

June 2013

Canadians Celebrate Tax Freedom Day on June 10, 2013

by Milagros Palacios and Charles Lammam

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 2013, Canadians celebrate Tax Freedom Day on June 10. That is, Canadians will have worked until June 9 to pay the total tax bill imposed on them by all levels of government.
- Tax Freedom Day in 2013 arrives two days later than in 2012, when it fell on June 8.
- The later arrival of Tax Freedom Day in 2013 has been driven primarily by two factors. First, several governments have increased taxes this year. Second, Canada's economy has improved since the recession. As incomes increase, a family's tax burden tends to increase to a greater extent. That is partly due to our progressive tax system and because people's consumption increases, which results in an increase in the amount of sales and other consumption taxes Canadian families pay.
- In 2013, the federal government and six provincial governments expect to run budget deficits. Since today's deficits must one day be paid for by taxes, deficits should be considered as deferred taxation. Had Canadian governments increased taxes to balance their budgets, the average Canadian family would have worked until June 18 to pay the tax bill. In other words, the Balanced Budget Tax Freedom Day arrives on June 19, nine days later than Tax Freedom Day.
- The latest Tax Freedom Day in Canadian history was in 2000, when it fell on June 24, almost two months later than in 1961, the earliest year for which the calculation has been made.
- In 2013, the average Canadian family will earn \$97,254 in income and pay a total of \$42,400 in taxes (43.6 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 19 in Alberta while the latest fell on June 22 in Newfoundland & Labrador.

Introduction

It is nearly impossible for ordinary Canadians to have a clear idea of how much total 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 (EI) and Canadian Pension Plan (CPP) premiums. However, there are a host of other taxes that are not so obvious. 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 is a class of taxes of which Canadians are largely unaware and which are built into the price of goods and services. The most notable of these “hidden” taxes are import duties, gas taxes, excise taxes on tobacco and alcohol, and amusement 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. Although businesses pay

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these taxes directly, the cost of business taxation is ultimately passed onto ordinary Canadians.¹

Table 1: Tax Freedom Days*

| | 1981 | 1985 | 1995 | 2000 ^{re} | 2005 ^{re} | 2009 ^{re} | 2010 ^{re} | 2011 ^{re} | 2012 ^{re} | 2013 ^{pe} |
|----------------------------------|---------------|----------------|----------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Newfoundland & Labrador | May 18 | May 09 | May 24 | June 10 | June 22 | June 18 | June 23 | June 27 | June 24 | June 22 |
| Prince Edward Island | May 06 | June 07 | May 22 | May 30 | June 11 | May 30 | May 30 | June 02 | June 02 | June 04 |
| Nova Scotia | May 11 | May 17 | May 31 | June 09 | June 16 | May 30 | June 05 | June 07 | June 08 | June 10 |
| New Brunswick | May 06 | June 02 | June 01 | June 06 | June 08 | May 28 | May 30 | June 02 | June 03 | June 06 |
| Quebec | June 07 | June 17 | June 09 | July 03 | June 25 | June 05 | June 08 | June 13 | June 15 | June 18 |
| Ontario | May 29 | May 26 | June 08 | June 16 | June 16 | May 30 | June 03 | June 05 | June 07 | June 09 |
| Manitoba | May 17 | May 05 | June 14 | June 16 | June 15 | May 28 | June 01 | June 04 | June 02 | June 06 |
| Saskatchewan | May 24 | May 17 | June 20 | June 27 | June 29 | June 08 | June 11 | June 10 | June 09 | June 11 |
| Alberta | May 30 | May 22 | June 02 | June 21 | June 16 | May 22 | May 22 | May 24 | May 19 | May 19 |
| British Columbia | June 09 | June 16 | June 12 | June 26 | June 22 | May 29 | May 31 | June 03 | June 02 | June 04 |
| Canada | May 30 | June 06 | June 11 | June 24 | June 20 | June 02 | June 04 | June 07 | June 08 | June 10 |
| Without natural resources | | | | | | | | | | |
| Newfoundland & Labrador | May 17 | May 08 | May 23 | June 09 | June 14 | May 27 | May 27 | May 28 | June 01 | May 31 |
| Saskatchewan | May 15 | May 09 | June 13 | June 15 | June 16 | June 02 | June 01 | May 31 | June 01 | June 02 |
| Alberta | May 06 | May 03 | May 24 | May 27 | May 25 | May 15 | May 14 | May 13 | May 13 | May 14 |
| British Columbia | June 06 | June 12 | June 08 | June 18 | June 15 | May 26 | May 28 | May 31 | May 31 | June 01 |
| Canada | May 27 | June 04 | June 09 | June 20 | June 16 | May 31 | June 01 | June 05 | June 06 | June 08 |

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, 2013.

