



## Canadians Celebrate Tax Freedom Day on June 9, 2014

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### SUMMARY

- 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 2014, Canadians celebrate Tax Freedom Day on June 9. That is, Canadians will have worked until June 8 to pay the total tax bill imposed on them by all levels of government.
- Tax Freedom Day in 2014 arrives one day later than in 2013, when it fell on June 8.
- The later arrival of Tax Freedom Day in 2014 is primarily driven by the expectation that the total tax revenue of all governments will increase faster than the incomes of Canadians. The faster growth in taxes partly reflects Canada's progressive tax system, which increases a family's tax burden as its income increases. In addition, several governments are increasing taxes this year.
- In 2014, the federal government and seven provincial governments expect to run budget deficits. Had Canadian governments increased taxes to balance their budgets, the average Canadian family would have worked until June 13 to pay the tax bill. In other words, the Balanced Budget Tax Freedom Day arrives on June 14, five 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 2014, the average Canadian family will earn \$99,841 in income and pay a total of \$43,435 in taxes (43.5 percent).
- Tax Freedom Day for each province varies according to the extent of the provincially levied tax burden. The earliest provincial Tax Freedom Day falls on May 23 in Alberta, while the latest falls on June 22 in Newfoundland & Labrador.

## Introduction

It is nearly impossible for ordinary Canadians to have a clear idea of how much total tax they really pay. Most Canadians would have little difficulty determining how much income tax they pay; a quick look at their income tax return or pay stub would suffice. The same is true for mandatory Employment Insurance (EI) and Canadian Pension Plan (CPP) premiums. However, there are a host of other taxes that are not so obvious. For instance, while Canadians are painfully aware of sales taxes, calculating the total amount paid would require people to track all of their purchases over the course of a year. Further, there is a class of taxes of which Canadians are largely unaware and which are built into the price of goods and services. The most notable of these “hidden” taxes are import duties, fuel taxes, excise taxes on tobacco and alcohol, and amusement taxes. Finally, most Canadians are unaware that they pay their employer’s portion of payroll taxes, such as EI and CPP premiums, and other taxes levied on businesses. Although businesses pay these taxes directly, the cost of business taxation is ultimately passed onto ordinary Canadians.<sup>1</sup>

Each year, the Fraser Institute calculates Tax Freedom Day to provide a comprehensive and easily understood indicator of the overall tax burden faced by the average Canadian family. This publication presents preliminary calculations for Tax Freedom Day in 2014.<sup>2</sup>

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

<sup>2</sup> As is the case every year, Tax Freedom Day calculations are based on forecasts of personal income and federal and provincial budget tax revenue. When final revenue numbers become available at the end of each fiscal year and personal income data are updated by Statistics Canada, we revise our Tax Freedom Day calculations for previous years.

## Tax Freedom Day

Tax Freedom Day is the day in the year when the average Canadian family has earned enough money to pay the taxes imposed on it by the three levels of Canadian government: federal, provincial, and local. In other words, if Canadians were required to pay all of their taxes up front, they would have to pay each and every dollar they earned to government prior to Tax Freedom Day.

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

In 2014, Canadians start working for themselves on June 9 (table 1). That is, Canadians must work until June 8 to pay the total tax bill imposed on them by all levels of government. From June 9 to the end of the year, taxpayers can use the income they earn as they please. This represents a one day extension over 2013 when Tax Freedom Day fell on June 8.<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

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<sup>3</sup> In last year’s Tax Freedom Day publication (Palacios and Lammam, 2013), our preliminary calculations estimated a June 10 Tax Freedom Day for 2013. This year we recalculated Tax Freedom Day for 2013 using updated provincial and federal budget numbers and updated data from Statistics Canada. Our revised calculations show that Tax Freedom Day in 2013 actually fell on June 8 (table 1).

