

June 2010

# Canadians Celebrate Tax Freedom Day on June 5, 2010

## 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 2010, Canadians celebrate Tax Freedom Day on June 5. That is, Canadians will have worked until June 4 to pay the total tax bill imposed on them by all levels of government.
- Tax Freedom Day in 2010 arrives three days later than in 2009, when it fell on June 2.
- The later arrival of Tax Freedom Day in 2010 is primarily due to Canada's improving economy following the country's emergence from the recession of 2009. When the economy recovers and incomes increase, a family's tax burden tends to increase to a greater extent. That is partly because consumption increases, which results in an increase in the amount of sales and other consumption taxes Canadian families pay.
- In 2010, the federal government and all 10 provincial governments expect to run budget deficits. Today's deficits must one day be paid for by taxes. Therefore, deficits should be considered as deferred taxation. Had Canadian governments increased tax rates to balance their budgets, the average Canadian family would have worked until June 29 to pay the tax bill. In other words, the Balanced Budget Tax Freedom Day arrives on June 30, 25 days later than Tax Freedom Day.
- The latest Tax Freedom Day in Canadian history was in 2005, when it fell on June 23, almost two months later than in 1961, the earliest year for which the calculation has been made.
- Between 2005 and 2009, Tax Freedom Day for the average Canadian family decreased steadily.
- In 2010, the average Canadian family earned \$92,754 in income and paid a total of \$39,141 in taxes (42.2 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.

## 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 the “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



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

	1981	1985	1995 <sup>re</sup>	2000 <sup>re</sup>	2005 <sup>re</sup>	2009 <sup>re</sup>	2010 <sup>pe</sup>
Newfoundland & Labrador	May 18	May 9	May 24	June 7	June 24	June 15	June 12
Prince Edward Island	May 6	June 7	May 22	June 8	June 13	May 23	May 26
Nova Scotia	May 11	May 17	May 31	June 12	June 20	May 28	June 4
New Brunswick	May 6	June 2	June 1	June 10	June 11	May 24	May 26
Quebec	June 7	June 17	June 9	July 3	June 30	June 4	June 7
Ontario	May 29	May 26	June 8	June 15	June 15	May 29	May 31
Manitoba	May 17	May 5	June 14	June 22	June 21	May 29	May 30
Saskatchewan	May 24	May 17	June 20	June 28	July 6	June 11	June 16
Alberta	May 30	May 22	June 2	June 18	June 14	May 16	May 19
British Columbia	June 9	June 16	June 12	June 24	June 25	June 2	June 5
Canada	May 30	June 6	June 11	June 23	June 23	June 2	June 5
<i>Without Natural Resources</i>							
Newfoundland & Labrador	May 17	May 8	May 23	June 6	June 16	May 25	May 21
Saskatchewan	May 15	May 9	June 13	June 17	June 23	June 5	June 7
Alberta	May 6	May 3	May 24	May 26	May 24	May 10	May 12
British Columbia	June 6	June 12	June 8	June 16	June 18	May 30	June 2
Canada	May 27	June 4	June 9	June 19	June 19	May 31	June 3

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, 2010.

**Table 2: Taxes of the Average Family (with two or more individuals), 2010, preliminary 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	73,629	8,623	5,460	2,379	1,171	5,147	1,529	188	2,515	4,377	1,165	32,554
PE	73,899	9,681	5,908	2,161	1,127	5,843	1,990	208	1,564	0	682	29,163
NS	78,181	11,146	6,158	2,325	1,078	5,395	2,889	236	3,073	222	436	32,958
NB	77,232	9,652	5,492	2,131	1,140	5,532	3,782	212	2,038	102	565	30,646
QC	77,738	10,765	5,782	1,768	870	7,492	3,205	229	2,721	4	465	33,300
ON	96,746	13,500	6,801	2,024	921	8,861	3,749	309	2,603	18	871	39,658
MB	88,184	12,616	6,261	2,750	870	6,036	2,980	260	2,532	49	1,522	35,875
SK	89,220	13,930	5,198	2,835	1,792	5,838	3,204	270	4,009	2,130	1,156	40,361
AB	129,421	23,054	3,475	3,755	962	8,307	2,473	433	2,027	2,434	1,960	48,879
BC	85,194	10,641	5,432	2,547	1,246	7,143	3,959	280	2,592	824	1,438	36,102
CDA	92,754	13,356	6,230	2,314	1,044	8,100	3,606	293	2,746	478	974	39,141

Source: The Fraser Institute's Canadian Tax Simulator, 2010.