Table 2: Taxes of the Average Family (with two or more individuals), 2013, preliminary estimates (\$ Cdn)

| | Cash income | Income tax | Social security, pension, & health taxes | Sales taxes | Property taxes | Profits tax | Liquor, tobacco, amusement, & other excise taxes | Auto, fuel, & motor vehicle licence taxes | Other taxes | Import duties | Natural resource levies | Total tax bill |
|------------|---------------|---------------|--|--------------|----------------|--------------|--|---|-------------|---------------|-------------------------|----------------|
| NL | 79,265 | 9,956 | 6,062 | 6,014 | 1,763 | 3,703 | 2,433 | 1,092 | 1,302 | 221 | 4,633 | 37,180 |
| PE | 71,739 | 9,730 | 5,898 | 5,786 | 2,576 | 2,371 | 1,999 | 923 | 689 | 219 | 0 | 30,191 |
| NS | 82,701 | 12,509 | 6,646 | 6,941 | 2,736 | 3,238 | 2,349 | 1,071 | 400 | 266 | 48 | 36,205 |
| NB | 77,873 | 10,033 | 6,814 | 5,745 | 3,559 | 2,503 | 2,271 | 1,236 | 549 | 241 | 176 | 33,126 |
| QC | 84,498 | 11,513 | 9,967 | 7,301 | 3,108 | 2,942 | 1,990 | 1,057 | 481 | 273 | 38 | 38,671 |
| ON | 98,528 | 13,357 | 9,970 | 7,025 | 4,414 | 3,855 | 2,040 | 909 | 837 | 331 | 23 | 42,760 |
| MB | 91,152 | 12,909 | 7,366 | 6,706 | 3,085 | 2,957 | 2,784 | 1,011 | 1,646 | 285 | 101 | 38,851 |
| SK | 109,092 | 16,572 | 8,398 | 6,202 | 2,910 | 4,447 | 3,196 | 2,025 | 1,193 | 348 | 2,560 | 47,851 |
| AB | 133,409 | 21,126 | 9,387 | 3,142 | 3,548 | 4,463 | 3,406 | 1,003 | 1,818 | 420 | 2,059 | 50,373 |
| BC | 92,758 | 11,205 | 8,882 | 5,816 | 3,325 | 3,467 | 2,436 | 1,552 | 1,282 | 309 | 696 | 38,970 |
| CDA | 97,254 | 13,512 | 9,599 | 6,723 | 3,720 | 3,627 | 2,342 | 1,132 | 938 | 321 | 486 | 42,400 |

Source: The Fraser Institute's Canadian Tax Simulator, 2013.

Each year, the Fraser Institute calculates Tax Freedom Day to provide a comprehensive and easily understood indicator of the overall tax burden faced by the average Canadian family. This publication presents preliminary calculations for Tax Freedom Day in 2013.²

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 Canadian 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 government prior to Tax Freedom Day.

Taxes used to compute Tax Freedom Day include income taxes, payroll taxes, sales taxes, profit taxes, taxes on the consumption of alcohol and tobacco, gas taxes and motor vehicle licence fees, import duties, natural resource fees, and a host of other levies.

In 2013, Canadians start working for themselves on June 10 (table 1). That is, Canadians must work until June 9 to pay the total tax bill imposed on them by all levels of government. From June 10 to the end of the year, taxpayers can use the income they earn as they please. This represents a two day extension over 2012 when Tax Freedom Day fell on June 8.³

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 at www.fraserinstitute.org.

A later Tax Freedom Day

This year, Tax Freedom Day arrives two days later than in 2012, when it

Table 3: Taxes of the Average Family (with two or more individuals), 2012, revised estimates (\$ Cdn)

