

June 2011

## Canadians Celebrate Tax Freedom Day on June 6, 2011

by Milagros Palacios and Niels Veldhuis

### 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 2011, Canadians celebrate Tax Freedom Day on June 6. That is, Canadians will have worked until June 5 to pay the total tax bill imposed on them by all levels of government.
- Tax Freedom Day in 2011 arrives two days later than in 2010, when it fell on June 4.
- The later arrival of Tax Freedom Day in 2011 is primarily due to Canada's improving economy. When the economy recovers and 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 of consumption increases, which result in an increase in the amount of sales and other consumption taxes Canadian families pay.
- In 2011, the federal government and most 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 21 to pay the tax bill. In other words, the Balanced Budget Tax Freedom Day arrives on June 22, 16 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 2011, the average Canadian family earned \$93,831 in income and paid a total of \$39,960 in taxes (42.6 percent).
- Tax Freedom Day for each province varies according to the extent of the provincially levied tax burden. The earliest provincial Tax Freedom Day fell on May 18 in Alberta.

## Introduction

It is nearly impossible for an ordinary Canadian 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 and Canadian Pension Plan 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 they pay would require them to track all of their

purchases over the course of a year. Further, there exists a class of taxes of which Canadians are largely unaware and which are built into the price of goods and services. The most significant of these “hidden” taxes are import duties, excise taxes on tobacco and alcohol, amusement taxes, and gas taxes. Finally, most Canadians are unaware that they pay the employers’ portion of payroll taxes such as EI and CPP premiums and other taxes levied on businesses.<sup>1</sup> 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	2000 <sup>re</sup>	2005 <sup>re</sup>	2009 <sup>re</sup>	2010 <sup>re</sup>	2011 <sup>pe</sup>
Newfoundland & Labrador	May 18	May 9	May 24	June 7	June 23	June 17	June 20	June 19
Prince Edward Island	May 6	June 7	May 22	June 1	June 8	May 24	May 25	May 27
Nova Scotia	May 11	May 17	May 31	June 11	June 18	May 30	June 6	June 7
New Brunswick	May 6	June 2	June 1	June 5	June 7	May 26	May 29	May 31
Quebec	June 7	June 17	June 9	July 4	June 26	June 3	June 6	June 10
Ontario	May 29	May 26	June 8	June 14	June 15	June 1	June 3	June 4
Manitoba	May 17	May 5	June 14	June 20	June 21	May 29	May 31	June 1
Saskatchewan	May 24	May 17	June 20	June 26	July 3	June 6	June 6	June 6
Alberta	May 30	May 22	June 2	June 18	June 15	May 17	May 16	May 18
British Columbia	June 9	June 16	June 12	June 25	June 24	June 2	June 4	June 6
Canada	May 30	June 6	June 11	June 24	June 21	June 1	June 4	June 6
<b>Without Natural Resources</b>								
Newfoundland & Labrador	May 17	May 8	May 23	June 6	June 15	May 26	May 24	May 24
Saskatchewan	May 15	May 9	June 13	June 15	June 21	May 30	May 27	May 27
Alberta	May 6	May 3	May 24	May 24	May 25	May 10	May 9	May 11
British Columbia	June 6	June 12	June 8	June 16	June 17	May 30	June 1	June 3
Canada	May 27	June 4	June 9	June 19	June 17	May 30	June 2	June 4

re = revised estimate; pe = preliminary estimate

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

Source: The Fraser Institute’s Canadian Tax Simulator, 2011.