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 2010.

## Tax Freedom Day

Tax Freedom Day is the day in the year 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 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 2010, Canadians start working for themselves on June 5 (table 1). That is, Canadians worked until June 4 to pay the total tax bill imposed on them by all levels of government. From June 5 to the end of the year, taxpayers can keep all the income they earn. This represents a three day decline over

2009 when Tax Freedom Day fell on June 2.

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](http://www.fraserinstitute.org).

**Table 3: Taxes of the Average Family (with two or more individuals), 2009, revised estimates (\$ Cdn)**

	Cash Income	Income tax	Sales taxes	Liquor, tobacco, amuse- ment, & 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	70,800	7,999	5,138	2,318	1,140	5,128	1,295	188	3,503	4,034	1,101	31,846
PE	71,975	8,977	5,698	2,100	1,109	5,838	1,904	208	1,341	0	644	27,820
NS	76,808	10,562	5,347	2,338	1,075	5,471	2,643	235	2,611	140	431	30,852
NB	75,419	9,446	5,202	2,031	1,133	5,565	3,485	212	1,809	97	522	29,502
QC	77,753	10,504	5,519	1,791	837	7,645	3,170	236	2,536	(2)	436	32,671
ON	93,836	12,676	6,264	2,007	914	8,690	3,895	309	2,292	17	801	37,865
MB	85,688	12,016	5,958	2,651	863	6,083	2,946	260	2,421	55	1,440	34,693
SK	88,066	13,337	5,059	2,673	1,760	5,870	3,067	273	4,035	1,628	1,110	38,812
AB	126,990	21,617	3,346	3,849	955	8,451	2,316	441	2,019	2,007	1,801	46,802
BC	84,162	10,205	5,115	2,480	1,129	7,128	3,873	285	2,690	694	1,398	34,997
CDA	90,938	12,721	5,852	2,297	1,012	8,130	3,543	297	2,545	391	912	37,700

Source: The Fraser Institute's Canadian Tax Simulator, 2010.

## A later Tax Freedom Day

This year, Tax Freedom Day arrives three days later than in 2009, when it fell on June 2. The latest Tax Freedom Day in Canadian history was in 2005 (shared with 2000), when it fell on June 23. Between 2005 and 2009, Tax Freedom Day for the average Canadian family steadily decreased. In 2010, the trend reversed.

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.

The later arrival of Tax Freedom Day in 2010 is primarily due to Canada's improving economy following the country's emergence from the recession of 2009.

When the economy recovers and incomes increase, the family tax burden also tends to increase, but to a greater extent than incomes. The accelerated increase in the tax burden compared to income is due to the progressive nature of the Canadian tax system. Progressivity means that as people earn more income, they pay proportionately more tax. This phenomenon is one of the reasons for a later Tax Freedom Day in 2010.

In addition, other cyclically-related tax increases result in a later Tax Freedom Day during an economic

recovery. For example, household consumption increases, which results in an increase in the amount of sales and other consumption taxes that Canadian families pay. Business profits also increase during a recovery, which necessarily increases the profit taxes these businesses pay. These types of tax changes were completely the reverse in 2008/2009 when the economy was in recession.

Several provinces also increased taxes in 2010, which contributed to the later Tax Freedom Day. For example, Quebec increased several taxes (i.e., gas and mining taxes) and introduced a new health tax in 2010; British Columbia increased its health tax (Medical Services Plan premiums); Saskatchewan increased tobacco and alcohol taxes;

**Table 4: Difference in the Average Family's Tax Bill between 2010 and 2009 (\$ Cdn)**

	Cash Income	Income tax	Sales taxes	Liquor, tobacco, amuse- ment, & 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	2,830	624	321	62	31	19	234	0	(989)	343	64	708
PE	1,925	704	209	61	17	5	86	0	223	0	37	1,343
NS	1,373	584	811	(13)	3	(76)	246	1	462	83	6	2,106
NB	1,813	206	291	100	7	(34)	297	0	228	5	43	1,143
QC	(16)	261	263	(23)	33	(153)	34	(7)	185	6	28	629
ON	2,910	824	537	17	8	171	(146)	1	311	1	70	1,793
MB	2,496	600	303	99	7	(47)	34	0	111	(7)	82	1,182
SK	1,154	593	139	162	31	(32)	137	(2)	(26)	502	46	1,549
AB	2,431	1,437	128	(94)	7	(143)	156	(8)	8	427	159	2,077
BC	1,032	437	317	67	117	15	86	(4)	(98)	130	39	1,105
CDA	1,816	634	378	17	32	(29)	63	(3)	201	87	61	1,441

Note: numbers may not add due to rounding.

