

Chapter 6

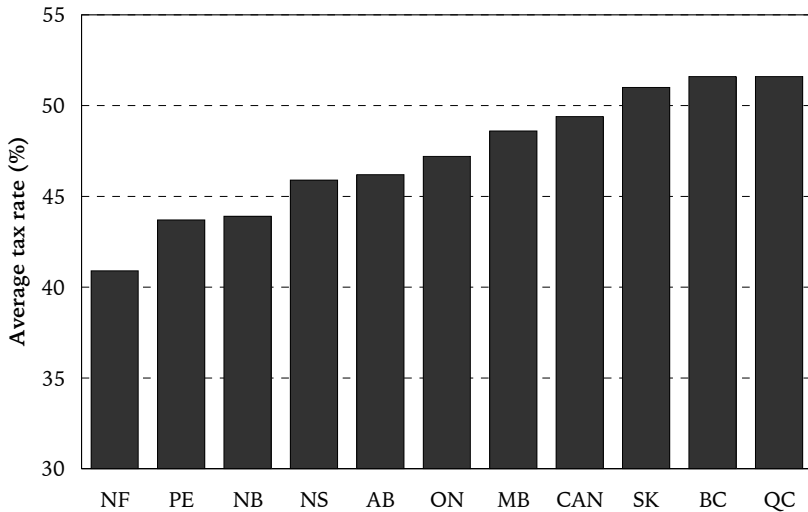
Taxes across Canada

TAXES ARE THE PRICE ONE PAYS for government services. If taxes were the same in all provinces, the first five chapters of this book would be a sufficient price guide to government services. As taxes differ from province to province, however, we need to break our analysis down by province. This breakdown may be of interest to Canadians who want an idea of where taxes are lightest and where they are heaviest. It may also be of interest to government officials who understand that it is dangerous for the economic health of a province when it imposes significantly more tax than its neighbours. Figure 6.1 shows the tax rate as a percent of cash income for the average Canadian family by province.

In comparing the provinces, we must make some adjustment for the fact that family size differs from province to province. The family whose income is average in Newfoundland and Labrador has more members than its counterpart in Ontario. Put differently, Newfoundland and Labrador has relatively fewer single-member families than does Ontario. We would not be comparing the same sort of family if we set these averages side by side. To get a more precise comparison, this chapter focuses on families of two or more individuals. However, the appendix shows that many of the results hold for families and unattached individuals, and families of two parents with two children under the age of 18.

Table 6.1 presents the tax situation for the average family by province of residence. In this context, “average family” means a family unit that has an average income in its province of residence. Thus, for example, the average family in Newfoundland and Labrador had a cash income of \$49,644 in 2000 whereas the average family in Ontario had an

Figure 6.1: Tax rates of the average family, 2000



Source: The Fraser Institute, 2001.

income of \$71,289 in the same year, and so on. Table 6.2 shows which provinces have the highest propensity to tax in each of the tax categories. Income tax makes up between 30.5% and 37.6% of the family's tax bill. The highest rate is in Quebec, where the average family provides 37.6% of its taxes in income tax. The lowest proportion is in Newfoundland and Labrador, at 30.5%. The Maritimes rely most heavily upon the sales tax. For instance, 22.1¢ out of each tax dollar paid in taxes by the average Prince Edward Island family are collected in sales tax. By comparison, 15.4¢ out of each tax dollar are collected in sales tax from the average Saskatchewan and British Columbian family, while just 7.7¢ per tax dollar are collected from that source from the average Albertan family, as Alberta has no provincial sales tax. Saskatchewan has the highest reliance on property tax, collecting 8.6% of taxes in this form, whereas Prince Edward Island only collects 5.1% of its taxes as property tax.