| | Cash income | Income tax | Social security, pension, & health taxes | Sales taxes | Property taxes | Profits tax | Liquor, tobacco, amusement, & other excise taxes | Auto, fuel, & motor vehicle licence taxes | Other taxes | Import duties | Natural resource levies | Total tax bill |
|------------|---------------|---------------|--|--------------|----------------|--------------|--|---|-------------|---------------|-------------------------|----------------|
| NL | 76,293 | 9,345 | 5,761 | 5,546 | 1,397 | 4,651 | 2,312 | 1,059 | 1,216 | 219 | 4,965 | 36,470 |
| PE | 71,283 | 9,726 | 5,737 | 5,330 | 2,603 | 2,268 | 2,117 | 1,039 | 693 | 227 | 0 | 29,740 |
| NS | 80,531 | 11,865 | 6,203 | 6,713 | 2,757 | 3,197 | 2,325 | 1,051 | 388 | 267 | 44 | 34,809 |
| NB | 76,430 | 9,404 | 6,430 | 5,779 | 3,581 | 2,418 | 2,217 | 1,238 | 536 | 244 | 191 | 32,038 |
| QC | 82,696 | 11,229 | 9,530 | 7,111 | 3,006 | 2,772 | 1,920 | 983 | 473 | 276 | 31 | 37,331 |
| ON | 96,818 | 12,979 | 9,531 | 6,874 | 4,261 | 3,854 | 2,039 | 893 | 812 | 336 | 23 | 41,602 |
| MB | 89,326 | 12,553 | 6,986 | 6,114 | 3,014 | 2,946 | 2,718 | 1,016 | 1,582 | 289 | 84 | 37,302 |
| SK | 105,612 | 15,989 | 7,889 | 5,953 | 2,840 | 4,436 | 3,029 | 1,965 | 1,163 | 350 | 2,289 | 45,902 |
| AB | 127,623 | 19,988 | 8,825 | 3,040 | 3,420 | 4,436 | 3,403 | 986 | 1,735 | 421 | 2,055 | 48,309 |
| BC | 90,963 | 10,769 | 8,442 | 5,899 | 3,248 | 3,386 | 2,440 | 1,526 | 1,265 | 313 | 634 | 37,922 |
| CDA | 95,091 | 13,056 | 9,117 | 6,556 | 3,637 | 3,604 | 2,312 | 1,099 | 912 | 324 | 473 | 41,090 |

Source: The Fraser Institute's Canadian Tax Simulator, 2013.

fell on June 8. The latest Tax Freedom Day in Canadian history was in 2000, when it fell on June 24, a date almost two months later than in 1961 (May 3), the earliest year for which the calculation has been made.

Tax Freedom Day decreased slightly from 2000 to 2005, from June 24 to June 20. From 2005 to 2009, Tax Freedom Day for the average Canadian family decreased further—from June 20 in 2005, to June 2, in 2009.⁴

There are many reasons for the relatively large reduction in Tax Freedom Day over this period. Prior to the 2008/09 recession, many Canadian governments reduced taxes. For example, the federal government reduced the Goods and Services Tax (GST) rate from 7 percent to 6 percent in 2006 and to 5 percent in

2008. In addition, the federal and many provincial governments reformed their business tax regimes by cutting corporate income and corporate capital taxes. Moreover, some provinces, such as British Columbia and Manitoba, enacted personal income tax relief while Saskatchewan reduced its provincial sales tax.⁵

However, the decline in Tax Freedom Day in both 2008 and 2009 had little to do with either the federal or any provincial government's tax-reducing actions. Tax Freedom Day is determined by the ratio of total taxes to income for average Canadian families. When the economy slows and incomes either stagnate, or worse, decline, the tax burden of those families tends to decrease to a greater extent. The

main 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, they pay proportionately more in taxes. The reverse is also true. It is this reverse phenomenon that drove some of the decrease in Tax Freedom Day in 2008 and 2009.

The Canadian economy rebounded from the 2008/09 recession and Tax Freedom Day has come later each year starting in 2010. As explained above, when the economy recovers and incomes increase, a family's tax burden tends to increase to a greater extent because of our progressive tax system. Household consumption also increases, which results in an increase in the amount

Table 4: Difference in the Average Family's Tax Bill between 2013 and 2012 (\$ Cdn)

| | Cash income | Income tax | Social security, pension, & health taxes | Sales taxes | Property taxes | Profits tax | Liquor, tobacco, amusement, & other excise taxes | Auto, fuel, & motor vehicle licence taxes | Other taxes | Import duties | Natural resource levies | Total tax bill |
|------------|--------------|------------|--|-------------|----------------|-------------|--|---|-------------|---------------|-------------------------|----------------|
| NL | 2,971 | 611 | 301 | 468 | 366 | (948) | 122 | 33 | 87 | 2 | (332) | 709 |
| PE | 456 | 4 | 161 | 456 | (27) | 103 | (118) | (115) | (4) | (8) | 0 | 451 |
| NS | 2,171 | 644 | 442 | 228 | (21) | 41 | 25 | 20 | 13 | (1) | 4 | 1,395 |
| NB | 1,443 | 629 | 384 | (34) | (22) | 84 | 54 | (1) | 13 | (3) | (16) | 1,088 |
| QC | 1,802 | 285 | 437 | 191 | 102 | 170 | 71 | 74 | 8 | (3) | 6 | 1,340 |
| ON | 1,710 | 378 | 438 | 151 | 153 | 0 | 1 | 16 | 25 | (4) | 0 | 1,158 |
| MB | 1,826 | 356 | 380 | 592 | 71 | 11 | 66 | (5) | 64 | (4) | 17 | 1,549 |
| SK | 3,480 | 582 | 509 | 250 | 69 | 11 | 168 | 60 | 31 | (2) | 270 | 1,948 |
| AB | 5,786 | 1,139 | 562 | 102 | 129 | 27 | 3 | 16 | 83 | 0 | 3 | 2,064 |
| BC | 1,795 | 436 | 440 | (83) | 77 | 82 | (4) | 25 | 17 | (4) | 62 | 1,048 |
| CDA | 2,163 | 455 | 483 | 167 | 83 | 23 | 29 | 33 | 26 | (3) | 14 | 1,311 |

