

Canadians Celebrate Tax Freedom Day on June 14, 2019

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SUMMARY

- In 2019, the average Canadian family will earn \$117,731 in income and pay an estimated \$52,675 in total taxes (44.7%).
- If the average Canadian family had to pay its taxes up front, it would have worked until June 13 to pay the \$52,675 total tax bill imposed on it by all three levels of government (federal, provincial, and local).
- This means that Tax Freedom Day, the day in the year when the average Canadian family has earned enough money to pay the taxes imposed on it, falls on June 14.
- Tax Freedom Day in 2019 comes one day earlier than in 2018, when it fell on June 15. This decline is due to the expectation that the incomes of Canadians will increase more than the total tax revenue forecasted by Canadian governments.
- Tax Freedom Day for each province varies according to the extent of the provincially levied tax burden. The earliest provincial Tax Freedom Day falls on May 27 in Alberta, while the latest falls on July 2 in Newfoundland & Labrador.
- If governments increased taxes to balance their budgets instead of financing expenditures with deficits (which are deferred taxes), Tax Freedom Day would arrive 8 days later. Put differently, the Balanced-Budget Tax Freedom Day arrives on June 22.

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Introduction

It is difficult 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 mandatory 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, fuel taxes, carbon taxes, and excise taxes on tobacco and alcohol. Finally, most Canadians are unaware that they pay their employer’s portion of payroll taxes, such as EI and CPP premiums, and other taxes levied on businesses. Although businesses pay these taxes directly, the cost of business taxation is ultimately passed onto ordinary Canadians.¹

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 2019.²

¹ See Clemens and Veldhuis (2003) for a discussion of who actually pays business taxes and Ebrahimi and Vailancourt (2016) for empirical evidence in Canada on the incidence of business taxes.

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.

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, health taxes, sales taxes, property taxes, profit taxes, taxes on the consumption of alcohol and tobacco, fuel taxes, motor vehicle licence fees, carbon taxes, import duties, natural resource fees, and a host of other levies.

In 2019, Canadians will start working for themselves on June 14 (table 1). That is, Canadians must work until June 13 to pay the total tax bill imposed on them by all levels of government.

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.

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Table 1: Tax Freedom Day

	1981	1985	1995	2000 ^{re}	2005 ^{re}	2010 ^{re}	2015 ^{re}	2018 ^{re}	2019 ^{pe}
Newfoundland & Labrador	May 18	May 09	May 24	June 13	July 02	July 10	June 17	July 03	July 02
Prince Edward Island	May 06	June 07	May 22	June 06	June 14	May 31	June 08	June 11	June 10
Nova Scotia	May 11	May 17	May 31	June 13	June 22	June 10	June 15	June 17	June 17
New Brunswick	May 06	June 02	June 01	June 13	June 13	June 04	June 08	June 15	June 15
Quebec	June 07	June 17	June 09	July 12	July 06	June 24	June 30	June 30	June 28
Ontario	May 29	May 26	June 08	June 19	June 19	June 05	June 09	June 12	June 11
Manitoba	May 17	May 05	June 14	June 19	June 15	June 03	June 04	June 04	June 03
Saskatchewan	May 24	May 17	June 20	June 30	July 04	June 11	May 31	June 02	June 02
Alberta	May 30	May 22	June 02	June 22	June 14	May 22	May 20	May 28	May 27
British Columbia	June 09	June 16	June 12	July 01	June 27	June 09	June 12	June 12	June 10
Canada	May 30	June 06	June 11	June 25	June 25	June 10	June 12	June 15	June 14

Without Natural Resources

Newfoundland & Labrador	May 17	May 08	May 23	June 12	June 23	June 11	June 11	June 23	June 22
Saskatchewan	May 15	May 09	June 13	June 18	June 21	June 01	May 26	May 28	May 29
Alberta	May 06	May 03	May 24	May 29	May 24	May 13	May 18	May 24	May 23
British Columbia	June 06	June 12	June 08	June 22	June 20	June 06	June 10	June 10	June 08
Canada	May 27	June 04	June 09	June 21	June 21	June 08	June 11	June 14	June 12

re = revised estimate; pe = preliminary estimate

Note: Data 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, 2019.

