

Taxes versus the Necessities of Life: The Canadian Consumer Tax Index

2019 edition

by Milagros Palacios and
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SUMMARY

- The Canadian Consumer Tax Index tracks the total tax bill of the average Canadian family from 1961 to 2018. Including all types of taxes, that bill has increased by 2,246% since 1961.
- Taxes have grown much more rapidly than any other single expenditure for the average Canadian family: expenditures on shelter increased by 1,593%, clothing by 769%, and food by 639% from 1961 to 2018.
- The 2,246% increase in the tax bill has also greatly outpaced the increase in the Consumer Price Index (750%), which measures the average price that consumers pay for food, shelter,

clothing, transportation, health and personal care, education, and other items.

- The average Canadian family now spends more of its income on taxes (44.2%) than it does on basic necessities such as food, shelter, and clothing combined (36.3%). By comparison, 33.5% of the average family's income went to pay taxes in 1961 while 56.5% went to basic necessities.
- In 2018, the average Canadian family earned an income of \$88,865 and paid total taxes equaling \$39,299 (44.2%). In 1961, the average family had an income of \$5,000 and paid a total tax bill of \$1,675 (33.5%).

The Canadian Consumer Tax Index, 2019

Introduction

The Canadian tax system is complex and there is no single number that can give us a complete idea of who pays how much. That said, the Fraser Institute annually calculates the most comprehensive and easily understood indicator of the overall tax bill of the average Canadian family: Tax Freedom Day (see Palacios and Fuss, 2019). This publication draws from those calculations and examines what has happened to the tax bill of the average Canadian family over the past 57 years.¹ To do this, we have constructed an index of the tax bill of the average Canadian family, the Canadian Consumer Tax Index, for the period from 1961 to 2018.

The total tax bill

In order to calculate the total tax bill of the average Canadian family, we add up all the various taxes that the family pays to federal, provincial, and local governments. This includes income taxes, payroll taxes, health taxes, sales taxes, property taxes, fuel taxes, carbon taxes, vehicle taxes, import taxes, alcohol and tobacco taxes, and the list goes on. Average Canadians also pay the taxes levied on businesses. Although businesses pay these taxes directly, the cost of business taxation is ultimately passed onto ordinary Canadians.²

¹ The Tax Freedom Day calculations are for the average Canadian family with two or more people. The average family in this publication includes families and unattached individuals. That is why the data for the same year are different. For instance, in 2018 the tax rate for the average Canadian family with two or more people was 45.1% and for the average family including unattached individuals it was 44.2% (see Palacios and Fuss, 2019).

² See Clemens and Veldhuis (2003) for a discussion of who actually pays business taxes and Ebrahimi and Vaillancourt (2016) and McKenzie and Ferde

Table 1: Tax bill of the average Canadian family (families and unattached individuals), 2018

	In dollars (\$)	As % of total taxes
Taxes		
Income taxes	12,242	31.2%
Payroll & health taxes	7,475	19.0%
Sales taxes	5,839	14.9%
Property taxes	4,254	10.8%
Profit tax	4,726	12.0%
Liquor, tobacco, amusement, & other excise taxes	1,855	4.7%
Fuel, motor vehicle licence, & carbon taxes	1,096	2.8%
Other taxes	1,071	2.7%
Natural resource taxes	343	0.9%
Import duties	397	1.0%
Total taxes	\$39,299	
Total cash income	\$88,865	
Taxes as a percentage of cash income	44.2%	

Source: The Fraser Institute's Canadian Tax Simulator, 2019.

In 2018, the average Canadian family, including both families and unattached individuals, earned cash income of \$88,865 and paid total taxes equaling \$39,299 (table 1).³ In other words,

(2017) for empirical evidence in Canada on the incidence of business taxes.

³ The tax and income calculations are based on the methodology used in Palacios and Fuss (2019). Cash income is used to convey the size of the total tax bill imposed on Canadian families and includes wages and salaries, income from farm operations, unincorporated non-farm income, interest, dividends,

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the total tax bill of the average Canadian family in 2018 amounted to 44.2% of cash income.

