

June 2012

## Canadians Celebrate Tax Freedom Day on June 11, 2012

by Milagros Palacios, Niels Veldhuis, 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 2012, Canadians celebrate Tax Freedom Day on June 11. That is, Canadians will have worked until June 10 to pay the total tax bill imposed on them by all levels of government.
- Tax Freedom Day in 2012 arrives one day later than in 2011, when it fell on June 10.
- The later arrival of Tax Freedom Day in 2012 has been driven primarily by two factors. First, Canada's economy is improving. When the economy recovers from a recession 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 people's consumption increases, which results in an increase in the amount of sales and other consumption taxes Canadian families pay. Second, several governments have increased taxes this year.
- In 2012, 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 22 to pay the tax bill. In other words, the Balanced Budget Tax Freedom Day arrives on June 23, 12 days later than 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, the earliest year for which the calculation has been made.
- In 2012, the average Canadian family will earn \$94,259 in income and pay a total of \$41,627 in taxes (44.2 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 22 in Alberta while the latest fell on June 21 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 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. Although businesses pay these taxes directly, the cost of business taxation is ultimately passed onto ordinary Canadians.<sup>1</sup>

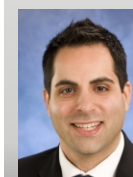
## About the authors



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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>re</sup>	2012 <sup>pe</sup>
Newfoundland & Labrador	May 18	May 9	May 24	June 8	June 26	June 19	June 24	June 28	June 21
Prince Edward Island	May 6	June 7	May 22	May 29	June 9	May 28	May 28	May 31	June 2
Nova Scotia	May 11	May 17	May 31	June 10	June 17	June 1	June 8	June 10	June 12
New Brunswick	May 6	June 2	June 1	June 6	June 8	May 29	June 1	June 3	June 6
Quebec	June 7	June 17	June 9	July 3	June 25	June 5	June 8	June 13	June 17
Ontario	May 29	May 26	June 8	June 15	June 16	June 3	June 6	June 9	June 10
Manitoba	May 17	May 5	June 14	June 19	June 21	May 31	June 3	June 5	June 7
Saskatchewan	May 24	May 17	June 20	June 26	July 3	June 9	June 8	June 10	June 12
Alberta	May 30	May 22	June 2	June 18	June 16	May 21	May 20	May 22	May 22
British Columbia	June 9	June 16	June 12	June 24	June 25	June 3	June 6	June 8	June 8
<b>Canada</b>	<b>May 30</b>	<b>June 6</b>	<b>June 11</b>	<b>June 25</b>	<b>June 22</b>	<b>June 3</b>	<b>June 6</b>	<b>June 10</b>	<b>June 11</b>
<b><i>Without Natural Resources</i></b>									
Newfoundland & Labrador	May 17	May 8	May 23	June 7	June 17	May 28	May 28	May 28	May 28
Saskatchewan	May 15	May 9	June 13	June 14	June 20	June 2	May 29	May 31	June 1
Alberta	May 6	May 3	May 24	May 25	May 25	May 14	May 12	May 12	May 13
British Columbia	June 6	June 12	June 8	June 16	June 18	May 31	June 3	June 5	June 5
<b>Canada</b>	<b>May 27</b>	<b>June 4</b>	<b>June 9</b>	<b>June 20</b>	<b>June 17</b>	<b>June 1</b>	<b>June 4</b>	<b>June 7</b>	<b>June 9</b>

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, 2012.