Note: Numbers may not add due to rounding.

Source: The Fraser Institute's Canadian Tax Simulator, 2013.

Table 5: Tax Freedom Days including Government Deficits, 2013, Preliminary Estimates

| | Tax Freedom Day | Balanced Budget Tax Freedom Day | Total increase (days) |
|-------------------------|-----------------|---------------------------------|-----------------------|
| Newfoundland & Labrador | June 22 | July 06 | 14 |
| Prince Edward Island | June 04 | June 14 | 10 |
| Nova Scotia | June 10 | June 15 | 5 |
| New Brunswick | June 06 | June 18 | 12 |
| Quebec | June 18 | June 21 | 3 |
| Ontario | June 09 | June 23 | 14 |
| Manitoba | June 06 | June 16 | 10 |
| Saskatchewan | June 11 | June 14 | 3 |
| Alberta | May 19 | May 28 | 9 |
| British Columbia | June 04 | June 09 | 5 |
| Canada | June 10 | June 19 | 9 |

Source: The Fraser Institute's Canadian Tax Simulator, 2013; 2013 federal and provincial budgets; TD Economics, 2013.

Table 6: Average Income and Tax for Three Different Types of Family, 2013, preliminary estimates (\$ Cdn)

1. Families and unattached individuals

| | NL | PE | NS | NB | QC | ON | MB | SK | AB | BC | CDA |
|--|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|--------|
| Avg. Cash Income | 63,397 | 60,787 | 63,815 | 64,630 | 63,548 | 79,256 | 73,490 | 82,977 | 105,573 | 71,659 | 76,214 |
| Total Tax | 27,547 | 25,623 | 26,866 | 26,402 | 28,088 | 34,453 | 30,286 | 35,248 | 39,820 | 30,122 | 32,283 |
| Tax Rate | 43.5% | 42.2% | 42.1% | 40.9% | 44.2% | 43.5% | 41.2% | 42.5% | 37.7% | 42.0% | 42.4% |
| Tax Rate (excluding Natural Resources) | 37.9% | 42.2% | 42.0% | 40.6% | 44.2% | 43.4% | 41.1% | 40.1% | 36.1% | 41.3% | 41.8% |

2. Families with two or more individuals

| | NL | PE | NS | NB | QC | ON | MB | SK | AB | BC | CDA |
|--|--------|--------|--------|--------|--------|--------|--------|---------|---------|--------|--------|
| Avg. Cash Income | 79,265 | 71,739 | 82,701 | 77,873 | 84,498 | 98,528 | 91,152 | 109,092 | 133,409 | 92,758 | 97,254 |
| Total Tax | 37,180 | 30,191 | 36,205 | 33,126 | 38,671 | 42,760 | 38,851 | 47,851 | 50,373 | 38,970 | 42,400 |
| Tax Rate | 46.9% | 42.1% | 43.8% | 42.5% | 45.8% | 43.4% | 42.6% | 43.9% | 37.8% | 42.0% | 43.6% |
| Tax Rate (excluding Natural Resources) | 41.1% | 42.1% | 43.7% | 42.3% | 45.7% | 43.4% | 42.5% | 41.5% | 36.2% | 41.3% | 43.1% |

