1%  | 35.2%   | 42.0%  | 42.1%  |

*3. Families of four (parents and two children under 18)*

|                                        | NL     | PE     | NS     | NB     | QC     | ON      | MB     | SK     | AB      | BC     | CDA     |
|----------------------------------------|--------|--------|--------|--------|--------|---------|--------|--------|---------|--------|---------|
| Avg. Cash Income                       | 88,913 | 71,022 | 89,099 | 83,542 | 91,292 | 113,079 | 97,294 | 96,997 | 142,460 | 94,790 | 106,507 |
| Total Tax                              | 44,691 | 25,680 | 36,971 | 32,309 | 39,478 | 42,987  | 38,648 | 39,095 | 51,828  | 35,988 | 42,270  |
| Tax Rate                               | 50.3%  | 36.2%  | 41.5%  | 38.7%  | 43.2%  | 38.0%   | 39.7%  | 40.3%  | 36.4%   | 38.0%  | 39.7%   |
| Tax Rate (excluding Natural Resources) | 44.5%  | 36.1%  | 41.1%  | 38.4%  | 43.3%  | 38.0%   | 39.6%  | 35.7%  | 34.5%   | 36.6%  | 39.1%   |

Source: The Fraser Institute's Canadian Tax Simulator, 2009.

downturn. For example, savings are expected to increase, which means a reduction in consumption and a significant decrease in the amount of sales and other consumption taxes. Business profits are also reduced during a recession, which necessarily reduces the profit taxes these businesses pay. These types of tax reduction will likely be completely reversed when the economy improves.

As is the case every year, Tax Freedom Day calculations are based on

forecasts of personal income and federal and provincial budget tax revenue. When final revenue numbers become available at the end of each fiscal year and personal income data are updated by Statistics Canada, we revise our Tax Freedom Day calculations for previous years.<sup>2</sup> If federal and provincial revenue or personal income ends up lower—or higher—than currently projected, the 2009 Tax Freedom Day will change.

### **Income and total tax bill of the average family**

Table 2 reveals the taxes and income of the average family in Canada and each of the provinces. In 2009, the average Canadian family (with two or more individuals) earned \$88,432 in income and paid a total of \$37,699 in taxes. In other words, the total tax bill of the average Canadian family in 2009 amounted to 42.6 percent of cash income (table 8).

## Disclaimer

Tax Freedom Days are calculated on the Fraser Institute's Canadian Tax Simulator (CANTASIM). Statistics Canada's Social Policy Simulation Database and Model, version 16.1 (SPSD/M), is an important part of this model for the 1992 through 2009 Tax Freedom Days. The assumptions and calculations underlying the SPSPD/M simulation results were prepared by the Fraser Institute and the responsibility for the use and interpretation of these data is entirely that of the authors.

The cash income of the average Canadian family decreased by 2.5 percent (\$2,245) between 2008 and 2009 (tables 2, 3, and 4) compared to the 4.7 percent, or \$1,846 decrease in the total tax bill. The largest decrease was to income taxes, down \$894 for the average Canadian family (see table 4). Other notable decreases were to profit taxes (\$362) and natural resources levies (\$333). Only the average Canadian family's property taxes and auto, fuel, and motor vehicle license taxes increased between 2008 and 2009 (table 4).

## Tax Freedom Day by province

While all Canadians face more or less the same federal tax bill, Tax Freedom Day for each province varies according to the extent of the provincially levied tax burden (table 1). This year, the earliest provincial Tax Freedom Day was on May 16 in