Saskatchewan, Alberta, and British Columbia are the only provinces that have significant natural-resource revenues. In Alberta, for example, petroleum-related taxes are not collected from the tax-paying public; rather, they are collected from the corporations that remove oil and gas from the ground. It is nevertheless the case that the oil and gas in the ground in Alberta belongs to the people of Alberta. Since they do not receive the income from these natural resources, it is appropriate to regard the taxes that are paid as a result of exploitation of these petroleum resources as a tax on Albertans.

Table 6.1: Taxes of the average Canadian family (with two or more individuals), 2000 (dollars)

	Average cash income	Average total income before tax	Income tax	Sales tax	Amusement taxes*	Auto-mobile taxes**	Payroll taxes***	Property tax	Import duties	Profits tax	Natural resource taxes	Other taxes	Total taxes
NF	49,644	71,403	6,183	3,703	1,852	942	3,329	1,456	128	1,861	103	727	20,285
PE	54,485	81,340	7,939	5,260	1,771	1,054	4,547	1,214	176	1,372	9	470	23,811
NS	53,505	78,761	8,642	4,221	1,875	944	4,152	2,002	169	2,255	12	267	24,538
NB	52,033	76,198	7,772	4,279	1,623	1,029	4,366	1,427	178	1,601	122	430	22,829
QC	57,751	85,135	11,219	4,930	1,668	946	6,633	1,706	198	2,066	63	374	29,805
ON	71,289	105,010	11,937	6,156	1,893	1,020	6,599	2,455	259	2,629	38	641	33,627
MB	60,423	89,574	10,435	4,730	2,133	803	4,696	2,091	212	2,661	143	1,461	29,366
SK	53,733	83,524	8,439	4,230	1,915	1,306	4,052	2,356	191	3,129	1,082	696	27,398
AB	68,209	102,121	11,678	2,415	2,458	732	5,753	2,285	240	3,117	1,910	950	31,539
BC	59,266	89,134	10,542	4,709	1,859	549	5,404	2,484	227	3,042	847	922	30,585
CAN	63,605	94,959	11,108	5,081	1,911	922	6,068	2,337	226	2,724	361	666	31,406

*Amusement taxes include liquor, tobacco, amusement, and other excise taxes.

** Automobile taxes include automobile, fuel, and motor vehicle license taxes.

***Payroll taxes include social security, pension, medical, and hospital taxes.

Source: The Fraser Institute, 2001.

Table 6.2: Individual taxes as a proportion of the total tax bill for the average family (two or more individuals), 2000 (%)

	Income tax	Sales tax	Amusement taxes*	Automobile taxes**	Payroll taxes***	Property tax	Import duties	Profits tax	Natural resource taxes	Other taxes
NF	30.5	18.3	9.1	4.6	16.4	7.2	0.6	9.2	0.5	3.6
PE	33.3	22.1	7.4	4.4	19.1	5.1	0.7	5.8	0.0	2.0
NS	35.2	17.2	7.6	3.8	16.9	8.2	0.7	9.2	0.0	1.1
NB	34.0	18.7	7.1	4.5	19.1	6.3	0.8	7.0	0.5	1.9
QC	37.6	16.5	5.6	3.2	22.3	5.7	0.7	6.9	0.2	1.3
ON	35.5	18.3	5.6	3.0	19.6	7.3	0.8	7.8	0.1	1.9
MB	35.5	16.1	7.3	2.7	16.0	7.1	0.7	9.1	0.5	5.0
SK	30.8	15.4	7.0	4.8	14.8	8.6	0.7	11.4	4.0	2.5
AB	37.0	7.7	7.8	2.3	18.2	7.2	0.8	9.9	6.1	3.0
BC	34.5	15.4	6.1	1.8	17.7	8.1	0.7	9.9	2.8	3.0
CAN	35.4	16.2	6.1	2.9	19.3	7.4	0.7	8.7	1.2	2.1

*Amusement taxes include liquor, tobacco, amusement, and other excise taxes.

** Automobile taxes include automobile, fuel, and motor vehicle license taxes.

***Payroll taxes include social security, pension, medical, and hospital taxes.

Source: The Fraser Institute, 2001.

