Ideas for a More Prosperous Society

VIEWPOINT

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VIEWPOINT – THE TAX BURDEN AND DISPOSABLE INCOME OF QUEBECERS

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In order to balance public finances, the Quebec government has increased the tax burden of Quebecers considerably in recent years. Now, the purchasing power of Quebecers is lower than that of Canadians in the other provinces. Quebec's disposable income per capita ranks 9th, ahead of only Prince Edward Island. According to data from the Institut de la statistique du Québec, it seems the province's tax burden has become so heavy that it has a negative impact on economic growth and on individual disposable income.[1]

Disposable income, which is the portion of income that one can devote to consumption and saving, constitutes a very good measure of purchasing power. In order to calculate it, earned market income and transfers received from government like employment insurance and various benefits are added together, and income taxes and contributions paid to the different levels of government are subtracted from this sum. Average disposable income in Quebec is $26,774, and grew by just $235 in 2013, or 0.9%, which is lower than the inflation rate of 1.2%. This means there was a loss of purchasing power in real terms, the first in 17 years.[2]

This is due to the fact that income taxes and contributions grew faster than government transfers to individuals and the market incomes they earned. The incomes Quebecers earned on the market stagnated in 2013, with real growth of just 0.01%, or $3.47 for the year.

This exceptional situation stems from a structural weakness in Quebec's economy. Between 2003 and 2013, disposable income growth was the second lowest in Canada, while the sums paid to the two levels of government were among the highest as a proportion of disposable income. Over the same 10-year period, the opposite trend can be observed for the provinces with higher disposable income growth (see Table 1). Not only are individuals in these provinces less taxed, but they are also less and less dependent on government transfers, with this component diminishing as a proportion of income.

ECONOMIC GROWTH AND TAXATION IN QUEBEC

It is not surprising to find an inverse relationship between economic growth and the weight of taxation or the level of dependence on transfers. The effect of income taxes and social contributions on the growth of disposable income manifests itself primarily through weaker GDP growth, insofar as their burden reduces the incentive to work all while discouraging private investment. Quebec nevertheless makes greater use of these fiscal tools than the other Canadian provinces on average.[3]

Whereas the federal tax take fell from 16.1% of GDP to 14.4% between 2003 and 2013, Quebec's rose from 21.9% to 24.5% of GDP.[4] As a result, Quebec's GDP growth since 2003 has averaged 3.4% per year, while the Canadian average is 4.3%. Only Ontario had slower GDP growth than Quebec over this period. Although the difference between Quebec and Canada as a whole is not large in percentage terms, it is substantial in monetary terms. If Quebec had kept pace with the Canadian average, the province's GDP would be $32.3 billion higher today.[5] This level of economic growth would very likely have raised individuals' disposable income.

If disposable income per capita had grown by 42% in Quebec between 2003 and 2013, as it did in the country as a whole, rather than by 34%, each individual would have on average an additional $1,681 today.[6] This is obviously a theoretical average, since it includes people who are not working. In practice, this higher disposable income would be concentrated mostly among the working population.

Table 1

Growth of income and transfers by Canadian province, 2003-2013

PROVINCE	MARKET INCOME	VARIATION IN THE WEIGHT OF INCOME TAXES AND CONTRIBUTIONS	VARIATION IN THE DEPENDENCE ON GOVERNMENT TRANSFERS	DISPOSABLE INCOME
Newfoundland and Labrador	80%	-6%	-19%	74%
Saskatchewan	78%	-7%	-27%	73%
Alberta	63%	-10%	-18%	64%
British Columbia	43%	-9%	-3%	46%
New Brunswick	43%	-3%	2%	45%
Manitoba	43%	-1%	-3%	42%
Prince Edward Island	40%	1%	0%	40%
Nova Scotia	39%	4%	7%	39%
Quebec	31%	2%	14%	34%
Ontario	30%	-5%	13%	33%

Income taxes & contributions ↓
Dependence on transfers ↓
RAPID disposable income growth

Income taxes & contributions ↑ (except Ontario)
Dependence on transfers ↑
SLOW disposable income growth

Note: When transfers to governments (income taxes and contributions) rose faster than disposable income, their proportion compared to disposable income increases, and the data point in the table will be positive in the "Variation in the weight of income taxes and contributions" column. Conversely, it will be negative if income taxes and contributions in a province fall, or rise less quickly than disposable income, indicating a relative lightening of the fiscal burden. This same logic also applies to the "Variation in the dependence on government transfers" column. A negative percentage therefore indicates a reduction in dependence, as measured by the size of transfers from governments as a proportion of disposable income.
Sources: Statistics Canada, CANSIM Table No. 051-0001: Estimates of population, by age group and sex for July 1, Canada, provinces and territories, annual, 2003-2013; Statistics Canada, CANSIM Table No. 384-0040: Current accounts - Households, provincial and territorial, annual, 2003-2013 (disposable income and components).

CONCLUSION

The reduction in Quebecers' purchasing power is therefore explained by the combination of a heavier tax burden and slower economic growth, two trends that have persisted for quite some time. With the return to budgetary balance, we can hope that the government will now prioritize raising this purchasing power. As the Godbout Report reminded us recently, the tax burden in Quebec is the highest in North America.[7]

Indeed, the government in power made an electoral promise to devote 50% of future budget surpluses to reducing the weight of the tax burden.[8] By tackling the high levels of income and other taxes, we kill two birds with one stone by also encouraging economic growth. This is an especially important goal under the circumstances, to make up for the slow growth of recent years.

REFERENCES

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3. Quebec Finance Department, *Un portrait général du régime fiscal au Québec*, Information document prepared at the request of the Quebec Taxation Review Committee, September 2014, pp. 58-59.
4. Department of Finance Canada, *Fiscal Reference Tables*, Tables 5 and 22, and authors' calculations.
5. Statistics Canada, CANSIM Table No. 384-0038: Gross domestic product, expenditure-based, provincial and territorial, annual, 2003-2013 and authors' calculations.
6. Authors' calculations based on ISQ data.
7. Quebec Finance Department, *op. cit.*, footnote 3, p. 57.
8. "Budget surpluses will be allocated 50% to income tax reductions and 50% to reducing the debt burden through increased payments to the Generations Fund." Quebec Liberal Party, *Cadre financier du Parti libéral du Québec*, March 18, 2014, p. 3.

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