**Table 2: Taxes of the Average Family (with two or more individuals), 2012, preliminary estimates (\$ Cdn)**

	Cash income	Income tax	Social security, pension, medical, & hospital taxes	Sales taxes	Property taxes	Profit tax	Liquor, tobacco, amusement, & other excise taxes	Auto, fuel, & motor vehicle licence taxes	Other taxes	Import duties	Natural resource levies	Total tax bill
NL	73,467	9,181	5,691	5,491	1,174	3,456	2,241	1,042	1,175	221	4,841	34,512
PE	71,171	9,261	5,912	5,428	2,620	2,249	2,144	1,049	704	228	0	29,594
NS	80,186	11,840	6,222	6,706	3,230	3,605	2,278	1,019	414	280	45	35,638
NB	79,300	10,125	6,705	5,841	3,900	2,765	2,290	1,257	552	254	251	33,941
QC	82,090	11,047	9,435	7,060	3,334	2,996	1,849	983	479	275	57	37,516
ON	96,865	12,670	9,696	7,005	4,978	4,123	1,990	890	835	344	20	42,551
MB	90,360	12,916	7,624	6,529	3,155	2,841	2,807	1,035	1,645	298	102	38,951
SK	102,754	14,734	8,000	5,793	3,208	4,436	2,879	1,944	1,139	345	3,167	45,646
AB	124,060	19,631	9,153	3,156	3,107	3,451	3,241	919	1,689	419	3,236	48,002
BC	88,483	10,969	8,333	5,888	3,516	3,513	2,377	1,495	1,262	315	759	38,427
<b>CDA</b>	<b>94,259</b>	<b>12,822</b>	<b>9,241</b>	<b>6,610</b>	<b>4,029</b>	<b>3,698</b>	<b>2,251</b>	<b>1,085</b>	<b>923</b>	<b>328</b>	<b>641</b>	<b>41,627</b>

Source: The Fraser Institute's Canadian Tax Simulator, 2012.

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 Alert presents preliminary calculations for Tax Freedom Day in 2012.<sup>2</sup>

## 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, natural resource fees, import duties, and a host of other levies.

In 2012, Canadians start working for themselves on June 11 (table 1). That is, Canadians must work until June 10 to pay the total tax bill imposed on them by all levels of government. From June 11 to the end of the year, taxpayers can keep all the income they earn. This represents a one day extension over 2011 when Tax Freedom Day fell on June 10.<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 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).

## A later Tax Freedom Day

This year, Tax Freedom Day arrives one day later than in 2011, when it

**Table 3: Taxes of the Average Family (with two or more individuals), 2011, revised estimates (\$ Cdn)**

	Cash income	Income tax	Social security, pension, medical, & hospital taxes	Sales taxes	Property taxes	Profit tax	Liquor, tobacco, amusement, & other excise taxes	Auto, fuel, & motor vehicle licence taxes	Other taxes	Import duties	Natural resource levies	Total tax bill
NL	70,928	8,983	5,299	5,402	1,233	2,911	2,258	1,029	1,136	217	5,950	34,419
PE	69,833	9,047	5,583	5,289	2,534	2,246	2,034	992	662	226	0	28,613
NS	76,554	11,045	5,699	6,310	2,923	3,404	2,287	1,010	387	269	163	33,497
NB	76,143	9,430	6,048	5,593	3,677	2,754	2,210	1,227	520	243	205	31,907
QC	80,376	10,834	8,845	6,331	3,225	2,977	1,825	923	458	269	57	35,746
ON	94,108	12,148	9,091	6,814	4,774	3,901	1,978	864	835	336	19	40,760
MB	88,348	12,623	7,155	6,037	3,051	2,914	2,784	893	1,580	294	98	37,429
SK	100,471	14,272	7,615	5,628	2,964	4,302	2,925	1,915	1,124	343	2,760	43,848
AB	119,933	18,724	8,628	3,021	3,004	3,318	3,342	907	1,668	415	3,290	46,318
BC	87,023	10,812	7,874	5,779	3,485	3,494	2,394	1,399	1,236	313	740	37,527
<b>CDA</b>	<b>92,335</b>	<b>12,539</b>	<b>8,734</b>	<b>6,313</b>	<b>3,887</b>	<b>3,578</b>	<b>2,266</b>	<b>1,042</b>	<b>911</b>	<b>324</b>	<b>663</b>	<b>40,258</b>

Source: The Fraser Institute's Canadian Tax Simulator, 2012.

fell on June 10. The latest Tax Freedom Day in Canadian history was in 2000, when it fell on June 25, 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 25 to June 22. From 2005 to 2009, Tax Freedom Day for the average Canadian family decreased further—from June 22 in 2005, to June 3, in 2009.