**Table 1: Tax Freedom Day**

	1981	1985	1995	2000 <sup>re</sup>	2005 <sup>re</sup>	2010 <sup>re</sup>	2011 <sup>re</sup>	2012 <sup>re</sup>	2013 <sup>re</sup>	2014 <sup>pe</sup>
Newfoundland & Labrador	18 May	9 May	24 May	10 June	26 June	3 July	3 July	26 June	23 June	22 June
Prince Edward Island	6 May	7 June	22 May	2 June	13 June	29 May	2 June	1 June	3 June	5 June
Nova Scotia	11 May	17 May	31 May	15 June	20 June	8 June	11 June	11 June	12 June	14 June
New Brunswick	6 May	2 June	1 June	9 June	13 June	2 June	4 June	3 June	6 June	9 June
Quebec	7 June	17 June	9 June	2 July	26 June	8 June	10 June	13 June	13 June	14 June
Ontario	29 May	26 May	8 June	17 June	17 June	4 June	4 June	5 June	5 June	7 June
Manitoba	17 May	5 May	14 June	19 June	17 June	4 June	5 June	5 June	7 June	10 June
Saskatchewan	24 May	17 May	20 June	24 June	30 June	11 June	5 June	4 June	5 June	7 June
Alberta	30 May	22 May	2 June	26 June	15 June	26 May	28 May	23 May	22 May	23 May
British Columbia	9 June	16 June	12 June	29 June	22 June	4 June	5 June	4 June	3 June	6 June
Canada	30 May	6 June	11 June	24 June	22 June	6 June	7 June	7 June	8 June	9 June

**Without Natural Resources**

Newfoundland & Labrador	17 May	8 May	23 May	9 June	17 June	5 June	4 June	4 June	4 June	1 June
Saskatchewan	15 May	9 May	13 June	13 June	17 June	1 June	27 May	28 May	29 May	30 May
Alberta	6 May	3 May	24 May	2 June	25 May	18 May	18 May	17 May	16 May	16 May
British Columbia	6 June	12 June	8 June	21 June	15 June	1 June	2 June	2 June	1 June	3 June
Canada	27 May	4 June	9 June	20 June	18 June	4 June	4 June	5 June	6 June	7 June

re = revised estimate; pe = preliminary estimate

Note: Data based on total taxes as a percentage of cash income for families with two or more individuals.

Source: The Fraser Institute's Canadian Tax Simulator, 2014.

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 2013, when it fell on June 8. The latest Tax Freedom Day in Canadian history was in 2000, when it fell on June 24, almost two months later than in 1961 (May 3), the earliest year for which the calculation has been made.

Tax Freedom Day decreased slightly from 2000 to 2005, from June 24 to June 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.<sup>4</sup>

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

<sup>4</sup> Between 2005 and 2009, Tax Freedom Day fell on: June 19 (2006); June 13 (2007); and June 8 (2008) (The Fraser Institute's Canadian Tax Simulator, 2014).

**Table 2: Taxes of the Average Family (with two or more individuals), 2014, preliminary estimates (\$ Cdn)**

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Cash income	94,853	78,173	85,580	81,349	87,356	99,080	94,721	120,278	143,360	94,378	99,841
Income taxes	13,419	10,563	13,836	11,401	12,070	13,347	14,203	18,439	24,230	11,780	14,140
Payroll & health taxes	7,292	6,719	6,961	7,240	10,052	10,201	7,869	8,725	9,700	8,976	9,903
Sales taxes	7,103	6,259	7,162	5,964	7,095	6,907	7,284	6,554	3,401	5,791	6,764
Property taxes	1,888	2,727	2,853	3,550	3,083	4,216	2,882	3,187	3,538	3,353	3,620
Profit taxes	3,249	2,630	3,334	2,679	3,034	3,706	3,265	5,115	4,983	3,854	3,709
Liquor, tobacco, amusement, & other excise taxes	3,054	2,153	2,396	2,323	1,910	2,046	2,777	3,253	3,518	2,473	2,335
Auto, fuel, & motor vehicle licence taxes	1,337	973	1,087	1,267	1,018	924	1,085	2,104	1,073	1,530	1,135
Other taxes	1,603	760	430	581	492	835	1,722	1,267	2,018	1,278	953
Import duties	290	257	299	275	294	348	317	397	478	336	346
Natural resource levies	5,395	0	57	151	23	25	96	2,636	2,679	749	529
<b>Total tax bill</b>	<b>44,630</b>	<b>33,042</b>	<b>38,414</b>	<b>35,433</b>	<b>39,071</b>	<b>42,553</b>	<b>41,502</b>	<b>51,676</b>	<b>55,617</b>	<b>40,121</b>	<b>43,435</b>

Note: Payroll taxes include social security and pension deductions.

Source: The Fraser Institute's Canadian Tax Simulator, 2014.