The Canadian Consumer Tax Index

The Canadian Consumer Tax Index tracks the total tax bill paid by a Canadian family with average income. While each of these families had average income in the year selected, the family is not the same one from year to year. The objective is not to trace the tax experience of a particular family, but rather to plot the experience of a family that was average in each year.⁴

The “consumer” in question is the taxpaying family, which can be thought of as consuming government services. Much like the Consumer Price Index calculated by Statistics Canada, which measures the average price that consumers pay for the goods and services that they buy of their own choice, the Canadian Consumer Tax Index measures the price of goods and services that government buys on behalf of Canadians.

The Canadian Consumer Tax Index thus answers the following question: How has the tax burden of the average family changed since 1961, bearing in mind that the average family has itself changed in that period?

Table 2 presents the average cash income and total tax bill paid by the average Canadian family from 1961 to 2018. In 1961, the average Ca-

private and government pension payments, old age pension payments, and other transfers from government.

⁴ According to the latest Statistics Canada Survey of Household Spending, we can note, for example, that in 2017 the average family is headed by an older person who is more likely to own a car and a house, and has fewer members than the average family in 1961 (Dominion Bureau of Statistics 1962, and Statistics Canada 2018).

Table 2: Taxes paid by the average Canadian family (families and unattached individuals), 1961-2018

Year	Average cash income (\$)	Tax bill (\$)	Increase in tax bill over base year (%)
1961	5,000	1,675	—
1969	8,000	3,117	86
1974	12,500	5,429	224
1976	16,500	5,979	257
1981	27,980	11,429	582
1985	32,309	14,834	786
1990	43,170	18,693	1,016
1992	43,516	17,612	951
1994	44,095	18,366	996
1996	45,370	19,844	1,085
1998	45,668	20,859	1,145
2000	51,732	24,065	1,337
2002	55,882	25,960	1,450
2004	60,039	27,820	1,561
2006	66,363	30,366	1,713
2008	72,210	31,054	1,754
2010	73,750	31,248	1,766
2012	77,882	33,419	1,895
2014	81,856	35,133	1,998
2016	82,722	36,097	2,055
2017	85,867	37,666	2,149
2018	88,865	39,299	2,246

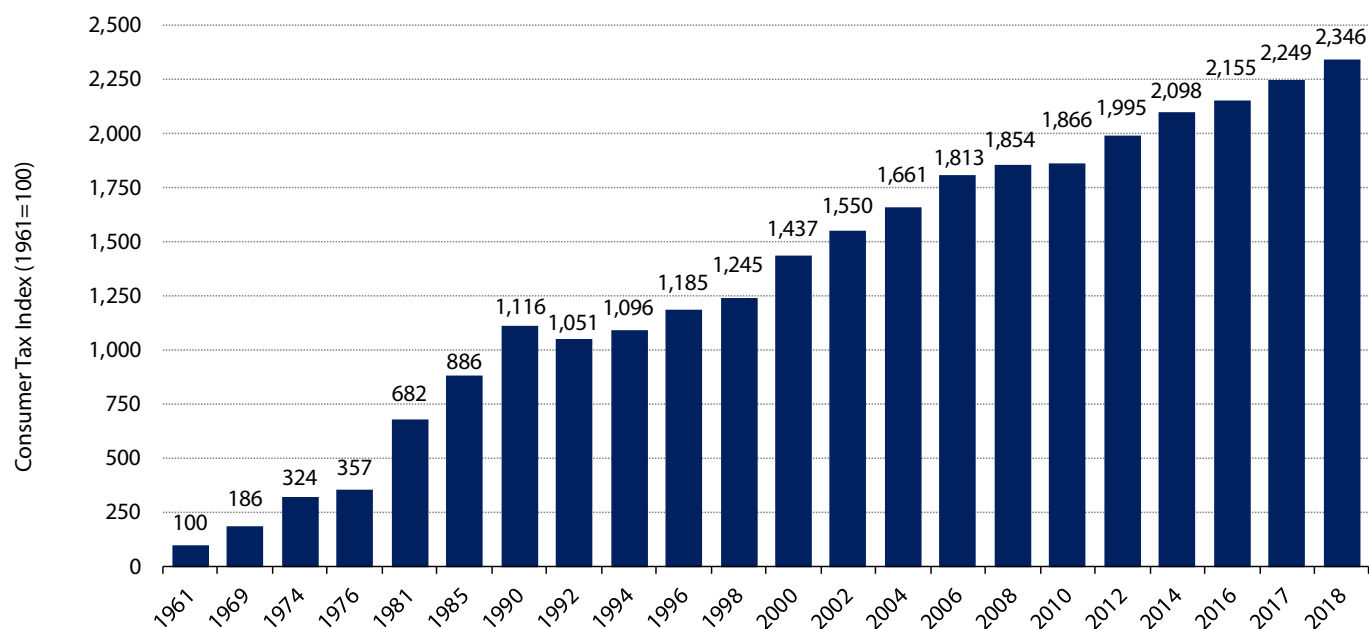
Source: The Fraser Institute's Canadian Tax Simulator, 2019.