**Table 7: Breakdown of the Average Family's\* Tax Bill by Level of Government, 2009, Preliminary Estimate (\$ Cdn)**

|                           | Federal government | Provincial government** | Municipal government | Tax bill** |
|---------------------------|--------------------|-------------------------|----------------------|------------|
| Newfoundland and Labrador | 11,757             | 12,358                  | 980                  | 25,095     |
| Prince Edward Island      | 14,910             | 12,997                  | 789                  | 28,697     |
| Nova Scotia               | 16,559             | 12,022                  | 3,030                | 31,611     |
| New Brunswick             | 14,859             | 12,385                  | 1,877                | 29,121     |
| Quebec                    | 15,676             | 14,727                  | 2,775                | 33,177     |
| Ontario                   | 21,504             | 13,647                  | 3,060                | 38,210     |
| Manitoba                  | 18,240             | 14,500                  | 3,052                | 35,792     |
| Saskatchewan              | 18,515             | 13,592                  | 2,794                | 34,900     |
| Alberta                   | 28,535             | 13,025                  | 1,701                | 43,261     |
| British Columbia          | 20,048             | 13,500                  | 2,054                | 35,602     |
| Canada                    | 20,154             | 14,373                  | 2,696                | 37,223     |

\*The average family with two or more individuals.

\*\*Excludes natural resource levies.

Source: The Fraser Institute's Canadian Tax Simulator, 2009.

Alberta, while the latest date was in Saskatchewan on June 20.

All Canadian provinces saw their Tax Freedom Days decrease between 2008 and 2009, which means that most citizens will work less for the government and more for themselves and their families this year (table 1). Taxpayers in Newfoundland and Labrador celebrate the greatest decrease in Tax Freedom Day among the provinces—17 days earlier than in 2008. Taxpayers in Saskatchewan celebrate nine days earlier, while Alberta celebrates eight days earlier. Taxpayers in Prince Edward Island, Nova Scotia, Ontario, and British Columbia experienced the smallest decrease in their Tax Freedom Days, which arrived one day earlier in those provinces than in 2008.<sup>3</sup>

There is an unsolved debate as to whether natural resource royalties are actually a tax or simply the conversion of a balance sheet asset ("public asset") into an income stream. This debate is not one we attempt to resolve for our annual calculations. For this reason, we provide two sets of Tax Freedom Days for provinces with significant natural resources, one including and one excluding resource royalties. If natural resource revenues are excluded, Tax Freedom Day is 18 days earlier in Newfoundland and Labrador, 16 days earlier in Saskatchewan, 6 days earlier in Alberta, and 4 days earlier in British Columbia (table 1).

The Atlantic Provinces historically have had some of the country's earliest Tax Freedom Days due, in part,

**Table 8: Tax Rates\* (percent)**

|                                  | 1981 | 1985 | 1995 <sup>re</sup> | 2000 <sup>re</sup> | 2005 <sup>re</sup> | 2008 <sup>re</sup> | 2009 <sup>pe</sup> |
|----------------------------------|------|------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Newfoundland and Labrador        | 37.4 | 34.9 | 39.0               | 43.2               | 47.9               | 50.1               | 45.4               |
| Prince Edward Island             | 34.2 | 42.8 | 39.5               | 43.3               | 45.0               | 42.3               | 41.8               |
| Nova Scotia                      | 35.5 | 37.0 | 41.0               | 44.4               | 46.3               | 44.4               | 43.9               |
| New Brunswick                    | 34.2 | 41.6 | 41.2               | 43.8               | 44.4               | 42.0               | 40.8               |
| Quebec                           | 42.9 | 45.6 | 43.5               | 50.3               | 49.3               | 45.5               | 44.4               |
| Ontario                          | 40.3 | 39.5 | 43.2               | 45.3               | 45.0               | 41.7               | 41.3               |
| Manitoba                         | 37.2 | 33.8 | 44.8               | 47.2               | 47.0               | 43.9               | 42.9               |
| Saskatchewan                     | 39.0 | 37.1 | 45.8               | 49.0               | 50.8               | 49.0               | 46.4               |
| Alberta                          | 40.6 | 38.5 | 41.5               | 46.5               | 44.9               | 39.2               | 36.8               |
| British Columbia                 | 43.4 | 45.2 | 44.4               | 47.9               | 47.4               | 43.6               | 43.2               |
| Canada                           | 40.8 | 42.7 | 44.0               | 47.6               | 47.4               | 43.6               | 42.6               |
| <i>Without Natural Resources</i> |      |      |                    |                    |                    |                    |                    |
| Newfoundland and Labrador        | 37.2 | 34.6 | 38.8               | 43.0               | 45.6               | 40.8               | 40.4               |
| Saskatchewan                     | 36.5 | 34.8 | 43.9               | 45.9               | 47.3               | 42.7               | 42.1               |
| Alberta                          | 34.2 | 33.3 | 39.2               | 40.1               | 39.1               | 35.9               | 35.2               |
| British Columbia                 | 42.6 | 44.3 | 43.2               | 45.7               | 45.5               | 42.4               | 42.0               |
| Canada                           | 39.9 | 42.1 | 43.4               | 46.4               | 46.3               | 42.7               | 42.1               |