Services Tax (GST) rate from 7 percent to 6 percent in 2006 and to 5 percent in 2008. In addition, the federal and many provincial governments reformed their business tax regimes by cutting corporate income and corporate capital taxes. And some provinces, such as British Columbia and Manitoba, enacted personal income tax relief while Saskatchewan reduced its provincial sales tax.<sup>5</sup>

However, the decline in Tax Freedom Day in both 2008 and 2009 had little to do with either the federal or any provincial government's tax-reducing actions. Tax Freedom Day is determined by the ratio of total taxes to income for

average Canadian families. When the economy slows and incomes either stagnate, or worse, decline, the tax burden of those families tends to decrease to a greater extent. The main reason for this accelerated decrease in the tax burden compared to income is the progressive nature of the Canadian tax system. Progressivity means that as one earns more income, they pay proportionately more in taxes. The reverse is also true. It is this reverse phenomenon that drove some of the decrease in Tax Freedom Day in 2008 and 2009.

The Canadian economy rebounded from the 2008/09 recession and Tax Freedom Day has steadily come later starting in 2010.<sup>6</sup> As explained above, when the economy recovers and

<sup>5</sup> A complete delineation of tax changes enacted before the recession is available in Treff and Perry, and Treff and Ort, *Finances of the Nation* (various issues).

<sup>6</sup> In 2011, however, Tax Freedom Day fell on June 7 and remained there in 2012.

**Table 3: Taxes of the Average Family (with two or more individuals), 2013, revised estimates (\$ Cdn)**

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Cash income	92,309	76,932	83,968	79,841	85,433	97,312	92,835	116,875	138,080	92,699	97,769
Income taxes	13,364	10,147	13,170	10,770	11,489	12,878	13,654	17,363	22,956	11,255	13,551
Payroll & health taxes	6,975	6,436	6,658	6,919	9,679	9,855	7,577	8,345	9,327	8,642	9,539
Sales taxes	7,036	6,122	7,002	5,621	7,217	6,579	6,900	6,347	3,300	5,541	6,573
Property taxes	1,764	2,743	2,839	3,542	3,057	4,156	2,827	3,123	3,484	3,364	3,574
Profit taxes	3,684	2,565	3,342	2,518	2,927	3,782	3,061	5,096	4,755	3,798	3,672
Liquor, tobacco, amusement, & other excise taxes	2,898	2,107	2,372	2,293	1,946	1,968	2,702	3,172	3,484	2,402	2,295
Auto, fuel, & motor vehicle licence taxes	1,313	967	1,095	1,282	1,008	895	1,066	2,042	1,054	1,534	1,118
Other taxes	1,562	755	417	572	481	791	1,661	1,227	1,967	1,277	926
Import duties	277	248	287	264	283	337	307	381	464	326	335
Natural resource levies	4,876	0	48	143	14	22	94	2,438	2,535	706	498
<b>Total tax bill</b>	<b>43,749</b>	<b>32,090</b>	<b>37,230</b>	<b>33,922</b>	<b>38,101</b>	<b>41,263</b>	<b>39,849</b>	<b>49,536</b>	<b>53,327</b>	<b>38,846</b>	<b>42,080</b>

Note: Payroll taxes include social security and pension deductions.

Source: The Fraser Institute's Canadian Tax Simulator, 2014.

**Table 4: Difference in the Average Family's Tax Bill between 2014 and 2013 (\$ Cdn)**

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Cash income	2,544	1,241	1,611	1,508	1,923	1,768	1,886	3,403	5,279	1,679	2,072
Income taxes	55	416	667	632	581	468	549	1,075	1,273	525	589
Payroll & health taxes	317	283	303	322	374	345	292	379	372	334	364
Sales taxes	67	137	160	344	(122)	328	384	207	100	250	191
Property taxes	124	(16)	13	7	26	60	56	64	54	(12)	47
Profit taxes	(434)	65	(8)	161	107	(75)	204	18	228	56	37
Liquor, tobacco, amusement, & other excise taxes	156	47	24	30	(37)	78	74	81	34	71	40
Auto, fuel, & motor vehicle licence taxes	24	6	(8)	(14)	11	29	19	62	19	(4)	18
Other taxes	41	5	12	10	10	44	61	40	51	1	27
Import duties	13	9	11	11	11	11	11	16	14	11	11
Natural resource levies	519	0	9	8	9	2	2	197	144	43	31
<b>Total tax bill</b>	<b>881</b>	<b>953</b>	<b>1,184</b>	<b>1,510</b>	<b>970</b>	<b>1,289</b>	<b>1,653</b>	<b>2,139</b>	<b>2,290</b>	<b>1,275</b>	<b>1,355</b>

Notes:

\* Numbers may not add due to rounding.