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 regime 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.<sup>4</sup>

However, much of 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.<sup>5</sup> 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 (as was the case during the 2008/09 economic recession), 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

**Table 4: Difference in the Average Family's Tax Bill between 2012 and 2011 (\$ Cdn)**

	Cash income	Income tax	Social security, pension, medical, & hospital taxes	Sales taxes	Property taxes	Profit tax	Liquor, tobacco, amusement, & other excise taxes	Auto, fuel, & motor vehicle licence taxes	Other taxes	Import duties	Natural resource levies	Total tax bill
NL	2,540	198	391	89	(59)	545	(17)	13	39	3	(1,108)	93
PE	1,338	214	328	139	86	3	110	58	42	2	0	982
NS	3,632	795	523	396	307	201	(10)	9	27	11	(118)	2,141
NB	3,157	696	657	248	223	11	80	31	32	11	46	2,035
QC	1,714	213	589	729	109	19	24	60	21	6	0	1,770
ON	2,758	521	605	192	204	222	12	26	1	8	0	1,790
MB	2,012	293	469	491	104	(73)	23	143	65	4	4	1,522
SK	2,283	463	385	165	244	134	(46)	29	15	2	406	1,797
AB	4,127	907	525	135	102	133	(100)	12	21	3	(54)	1,684
BC	1,460	156	459	109	30	19	(17)	96	27	1	19	900
<b>CDA</b>	<b>1,924</b>	<b>283</b>	<b>507</b>	<b>297</b>	<b>142</b>	<b>120</b>	<b>(15)</b>	<b>43</b>	<b>12</b>	<b>4</b>	<b>(22)</b>	<b>1,369</b>

Note: numbers may not add due to rounding.

Source: The Fraser Institute's Canadian Tax Simulator, 2012.

**Table 5: Tax Freedom Days including Government Deficits, 2012, Preliminary Estimates**

	Tax Freedom Day	Balanced Budget Tax Freedom Day	Total increase (days)
Newfoundland & Labrador	June 21	July 1	10
Prince Edward Island	June 2	June 14	12
Nova Scotia	June 12	June 21	9
New Brunswick	June 6	June 15	9
Quebec	June 17	June 23	6
Ontario	June 10	June 28	18
Manitoba	June 7	June 18	11
Saskatchewan	June 12	June 17	5
Alberta	May 22	May 30	8
British Columbia	June 8	June 17	9
<b>Canada</b>	<b>June 11</b>	<b>June 23</b>	<b>12</b>

Source: The Fraser Institute's Canadian Tax Simulator, 2012; 2012 federal and provincial budgets.

**Table 6: Average Income and Tax for Three Different Types of Family, 2012, preliminary estimates (\$ Cdn)**

**1. Families and unattached individuals**

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. Cash Income	59,803	58,760	63,195	64,799	62,526	78,775	71,865	78,046	98,672	68,747	74,113
Total Tax	26,818	23,349	27,048	26,732	27,795	34,134	29,766	32,933	37,852	29,145	31,615
Tax Rate	44.8%	39.7%	42.8%	41.3%	44.5%	43.3%	41.4%	42.2%	38.4%	42.4%	42.7%
Tax Rate (excluding Natural Resources)	38.6%	39.7%	42.7%	40.9%	44.4%	43.3%	41.3%	39.2%	35.6%	41.5%	42.0%