Trends in Tax Freedom Day

The latest Tax Freedom Day in Canadian history was in 2000, when it fell on June 25, almost two months later than in 1961 (May 3), the earliest year for which the calculation has been made. Tax Freedom Day for the average Canadian family decreased from 2000 (June 25) to 2010 (June 10).³

³ 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% to 6% in 2006,

In 2019, Tax Freedom Day arrives on June 14, one day earlier than last year.⁴ This decline is

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

⁴ In last year's Tax Freedom Day publication (Palacios and Lammam, 2018), our preliminary calculations estimated a June 10 Tax Freedom Day for 2018. This year we recalculated Tax Freedom Day for 2018 using updated provincial and federal budget numbers and updated data from Statistics Canada. Our revised calculations show that Tax Freedom Day in 2018 fell on June 15 (table 1).

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Table 2: Taxes of the Average Family (with Two or More Individuals), 2019, Preliminary Estimates (\$CA)

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Cash income	113,251	88,032	100,920	93,401	102,476	124,290	116,591	119,038	129,947	122,018	117,731
Income taxes	20,318	13,970	17,236	13,797	16,523	17,959	17,507	16,463	20,050	17,016	17,894
Payroll & health taxes	8,939	6,455	8,004	7,431	10,832	11,445	8,660	7,785	9,677	10,530	10,738
Sales taxes	9,625	7,383	8,346	7,617	8,427	9,016	8,115	8,791	3,692	7,745	8,164
Property taxes	2,489	2,387	3,565	4,318	4,088	5,572	3,888	3,545	4,683	5,262	4,706
Profits taxes	3,904	3,653	4,099	3,552	4,787	5,049	3,449	4,778	4,037	5,034	4,621
Liquor, tobacco, amusement, & other excise taxes	3,483	2,125	2,532	2,327	2,107	2,334	2,802	2,619	3,137	2,928	2,533
Auto, fuel, motor vehicle licence, & carbon taxes	1,929	953	1,243	1,731	1,400	1,535	1,504	2,172	2,056	1,943	1,658
Other taxes	2,001	1,092	666	851	950	1,280	2,318	1,354	2,490	1,816	1,437
Import duties	459	353	408	369	417	507	445	468	570	508	487
Natural resource levies	3,155	0	16	120	214	27	49	1,516	1,490	694	437
Total tax bill	56,301	38,372	46,116	42,114	49,744	54,727	48,738	49,491	51,882	53,475	52,675

Notes: Payroll taxes include social security and pension deductions; Data 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, 2019.

due to the expectation that the incomes of Canadians will increase more than the total tax revenue forecasted by Canadian governments. For example, in several provinces, forecasts for personal income growth are higher than forecasts for personal income tax revenue, thereby reducing the estimated burden.⁵

Private sector forecasts of personal income growth and federal and provincial budget fore-

casts of how much revenue they will collect are used to estimate Tax Freedom Day for the current year. When final revenue numbers become available at the end of each fiscal year and income data are updated by Statistics Canada, we revise our Tax Freedom Day calculations for previous years. If federal and provincial revenue ends up higher than currently projected, the 2019 Tax Freedom Day will change when the preliminary estimates are revised.⁶

⁵ There have been two noteworthy tax increases this year. At the federal level, the carbon tax was imposed at \$20 per tonne on April 1, 2019 (those proceeds will come from Ontario, New Brunswick, Manitoba, and Saskatchewan). An employer health tax (EHT) was introduced in British Columbia starting January 1, as well as the increase of the BC's carbon tax rate from \$35 to \$40 per tonne as of April 1. In contrast, Manitoba was the only province to decrease any tax rates in 2019, as it reduced the sales tax rate from 8% to 7% effective July 1.

⁶ 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 2019. The latest version of the SPSD/M (version 27.0) is based on the 2015 Canadian Income Survey (CIS). Last year's calculations were based on SPSD/M version 26.0, which used the 2014 CIS. Changes in the SPSD/M resulting from a newer version of the CIS led to changes in historical Tax Freedom Days in some provinces.