**Table 2: Taxes of the average family (with two or more individuals), 2011 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	68,128	8,175	5,316	2,173	1,026	4,713	1,156	204	2,773	4,889	1,100	31,525
PE	72,909	9,114	5,596	2,200	1,060	5,579	2,380	224	2,132	0	714	28,998
NS	77,829	11,038	6,521	2,270	1,010	5,283	2,856	256	3,490	142	450	33,317
NB	78,135	10,039	5,670	2,279	1,243	5,902	3,416	235	2,511	190	571	32,056
QC	81,398	10,733	6,552	1,833	905	8,567	3,317	256	2,964	39	493	35,660
ON	95,776	12,498	6,734	1,971	880	8,768	4,652	317	3,680	20	851	40,373
MB	89,173	12,521	6,165	2,829	894	6,468	2,985	278	2,939	88	1,640	36,807
SK	99,127	13,106	5,657	2,838	1,797	6,741	3,103	311	4,647	2,734	1,189	42,122
AB	120,970	18,870	3,264	3,404	903	8,640	2,643	412	2,948	2,410	1,769	45,264
BC	85,745	10,149	5,818	2,428	1,399	7,728	3,466	295	3,222	797	1,309	36,611
CDA	93,831	12,668	6,441	2,297	1,054	8,558	3,751	311	3,361	555	965	39,960

Source: The Fraser Institute's Canadian Tax Simulator, 2011.

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 2011.<sup>2</sup>

## Tax Freedom Day

Tax Freedom Day is the day in the year by which 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, 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 2011, Canadians start working for themselves on June 6 (table 1). That is, Canadians worked until June 5 to pay the total tax bill imposed on them by all levels of government. This represents a two day additional burden over 2010 when Tax Freedom Day fell on June 4.<sup>3</sup>

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 each of us must 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).

## A later Tax Freedom Day

This year, Tax Freedom Day arrives two days later than in 2010, when it fell on June 4. The latest Tax

**Table 3: Taxes of the average family (with two or more individuals), 2010 revised estimates (\$ Cdn)**

	Cash income	Income tax	Sales taxes	Liquor, tobacco, amusement, & other excise taxes	Auto, fuel, & motor vehicle licence taxes	Social security, pension, medical, & hospital taxes	Property taxes	Import duties	Profits tax	Natural resource levies	Other taxes	Total tax bill
NL	66,023	8,021	4,937	2,187	1,010	4,633	1,064	188	2,625	4,872	1,057	30,593
PE	70,998	8,775	5,465	2,009	1,031	5,462	2,366	208	1,961	0	662	27,941
NS	75,981	10,854	6,148	2,314	1,030	5,223	2,739	239	3,275	218	421	32,461
NB	76,330	9,677	5,540	2,166	1,086	5,800	3,277	218	2,420	163	549	30,896
QC	79,215	10,238	5,849	1,830	849	8,355	3,238	238	2,753	11	467	33,827
ON	93,416	11,941	6,524	2,023	887	8,665	4,528	297	3,399	18	843	39,126
MB	87,185	12,105	6,036	2,727	890	6,420	2,875	261	2,629	73	1,614	35,631
SK	95,343	12,326	5,517	2,868	1,757	6,640	3,016	288	4,564	2,513	1,155	40,643
AB	117,790	17,603	3,222	3,414	822	8,608	2,580	388	2,751	2,314	1,663	43,365
BC	84,276	9,756	5,628	2,469	1,286	7,614	3,442	277	3,042	713	1,325	35,552
CDA	91,492	12,118	6,107	2,316	1,012	8,420	3,664	290	3,130	520	942	38,518

Source: The Fraser Institute's Canadian Tax Simulator, 2011.

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

Tax Freedom Day decreased slightly from 2000 to 2005, receding from June 24 to June 21.

From 2005 to 2009, Tax Freedom Day for the average Canadian family decreased further from June 21 in 2005, to June 1 in 2009. There are many reasons for the relatively large retreat in Tax Freedom Day over this period.

Prior to the 2008/2009 recession, the federal government and many provinces reduced taxes. For example, taxpayers benefited from the reductions in the Goods and Services

Tax (GST) rate from 7 percent to 6 percent in 2006 and to 5 percent in 2008. In addition, provinces such as British Columbia enacted personal income tax relief; Saskatchewan reduced its corporate income and capital taxes and reduced its provincial sales tax; and Manitoba cut its middle personal income tax rate and small and large corporate income tax rate.<sup>4</sup>

However, much of the decline in Tax Freedom Day in both 2008 and 2009 had nothing to do with either federal or provincial government tax reductions. Tax Freedom Day is a comparison of income and total taxes for average Canadian families. When the economy slows and incomes either stagnate, or worse, decline (as was the case during the 2008/09 economic

recession), the tax burden of those families tends to be reduced to a greater extent. This accelerated decrease in the tax burden compared to income is a result of 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 drove some of the decrease (improvement) in Tax Freedom Day in 2008 and 2009.