While this is the appropriate technical treatment of petroleum resource taxes, apportioning these taxes in this way does confuse somewhat the inter-provincial comparison of tax burdens. If we subtracted from the \$31,539 total tax bill faced by the average Albertan family the \$1,910 collected on their behalf from the petroleum industry, we find that the total tax bill is reduced to \$29,629 for the average family. Without natural-resource taxes, the tax bill for Saskatchewan and British Columbia would be \$26,316 and \$29,738, respectively. Table 6.3 presents the ratios of taxes to income for the average family with, and without, natural-resource levies for the provinces that have significant revenues from this tax source.

In comparing the tax results for the various provinces, it is important to remember that the standard of comparison is the average family, the family in each province whose income is average. Since the average income in each province varies considerably, some of the differences in the tax burden among the provinces is due to nothing more than differences in income.

Table 6.3: Ratios (%) of taxes to cash income and to total income before taxes for an average family (two or more individuals), 2000

	Ratio (%) of taxes to cash income	Ratio (%) of taxes to total income before tax
Newfoundland and Labrador	40.9	28.4
Prince Edward Island	43.7	29.3
Nova Scotia	45.9	31.2
New Brunswick	43.9	30.0
Quebec	51.6	35.0
Ontario	47.2	32.0
Manitoba	48.6	32.8
Saskatchewan	51.0	32.8
Alberta	46.2	30.9
British Columbia	51.6	34.3
Canada	49.4	33.1
Ratios (%) excluding natural resources taxes		
Saskatchewan	49.0	31.5
Alberta	43.4	29.0
British Columbia	50.2	33.4
Canada	48.8	32.7

Source: The Fraser Institute, 2001.

Table 6.4 provides a distribution of taxes by province according to income deciles. The great benefit of this table is that it makes possible a comparison of how the tax burden is distributed amongst the various income groups within each province. The outcome of this analysis, as reflected in the table, is remarkable; there is little variation among the provinces in the extent of the progressivity or regressivity of their various tax systems. The upper income groups in all provinces absorb between 63.9% and 70.7% of the total tax bill.

The similarity of the tax distributions in the provinces is noteworthy because it exists in spite of the differences in the provincial tax systems. These differences, which were pointed out above in the discussion of tables 6.1 and 6.2, ought to provide some variation in the tax rates unless, as is apparent from table 6.4, the differences in the progressivity and regressivity of the various taxes largely offset one other.

There are, however, some important differences between the tax systems in the various provinces. Table 6.5 highlights the differences in average tax rates payable by the various income deciles in each province. Thus, in Newfoundland and Labrador for example, the lowest income decile paid a tax rate of 3.5% on average whereas the top decile paid a tax rate of 36.0%. In Saskatchewan, on the other hand, the bottom decile paid 15.0% while the top decile paid 40.5%.

Underlying this pattern of taxation is a pattern of government expenditures: the reason for raising revenues is to pay for government

Table 6.4: Decile distribution of taxes by province, 2000 (%)

	Income groups		
	Lower 3 deciles (%)	Middle 4 deciles (%)	Upper 3 deciles (%)
Newfoundland and Labrador	1.9	27.4	70.7
Prince Edward Island	2.6	30.9	66.5
Nova Scotia	4.5	31.5	63.9
New Brunswick	2.6	28.8	68.6
Quebec	4.5	29.4	66.1
Ontario	5.5	30.7	63.9
Manitoba	3.6	31.4	65.1
Saskatchewan	5.0	29.1	65.9
Alberta	3.3	28.5	68.2
British Columbia	3.1	29.4	67.5
Canada	4.3	30.0	65.7

Source: The Fraser Institute, 2001.