re = revised estimate; pe = preliminary estimate.

\*Based on total taxes as a percentage of cash income for families with two or more individuals.

Source: The Fraser Institute's Canadian Tax Simulator, 2009.

to the large share of their total revenue that is transferred from other provinces through the federal government (table 10). Tax Freedom Days in those provinces, as well as in Manitoba and Quebec, come earlier than would be the case without these transfers. On the other hand, Tax Freedom Days in Ontario, Alberta, and British Columbia come later than would be the case without these transfers.

## Balanced Budget Tax Freedom Day

Canadians may rightly be thinking about the economic and tax

implications of the recent return to budget deficits. Indeed, most federal and provincial governments in Canada are forecasting budget deficits for 2009; the federal government budgeted for a \$33.7 billion deficit in 2009/10 while the provinces are cumulatively forecasting deficits amounting to \$24.3 billion.<sup>4</sup>

Of course, today's deficits must one day be paid for by taxes. Deficits should therefore be considered as deferred taxation. For this reason, we calculate a Balanced Budget Tax Freedom Day, the day on which average Canadians would start working for themselves if governments were obliged to cover current

expenditures with current taxation and were not able to defer any of the tax burden by running a deficit.

Table 5 presents Balanced Budget Tax Freedom Days for Canada and the provinces. Balanced Budget Tax Freedom Day arrives on June 25, which means that the average Canadian family would have to work until June 24 to pay the tax bill if, instead of financing its expenditures by deficits, Canadian governments had simply increased tax rates to balance their budgets. The Balanced Budget Tax Freedom Day arrives 19 days later than Tax Freedom Day. Eleven of those days are due to the federal deficit and the remainder to



**Table 9: The Distribution of Cash Income and Tax Across Deciles\*, and the Average Tax Rate by Decile, 2009, preliminary estimate**

| Decile                             | 1     | 2     | 3     | 4     | 5     | 6     | 7     | 8     | 9     | 10    |
|------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <i>Distribution across deciles</i> |       |       |       |       |       |       |       |       |       |       |
| Tax                                | 0.6%  | 1.5%  | 2.9%  | 4.5%  | 6.3%  | 8.0%  | 10.2% | 12.5% | 16.2% | 37.3% |
| Income                             | 1.6%  | 3.3%  | 4.4%  | 5.6%  | 6.9%  | 8.5%  | 10.4% | 12.7% | 16.2% | 30.5% |
| <i>Average Tax Rate</i>            |       |       |       |       |       |       |       |       |       |       |
|                                    | 15.7% | 20.0% | 28.3% | 35.4% | 39.8% | 41.4% | 42.9% | 42.7% | 43.7% | 53.3% |

\*Deciles group families from lowest to highest incomes with each group containing ten percent of all families.

The first decile, for example, represents the ten percent of families with the lowest incomes.

Note: Deciles may not sum to 100% due to rounding.

Source: The Fraser Institute's Canadian Tax Simulator, 2009.

provincial deficits. The latest Balanced Budget Tax Freedom Day will fall on July 12 in Newfoundland and Labrador, almost a month later than that province's Tax Freedom Day.

### Fairness in the tax system

In addition to the size of the average family's tax bill, there are concerns about the fairness of the Canadian

tax system. The top 30 percent of income earners pay 66.0 percent of all taxes but earn 59.4 percent of all income, while the bottom 30 percent of all income earners pay 4.9 percent of all taxes yet earn 9.3 percent of all income (table 9). The overall distribution shows that Canada's tax system is effectively progressive, as discussed earlier, and does extract proportionately more money from those on the higher end of the income scale.