In addition, other cyclically-related tax reductions help improve Tax Freedom Day during an economic downturn. For example, reductions in consumption by families decrease the amount of sales and other consumption taxes they pay.

**Table 4: Difference in the average family's tax bill between 2011 and 2010 (\$ 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	2,104	154	380	-14	17	80	92	15	147	17	43	931
PE	1,911	339	130	191	29	117	13	15	171	0	51	1,057
NS	1,848	184	374	-44	-20	59	117	17	215	-76	29	856
NB	1,805	362	130	113	157	101	139	17	91	27	22	1,159
QC	2,183	496	703	4	56	212	79	18	212	28	26	1,832
ON	2,360	557	210	-52	-7	104	124	20	281	2	8	1,247
MB	1,988	417	129	102	4	48	109	17	310	15	26	1,177
SK	3,784	780	140	-30	40	101	87	23	83	222	34	1,479
AB	3,179	1,267	42	-10	81	32	63	25	197	97	106	1,898
BC	1,469	393	190	-42	113	114	24	18	180	84	-16	1,059
CDA	2,339	550	335	-19	42	138	87	21	231	36	23	1,442

Note: numbers may not add due to rounding.

Source: The Fraser Institute's Canadian Tax Simulator, 2011.

**Table 5: Tax Freedom Days including government deficits, 2011, 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 19	June 25	6	7	-1
Prince Edward Island	May 27	June 8	12	8	4
Nova Scotia	June 7	June 21	14	9	5
New Brunswick	May 31	June 16	16	9	7
Quebec	June 10	June 21	10	6	4
Ontario	June 4	June 26	22	10	12
Manitoba	June 1	June 14	13	9	4
Saskatchewan	June 6	June 12	6	7	-1
Alberta	May 18	June 2	15	9	6
British Columbia	June 6	June 18	12	10	2
Canada	June 6	June 22	16	9	7

Note: Numbers may not add due to rounding

Source: The Fraser Institute's Canadian Tax Simulator, 2011; 2011 provincial budgets.

**Table 6: Average income and tax for three different types of family, 2011, preliminary estimates (\$ Cdn)**

<b>1. Families and unattached individuals</b>											
	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. Cash Income	57,235	61,965	60,548	63,766	62,080	77,750	70,481	78,466	96,516	66,561	74,233
Total Tax	25,495	23,830	25,022	25,342	26,026	32,896	28,203	31,868	35,003	27,894	30,792
Tax Rate	44.5%	38.5%	41.3%	39.7%	41.9%	42.3%	40.0%	40.6%	36.3%	41.9%	41.5%
Tax Rate (excluding Natural Resources)	37.8%	38.5%	41.2%	39.5%	41.9%	42.3%	39.9%	37.9%	34.2%	41.0%	40.9%
<b>2. Families with two or more individuals</b>											
	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. Cash Income	68,128	72,909	77,829	78,135	81,398	95,776	89,173	99,127	120,970	85,745	93,831
Total Tax	31,525	28,998	33,317	32,056	35,660	40,373	36,807	42,122	45,264	36,611	39,960
Tax Rate	46.3%	39.8%	42.8%	41.0%	43.8%	42.2%	41.3%	42.5%	37.4%	42.7%	42.6%
Tax Rate (excluding Natural Resources)	39.1%	39.8%	42.6%	40.8%	43.8%	42.1%	41.2%	39.7%	35.4%	41.8%	42.0%
<b>3. Families of four (parents and two children under 18)</b>											
	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. Cash Income	91,676	87,978	87,673	97,194	97,690	109,921	89,551	117,962	131,430	94,690	107,054
Total Tax	45,711	34,866	35,331	38,612	41,519	43,270	33,097	45,369	48,649	37,655	42,661
Tax Rate	49.9%	39.6%	40.3%	39.7%	42.5%	39.4%	37.0%	38.5%	37.0%	39.8%	39.9%
Tax Rate (excluding Natural Resources)	41.0%	39.6%	40.1%	39.4%	42.4%	39.3%	36.8%	35.3%	34.6%	38.6%	39.1%

Source: The Fraser Institute's Canadian Tax Simulator, 2011.