Source: The Fraser Institute's Canadian Tax Simulator, 2010.

**Table 5: Tax Freedom Days including Government Deficits, 2010, Preliminary Estimates**

	Tax Freedom Day	Balanced Budget Tax Freedom Day	Impact of Federal and Provincial Government Deficits on Tax Freedom Day		
			Total increase (days)	Federal	Provincial
Newfoundland & Labrador	June 12	June 29	17	13	4
Prince Edward Island	May 26	June 16	22	17	5
Nova Scotia	June 4	June 26	21	18	3
New Brunswick	May 26	June 26	30	17	13
Quebec	June 7	June 25	18	13	5
Ontario	May 31	July 3	33	18	15
Manitoba	May 30	June 22	23	18	5
Saskatchewan	June 16	July 4	18	16	2
Alberta	May 19	June 16	27	18	9
British Columbia	June 5	June 29	24	20	4
Canada	June 5	June 30	25	15	10

Note: Numbers may not add due to rounding

Source: The Fraser Institute's Canadian Tax Simulator, 2010; 2010 provincial budgets.

**Table 6: Average Income and Tax for Three Different Types of Family, 2010, preliminary estimates (\$ Cdn)**

**1. Families and unattached individuals**

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. Cash Income	61,708	60,202	60,896	61,449	60,223	77,207	69,933	69,274	100,881	66,491	72,393
Total Tax	26,671	22,016	25,540	23,567	25,109	32,211	27,944	29,135	38,001	28,292	29,913
Tax Rate	43.2%	36.6%	41.9%	38.4%	41.7%	41.7%	40.0%	42.1%	37.7%	42.6%	41.3%
Tax Rate (excluding Natural Resources)	37.4%	36.6%	41.7%	38.2%	41.7%	41.7%	39.9%	39.8%	35.7%	41.6%	40.8%

**2. Families with two or more individuals**

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. Cash Income	73,629	73,899	78,181	77,232	77,738	96,746	88,184	89,220	129,421	85,194	92,754
Total Tax	32,554	29,163	32,958	30,646	33,300	39,658	35,875	40,361	48,879	36,102	39,141
Tax Rate	44.2%	39.5%	42.2%	39.7%	42.8%	41.0%	40.7%	45.2%	37.8%	42.4%	42.2%
Tax Rate (excluding Natural Resources)	38.3%	39.5%	41.9%	39.5%	42.8%	41.0%	40.6%	42.8%	35.9%	41.4%	41.7%

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

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. Cash Income	101,847	73,695	95,795	88,664	95,295	118,011	101,651	103,697	149,525	93,755	111,687
Total Tax	49,756	25,611	39,005	32,934	39,374	44,267	38,857	41,880	54,658	35,808	43,786
Tax Rate	48.9%	34.8%	40.7%	37.1%	41.3%	37.5%	38.2%	40.4%	36.6%	38.2%	39.2%
Tax Rate (excluding Natural Resources)	41.7%	34.8%	40.4%	37.0%	41.3%	37.5%	38.2%	37.7%	34.4%	37.0%	38.6%

Source: The Fraser Institute's Canadian Tax Simulator, 2010.

Manitoba also increased its tobacco tax; and Nova Scotia increased income taxes and its sales tax rate.

As is the case every year, Tax Freedom Day calculations are based on forecasts of personal income, and on 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>1</sup> If federal and provincial revenue or personal income ends up lower (or higher) than currently projected, the 2010 Tax Freedom Day will change when the preliminary estimates are revised.

**Income and the average family's total tax bill**

Table 2 reveals the taxes and income of the average family in Canada and in each of the provinces. In 2010, the

average Canadian family (comprising two or more individuals) earned \$92,754 in income and paid a total of \$39,141 in taxes. In other words, the total tax bill of the average Canadian family in 2010 amounted to 42.2 percent of cash income<sup>2</sup> (table 8).

The cash income of the average Canadian family increased by 2.0 percent (\$1,816) between 2009 and 2010 (tables 2, 3, 4). This compares to a much bigger increase of 3.8 percent (\$1,441) in the total tax bill. The

## 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 16.2 (SPSD/M), is an important part of this model for the 1992 through 2010 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.

largest increase among the myriad taxes was to income taxes, up \$634 for the average Canadian family (see table 4). Other notable increases came in the form of sales taxes (\$378) and profit taxes (\$201). Only social security, pension, medical and hospital taxes, and import duties paid by the average Canadian family decreased between 2009 and 2010 (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 fell on May 19 in Alberta, while the latest date was in Saskatchewan on June 16.