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Table 3: Taxes of the Average Family (with Two or More Individuals), 2018, Revised Estimates (\$CA)

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Cash income	110,001	86,658	98,266	91,394	99,989	121,612	115,336	116,751	128,849	118,885	115,132
Income taxes	19,443	13,574	16,264	13,398	15,904	17,366	16,770	15,797	19,871	16,722	17,307
Payroll & health taxes	8,707	6,375	7,800	7,244	10,680	11,208	8,548	7,729	9,608	9,670	10,460
Sales taxes	10,009	7,050	8,108	7,298	8,182	8,983	8,532	8,666	3,647	7,541	8,043
Property taxes	2,364	2,364	3,386	4,160	3,947	5,462	3,816	3,460	4,495	5,014	4,563
Profits taxes	3,920	4,147	4,436	4,010	5,242	5,490	3,941	4,942	4,247	5,881	5,068
Liquor, tobacco, amuse- ment, & other excise taxes	3,399	2,079	2,488	2,318	2,128	2,308	2,805	2,675	3,153	2,911	2,522
Auto, fuel, motor vehicle licence, & carbon taxes	1,824	948	1,218	1,326	1,386	1,240	1,157	1,835	2,070	1,795	1,492
Other taxes	1,937	1,120	656	844	949	1,281	2,297	1,358	2,504	1,761	1,424
Import duties	503	391	445	404	459	562	494	522	635	560	537
Natural resource levies	2,913	0	29	128	214	29	54	1,406	1,579	798	455
Total tax bill	55,020	38,048	44,831	41,129	49,091	53,928	48,414	48,388	51,809	52,653	51,871

Note: Payroll taxes include social security and pension deductions.

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

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 2019, the average Canadian family (with two or more individuals) will earn \$117,731 in cash income and pay a total of \$52,675 in taxes.⁸ Put differently, the total tax bill of the average Canadian family in 2019 will amount to 44.7% of its income (table 8).

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.

Between 2018 and 2019, the total tax bill of the average Canadian family increased by 1.5% (\$803). Meanwhile, cash income increased at a faster rate, by 2.3% (\$2,598) (table 4).

The largest increase among the myriad of taxes comes in the form of income taxes—up \$587 for the average Canadian family (table 4). Other notable increases come in the form of payroll and health taxes (\$278), auto, fuel, motor vehicle licence and carbon taxes (\$166)⁹, property taxes (\$143), and sales taxes (\$121). The taxes that decreased between 2018 and 2019 for the average

⁹ The federal government imposed a carbon tax at \$20 per tonne of greenhouse gas emissions in four provinces. The carbon tax will subsequently rise by \$10 each year until 2022 when it will reach \$50 per tonne. Other provinces such as British Columbia and Quebec already had carbon pricing mechanisms in place prior to the imposition of the federal carbon tax this year.

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Table 4: Difference in the Average Family's Tax Bill between 2019 and 2018 (\$CA)

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Cash income	3,250	1,374	2,654	2,007	2,487	2,678	1,255	2,287	1,099	3,133	2,598
Income taxes	875	396	972	400	619	593	737	666	179	294	587
Payroll & health taxes	232	80	204	188	152	237	112	57	69	860	278
Sales taxes	(384)	333	239	320	245	34	(417)	126	45	204	121
Property taxes	124	24	179	158	141	111	71	85	188	248	143
Profits taxes	(17)	(494)	(337)	(458)	(455)	(440)	(492)	(164)	(210)	(847)	(447)
Liquor, tobacco, amusement, & other excise taxes	83	46	44	9	(21)	27	(3)	(56)	(16)	16	11
Auto, fuel, motor vehicle licence, & carbon taxes	105	5	25	405	13	295	348	336	(14)	148	166
Other taxes	64	(29)	10	8	1	(1)	21	(4)	(14)	55	13
Import duties	(43)	(38)	(38)	(35)	(43)	(54)	(49)	(53)	(65)	(52)	(50)
Natural resource levies	242	0	(13)	(8)	0	(2)	(5)	110	(90)	(104)	(18)
Total tax bill	1,281	324	1,286	985	652	799	324	1,103	73	822	803

Note: Numbers may not add due to rounding.