nadian family earned an income of \$5,000 and paid \$1,675 in taxes (33.5%). In 2018, the average Canadian family earned an income of \$88,865 and paid a total of \$39,299 in taxes (44.2%).

The basis of the Canadian Consumer Tax Index is the total tax calculation presented in table 2. Specifically, the Canadian Consumer Tax Index

The Canadian Consumer Tax Index, 2019

Figure 1: The Canadian Consumer Tax Index, 1961-2018



Sources: The Fraser Institute's Canadian Tax Simulator, 2019; calculations by authors.

is constructed by dividing the tax bill of an average Canadian family by the average tax bill of an average family in 1961, and then multiplying by 100, for each of the years included in the index. The Canadian Consumer Tax Index has a value of 100 in 1961; in subsequent years, values reflect the percentage increase over the 1961 value. The value of the Canadian Consumer Tax Index for 2018 is 2,346 (figure 1), which indicates that the tax bill of the average Canadian family has increased by 2,246% since 1961.

Part of that increase reflects the effects of inflation. In order to eliminate the portion of the increase that is due to the erosion of purchasing power, we also calculate the tax index in real dollars, that is, in dollars with 2018 purchasing power. While this adjustment has the effect of reducing the steepness of the index's path over time, the inflation-adjusted Consumer Tax Index nevertheless increased by 176.1% over the period (see table 3).

What the Canadian Consumer Tax Index shows

The interaction of a number of factors produced the dramatic increase in the average family's tax bill from 1961 to 2018. Among those factors is, first, a sizeable increase in incomes over the period: 1,677% since 1961. Even with no changes in tax rates, the family's tax bill would have increased substantially; growth in family income alone would have produced an increase in the tax bill from \$1,675 in 1961 to \$29,770 in 2018. Second, the average family faced a tax rate increase from 33.5% in 1961 to 44.2% in 2018.

Balanced Budget Consumer Tax Index

Unfortunately, the federal and provincial governments have reverted to deficits to finance their expenditures in recent years.⁵ Of course,

⁵ In fiscal year 2018/19, the federal and five provincial governments ran operating deficits.

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Table 3: Inflation-adjusted tax bill and percent change since 1961

Year	Tax bill (2018\$)	Percent change since 1961
1961	14,232	—
1969	21,107	48.3
1974	27,642	94.2
1976	25,646	80.2
1981	30,802	116.4
1985	31,410	120.7
1990	31,806	123.5
1992	27,970	96.5
1994	28,589	100.9
1996	29,778	109.2
1998	30,477	114.1
2000	33,651	136.4
2002	34,630	143.3
2004	35,445	149.1
2006	37,130	160.9
2008	36,307	155.1
2010	35,781	151.4
2012	36,632	157.4
2014	37,434	163.0
2016	37,503	163.5
2017	38,533	170.7
2018	39,299	176.1

Sources: The Fraser Institute's Canadian Tax Simulator, 2019; Statistics Canada, 2019a; calculations by authors.

these deficits must one day be paid for by taxes. Deficits should therefore be considered as deferred taxation. Figure 2 shows what the Canadian Consumer Tax Index looks like when the annual deficits of governments are added to the tax bill.