Table 6.5: Average tax rates (on total income before tax) by decile and province, 2000 (%)

	Lower income groups			Middle income groups				Upper income groups		
	1	2	3	4	5	6	7	8	9	10
NF	3.5	4.2	10.6	16.9	23.6	26.5	29.3	32.8	34.7	36.0
PE	7.0	7.3	12.3	23.8	23.7	27.1	30.0	31.0	31.8	36.1
NS	11.0	14.4	18.3	25.3	27.5	30.8	31.6	33.8	34.0	37.7
NB	7.6	6.3	13.9	20.8	24.7	28.2	30.8	31.3	32.6	38.7
QC	14.0	15.6	21.3	26.9	30.3	33.4	35.0	36.1	39.0	43.0
ON	11.5	19.1	25.0	29.1	30.7	31.5	32.1	32.9	34.2	39.7
MB	10.9	9.7	17.7	23.7	29.6	31.6	32.6	33.6	35.5	39.0
SK	15.0	14.5	20.9	24.3	27.7	30.6	32.7	33.6	35.1	40.5
AB	11.6	11.3	17.4	24.7	27.7	29.5	30.2	31.9	33.4	36.8
BC	9.2	12.0	19.3	25.6	29.3	31.5	34.2	34.9	35.6	40.0
CAN	11.6	14.8	21.4	26.9	30.0	32.0	33.0	33.8	35.1	39.8

Source: The Fraser Institute, 2001.

spending. Accordingly, an alternative, and perhaps more direct, measure of the level of government activity is the level of government spending. Table 6.6 presents both the total amounts and the per-capita amounts of provincial government spending in each of the provinces, adjusted for the amount of that spending that is financed by federal equalization payments.

Table 6.6 reveals an interesting pattern of spending, especially when compared with the taxation data. The data reveal that Quebec and British Columbia are among the provinces that spend the most and tax the most while the Maritime provinces, when equalization payments are removed, are among those that spend the least and tax the least.

Table 6.6: Provincial government spending, 2000/2001

	Total Spending (\$ millions)	Amounts per Person			Rank by spending (net of transfers)	Rank by taxation
		Total Spending (\$)	Federal transfers (\$)	Spending net of transfers (\$)		
NF	3,709	6,866	2,730	4,137	6	10
PE	883	6,352	2,449	3,903	7	9
NS	5,045	5,355	1,921	3,433	10	7
NB	4,690	6,195	2,303	3,892	9	8
QC	48,253	6,556	993	5,563	1	1
ON	61,060	5,258	519	4,739	5	5
MB	6,398	5,575	1,679	3,896	8	4
SK	6,373	6,210	917	5,293	3	3
AB	17,709	5,923	483	5,439	2	6
BC	22,300	5,503	670	4,832	4	2

Sources: Provincial budgets; Statistics Canada; The Fraser Institute; calculations by authors.

Appendix

This appendix presents the tax calculations for two other family types, families and unattached individuals, the focus of chapters 3, 4, and 5 (tables 6.7 and 6.8), and families of four consisting of two parents and two children under the age of 18 (tables 6.9 and 6.10).

Table 6.7: Ratios (%) of taxes to cash income and to total income before taxes for families and unattached individuals, 2000

	Ratio (%) of taxes to cash income	Ratio (%) of taxes to total income before tax
Newfoundland	40.5	27.8
Prince Edward Island	41.7	28.3
Nova Scotia	43.7	30.0
New Brunswick	44.7	30.4
Quebec	49.0	33.1
Ontario	47.7	31.9
Manitoba	47.1	31.8
Saskatchewan	47.9	31.2
Alberta	45.0	30.1
British Columbia	48.9	32.6
Canada	47.5	31.9

Source: The Fraser Institute, 2001.