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

| | NL | PE | NS | NB | QC | ON | MB | SK | AB | BC | CDA |
|--|---------|--------|--------|---------|--------|---------|---------|---------|---------|---------|---------|
| Avg. Cash Income | 103,498 | 77,801 | 91,428 | 100,226 | 97,872 | 114,858 | 100,432 | 124,041 | 151,588 | 108,532 | 113,247 |
| Total Tax | 49,118 | 29,666 | 39,598 | 42,508 | 43,692 | 46,072 | 40,313 | 48,866 | 53,839 | 42,810 | 46,493 |
| Tax Rate | 47.5% | 38.1% | 43.3% | 42.4% | 44.6% | 40.1% | 40.1% | 39.4% | 35.5% | 39.4% | 41.1% |
| Tax Rate (excluding Natural Resources) | 40.6% | 38.1% | 43.2% | 42.1% | 44.6% | 40.1% | 40.0% | 36.8% | 33.8% | 38.5% | 40.5% |

Source: The Fraser Institute's Canadian Tax Simulator, 2013.

of sales and other consumption taxes that Canadian families pay. Business profits also increase during a recovery, which increases the profit taxes that are paid.

Tax Freedom Day also comes later in 2013 because the federal government and some provinces have increased taxes. For example, the federal government increased Employment Insurance premiums; British Columbia increased its monthly Medical Services Plan premiums (health tax), its general corporate income tax rate, and its

highest personal income tax rate; Saskatchewan canceled a scheduled decrease in the general corporate income tax rate; Manitoba increased its Provincial Sales Tax (PST) rate and its financial corporate capital tax rate; Quebec also increased its highest personal income tax rate; New Brunswick increased its general corporate income tax rate and all four of its personal income tax rates; Prince Edward Island increased its small business income tax rate; and seven of ten provinces (British Columbia, Saskatchewan, Manitoba, Quebec,

New Brunswick, Nova Scotia, and Newfoundland & Labrador) increased taxes on tobacco products.

As is the case every year, Tax Freedom Day calculations are based on forecasts of personal income and budget forecasts of federal and provincial 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. If federal and provincial revenue or personal income ends up

Table 7: Breakdown of the Average Family's* Tax Bill by Level of Government, 2013, Preliminary Estimate

| | Federal government | | Provincial government** | | Local government | | Tax bill** |
|-------------------------|--------------------|-----------------|-------------------------|-----------------|------------------|-----------------|---------------|
| | \$ | as a % of total | \$ | as a % of total | \$ | as a % of total | \$ |
| Newfoundland & Labrador | 16,250 | 49.9% | 14,500 | 44.6% | 1,797 | 5.5% | 32,547 |
| Prince Edward Island | 15,364 | 50.9% | 13,848 | 45.9% | 980 | 3.2% | 30,191 |
| Nova Scotia | 18,653 | 51.6% | 14,726 | 40.7% | 2,777 | 7.7% | 36,157 |
| New Brunswick | 17,263 | 52.4% | 13,678 | 41.5% | 2,010 | 6.1% | 32,951 |
| Quebec | 17,912 | 46.4% | 17,580 | 45.5% | 3,141 | 8.1% | 38,634 |
| Ontario | 23,586 | 55.2% | 14,836 | 34.7% | 4,315 | 10.1% | 42,738 |
| Manitoba | 19,824 | 51.2% | 15,875 | 41.0% | 3,052 | 7.9% | 38,750 |
| Saskatchewan | 24,973 | 55.1% | 17,120 | 37.8% | 3,198 | 7.1% | 45,291 |
| Alberta | 31,175 | 64.5% | 14,270 | 29.5% | 2,870 | 5.9% | 48,314 |
| British Columbia | 21,962 | 57.4% | 14,079 | 36.8% | 2,233 | 5.8% | 38,275 |
| Canada | 22,507 | 53.7% | 15,985 | 38.1% | 3,421 | 8.2% | 41,914 |

*The average family with two or more individuals.

**Excludes natural resource levies.

Source: The Fraser Institute's Canadian Tax Simulator, 2013.

lower (or higher) than currently projected, the 2013 Tax Freedom Day will change when the preliminary estimates are revised.⁶

Income and the average family's total tax bill

Table 2 displays the taxes and income of the average family in Canada and in each of the provinces.⁷ In 2013, the average Canadian family (comprising two or more individuals) earned \$97,254 in cash income and paid a total of \$42,400 in taxes.⁸ In other words, the total tax bill of the average Canadian family in 2013 amounted to 43.6 percent of its income (table 8).

The cash income of the average Canadian family increased by 2.3

percent (\$2,163) between 2012 and 2013 (table 4). This compares to a much larger increase in the total tax bill of 3.2 percent (\$1,311).

The largest increase among the myriad taxes came in the form of social security, pension, and health taxes—up \$483 for the average Canadian family (table 4). Other notable increases came in the form of income taxes (\$455), sales taxes (\$167), and property taxes (\$83). The only taxes that decreased between 2012 and 2013 for the average Canadian family were import duties (table 4).