The total tax bill of the average family would be higher than it actually is if, instead of financing

its expenditures with deficits, all Canadian governments had simply increased tax rates to balance their budgets. Indeed, the Canadian Consumer Tax Index would have increased to 2,449 if deferred taxation was added to the average family's total tax bill. Once deferred taxes are included, the tax bill of the average Canadian family has increased by 2,349% since 1961.

Taxes versus the necessities of life

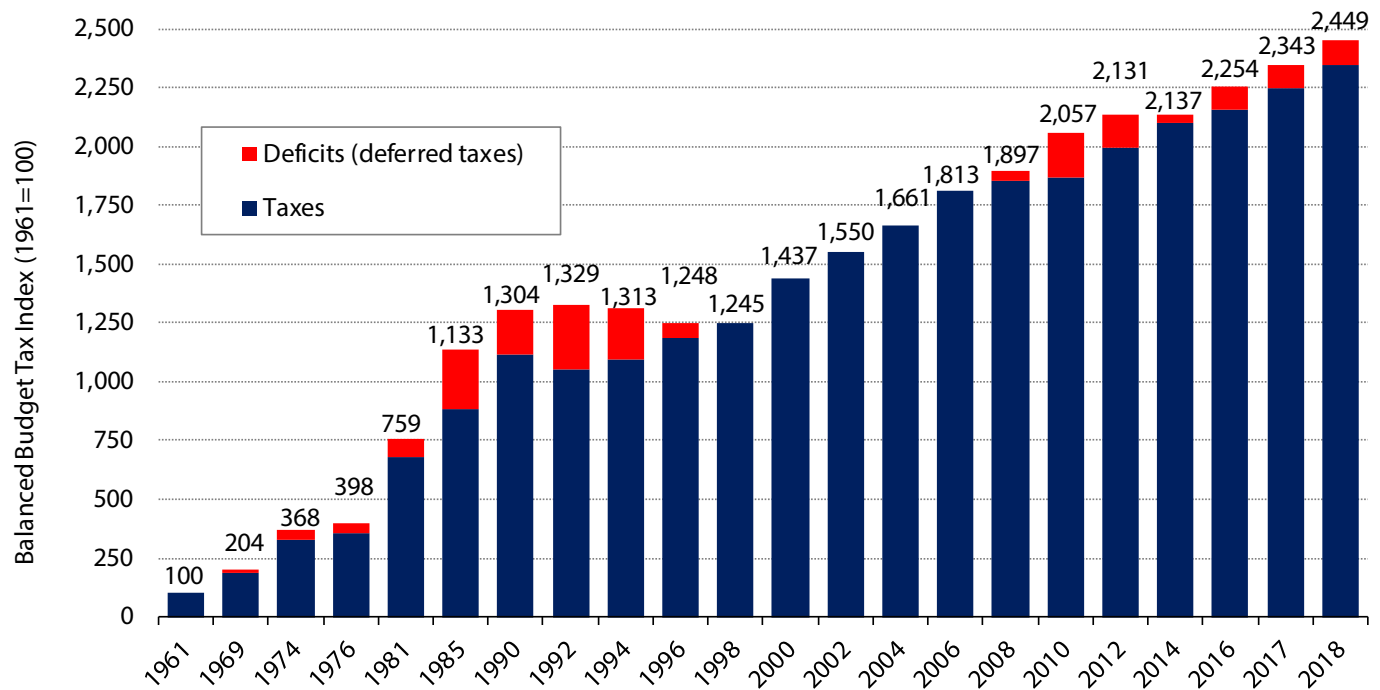
One way to gauge the significance of the increased tax bill on Canadian families is by comparing the evolution of the tax take with the average family's other major expenditures. Table 4 and figure 3 compare family cash income and total taxes paid with the family's expenditures on shelter, food, and clothing. It is clear that taxes have become the most significant item in family budgets, and that taxes have grown more rapidly than any other single item.