Table 6.8: Taxes of families and unattached individuals, 2000 (dollars)

	Average cash income	Average total income before tax	Income tax	Sales tax	Amusement taxes*	Automobile taxes**	Payroll taxes***	Property tax	Import duties	Profits tax	Natural resource taxes	Other taxes	Total taxes
NF	43,851	63,853	5,281	3,204	1,603	815	2,893	1,379	111	1,762	93	631	17,771
PE	44,303	65,253	5,544	3,900	1,313	781	3,185	1,535	130	1,734	7	357	18,487
NS	43,844	63,727	6,534	3,264	1,449	730	3,242	1,685	131	1,897	9	207	19,147
NB	44,166	64,973	6,353	3,382	1,283	813	3,356	1,877	141	2,105	101	345	19,756
QC	44,782	66,169	7,335	3,580	1,211	687	4,902	1,697	144	2,055	47	272	21,929
ON	58,554	87,540	9,242	4,856	1,493	804	5,176	2,701	204	2,893	31	506	27,907
MB	49,884	73,761	7,699	3,696	1,667	627	3,731	2,037	166	2,592	116	1,145	23,475
SK	43,356	66,614	6,016	3,185	1,442	984	3,027	1,989	144	2,641	807	524	20,757
AB	54,915	82,073	8,912	1,927	1,961	584	4,651	1,779	192	2,427	1,511	759	24,704
BC	46,480	69,579	7,361	3,566	1,408	416	4,239	1,900	172	2,328	624	703	22,717
CAN	51,174	76,236	8,071	3,861	1,457	697	4,648	2,124	175	2,468	294	514	24,309

*Amusement taxes include liquor, tobacco, amusement, and other excise taxes.

** Automobile taxes include automobile, fuel, and motor vehicle license taxes.

***Payroll taxes include social security, pension, medical, and hospital taxes.

Source: The Fraser Institute, 2001.

Table 6.9: Ratios (%) of taxes to cash income and to total income before taxes for families of four (parents and two children under 18), 2000

	Ratio (%) of taxes to cash income	Ratio (%) of taxes to total income before tax
Newfoundland	39.9	28.3
Prince Edward Island	47.2	31.5
Nova Scotia	47.3	32.3
New Brunswick	44.1	30.5
Quebec	52.4	36.1
Ontario	45.5	31.9
Manitoba	47.7	32.7
Saskatchewan	48.2	32.0
Alberta	46.4	32.3
British Columbia	48.7	33.4
Canada	47.5	33.0

Source: The Fraser Institute, 2001.

Table 6.10: Taxes of families of four (parents and two children under 18), 2000 (dollars)

	Average cash income	Average total income before tax	Income tax	Sales tax	Amusement taxes*	Automobile taxes**	Payroll taxes***	Property tax	Import duties	Profits tax	Natural resource taxes	Other taxes	Total taxes
NF	55,498	78,134	8,551	4,372	2,187	1,113	4,412	160	151	205	138	855	22,143
PE	59,680	89,492	10,528	6,372	2,145	1,276	5,698	650	213	734	12	557	28,185
NS	69,926	102,278	14,228	6,213	2,759	1,389	6,073	821	248	925	16	394	33,065
NB	64,939	93,812	11,401	5,692	2,159	1,369	6,195	389	237	436	168	565	28,612
QC	65,794	95,566	14,620	6,115	2,069	1,173	8,453	577	246	698	86	464	34,501
ON	82,673	118,009	15,685	7,399	2,275	1,226	7,898	957	311	1,024	48	771	37,595
MB	66,484	96,979	12,837	5,518	2,488	937	5,625	961	248	1,223	185	1,697	31,719
SK	60,973	91,852	10,640	5,213	2,360	1,610	5,426	701	235	931	1,389	858	29,362
AB	82,283	118,315	17,055	3,066	3,121	929	6,799	1,335	305	1,821	2,572	1,199	38,203
BC	66,666	97,306	13,315	5,722	2,259	667	6,817	533	276	653	1,115	1,112	32,469
CAN	74,279	106,913	14,874	6,345	2,352	1,143	7,574	670	283	779	437	817	35,274

*Amusement taxes include liquor, tobacco, amusement, and other excise taxes.

** Automobile taxes include automobile, fuel, and motor vehicle license taxes.

***Payroll taxes include social security, pension, medical, and hospital taxes.

Source: The Fraser Institute, 2001.