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

Canadian family were profit taxes (\$447)¹⁰, natural resource levies, and 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 falls on May 27 in Alberta; the latest in Newfoundland & Labrador on July 2.¹¹

¹⁰ In November 2018, the federal government introduced temporary accelerated capital cost allowance (CCA) write-off provisions. Some provinces have also introduced similar provisions in their budgets. As a result, corporate income tax revenues are projected to decline this year.

¹¹ With the absence of budgets prior to the April provincial elections in Alberta and Prince Edward Island, estimates have been calculated for both provinces based on their latest quarterly fiscal updates and historical average growth rates.

Table 5: Tax Freedom Days Including Government Deficits, 2019, Preliminary Estimates

	Tax Freedom Day	Balanced Budget Tax Freedom Day	Total increase (days)
NL	July 2	July 15	13
PE	June 10	June 14	4
NS	June 17	June 22	5
NB	June 15	June 19	4
QC	June 28	June 28	0
ON	June 11	June 21	10
MB	June 3	June 10	7
SK	June 2	June 6	4
AB	May 27	June 12	16
BC	June 10	June 15	5
CDA	June 14	June 22	8

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

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Table 6: Average Income and Tax for Three Different Types of Family, 2019, Preliminary Estimates (\$CA)

1. Families and unattached individuals

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. cash income	84,580	65,245	74,994	74,985	76,910	98,145	91,345	92,118	100,923	91,403	90,641
Total tax	40,670	27,288	33,137	32,765	36,665	43,426	37,738	38,336	39,075	39,414	39,782
Tax rate	48.1%	41.8%	44.2%	43.7%	47.7%	44.2%	41.3%	41.6%	38.7%	43.1%	43.9%
Tax rate (excluding natural resources)	45.2%	41.8%	44.2%	43.6%	47.5%	44.2%	41.3%	40.4%	37.6%	42.6%	43.5%

2. Families with two or more individuals

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. cash income	113,251	88,032	100,920	93,401	102,476	124,290	116,591	119,038	129,947	122,018	117,731
Total tax	56,301	38,372	46,116	42,114	49,744	54,727	48,738	49,491	51,882	53,475	52,675
Tax rate	49.7%	43.6%	45.7%	45.1%	48.5%	44.0%	41.8%	41.6%	39.9%	43.8%	44.7%
Tax rate (excluding natural resources)	46.9%	43.6%	45.7%	45.0%	48.3%	44.0%	41.8%	40.3%	38.8%	43.3%	44.4%

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

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. cash income	146,069	109,293	125,119	127,305	124,994	152,649	132,366	134,534	141,383	143,623	140,049
Total tax	72,609	46,893	54,473	56,833	56,956	61,311	54,057	53,241	52,019	58,424	58,190
Tax rate	49.7%	42.9%	43.5%	44.6%	45.6%	40.2%	40.8%	39.6%	36.8%	40.7%	41.5%
Tax rate (excluding natural resources)	46.5%	42.9%	43.5%	44.5%	45.3%	40.1%	40.8%	38.0%	35.5%	40.0%	41.1%

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

Although seven provinces experienced an earlier Tax Freedom Day, this is not the result of tax reductions in most of these provinces.¹² In fact, Manitoba was the only province to decrease any tax rates in 2019, reducing its sales tax rate from 8% to 7% effective July 1.

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 ten days earlier in Newfoundland & Labrador, four days earlier in Saskatchewan and Alberta, and two days earlier in British Columbia (table 1).

¹² In each of these seven provinces, growth in income for the average family outpaces the growth in the total tax bill for 2019.