All Canadian provinces, except Newfoundland & Labrador, saw their Tax Freedom Day increase between 2009 and 2010, which means that most

**Table 7: Breakdown of the Average Family's\* Tax Bill by Level of Government, 2010, preliminary estimate (\$ Cdn)**

	Federal government	Provincial government**	Municipal government	Tax bill**
Newfoundland & Labrador	13,663	12,942	1,572	28,177
Prince Edward Island	14,779	13,618	766	29,163
Nova Scotia	16,655	13,136	2,944	32,736
New Brunswick	15,278	13,032	2,233	30,544
Quebec	14,827	15,241	3,228	33,296
Ontario	21,939	13,977	3,724	39,639
Manitoba	18,187	14,644	2,996	35,826
Saskatchewan	19,523	15,167	3,540	38,231
Alberta	31,123	13,089	2,233	46,445
British Columbia	19,892	12,781	2,606	35,278
Canada	20,525	14,806	3,332	38,663

\*The average family with two or more individuals.

\*\*Excludes natural resource levies.

Source: The Fraser Institute's Canadian Tax Simulator, 2010.

citizens are working more for the government and less for themselves and their families this year (table 1). As a result of significant tax increases enacted in its 2010 budget, taxpayers in Nova Scotia celebrate Tax Freedom Day seven days later than in 2009, the largest increase in Tax Freedom Day among the provinces. Taxpayers in Saskatchewan celebrate five days later, while Alberta, British Columbia, Prince Edward Island, and Quebec celebrate three days later. Taxpayers in Ontario and New Brunswick celebrate two days later than in 2009. Manitoba had the smallest increase: its Tax Freedom Day arrives one day later than in 2009.<sup>3</sup>

Among the provinces, only Newfoundland & Labrador saw a decrease in Tax Freedom Day: three days earlier than in 2009. The decrease in that province's Tax Freedom day is being driven primarily by a significant decline in corporate income tax revenues.<sup>4</sup>

Increases in natural resource levies contributed to the increase in Tax Freedom Days in the West (see table 4). 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

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

	1981	1985	1995 <sup>re</sup>	2000 <sup>re</sup>	2005 <sup>re</sup>	2009 <sup>re</sup>	2010 <sup>pe</sup>
Newfoundland & Labrador	37.4	34.9	38.9	43.2	47.5	45.0	44.2
Prince Edward Island	34.2	42.8	38.5	43.3	44.5	38.7	39.5
Nova Scotia	35.5	37.0	40.9	44.3	46.5	40.2	42.2
New Brunswick	34.2	41.6	41.1	43.8	44.1	39.1	39.7
Quebec	42.9	45.6	43.5	50.2	49.3	42.0	42.8
Ontario	40.3	39.5	43.1	45.3	45.0	40.4	41.0
Manitoba	37.2	33.8	44.7	47.2	46.8	40.5	40.7
Saskatchewan	39.0	37.1	46.5	48.9	50.7	44.1	45.2
Alberta	40.6	38.5	41.4	46.2	44.8	36.9	37.8
British Columbia	43.4	45.2	44.3	47.7	47.7	41.6	42.4
Canada	40.8	42.7	43.9	47.5	47.3	41.5	42.2
<i>Without Natural Resources</i>							
Newfoundland & Labrador	37.2	34.6	38.8	42.9	45.2	39.3	38.3
Saskatchewan	36.5	34.8	44.6	45.7	47.2	42.2	42.8
Alberta	34.2	33.3	39.1	39.7	39.0	35.3	35.9
British Columbia	42.6	44.3	43.1	45.6	45.8	40.8	41.4
Canada	39.9	42.1	43.4	46.4	46.2	41.0	41.7

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, 2010.

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 and Labrador, 9 days earlier in Saskatchewan, 7 days earlier in Alberta, and 3 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, 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

n Manitoba and Quebec, come earlier than would be the case without these transfers. Conversely, Tax Freedom Days in the traditional "have" provinces of 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, all Canadian federal and provincial governments are forecasting budget deficits for 2010; the

federal government budgeted for a \$49.2 billion deficit in 2010/11 while the provinces are cumulatively forecasting deficits amounting to \$31.7 billion.