In 1961, the average family spent 56.5% of its cash income to pay for shelter, food, and clothing. In the same year, 33.5% of the family's income went to governments as tax. By 1981, the spending demands had roughly evened up: 40.8% of an average family's income went to governments in the form of taxes, while 40.5% was spent to provide it with shelter, food, and clothing. After crossing paths again in 1992, the situation in 2018 is reversed from 1961: the average family spent 36.3% of its income on the necessities of life while 44.2% of its income went to taxes (see figures 4 and 5).

Table 5 and figure 6 show the Canadian Consumer Tax Index relative to income and other expenditure indices. Average cash income rose by 1,677% from 1961 to 2018, overall consumer prices rose by 750%, expenditures on shelter by 1,593%, food by 639%, and clothing by 769%. Meanwhile, the tax bill of the average family grew by 2,246%.

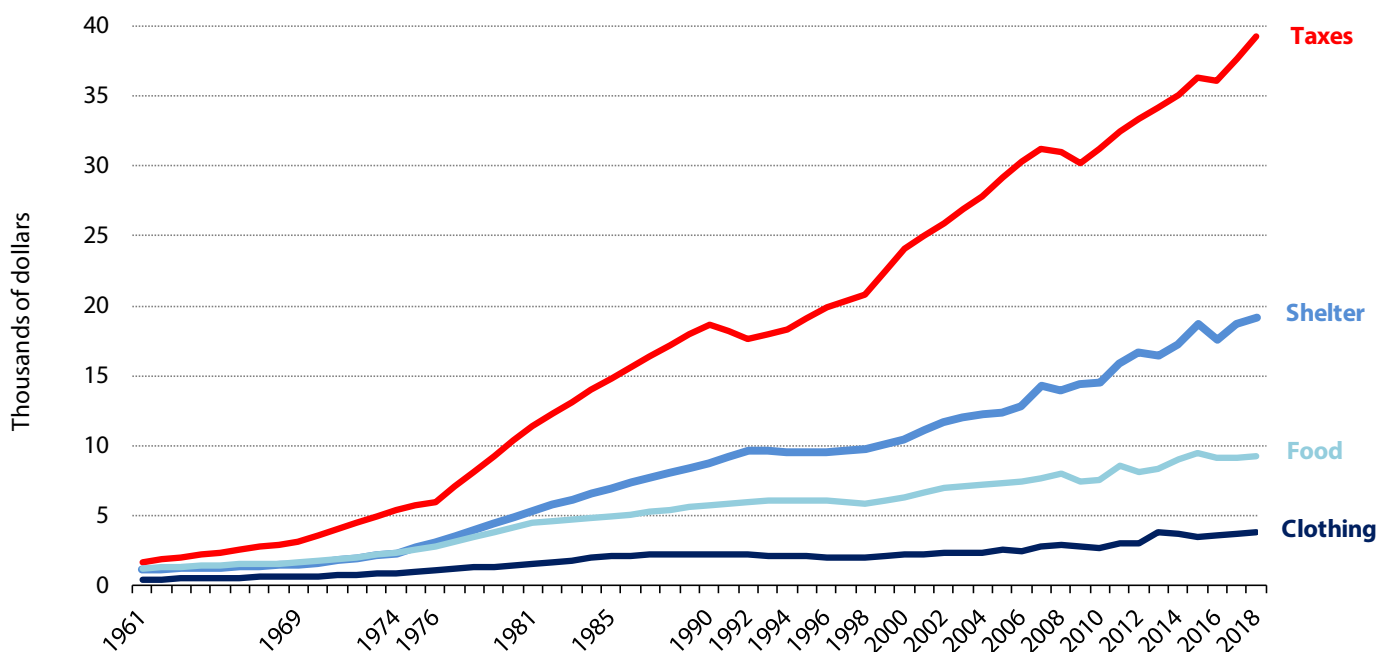
The Canadian Consumer Tax Index, 2019

Figure 2: The Balanced Budget Tax Index, 1961-2018



Sources: The Fraser Institute's Canadian Tax Simulator, 2019; Canada, Department of Finance, 2018; RBC Economics, 2019; calculations by authors.