\* Payroll taxes include social security and pension deductions.

Source: The Fraser Institute's Canadian Tax Simulator, 2014.

**Table 5: Tax Freedom Days including Government Deficits, 2014, Preliminary Estimates**

	Tax Freedom Day	Balanced Budget Tax Freedom Day	Total increase (days)
NL	22 June	2 July	10
PEI	5 June	9 June	4
NS	14 June	19 June	5
NB	9 June	16 June	7
QC	14 June	17 June	3
ON	7 June	17 June	10
MB	10 June	14 June	4
SK	7 June	7 June	0
AB	23 May	22 May	-1
BC	6 June	6 June	0
CDA	9 June	14 June	5

Note: The Balanced Budget Tax Freedom Day is affected by both federal and provincial government deficits (and surpluses). The federal deficit is allocated to the provinces based on each province's contribution to overall federal revenues. In the case of Alberta, the province's projected surplus in 2014/15 more than offsets its proportion of the projected federal deficit. This is why the Balanced Budget Tax Freedom Day comes one day earlier. In the case of Saskatchewan and British Columbia, the provincial surpluses exactly offset the proportion of the federal deficit, resulting in no net change to the Balanced Budget Tax Freedom Day.

Source: The Fraser Institute's Canadian Tax Simulator, 2014; 2014 federal and provincial budgets; RBC Economics, 2014.

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 that are paid.

Projections of tax revenues in federal and provincial budgets are an important part of Tax Freedom Day calculations, especially for the current year. For 2014, the total tax revenue of all Canadian governments is expected to in-

crease faster than the projected growth in cash incomes of Canadians and this largely explains why Tax Freedom Day comes one day later than last year.<sup>7</sup> On personal tax revenue, the federal and all provincial governments (save Newfoundland & Labrador) expect revenue from this source to exceed the rate of personal income growth in 2014. This partly reflects the progressive income tax systems of the various jurisdictions.

Tax Freedom Day has also come later starting in 2010 because many Canadian governments have increased taxes. In 2014 alone, British Columbia increased its highest personal income tax rate and its monthly Medical Services Plan premiums (health tax); Ontario proposed higher taxes on upper earners (income over \$150,000) and increased fuel taxes;<sup>8</sup> Quebec increased payroll taxes by raising mandatory contributions to the Quebec Pension Plan (QPP);<sup>9</sup> and the federal government, along with several provinces (including British Columbia, Ontario, and Newfoundland & Labrador) increased tobacco taxes.

<sup>7</sup> Specifically, total tax revenue (of the federal, provincial, and local governments) in 2014 is projected to increase by 4.5 percent while total cash income is projected to increase by 3.8 percent.

<sup>8</sup> Ontario's tax increases are proposed and not final because at the time of writing the province was in the midst of an election. The proposed tax changes for 2014 are contained in the budget tabled by the Ontario Liberals on May 2, 2014. For details, see [www.fn.gov.on.ca/en/budget/ontario/budgets/2014/](http://www.fn.gov.on.ca/en/budget/ontario/budgets/2014/). The calculations do not include the effect on payroll taxes from the proposed Ontario Retirement Pension Plan (ORPP).

<sup>9</sup> The budget data for Quebec are from the latest budget at the time of writing, which was tabled on February 20, 2014. For details, see [www.budget.finances.gouv.qc.ca/budget/2014-2015/index\\_en.asp](http://www.budget.finances.gouv.qc.ca/budget/2014-2015/index_en.asp).