In 2010 and 2011 the economy rebounded and Canadians saw Tax Freedom Day arrive later in both years. 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 of sales and other consumption taxes that Canadian families pay. Business profits also increase during a recovery, which increases the profit taxes businesses pay. This is reflected on

the provincial and federal government tax revenue forecasts for this year. For instance, the federal government is forecasting a substantial increase of almost 6 percent in personal income tax revenues and 12 percent in corporate income tax revenues from 2010/11 to 2011/12.

Unfortunately, some provinces also increased taxes in 2011, which contributed to the later Tax Freedom Day. For example, Quebec increased its provincial sales tax rate, its health tax (introduced in 2010), and gas and mining taxes;

British Columbia increased its monthly Medical Services Plan premium (health tax); New Brunswick increased its fuel and tobacco tax; Manitoba also increased its tobacco tax; and Prince Edward Island increased its cigarette tax.

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



**Table 7: Breakdown of the average family's\* tax bill by level of government, 2011 preliminary estimate (\$ Cdn)**

	Federal government		Provincial government**		Municipal government		Tax bill**
	\$	as a % of total	\$	as a % of total	\$	as a % of total	\$
Newfoundland & Labrador	13,329	50.0%	12,114	45.5%	1,193	4.5%	26,635
Prince Edward Island	14,885	51.3%	13,195	45.5%	918	3.2%	28,998
Nova Scotia	17,076	51.5%	13,184	39.7%	2,915	8.8%	33,175
New Brunswick	16,482	51.7%	13,418	42.1%	1,966	6.2%	31,866
Quebec	16,297	45.8%	15,979	44.9%	3,345	9.4%	35,620
Ontario	22,037	54.6%	13,754	34.1%	4,561	11.3%	40,352
Manitoba	18,704	50.9%	15,031	40.9%	2,985	8.1%	36,719
Saskatchewan	20,662	52.5%	15,299	38.8%	3,427	8.7%	39,388
Alberta	28,570	66.7%	12,066	28.2%	2,218	5.2%	42,853
British Columbia	20,521	57.3%	12,973	36.2%	2,321	6.5%	35,814
Canada	21,156	53.7%	14,757	37.4%	3,493	8.9%	39,405

\*The average family with two or more individuals.

\*\*Excludes natural resource levies.

Source: The Fraser Institute's Canadian Tax Simulator, 2011.

Statistics Canada, we revise our Tax Freedom Day calculations for previous years. If federal and provincial revenue or personal income ends up lower (or higher) than currently projected, the 2011 Tax Freedom Day will change when the preliminary estimates are revised.

## 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. In 2011, the average Canadian family (comprising two or more individuals) earned \$93,831 in income and paid a total of \$39,960 in taxes. (See table 6 for the average income and tax for three different

family types.) In other words, the average Canadian family's total tax bill in 2011 amounted to 42.6 percent of cash income<sup>5</sup> (See table 7 for a breakdown of the average family's tax bill by level of government, and table 8 for the tax rates).

The cash income of the average Canadian family increased by 2.6 percent between 2010 and 2011 (tables 2, 3, 4). This compares to a much larger increase of 3.7 percent in the total tax bill.

The largest increase among the myriad taxes came in the form of income taxes, up \$550 for the average Canadian family (table 4). Other notable increases came in the form of sales taxes (up \$335), profit taxes (up \$231) and social security,

pension, medical, and hospital taxes (up \$138). Only liquor, tobacco, amusement, and other excise taxes paid by the average Canadian family decreased between 2010 and 2011 (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).<sup>6</sup> This year, the earliest provincial Tax Freedom Day fell on May 18 in Alberta, while the latest date was in Newfoundland & Labrador on June 19.