Tax Freedom Day by province

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 fell on May 19 in Alberta; the latest in Newfoundland & Labrador on June 22.

Compared to last year, Tax Freedom Day comes later in 2013 for all but Newfoundland & Labrador and Alberta (table 1). This means that most Canadians are working more for the government and less for themselves and their families. The largest advance in Tax Freedom Day among the provinces is in Manitoba, where Manitobans must wait an additional four days to celebrate Tax Freedom Day. Almost 40 percent of the \$1,549 increase in the total tax bill paid by the average Manitoba family is due to an increase in sales taxes, which is partly driven by an increase to

Table 8: Tax Rates* (percent)

| | 1981 | 1985 | 1995 | 2000 ^{re} | 2005 ^{re} | 2009 ^{re} | 2010 ^{re} | 2011 ^{re} | 2012 ^{re} | 2013 ^{pe} |
|---|-------------|-------------|-------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Newfoundland & Labrador | 37.4 | 34.9 | 38.9 | 43.7 | 47.0 | 45.8 | 47.2 | 48.3 | 47.8 | 46.9 |
| Prince Edward Island | 34.2 | 42.8 | 38.5 | 40.9 | 44.0 | 40.7 | 40.6 | 41.6 | 41.7 | 42.1 |
| Nova Scotia | 35.5 | 37.0 | 40.9 | 43.6 | 45.4 | 40.6 | 42.4 | 42.8 | 43.2 | 43.8 |
| New Brunswick | 34.2 | 41.6 | 41.1 | 42.8 | 43.2 | 40.0 | 40.6 | 41.5 | 41.9 | 42.5 |
| Quebec | 42.9 | 45.6 | 43.5 | 50.2 | 47.9 | 42.4 | 43.1 | 44.4 | 45.1 | 45.8 |
| Ontario | 40.3 | 39.5 | 43.1 | 45.6 | 45.3 | 40.6 | 41.7 | 42.4 | 43.0 | 43.4 |
| Manitoba | 37.2 | 33.8 | 44.7 | 45.5 | 45.1 | 40.2 | 41.2 | 41.9 | 41.8 | 42.6 |
| Saskatchewan | 39.0 | 37.1 | 46.5 | 48.4 | 48.9 | 43.3 | 44.0 | 43.7 | 43.5 | 43.9 |
| Alberta | 40.6 | 38.5 | 41.4 | 46.7 | 45.2 | 38.4 | 38.5 | 39.0 | 37.9 | 37.8 |
| British Columbia | 43.4 | 45.2 | 44.3 | 48.3 | 47.1 | 40.3 | 40.9 | 41.7 | 41.7 | 42.0 |
| Canada | 40.8 | 42.7 | 43.9 | 47.7 | 46.5 | 41.4 | 42.0 | 42.9 | 43.2 | 43.6 |
| <i>Without natural resources</i> | | | | | | | | | | |
| Newfoundland & Labrador | 37.2 | 34.6 | 38.8 | 43.5 | 44.7 | 39.9 | 40.0 | 40.2 | 41.3 | 41.1 |
| Saskatchewan | 36.5 | 34.8 | 44.6 | 45.2 | 45.4 | 41.4 | 41.3 | 40.9 | 41.3 | 41.5 |
| Alberta | 34.2 | 33.3 | 39.1 | 40.1 | 39.4 | 36.5 | 36.3 | 36.1 | 36.2 | 36.2 |
| British Columbia | 42.6 | 44.3 | 43.1 | 46.0 | 45.2 | 39.5 | 40.1 | 40.9 | 41.0 | 41.3 |
| Canada | 39.9 | 42.1 | 43.4 | 46.5 | 45.3 | 40.9 | 41.3 | 42.2 | 42.7 | 43.1 |

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, 2013.

the Provincial Sales Tax (PST) rate from 7.0 percent to 8.0 percent in July 2013. Interestingly, Tax Freedom Day would fall on June 4 instead of June 6 if Manitoba had not opted to raise the PST by one percentage point in July. In other words, the higher PST rate results in Manitobans waiting an additional two days to celebrate Tax Freedom Day in 2013.

Taxpayers in New Brunswick and Quebec wait three extra days to celebrate Tax Freedom Day this year, while those in British Columbia, Saskatchewan, Ontario, Nova Scotia, and Prince Edward Island must delay their celebrations by two days.