**Table 6: Average Income and Tax for Three Different Types of Family, 2014, preliminary estimates (\$ Cdn)**

## 1. Families and unattached individuals

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. cash income	78,104	63,855	64,679	65,901	66,531	81,451	76,054	90,360	112,733	72,772	79,194
Total tax	35,827	26,428	27,275	27,130	29,192	35,001	31,307	37,543	43,401	30,737	33,435
Tax rate	45.9%	41.4%	42.2%	41.2%	43.9%	43.0%	41.2%	41.5%	38.5%	42.2%	42.2%
Tax rate (excluding natural resources)	40.4%	41.4%	42.1%	41.0%	43.9%	42.9%	41.1%	39.3%	36.7%	41.5%	41.7%

## 2. Families with two or more individuals

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. cash income	94,853	78,173	85,580	81,349	87,356	99,080	94,721	120,278	143,360	94,378	99,841
Total tax	44,630	33,042	38,414	35,433	39,071	42,553	41,502	51,676	55,617	40,121	43,435
Tax rate	47.1%	42.3%	44.9%	43.6%	44.7%	42.9%	43.8%	43.0%	38.8%	42.5%	43.5%
Tax rate (excluding natural resources)	41.4%	42.3%	44.8%	43.4%	44.7%	42.9%	43.7%	40.8%	36.9%	41.7%	43.0%

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

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CDA
Avg. cash income	115,161	84,637	97,472	106,214	104,225	115,675	104,967	143,581	164,547	115,678	117,984
Total tax	55,802	33,236	39,253	47,776	45,662	45,862	43,938	56,565	59,912	45,899	48,381
Tax rate	48.5%	39.3%	40.3%	45.0%	43.8%	39.6%	41.9%	39.4%	36.4%	39.7%	41.0%
Tax rate (excluding natural resources)	41.5%	39.3%	40.2%	44.8%	43.8%	39.6%	41.7%	37.0%	34.4%	38.8%	40.4%

Source: The Fraser Institute's Canadian Tax Simulator, 2014.

It is important to note that Tax Freedom Day calculations are based on government forecasts of tax revenue and forecasts of income growth. When final revenue numbers become available at the end of each fiscal year and income data are updated by Statistics Canada, we revise our Tax Freedom Day calculations for previous years. If federal and provincial revenue or income ends up lower (or higher) than currently projected, the 2014 Tax Freedom Day will change when the preliminary estimates are revised.<sup>10</sup>

<sup>10</sup> Historical Tax Freedom Days can change for other reasons as well. As is explained in the methodology section, Statistics Canada's Social Policy Simula-

tion 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 2014. Statistics Canada's Survey of Labour and Income Dynamics (SLID) is the host database for the SPSPD/M. The latest version of the SPSPD/M (version 21) is based on the 2009 Survey of Labour and Income Dynamics, an update of the 2008 survey used in the previous version (version 20). While the Fraser Institute's methodology has not changed, the change in base year from 2008 to 2009 has led to changes in historical Tax Freedom Days in some provinces.

Historical changes in Tax Freedom Days can also occur because of changes to data sourced from Statistics Canada. Specifically, Statistics Canada recently undertook a revision of its provincial accounts re-

**Table 7: Breakdown of the Average Family's Tax Bill by Level of Government, 2014, preliminary estimate**

	Federal		Provincial		Local		Tax bill
	\$	% of total	\$	% of total	\$	% of total	\$
Newfoundland & Labrador	20,509	52.3%	16,796	42.8%	1,930	4.9%	39,235
Prince Edward Island	16,954	51.3%	15,095	45.7%	993	3.0%	33,042
Nova Scotia	20,136	52.5%	15,326	40.0%	2,896	7.5%	38,357
New Brunswick	18,849	53.4%	14,459	41.0%	1,974	5.6%	35,282
Quebec	18,580	47.6%	17,353	44.4%	3,115	8.0%	39,048
Ontario	23,863	56.1%	14,577	34.3%	4,088	9.6%	42,528
Manitoba	21,426	51.7%	17,150	41.4%	2,830	6.8%	41,406
Saskatchewan	27,161	55.4%	18,402	37.5%	3,477	7.1%	49,040
Alberta	34,177	64.6%	15,940	30.1%	2,821	5.3%	52,938
British Columbia	22,932	58.2%	14,257	36.2%	2,182	5.5%	39,372
Canada	23,366	54.5%	16,243	37.9%	3,297	7.7%	42,905

Notes:

\* The average family includes two or more individuals.

\* The tax bill excludes natural resource levies.

Source: The Fraser Institute's Canadian Tax Simulator, 2014.

## 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>11</sup> In 2014, the average Canadian family (with two or more individuals) will earn \$99,841 in cash income and pay a total of \$43,435 in

porting and made provincial data available from 1981 onwards. Last year, however, this data was available only from 2007 onwards so the provincial data we used from 1997 to 2006 were our own estimates based on national totals.