Every province, save for Newfoundland & Labrador and Saskatchewan,

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

	1981	1985	1995	2000 <sup>re</sup>	2005 <sup>re</sup>	2009 <sup>re</sup>	2010 <sup>re</sup>	2011 <sup>pe</sup>
NL	37.4	34.9	38.9	43.1	47.3	45.7	46.3	46.3
PE	34.2	42.8	38.5	41.3	43.1	39.0	39.4	39.8
NS	35.5	37.0	40.9	44.0	46.0	40.7	42.7	42.8
NB	34.2	41.6	41.1	42.4	42.9	39.7	40.5	41.0
QC	42.9	45.6	43.5	50.3	48.1	41.9	42.7	43.8
ON	40.3	39.5	43.1	45.0	45.0	41.4	41.9	42.2
MB	37.2	33.8	44.7	46.5	46.6	40.4	40.9	41.3
SK	39.0	37.1	46.5	48.2	50.1	42.5	42.6	42.5
AB	40.6	38.5	41.4	46.0	45.1	37.0	36.8	37.4
BC	43.4	45.2	44.3	47.9	47.6	41.5	42.2	42.7
Canada	40.8	42.7	43.9	47.6	46.8	41.2	42.1	42.6
<b>Without Natural Resources</b>								
NL	37.2	34.6	38.8	42.8	45.0	39.6	39.0	39.1
SK	36.5	34.8	44.6	45.1	46.6	40.7	40.0	39.7
AB	34.2	33.3	39.1	39.3	39.2	35.2	34.9	35.4
BC	42.6	44.3	43.1	45.6	45.7	40.7	41.3	41.8
Canada	39.9	42.1	43.4	46.4	45.7	40.7	41.5	42.0

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, 2011.

saw its Tax Freedom Day advance between 2010 and 2011, meaning that most citizens are working more for the government and less for themselves and their families this year than last (table 1). Quebecers celebrate Tax Freedom Day four days later than in 2010, the largest advance in Tax Freedom Day among the provinces. Nearly 40 percent of the \$1,832 increase in the total tax bill paid by the average Quebec family can be attributed to an increase in sales taxes, in large part caused by the rise in the Quebec Sales Tax (QST) rate from 7.5 percent to 8.5 percent on January 1, 2011.<sup>7</sup> Taxpayers in British Columbia, Alberta, New Brunswick, and Prince Edward Island

celebrate Tax Freedom Day two days later than last year, while Ontario, Manitoba, and Nova Scotia celebrate one day later.

In 2011, taxpayers in Saskatchewan celebrate Tax Freedom Day on the same day they did last year: June 6<sup>th</sup>. Only Newfoundland & Labrador saw a decrease in their Tax Freedom Day: one day earlier than in 2010.

There is an unsolved debate as to whether natural resource royalties are actually a tax, or simply the conversion of a balance sheet asset ("public asset") into an income stream. This debate is not one we attempt to resolve for our annual calculations. For this reason, we

provide two sets of Tax Freedom Days for provinces with significant natural resources, one including and one excluding resource royalties. If natural resource revenues are excluded, Tax Freedom Day recedes by 26 days in Newfoundland & Labrador, 10 days in Saskatchewan, 7 days in Alberta, and 3 days in British Columbia (table 1).

The Atlantic provinces historically have had some of the country's earliest Tax Freedom Days. This is 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 Manitoba and Quebec,



**Table 9: The distribution of cash income and tax across deciles\* and the average tax rate by decile, 2011, preliminary estimate**

Decile	1	2	3	4	5	6	7	8	9	10
<b>Distribution across deciles</b>										
Tax	0.6%	1.4%	2.7%	4.3%	6.0%	7.9%	10.1%	12.6%	16.5%	37.9%
Income	1.5%	3.3%	4.4%	5.6%	6.9%	8.6%	10.3%	12.6%	15.9%	30.9%
<b>Average Tax Rate</b>										
	17.5%	18.3%	26.9%	33.5%	37.8%	39.8%	42.6%	43.3%	53.3%	53.3%

\*Deciles group families from lowest to highest incomes with each group containing ten percent of all families. The first decile, for example, represents the ten percent of families with the lowest incomes.

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

Source: The Fraser Institute's Canadian Tax Simulator, 2011.