**Table 10: 2009 Tax Freedom Days and Federal Transfers as a Percent of Total Provincial Revenue**

| Tax Freedom Day*          |         | Federal Transfers as a Percent of Total Provincial Revenue |       |
|---------------------------|---------|------------------------------------------------------------|-------|
| Alberta                   | May 16  | Prince Edward Island                                       | 43.1% |
| New Brunswick             | May 31  | New Brunswick                                              | 38.3% |
| Ontario                   | June 1  | Manitoba                                                   | 37.3% |
| Prince Edward Island      | June 3  | Nova Scotia                                                | 29.7% |
| Manitoba                  | June 7  | Quebec                                                     | 23.9% |
| British Columbia          | June 8  | Ontario                                                    | 20.1% |
| Nova Scotia               | June 11 | Newfoundland and Labrador                                  | 18.7% |
| Quebec                    | June 12 | British Columbia                                           | 16.4% |
| Newfoundland and Labrador | June 16 | Alberta                                                    | 14.8% |
| Saskatchewan              | June 20 | Saskatchewan                                               | 13.7% |

\*Based on total taxes as a percentage of cash income for families with two or more individuals.

Source: The Fraser Institute's Canadian Tax Simulator, 2009; 2009 provincial budgets.

### Conclusion

The Canadian tax system is complex and no single number can give us a complete idea of who pays how much. That said, Tax Freedom Day is the most comprehensive and easily understood indicator of the overall tax bill of the average Canadian family. In 2009, Canadians celebrate Tax Freedom Day on June 6, three days earlier than in 2008.

### Notes

1 Other provinces also reduced their taxes. However, some of those reductions, such as Ontario's are being put

into effect beginning in 2010 rather than this year, which means it has no influence on this year's Tax Freedom Day. In other provinces, the decreases in some taxes were accompanied by increases in others. For example, British Columbia increased the thresholds at which its bottom two personal income tax rates apply and reduced its small business tax rate while increasing tobacco and carbon taxes. Similarly, Alberta reduced small business taxes while increasing tobacco taxes.

- 2 For example, in last year's Tax Freedom Day report (Palacios and Veldhuis, 2008) we gave a preliminary estimate of June 14 for the 2008 Tax Freedom Day. This year we recalculated Tax Freedom Day for 2008 using updated provincial and federal budget numbers and updated data from Statistics Canada. Our revised calculations reveal that Tax Freedom Day in 2008 actually fell on June 9 (see table 1).
- 3 Tax Freedom Days are calculated on the Fraser Institute's Canadian Tax Simulator (CANTASIM). Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) is an important part of this model for the 1992 through 2009 Tax Freedom Days. Statistics Canada's Survey of Labour and Income Dynamics (SLID) is the host database for the SPSP. The latest version of the SPSP/M is based on the 2004 Survey of Labour and Income Dynamics, an update from the 2003 survey used in last year's Tax Freedom Day report. While The Fraser Institute's methodology has not changed, the change

in base year from 2003 to 2004 has led to changes in historical Tax Freedom Days in some provinces. Of note, the average Ontario family's tax freedom day has decreased between 2 and 4 days, depending on the year. The reason for this change can be attributed to Ontario's share of total capital and labour income in Canada. Specifically, the change in the base years decreased Ontario's portion of total capital and labour income in Canada. Provincial shares of capital and labour income are used to distribute various federal taxes to the provinces. As a result, Ontario received a slightly smaller

share of federal tax revenue using the updated SPSP/M.

- 4 Nova Scotia, Manitoba, and Saskatchewan are the only Canadian provinces that registered a surplus in the fiscal year 2009/10. In addition, recent reports put the federal debt at above \$50 billion in 2009/10.

## Reference

- Palacios, Milagros and Niels Veldhuis (2008). *Canadians Celebrate Tax Freedom Day on June 14*. Fraser Alert (June). The Fraser Institute. Available at [www.fraserinstitute.org](http://www.fraserinstitute.org).

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### Editing, design, and production

Kristin McCahon

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