<sup>11</sup> 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.

taxes.<sup>12</sup> In other words, the total tax bill of the average Canadian family in 2014 will amount to 43.5 percent of its income (table 8).

The cash income of the average Canadian family increases by 2.1 percent (\$2,072) between 2013 and 2014 (table 4). This compares to a much larger percentage increase in the total tax bill of 3.2 percent (\$1,355).

The largest increase among the myriad taxes comes in the form of income taxes—up \$589 for the average Canadian family (table 4). Other notable increases come in the form of payroll and health taxes (\$364), sales taxes (\$191), and property taxes (\$47). No category of taxes decreases

<sup>12</sup> For a definition and explanation of cash income, see the methodology section at the end of this publication.



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

	1981	1985	1995	2000 <sup>re</sup>	2005 <sup>re</sup>	2010 <sup>re</sup>	2011 <sup>re</sup>	2012 <sup>re</sup>	2013 <sup>re</sup>	2014 <sup>pe</sup>
NL	37.4	34.9	38.9	43.9	48.0	50.0	50.1	48.3	47.4	47.1
PE	34.2	42.8	38.5	41.6	44.6	40.5	41.4	41.5	41.7	42.3
NS	35.5	37.0	40.9	45.2	46.5	43.1	44.0	44.1	44.3	44.9
NB	34.2	41.6	41.1	43.5	44.5	41.6	42.0	42.1	42.5	43.6
QC	42.9	45.6	43.5	49.9	48.1	43.2	43.8	44.7	44.6	44.7
ON	40.3	39.5	43.1	45.7	45.5	42.2	42.1	42.5	42.4	42.9
MB	37.2	33.8	44.7	46.2	45.6	42.0	42.4	42.6	42.9	43.8
SK	39.0	37.1	46.5	47.7	49.1	43.8	42.4	42.3	42.4	43.0
AB	40.6	38.5	41.4	48.2	45.1	39.6	40.2	38.9	38.6	38.8
BC	43.4	45.2	44.3	49.1	47.0	42.0	42.3	42.3	41.9	42.5
CDA	40.8	42.7	43.9	47.7	46.9	42.6	42.9	43.1	43.0	43.5

**Without Natural Resources**

NL	37.2	34.6	38.8	43.6	45.6	42.4	42.0	42.3	42.1	41.4
SK	36.5	34.8	44.6	44.6	45.6	41.1	39.8	40.3	40.3	40.8
AB	34.2	33.3	39.1	41.7	39.4	37.4	37.3	37.2	36.8	36.9
BC	42.6	44.3	43.1	46.8	45.1	41.2	41.5	41.6	41.1	41.7
CDA	39.9	42.1	43.4	46.5	45.8	42.0	42.2	42.6	42.5	43.0

re = revised estimate; pe = preliminary estimate

Note: Data based on total taxes as a percentage of cash income for families with two or more individuals.

Source: The Fraser Institute's Canadian Tax Simulator, 2014.

between 2013 and 2014 for the average Canadian family (table 4).

## Tax Freedom Day by province

Tax Freedom Day for each province varies according to the extent of the provincially levied tax burden (table 1). This year, the earliest provincial Tax Freedom Day falls on May 23 in Alberta; the latest in Newfoundland & Labrador on June 22.

Compared to last year, Tax Freedom Day comes later in 2014 for all provinces but Newfoundland & Labrador (table 1). This means that nearly all Canadians will work more for the government and less for themselves and their families

this year. The largest delay in Tax Freedom Day among the provinces occurs in New Brunswick, Manitoba, and British Columbia. In all three cases, taxpayers in those provinces must wait an additional three days to celebrate Tax Freedom Day. Taxpayers in Prince Edward Island, Nova Scotia, Ontario, and Saskatchewan wait two extra days to celebrate Tax Freedom Day this year, while those in Quebec and Alberta delay their celebrations by a day.