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 9: The Distribution of Cash Income and Tax Across Deciles\*, and the Average Tax Rate by Decile, 2010, preliminary estimate**

Decile	1	2	3	4	5	6	7	8	9	10
<i>Distribution across deciles</i>										
Tax	0.6%	1.4%	2.7%	4.4%	6.1%	8.0%	10.2%	12.5%	16.3%	37.8%
Income	1.5%	3.3%	4.5%	5.6%	6.9%	8.5%	10.3%	12.7%	16.1%	30.5%
<i>Average Tax Rate</i>										
	16.3%	18.9%	26.6%	33.6%	38.2%	40.4%	42.8%	42.7%	43.9%	53.6%

\*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, 2010.

**Table 10: 2010 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 19	Prince Edward Island	42.9%
New Brunswick	May 26	New Brunswick	38.1%
Prince Edward Island	May 26	Manitoba	36.7%
Manitoba	May 30	Nova Scotia	36.6%
Ontario	May 31	Quebec	23.4%
Nova Scotia	June 4	Ontario	22.2%
British Columbia	June 5	Newfoundland & Labrador	20.1%
Quebec	June 7	British Columbia	19.6%
Newfoundland & Labrador	June 12 (May 21 when natural resources are excluded)	Saskatchewan	17.1%
Saskatchewan	June 16	Alberta	15.0%

\*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, 2010; 2010 provincial budgets.

Table 5 presents Balanced Budget Tax Freedom Days for Canada and the provinces. Balanced Budget Tax Freedom Day arrives on June 30, which means that the average Canadian family would have to work until June 29 to pay its 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 25 days later than Tax Freedom Day. Fifteen of the 25 days are due to the federal deficit and the remainder to the provincial deficits. The latest Balanced Budget Tax Freedom Day will fall on July 4<sup>th</sup> in Saskatchewan, over two weeks 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 66.6 percent of all taxes and earn 59.3 percent of all income, while the bottom 30

percent of all income earners pay 4.8 percent of all taxes and earn 9.3 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 2010, Canadians celebrate Tax Freedom Day on June 5, three days later than in 2009.

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We offer particular thanks to the Lotte & John Hecht Memorial Foundation for its generous support of the Fraser Institute's Personal Tax Freedom Day Calculator available at [www.fraserinstitute.org](http://www.fraserinstitute.org).

## Notes

- 1 For example, in our 2009 Tax Freedom Day Fraser Alert (Palacios and Veldhuis, 2009), our preliminary calculations estimated a June 6 Tax Freedom Day for 2009. This year we recalculated Tax Freedom Day for 2009 using updated provincial and federal budget numbers and updated data from Statistics Canada. Our revised calculations show that Tax Freedom Day in 2009 actually fell on June 2 (table 1).
- 2 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 universal child care benefit). 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. Cash income is the appropriate income measure to convey the size of the total tax bill imposed on Canadian families.

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### Editing, design, and production

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First, total income before taxes includes deferred incomes such as investment income accumulated by pension plans, interest accumulated on insurance policies and corporate retained earnings. In other words, 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.

Second, total income before taxes includes adjustments for income that are taxed before Canadians receive it. For example, shareholders receive dividends from corporations' after tax profits. In the absence of corporate taxes, dividend payments to Canadian families and thus their incomes would be significantly

higher. The same applies to wages which would have been higher in the absence of payroll taxes levied on Canadian firms.

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 2010 Tax Freedom Days. Statistics Canada's Survey of Labour and Income Dynamics (SLID) is the host database for the SPSD. For this year's calculations, we used version 16.2 of the SPSD/M, which is based on the 2004 Survey of Labour and Income Dynamics. This new version of the SPSD/M is an update of the one used to calculate Tax Freedom Days in 2009 (version

16.1). While the Fraser Institute's methodology has not changed, the update in the SPSD has led to changes in historical Tax Freedom Days.

4 Corporate income tax and corporate capital tax are forecasted at \$312 million in 2010/11, a 51.3 percent decrease from 2009/10 primarily the result of lower corporate profits.

## Reference

Palacios, Milagros and Niels Veldhuis (2009). *Canadians Celebrate Tax Freedom Day on June 6*. Fraser Alert (June). Fraser Institute. < [http://www.fraserinstitute.org/commerce.web/product\\_files/TaxFreedomDay2009.pdf](http://www.fraserinstitute.org/commerce.web/product_files/TaxFreedomDay2009.pdf)>, as of May 25, 2010.