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

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. Cash Income	73,467	71,171	80,186	79,300	82,090	96,865	90,360	102,754	124,060	88,483	94,259
Total Tax	34,512	29,594	35,638	33,941	37,516	42,551	38,951	45,646	48,002	38,427	41,627
Tax Rate	47.0%	41.6%	44.4%	42.8%	45.7%	43.9%	43.1%	44.4%	38.7%	43.4%	44.2%
Tax Rate (excluding Natural Resources)	40.4%	41.6%	44.4%	42.5%	45.6%	43.9%	43.0%	41.3%	36.1%	42.6%	43.5%

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

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. Cash Income	104,570	77,665	93,496	105,613	98,319	114,297	105,111	114,302	152,764	108,028	113,226
Total Tax	52,022	31,133	38,665	43,569	42,160	46,603	43,425	46,001	58,150	45,027	46,990
Tax Rate	49.7%	40.1%	41.4%	41.3%	42.9%	40.8%	41.3%	40.2%	38.1%	41.7%	41.5%
Tax Rate (excluding Natural Resources)	42.3%	40.1%	41.3%	40.9%	42.8%	40.8%	41.2%	36.6%	35.2%	40.6%	40.7%

Source: The Fraser Institute's Canadian Tax Simulator, 2012.

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 that are paid.

Tax Freedom Day also comes later in 2012 because the federal government and some provinces have increased taxes. For example, the federal government increased Employment Insurance premiums; Quebec increased its provincial sales tax rate, contributions to its Health Services Fund (health tax),

and its gas and mining taxes; British Columbia increased its monthly Medical Services Plan premiums (health tax); New Brunswick increased its financial corporation capital tax and property transfer tax; Manitoba increased its tobacco and fuel taxes as well as its financial corporate capital tax, and expanded the list of items covered by its provincial sales tax (hair services, spa treatments, property and casualty insurance, among others); and Ontario introduced a new tax bracket for high income earners and canceled a

scheduled decrease in the general corporate income tax rate.

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 lower (or higher) than currently

**Table 7: Breakdown of the Average Family's\* Tax Bill by Level of Government, 2012, Preliminary Estimate**

	Federal government		Provincial government**		Local government		Tax bill**
	\$	as a % of total	\$	as a % of total	\$	as a % of total	\$
Newfoundland & Labrador	14,963	50.4%	13,503	45.5%	1,205	4.1%	29,670
Prince Edward Island	15,214	51.4%	13,386	45.2%	994	3.4%	29,594
Nova Scotia	18,462	51.9%	13,863	38.9%	3,268	9.2%	35,593
New Brunswick	17,687	52.5%	13,779	40.9%	2,225	6.6%	33,690
Quebec	17,287	46.1%	16,807	44.9%	3,364	9.0%	37,459
Ontario	23,319	54.8%	14,364	33.8%	4,847	11.4%	42,531
Manitoba	20,163	51.9%	15,553	40.0%	3,133	8.1%	38,849
Saskatchewan	23,401	55.1%	15,586	36.7%	3,492	8.2%	42,479
Alberta	29,312	65.5%	12,909	28.8%	2,545	5.7%	44,766
British Columbia	21,498	57.1%	13,855	36.8%	2,316	6.1%	37,668
<b>Canada</b>	<b>21,965</b>	<b>53.6%</b>	<b>15,311</b>	<b>37.4%</b>	<b>3,710</b>	<b>9.1%</b>	<b>40,986</b>

\*The average family with two or more individuals.

\*\*Excludes natural resource levies.

Source: The Fraser Institute's Canadian Tax Simulator, 2012.

projected, the 2012 Tax Freedom Day will change when the preliminary estimates are revised.<sup>6</sup>

## 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.<sup>7</sup> In 2012, the average Canadian family (comprising two or more individuals) earned \$94,259 in cash income and paid a total of \$41,627 in taxes.<sup>8</sup> In other words, the total tax bill of the average Canadian family in 2012 amounted to 44.2 percent of its income (table 8).

The cash income of the average Canadian family increased by 2.1 percent (\$1,924) between 2011 and 2012 (table 4). This compares to a much bigger increase in the total tax bill of 3.4 percent (\$1,369).