**Table 10: 2011 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 18	Prince Edward Island	41.2%
Prince Edward Island	May 27	New Brunswick	35.6%
New Brunswick	May 31	Nova Scotia	33.9%
Manitoba	June 1	Manitoba	33.9%
Ontario	June 4	Quebec	23.0%
Saskatchewan	June 6	Ontario	20.0%
British Columbia	June 6	British Columbia	18.3%
Nova Scotia	June 7	Newfoundland & Labrador	16.6%
Quebec	June 10	Saskatchewan	14.5%
Newfoundland & Labrador	June 19	Alberta	13.4%

\*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, 2011; 2011 provincial budgets.

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 budget deficits. Indeed, almost all Canadian federal and provincial governments (excluding Saskatchewan and Newfoundland & Labrador) are forecasting budget deficits for 2011. The federal government budgeted for a \$29.6 billion deficit in 2011/12 while the provinces are cumulatively forecasting deficits amounting to \$24.8 billion.<sup>8</sup>

## 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 18.1 (SPSD/M), is an important part of this model for the 1997 through 2011 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.

Of course, today's deficits must one day be paid for by taxes. Deficits should therefore be considered as deferred taxation. For this reason, we calculate a Balanced Budget Tax Freedom Day, the day on which average Canadians would start working for themselves if governments were obliged to cover current expenditures with current taxation and were not able to defer any of the tax burden by running a deficit.

Table 5 presents Balanced Budget Tax Freedom Days for Canada and the provinces. Balanced Budget Tax Freedom Day for the country as a whole arrives on June 22, which means that the average Canadian family would have to work until June 21 to pay its tax bill if, instead of financing its expenditures by deficits, Canadian governments had simply increased taxes to balance their budgets. The country's Balanced Budget Tax Freedom Day arrives 16 days later than Tax

Freedom Day. Nine of the 16 days are due to the federal deficit and the remainder to the provincial deficits. The latest Balanced Budget Tax Freedom Day will fall on June 26th in Ontario, over three 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 66.9 percent of all taxes and earn 59.4 percent of all income, while the bottom 30 percent of all income earners pay 4.7 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 2011, Canadians celebrate Tax Freedom Day on June 6, two days later than in 2010.

## Notes

- 1 See Clemens & Veldhuis, 2003, for a discussion of who actually pays the business tax.
- 2 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.

- 3 In our 2010 Tax Freedom Day *Fraser Alert* (Palacios and Veldhuis, 2010), our preliminary calculations estimated a June 5 Tax Freedom Day for 2010. This year we recalculated Tax Freedom Day for 2010 using updated provincial and federal budget numbers and updated data from Statistics Canada. Our revised calculations show that Tax Freedom Day in 2010 actually fell on June 4 (table 1).
- 4 A complete delineation of tax changes is available in federal and provincial provincial budgets.
- 5 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.

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

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### Editing, design, and production

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of *Labour and Income Dynamics*, an update from the 2004 survey used in the previous version. While The Fraser Institute's methodology has not changed, the change in base year from 2004 to 2006 has led to changes in historical Tax Freedom Days in some provinces. Of note, the average Ontario family's Tax Freedom Day has increased between 2 and 4 days, depending on the year. The reason for this change can be attributed to Ontario's share of total capital and labour income in Canada. Specifically, the change in the base years decreased Ontario's portion of total capital and labour income in Canada. Provincial shares of capital and labour income are used to distribute various federal taxes to the provinces. As a result, Ontario received a slightly larger share of federal tax revenue using the updated SPSD/M.

7 The Quebec Sales Tax rate will increase again from 8.5 percent to 9.5 percent on January 1, 2012.

8 The cumulative deficit figure only includes those provinces with forecasted deficits for 2011/12. Saskatchewan is forecasting a surplus of \$115 million. Meanwhile, Newfoundland & Labrador has forecast a small surplus of \$59 million.

is 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.

6 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 1997 through 2011 Tax Freedom Days. Statistics Canada's Survey of Labour and Income Dynamics (SLID) is the host database for the SPSD. The latest version of the SPSD/M is based on the 2006 *Survey*

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