Figure 3: Taxes and basic expenditures of the average Canadian family, 1961-2018



Source: Table 4.

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Table 4: Income, taxes, and selected expenditures of the average Canadian family (nominal dollars)

Year	Average cash income	Average tax bill	Average expenditures		
			Shelter	Food	Clothing
1961	5,000	1,675	1,130	1,259	435
1969	8,000	3,117	1,497	1,634	654
1974	12,500	5,429	2,294	2,320	886
1976	16,500	5,979	3,134	2,838	1,119
1981	27,980	11,429	5,381	4,440	1,499
1985	32,309	14,834	6,984	4,899	2,141
1990	43,170	18,693	8,776	5,745	2,234
1992	43,516	17,612	9,607	6,024	2,215
1994	44,095	18,366	9,592	6,066	2,116
1996	45,370	19,844	9,577	6,108	2,017
1998	45,668	20,859	9,796	5,890	2,055
2000	51,732	24,065	10,451	6,309	2,194
2002	55,882	25,960	11,690	6,976	2,366
2004	60,039	27,820	12,274	7,225	2,399
2006	66,363	30,366	12,832	7,469	2,476
2008	72,210	31,054	13,930	7,996	2,884
2010	73,750	31,248	14,551	7,551	2,696
2012	77,882	33,419	16,702	8,099	3,069
2014	81,856	35,133	17,281	9,014	3,650
2016	82,722	36,097	17,549	9,110	3,631
2017	85,867	37,666	18,754	9,132	3,750
2018	88,865	39,299	19,134	9,299	3,782

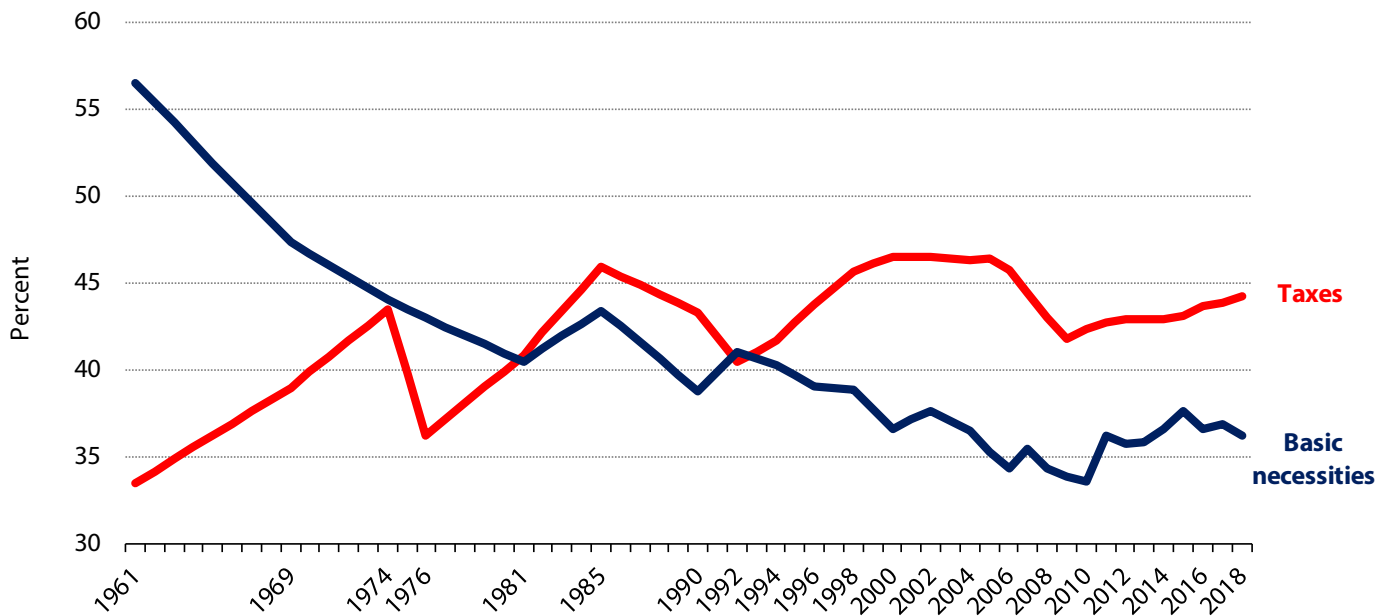
Sources: Statistics Canada (various issues), Urban Family Expenditure; Statistics Canada (various issues), Family Expenditures in Canada; Statistics Canada (various issues), Spending Patterns in Canada; Statistics Canada, 2011-2018, 2019a, and 2019c; The Fraser Institute's Canadian Tax Simulator, 2019; calculations by authors.