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Table 7: Breakdown of the Average Family's Tax Bill by Level of Government, 2019, preliminary estimate

	Federal		Provincial		Local		Tax bill
	\$	% of total	\$	% of total	\$	% of total	\$
NL	28,142	53.0%	22,420	42.2%	2,584	4.9%	53,146
PE	20,737	54.0%	16,822	43.8%	813	2.1%	38,372
NS	24,464	53.1%	18,032	39.1%	3,604	7.8%	46,100
NB	22,302	53.1%	17,125	40.8%	2,568	6.1%	41,994
QC	22,316	45.1%	23,060	46.6%	4,154	8.4%	49,530
ON	29,953	54.8%	19,447	35.6%	5,300	9.7%	54,700
MB	25,823	53.0%	18,916	38.9%	3,950	8.1%	48,689
SK	27,055	56.4%	17,270	36.0%	3,649	7.6%	47,975
AB	32,061	63.6%	14,390	28.6%	3,941	7.8%	50,392
BC	29,413	55.7%	20,178	38.2%	3,191	6.0%	52,781
CDA	27,789	53.2%	20,222	38.7%	4,226	8.1%	52,238

Notes:

(1) The average family with two or more individuals.

(2) The total tax bill presented on this table excludes natural resource levies. For this reason, this differs from the one shown on table 2.

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

Balanced Budget Tax Freedom Day

Canadians may be thinking about the economic and tax implications of budget deficits since the federal government and three provinces (Ontario, Manitoba, and Alberta) are forecasting budget deficits this year.¹³ Specifically, the federal government alone is projecting a \$19.8 billion deficit this year while the provinces are

cumulatively forecasting deficits amounting to \$18.6 billion.¹⁴

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 22. Put differently, if governments had to

¹³ British Columbia, Quebec, Nova Scotia, Saskatchewan, and Prince Edward Island are expecting to balance their operating budgets but will still accumulate net debt because these provinces separate their annual spending (the operating budget) from long-term spending (the capital budget). For further discussion, see Wen (2014). Alberta and Prince Edward Island's budgetary balances are estimated due to the absence of a provincial budget prior to the April elections in both provinces.

¹⁴ The cumulative deficit figure only includes those provinces with forecasted deficits for 2019/20.

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Table 8: Tax Rates (percent)

	1981	1985	1995	2000 ^{re}	2005 ^{re}	2010 ^{re}	2015 ^{re}	2018 ^{re}	2019 ^{pe}
Newfoundland & Labrador	37.4	34.9	38.9	44.6	49.6	51.8	45.5	50.0	49.7
Prince Edward Island	34.2	42.8	38.5	42.8	44.9	41.1	43.2	43.9	43.6
Nova Scotia	35.5	37.0	40.9	44.7	46.9	43.7	45.1	45.6	45.7
New Brunswick	34.2	41.6	41.1	44.8	44.6	42.0	43.3	45.0	45.1
Quebec	42.9	45.6	43.5	52.7	50.8	47.6	49.1	49.1	48.5
Ontario	40.3	39.5	43.1	46.3	46.2	42.3	43.5	44.3	44.0
Manitoba	37.2	33.8	44.7	46.4	45.2	41.9	42.2	42.0	41.8
Saskatchewan	39.0	37.1	46.5	49.2	50.3	44.0	40.9	41.4	41.6
Alberta	40.6	38.5	41.4	47.2	44.9	38.4	37.8	40.2	39.9
British Columbia	43.4	45.2	44.3	49.6	48.4	43.5	44.3	44.3	43.8
Canada	40.8	42.7	43.9	48.0	47.8	43.7	44.4	45.1	44.7
Without Natural Resources									
Newfoundland & Labrador	37.2	34.6	38.8	44.4	47.2	43.9	44.0	47.4	46.9
Saskatchewan	36.5	34.8	44.6	46.0	46.7	41.3	39.7	40.2	40.3
Alberta	34.2	33.3	39.1	40.6	39.0	36.1	37.3	39.0	38.8
British Columbia	42.6	44.3	43.1	47.2	46.4	42.7	43.6	43.6	43.3
Canada	39.9	42.1	43.4	46.8	46.7	43.1	44.1	44.7	44.4

re = revised estimate; pe = preliminary estimate

Note: Data 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, 2019.

increase taxes to balance their budgets instead of financing expenditures with deficits, Tax Freedom Day would arrive 8 days later.