The largest increase among the myriad taxes came in the form of social security, pension, medical, and hospital taxes—up \$507 for the average Canadian family (table 4). Other notable increases came in the form of sales taxes (\$297), income taxes (\$283), and property taxes (\$142). The only taxes that decreased between 2011 and 2012 for the average Canadian family were liquor, tobacco, amusement, and other excise taxes as well as natural resources levies (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 22 in Alberta, while the latest date was in Newfoundland & Labrador on June 21.

Compared to last year, Tax Freedom Day comes later in 2012 for all but three provinces (the exceptions are Newfoundland & Labrador, British Columbia, and Alberta) (table 1). This means that most Canadians are working more for the government and less for themselves

**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>re</sup>	2012 <sup>pe</sup>
Newfoundland & Labrador	37.4	34.9	38.9	43.4	48.1	46.1	47.7	48.5	47.0
Prince Edward Island	34.2	42.8	38.5	40.6	43.3	40.2	40.1	41.0	41.6
Nova Scotia	35.5	37.0	40.9	43.7	45.7	41.3	43.1	43.8	44.4
New Brunswick	34.2	41.6	41.1	42.7	43.3	40.5	41.3	41.9	42.8
Quebec	42.9	45.6	43.5	50.2	47.8	42.3	43.1	44.5	45.7
Ontario	40.3	39.5	43.1	45.3	45.3	41.9	42.6	43.3	43.9
Manitoba	37.2	33.8	44.7	46.2	46.8	41.0	41.8	42.4	43.1
Saskatchewan	39.0	37.1	46.5	48.2	49.9	43.4	43.2	43.6	44.4
Alberta	40.6	38.5	41.4	46.1	45.3	38.2	38.0	38.6	38.7
British Columbia	43.4	45.2	44.3	47.7	47.9	41.8	42.7	43.1	43.4
<b>Canada</b>	<b>40.8</b>	<b>42.7</b>	<b>43.9</b>	<b>47.9</b>	<b>46.9</b>	<b>41.8</b>	<b>42.7</b>	<b>43.6</b>	<b>44.2</b>
<b><i>Without Natural Resources</i></b>									
Newfoundland & Labrador	37.2	34.6	38.8	43.1	45.8	40.0	40.3	40.1	40.4
Saskatchewan	36.5	34.8	44.6	45.0	46.4	41.4	40.5	40.9	41.3
Alberta	34.2	33.3	39.1	39.5	39.4	36.3	35.8	35.9	36.1
British Columbia	42.6	44.3	43.1	45.4	46.0	41.0	41.8	42.3	42.6
<b>Canada</b>	<b>39.9</b>	<b>42.1</b>	<b>43.4</b>	<b>46.7</b>	<b>45.7</b>	<b>41.3</b>	<b>42.1</b>	<b>42.9</b>	<b>43.5</b>

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, 2012.

and their families. The largest advance in Tax Freedom Day among the provinces is in Quebec, where Quebecers must wait four days later to celebrate Tax Freedom Day. More than 40 percent of the \$1,770 increase in the total tax bill paid by the average Quebec family is due to an increase in sales taxes, in large part caused by the increase in the Quebec Sales Tax (QST) rate from 8.5 percent to 9.5 percent on January 1, 2012. Interestingly, Tax Freedom Day would have fallen on June 15 instead of June 17 had Quebec not raised the QST by one percentage point. In other words, a higher QST rate results in Quebecers waiting an additional two days to celebrate Tax Freedom Day in 2012.

Taxpayers in New Brunswick wait three extra days to celebrate Tax Freedom Day this year, while those in Saskatchewan, Manitoba, Nova Scotia, and Prince Edward Island must delay their celebrations by two days; Ontario's Tax Freedom Day celebration is delayed by one day.