Notes:

- (1) All expenditure items include indirect taxes.
- (2) Average shelter expenditures for years prior to 1998 are estimates. The estimate is to take account of a change in the definition of shelter between the Family Expenditure Survey and the Survey of Household Expenditures.
- (3) Expenditures for 2010 were estimated using the results of the 2009 Survey of Household Spending and adjusting final results for inflation.
- (4) Expenditures for 2018 were estimated using the results of the 2017 Survey of Household Spending and adjusting final results for inflation.

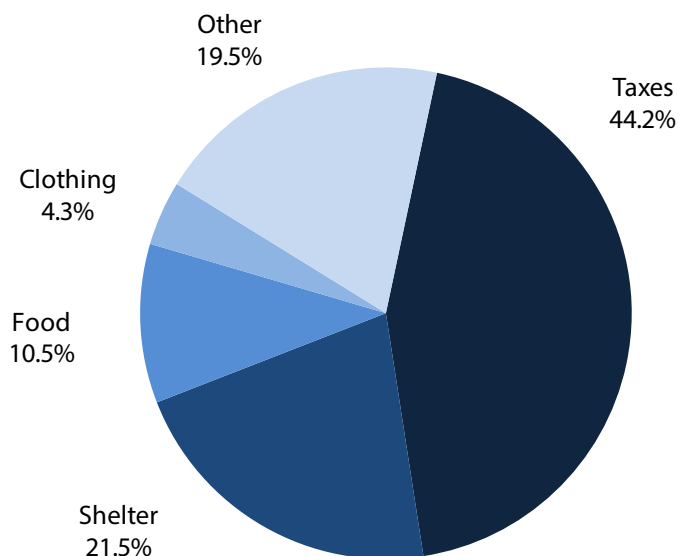
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Figure 4: Taxes and basic necessities as percentage of cash income, 1961-2018



Source: Table 4.

Figure 5: The average Canadian family's expenditures as percentage of cash income, 2018



* "Other expenditures" include household operations (communications, child care expenses, pet expenses), transportation, health care, recreation, education, tobacco products, and alcoholic beverages.

Source: Table 4.

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Table 5: Income, tax, and expenditure indices (1961=100)

Year	Average cash income	Consumer Tax Index	Average Consumer Price Index	Average expenditures		
				Shelter	Food	Clothing
1961	100	100	100	100	100	100
1969	160	186	125	132	130	150
1974	250	324	167	203	184	204
1976	330	357	198	277	225	257
1981	560	682	315	476	353	345
1985	646	886	401	618	389	492
1990	863	1,116	499	776	456	514
1992	870	1,051	535	850	478	509
1994	882	1,096	546	849	482	486
1996	907	1,185	566	847	485	464
1998	913	1,245	582	867	468	472
2000	1,035	1,437	608	925	501	504
2002	1,118	1,550	637	1,034	554	544
2004	1,201	1,661	667	1,086	574	551
2006	1,327	1,813	695	1,135	593	569
2008	1,444	1,854	727	1,232	635	663
2010	1,475	1,866	742	1,287	600	620
2012	1,558	1,995	775	1,478	643	705
2014	1,637	2,098	797	1,529	716	839
2016	1,654	2,155	818	1,552	724	835
2017	1,717	2,249	831	1,659	725	862
2018	1,777	2,346	850	1,693	739	869
Percentage increase 1961-2018	1,677	2,246	750	1,593	639	769

Source: Table 4.