In 2013, taxpayers in Alberta celebrate Tax Freedom Day on the same day they did last year, May 19. Newfoundland & Labrador is the only province where Tax Freedom Day comes earlier this year—two days earlier than in 2012. But the province's earlier Tax Freedom Day is not driven by any major provincial tax rate reductions. Rather, it is primarily due to an expected decrease in natural resources revenues. Specifically, the provincial government has forecast a decrease of 6.4 percent in natural resources revenues this year. Natural resources revenues represent about 40 percent of the provinces' total own-source revenues (total revenues minus transfers from the federal government).⁹

There is an unresolved 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 in 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 22 days earlier in Newfoundland & Labrador, nine days earlier in Saskatchewan, five days earlier in Alberta, and three days earlier in British Columbia (table 1).

Table 9: The Distribution of Cash Income and Tax Across Deciles*, and the Average Tax Rate by Decile, 2013, preliminary estimate

| Decile | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Distribution across deciles | | | | | | | | | | |
| Tax | 0.5% | 1.3% | 2.7% | 4.2% | 5.9% | 7.8% | 9.8% | 12.3% | 16.5% | 38.9% |
| Income | 1.6% | 3.2% | 4.4% | 5.5% | 6.8% | 8.3% | 10.1% | 12.6% | 16.0% | 31.5% |
| Average tax rate | | | | | | | | | | |
| | 15.2% | 18.4% | 27.2% | 33.9% | 38.8% | 42.3% | 43.5% | 44.1% | 46.2% | 55.5% |

*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, 2013.

Balanced Budget Tax Freedom Day

Canadians may be thinking about the economic and tax implications of budget deficits since the federal and six provincial governments (including Alberta, Manitoba, Ontario, New Brunswick, Prince Edward Island, and Newfoundland & Labrador) are forecasting budget deficits this year. Specifically, the federal government budgeted for an \$18.7 billion deficit in 2013/14 while the provinces are cumulatively forecasting deficits amounting to \$15.3 billion.¹⁰

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.

Table 5 presents Balanced Budget Tax Freedom Days for Canada and the provinces. Balanced Budget Tax Freedom Day for Canada arrives on June 19, which means that the average Canadian family has to work until June 18 to pay its tax bill if, instead of financing expenditures with deficits, Canadian governments had simply increased taxes to balance their budgets. The Balanced Budget Tax Freedom Day arrives 9 days later than Tax Freedom Day. Among the provinces, the latest Balanced Budget Tax Freedom Day falls on July 6 in Newfoundland & Labrador. Of particular concern is the Balanced Budget Tax Freedom Day in Canada's largest province, Ontario, which arrives on June 23—two weeks later than its 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 67.8 percent of

all taxes and earn 60.0 percent of all income, while the bottom 30 percent of all income earners pay 4.5 percent of all taxes and earn 9.2 percent of all income (table 9). The overall distribution shows that Canada's tax system is effectively progressive and extracts proportionately more money from those on the higher end of the income scale.

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 2013, Canadians celebrate Tax Freedom Day on June 10, two days later than in 2012.

Notes

1 See Clemens and Veldhuis (2003) for a discussion of who actually pays business taxes.

Methodology—How the Fraser Institute’s Canadian Tax Simulator Works

Tax Freedom Days are calculated using the Fraser Institute’s Canadian Tax Simulator. The Canadian Tax Simulator is a model we use to calculate all the taxes paid to the three levels of government by average families. The calculation has two parts. First, we calculate total cash income and then we estimate total taxes paid.

Cash income includes wages and salaries, self-employment income (farm and non-farm), interest, dividends, private and government pension payments, old age pension payments, and other transfers from governments (such as the Universal Child Care Benefit). The sources for this data are Statistics Canada (Provincial Economic Accounts, National Accounts, Investment Income division, farm income series) and the Canada Revenue Agency.

A broader definition of income is *total income before taxes*, which includes cash income plus fringe benefits from employment, value of food from farm, investment income from pension plans and insurance companies, and corporate retained earnings. However, cash income is the appropriate income measure to convey the size of the total tax bill imposed on Canadian families because total income before taxes includes deferred incomes such as investment income accumulated by pension plans, interest accumulated on insurance policies, and corporate retained earnings. While these types of incomes are accumulated, they are not paid to Canadian families in the current year, and thus should not be considered as part of their income for Tax Freedom Day calculations.

The tax calculation consists of adding up the various taxes that Canadian families pay to the three levels of

government: federal, provincial, and local. These include income taxes, property taxes, sales taxes, profit taxes, health, social security, and employment taxes, import duties, licence fees, taxes on the consumption of alcohol and tobacco, natural resource fees, fuel taxes, health taxes, and a host of other levies. The tax data comes from Statistics Canada (System of National Accounts, Government Finance) as well as federal and provincial public accounts and government budgets (for the latest year of analysis).