Among the provinces, the latest Balanced Budget Tax Freedom Day occurs in Newfoundland & Labrador and falls on July 15, which is 13 days later than Tax Freedom Day.¹⁵ Notably, the Bal-

¹⁵ Newfoundland & Labrador is projecting a large surplus for 2019/20 at \$1.9 billion. However, their 2019/20 surplus is primarily a result of the accrual of the guaranteed revenue stream secured by the province, as part of the recently updated Atlantic Accord agreement. The province used accrual accounting to record the entire \$2.5 billion that they will receive over a 38-year period during this fiscal year. Without that Accord boost, Newfoundland would have run a significant deficit of around \$575 million instead. Therefore, the budgetary balance for Newfoundland

anced Budget Tax Freedom Day is considerably later for several other provinces including Alberta (16 days), Ontario (10 days), and Manitoba (7 days later) than their Tax Freedom Days.

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. Only the top 20% of income earners in Canada pay a higher share of all taxes than their share of all income earned.

in 2019/20 was adjusted to evenly spread out the money from the Accord over the 38-year period. After making the adjustment, Newfoundland & Labrador will record a deficit this year.

Table 9: The Distribution of Cash Income and Tax across Deciles, and the Average and Marginal Tax Rates by Decile, 2019, Preliminary Estimate

Decile	1	2	3	4	5	6	7	8	9	10
<i>Distribution across deciles</i>										
Tax	0.4%	1.4%	2.7%	4.4%	5.9%	7.9%	9.9%	12.6%	16.7%	38.1%
Income	1.5%	3.1%	4.3%	5.5%	6.9%	8.5%	10.4%	12.8%	16.4%	30.6%
Average tax rate	13.5%	20.1%	29.4%	37.1%	40.0%	43.0%	44.3%	45.6%	47.3%	57.8%
<i>Marginal tax rates when moving from a lower to a higher decile</i>										
		1 → 2	2 → 3	3 → 4	4 → 5	5 → 6	6 → 7	7 → 8	8 → 9	9 → 10
		26.5%	54.7%	65.3%	51.2%	55.4%	50.6%	51.0%	53.4%	69.8%

Notes:

(1) 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.

(2) Deciles may not sum to 100% due to rounding.

(3) The marginal tax rate is the change in the average tax paid by decile relative to the change in average income, when moving from one decile to a higher decile.

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

Specifically, the top 20% pays 54.8% of all taxes while earning 47.0% of all income. At the other end of the income spectrum, the bottom 20% pays 1.8% of all taxes despite earning 4.7% 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, in effect penalizing hard work and economic success.

Marginal versus average tax rates

The tax rate that someone faces on the next dollar of income that he or she earns is referred to as the "marginal tax rate." It can differ dramatically from the average tax rate, which is the rate that we are most accustomed to thinking about. Table 9 shows both marginal and average rates for different income levels in 2019.

It is this marginal tax rate that enters into people's decisions about how much to work. When someone decides whether or not to work an extra hour, she asks herself how much extra she will earn and how much extra tax she will pay. She does not consider how much tax she is paying on average, because this does not reflect the true return to any extra effort she may wish to provide.

As table 9 shows, these rates jump considerably as one moves from the second to the third income group, reflecting that initially it is very costly to work because one rapidly loses social assistance. The reason for this result is that many social assistance payments are reduced (the gains are "clawed back") once the recipient starts earning income. In effect, these claw-backs can cause the tax rate on the first few dollars of earned income to be very high. This

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effect fades in the middle-income brackets but rises again at higher levels of income due to the effect of increasing progressivity.

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 2019, Canadians will celebrate Tax Freedom Day on June 14, one day earlier than last year.

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, 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 Canada Child 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, the value of food from farms, investment income from pension plans and insurance companies, and corporate retained earnings. However, cash in-

come 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, payroll taxes, health taxes, sales taxes, property taxes, profit taxes, fuel taxes, vehicle taxes, carbon taxes, import duties, liquor taxes, tobacco taxes, amusement taxes, natural resource fees, 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 27.0 (SPSD/M), is an important part of the Canadian Tax Simulator; it is used to calculate Tax Freedom Days from 1997 to 2019. 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 are 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.

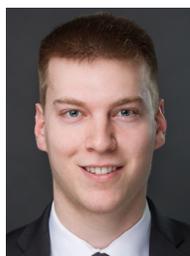
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Disclaimer

The assumptions and calculations underlying the SPSS/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.

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