In 2012, taxpayers in Alberta and British Columbia celebrate Tax Freedom Day on the same day they did last year, May 22 and June 8, respectively. Newfoundland & Labrador is the only province where Tax Freedom Day comes earlier this year—seven days earlier than in 2011. But the province's earlier Tax Freedom Day is not driven by any major provincial tax rate

reductions. Rather, it is primarily due to a significant decrease in natural resources revenues. Specifically, the provincial government has forecast a decrease of 19.1 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).

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 for our annual calculations. For this reason, we



**Table 9: The Distribution of Cash Income and Tax Across Deciles\*, and the Average Tax Rate by Decile, 2012, preliminary estimate**

Decile	1	2	3	4	5	6	7	8	9	10
<b>Distribution across deciles</b>										
Tax	0.6%	1.4%	2.8%	4.4%	6.1%	7.8%	10.0%	12.5%	16.7%	37.7%
Income	1.5%	3.3%	4.5%	5.6%	6.9%	8.4%	10.2%	12.5%	16.0%	31.1%
<b>Average Tax Rate</b>										
	16.2%	19.2%	27.9%	34.7%	39.4%	41.5%	44.0%	44.6%	53.9%	53.9%

\*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, 2012.

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 24 days earlier in Newfoundland and Labrador, 11 days earlier in Saskatchewan, 9 days earlier in Alberta, and 3 days earlier in British Columbia (table 1).

## Balanced Budget Tax Freedom Day

Canadians may be thinking about the economic and tax implications of budget deficits since the federal and almost all provincial governments (excluding Saskatchewan) are forecasting budget deficits this year. Specifically, the federal government budgeted for a \$21.1 billion deficit in 2012/13 while the provinces are cumulatively forecasting deficits amounting to \$19.7 billion.<sup>9</sup>

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 23, which means that the average Canadian family has to work until June 22 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 12 days later than Tax Freedom Day. Among the provinces, the latest Balanced Budget Tax Freedom Day falls on July 1 in Newfoundland & Labrador. Of particular concern is the Balanced Budget Tax Freedom Day in Canada's largest province, Ontario, which arrives on June

28—over 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 66.9 percent of all taxes and earn 59.6 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

## 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 Economics 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, hospital 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 19.0 (SPSD/M), is an important part of the Canadian Tax Simulator; it is used to calculate Tax Freedom Days from 1997 to 2012. SPSPD/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 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.

easily understood indicator of the overall tax bill of the average Canadian family. In 2012, Canadians celebrate Tax Freedom Day on June 11, one day later than in 2011.

### Notes

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

2 As is the case every year, Tax Freedom Day calculations are based on forecasts of personal income 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 Note that 2012 is a leap year, which means that Tax Freedom Day arrives

one day earlier than would be the case during a standard (non-leap) year.

In our 2011 Tax Freedom Day Fraser Alert (Palacios and Veldhuis, 2011), our preliminary calculations estimated a June 6 Tax Freedom Day for 2011. This year we recalculated Tax Freedom Day for 2011 using updated provincial and federal budget numbers and updated data from Statistics Canada. Our revised calculations

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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 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 The cumulative deficit figure only includes those provinces with forecasted deficits for 2012/13. Saskatchewan is forecasting a small surplus of \$48 million.

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show that Tax Freedom Day in 2011 actually fell on June 10 (table 1).

- 4 A complete delineation of tax changes enacted before the recession is available in Treff and Perry, *Finances of the Nation* (various issues).
- 5 Tax Freedom Day fell on June 13 in 2007, June 8 in 2008, and June 3 in 2009 (The Fraser Institute's Canadian Tax Simulator, 2012).
- 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 2012. Statistics Canada's *Survey of Labour and Income Dynamics* (SLID) is the host database for the SPSD/M. The latest version of the SPSD/M is based on the 2007 *Survey of Labour and Income Dynamics*, an update of the 2006 survey used in the previous version. While The Fraser Institute's methodology has not changed, the change in base year from 2006 to 2007 has led to changes in historical Tax Freedom Days in some provinces. Of note, Tax Freedom Day for the average Ontario family has increased between one and three