Statistics Canada’s Social Policy Simulation Database and Model, version 20.0 (SPSD/M), is an important part of the Canadian Tax Simulator; it is used to calculate Tax Freedom Days from 1997 to 2013. SPSD/M helps allocate federal taxes to the provinces as well as cash income and tax shares to an average family.

After the current income and tax totals for each family type is determined, Tax Freedom Day is calculated by dividing total taxes paid in the current year by total cash income. The result is then converted to days of the year, starting from January 1. That date on the calendar is then Tax Freedom Day.

Disclaimer

The assumptions and calculations underlying the SPSD/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.

- 2 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.
- 3 In last year's Tax Freedom Day publication (Palacios et al., 2012), our preliminary calculations estimated a June 11 Tax Freedom Day for 2012. This year we recalculated Tax Freedom Day for 2012 using updated provincial and federal budget numbers and updated data from Statistics Canada. Our revised calculations show that Tax Freedom Day in 2012 actually fell on June 8 (table 1).
- 4 Between 2005 and 2009, Tax Freedom Day fell on: June 19 (2006); June 12 (2007); and June 6 (2008) (The Fraser Institute's Canadian Tax Simulator, 2013).
- 5 A complete delineation of tax changes enacted before the recession is available in Treff and Perry and Treff and Ort, *Finances of the Nation* (various issues).
- 6 As is explained in the methodology section, Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) is an important part of the Fraser Institute's Canadian Tax Simulator for calculating Tax Freedom Day from 1997 to 2013. Statistics Canada's Survey of Labour and Income Dynamics (SLID) is the host database for the SPSPD/M. The latest version of the SPSPD/M (version 20) is based on the 2008 Survey of Labour and Income Dynamics, an update of the 2007 survey used in the previous version (version 19). While The Fraser Institute's methodology has not changed, the change in base year from 2007 to 2008 has led to changes in historical Tax Freedom Days in some provinces. Of note, Tax Freedom Day for the average Alberta family has increased between one and four days, depending on the year. The reason for this change can be

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attributed partly to Alberta's share of total capital and labour income in Canada. Specifically, the change in the base year increased Alberta'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, Alberta received a slightly larger share of federal tax revenue using the updated SPSPD/M.

Historical changes to Tax Freedom Day can also be attributed to differences in investment income data under the two versions of SPSPD/M. For instance, in British Columbia, Manitoba, and Nova Scotia, upper income families earn a larger portion

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of investment income under the current version of SPSPD/M. Capital based taxes such as profit taxes and property taxes are distributed to families based on their share of total investment income. Given that the new version shows that upper income families earned a greater portion of investment income than they did in the previous version for these provinces, a larger portion of capital based taxes are paid by upper income families. The end result is that Tax Freedom Day comes later in the year for upper income earners and earlier in the year for average income earners. In Prince Edward Island, the opposite phenomenon occurs.

In Canada's case, the historical

decreases in Tax Freedom Days occur for a variety of reasons. One of them is the difference in investment income explained above. Another reason is that Statistics Canada recently undertook a revision of National Accounts (NA) reporting from 1981. Although national numbers are available from 1981 onwards, provincial data are only available from 2007. For this reason, data used from 1997 to 2006 are based on estimates using the current national totals. Revised data for the provinces will be available at the end of this year from Statistics Canada.

- 7 The average family income displayed throughout the report is not the true average of all families in a particular jurisdiction. Rather, the average income is determined by a sample of families that excludes those with incomes that are either significantly above or below the average. This is done to adjust for outliers.
- 8 For a definition and explanation of cash income, see the methodology section at the end of this publication.
- 9 In addition, it is important to note that the average family in Newfoundland & Labrador experiences a marked decrease of 20.4 percent in profit taxes in 2013 compared to 2012. The reason is that the

provincial government has forecast a 50 percent decrease in corporate income tax revenues this year.

By contrast, the average family in Newfoundland & Labrador experiences a 26.2 percent increase in property taxes in 2013 compared to last year. Possible reasons include: (1) a 3.7 percent increase expected in local government property tax revenue in 2013; (2) a 4.0 percent increase in investment income, which is used to distribute capital based taxes such as property taxes; and (3) families included in Newfoundland & Labrador's sample to calculate Tax Freedom Day in 2013 earn a larger portion of investment income than those included in the 2012 calculations (since property taxes are distributed to families based on their share of total investment income, families pay a larger portion of property taxes in 2013.)

- 10 The cumulative deficit figure only includes those provinces with forecasted deficits for 2013/14.

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