Newfoundland & Labrador is the only province where Tax Freedom Day comes earlier this year—one day earlier than in 2013. There are two primary reasons for the province's earlier Tax Freedom Day. First, the Newfoundland & Labrador government expects corpo-

**Table 9: The Distribution of Cash Income and Tax Across Deciles, and the Average Tax Rate by Decile, 2014, preliminary estimate**

Decile	1	2	3	4	5	6	7	8	9	10
<i>Distribution across deciles</i>										
Tax	0.6%	1.3%	2.6%	4.2%	5.9%	7.7%	9.7%	12.2%	16.4%	39.5%
Income	1.6%	3.2%	4.4%	5.4%	6.7%	8.2%	10.0%	12.4%	15.9%	32.2%
<i>Average tax rate</i>	16.0%	18.9%	26.9%	35.0%	39.2%	42.0%	43.5%	44.2%	46.1%	55.0%

**Notes:**

\* 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.

\* Deciles may not sum to 100% due to rounding.

Source: The Fraser Institute's Canadian Tax Simulator, 2014.

rate income and corporate capital tax revenue to decrease by 32.6 percent this year.<sup>13</sup> This translates into a lower total tax bill for average families through a reduction in profit taxes. Second, the provincial government is also forecasting a 6.0 percent reduction in personal income tax revenue.<sup>14</sup>

There is an unresolved debate as to whether natural resource royalties are actually a tax, or simply the conversion of a balance sheet asset (“public asset”) into an income stream. This debate is not one we attempt to resolve in our annual calculations. For this reason, we provide two sets of Tax Freedom Days for provinces with significant natural resources, one including and one excluding resource royalties. If natural resource revenues are excluded, Tax Freedom Day is 21 days earlier in Newfoundland

& Labrador, eight days earlier in Saskatchewan, seven days earlier in Alberta, and three 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 seven provincial governments are forecasting budget deficits this year (the seven provinces are Newfoundland & Labrador, Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario, and Manitoba). Specifically, the federal government budgeted for a \$2.9 billion deficit in 2014/15 while the provinces are cumulatively forecasting deficits amounting to \$15.9 billion.<sup>15</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

<sup>13</sup> The decline in corporate income tax revenue is partially the result of a planned one percentage point reduction in the small business income tax rate (from 4 percent to 3 percent effective July 1, 2014).

<sup>14</sup> Tax breaks for lower income earners partially explain the decline in provincial personal income tax revenue.

<sup>15</sup> The cumulative deficit figure only includes those provinces with forecasted deficits for 2014/15.

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 14, which means that the average Canadian family has to work until June 13 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 five days later than Tax Freedom Day. Among the provinces, the latest Balanced Budget Tax Freedom Day falls on July 2 in Newfoundland & Labrador. Of particular concern is the Balanced Budget Tax Freedom Day in Canada's largest province, Ontario, which arrives on June 17—ten days 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 pays 68.0 percent of all taxes and earns 60.6 percent of all income, while the bottom 30 percent of all income earners pays 4.5 percent of all taxes and earns 9.1 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 2014, Canadians

celebrate Tax Freedom Day on June 9, one day later than in 2013.

## Methodology —How the Fraser Institute's Canadian Tax Simulator Works

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

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

A broader definition of income is total income before taxes, which includes cash income plus fringe benefits from employment, value of food from farm, investment income from pension plans and insurance companies, and corporate retained earnings. However, cash income is the appropriate income measure to convey the size of the total tax bill imposed on Cana-

## 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.

dian families because total income before taxes includes deferred incomes such as investment income accumulated by pension plans, interest accumulated on insurance policies, and corporate retained earnings. While these types of incomes are accumulated, they are not paid to Canadian families in the current year, and thus should not be considered as part of their income for Tax Freedom Day calculations.

The tax calculation consists of adding up the various taxes that Canadian families pay to the three levels of government: federal, provincial, and local. These include income taxes, payroll taxes, health taxes, sales taxes, property taxes, profit taxes, fuel taxes, vehicle taxes, import duties, liquor taxes, tobacco taxes, amusement taxes, natural resource fees, and a host of other levies. The tax data comes from Statistics Canada (System of National Accounts, Government Finance) as well as federal and provincial public accounts and government budgets (for the latest year of analysis).

Statistics Canada's Social Policy Simulation Database and Model, version 21.0 (SPSD/M), is an important part of the Canadian Tax Simulator; it is used to calculate Tax Freedom Days from 1997 to 2014. SPSP/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.

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## Acknowledgments

As the researchers have worked independently, the views and conclusions expressed in this paper do not necessarily reflect those of the Board of Trustees of the Fraser Institute, the staff, or supporters.



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**ISSN 2291-8620**

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