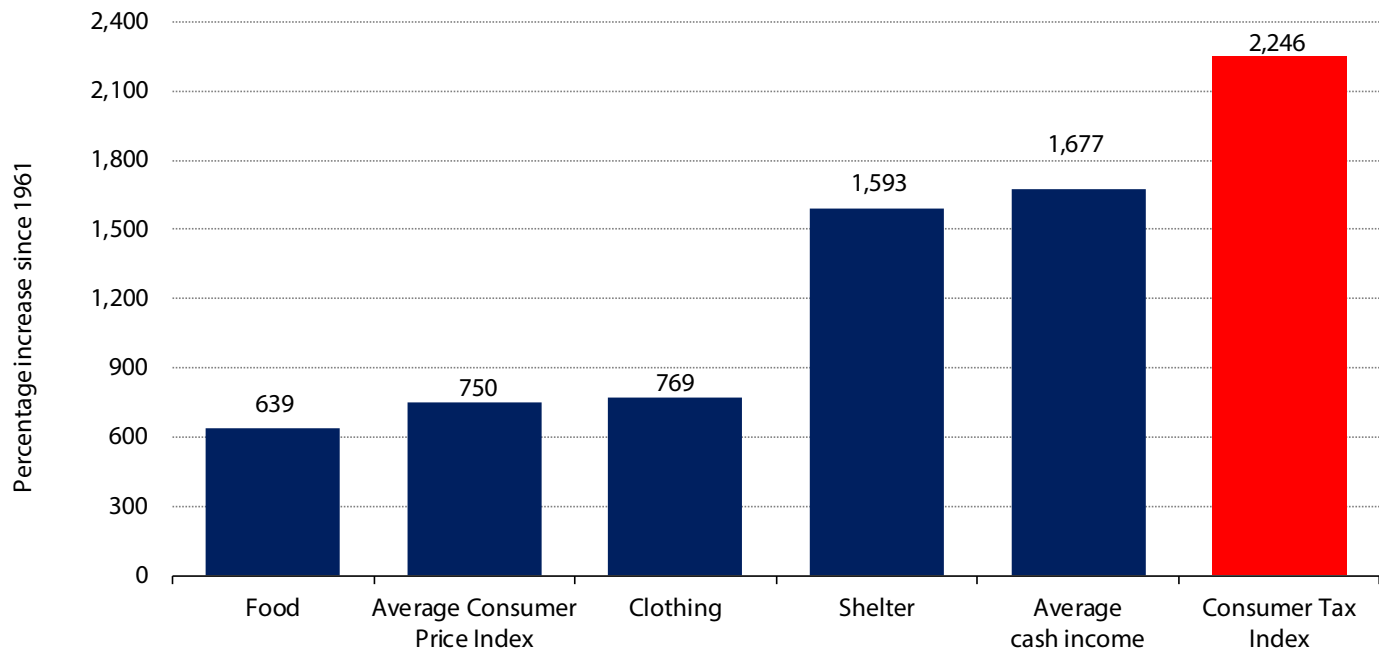
Notes:

(1) All figures in this table are converted to indices by dividing each series in Table 4 by its value in 1961, and then multiplying that figure by 100.

(2) All expenditure items include indirect taxes.

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Figure 6: Increase in the Canadian Consumer Tax Index relative to other indices, 1961-2018



Source: Table 5.

Conclusion

The Canadian Consumer Tax Index tracks the total tax bill paid by a Canadian family with average income from 1961 to 2018. The results show that the tax burden faced by the average Canadian family has risen compared with 57 years earlier. The total tax bill, which includes all types of taxes, has increased by 2,246% since 1961, and the tax bill has grown more rapidly than any other single expenditure item.

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