

DO THE "RICH" PAY THEIR FAIR SHARE OF TAXES?

Do the "rich" pay their fair share of taxes? This question often comes up in the media and in public and private conversations, in Quebec and elsewhere. Anecdotal evidence may give the impression that it is a simple matter for someone of means to hire a tax accountant and relieve himself of a good part of the tax burden shouldered by the ordinary citizen. To verify if this is true, we asked for the help of an expert¹ to calculate the taxes and contributions paid by different Quebec taxpayers according to their incomes.



This Economic Note was prepared by **Germain Belzile**, director of research at the MEI, in collaboration with **Michel Kelly-Gagnon**, president and CEO of the MEI.

Explanation of the scenarios

Three scenarios were developed in order to study the tax situations of families with incomes ranging from middle class to a much higher level. These scenarios must be framed with precise hypotheses because of the complexity of tax laws. Indeed, changing taxpayers' circumstances has a significant influence on the amounts they will have to pay. For example, a two-parent family will pay different amounts depending on whether their income derives from one wage-earner or two. We have decided to examine the cases of two-parent families with a single wage-earner and two school-aged children (10 and 11 years old). Each family owns a house that corresponds to its means. Note that the final conclusions of the analysis depend very little on our specific hypotheses, but that we need to stipulate some in order to carry out accurate calculations.

In the first scenario, we find a salaried employee earning \$50,000 a year. In the second, a doctor, therefore a self-employed worker, who declares a business income of \$275,000. Finally, the third person is an executive officer in a large corporation and receives \$1,000,000 in earned income and exercised stock

options. A series of additional hypotheses were stipulated in order to calculate as realistically as possible the tax burden of each of the families.

In each case, federal and provincial taxes were calculated, as well as (municipal and school) property taxes. A series of statutory deductions were also considered. These are the contributions to Employment Insurance, to the Régime des rentes du Québec, to the Quebec Parental Insurance Plan, to the Health Services Fund, to Quebec's Public Prescription Drug Insurance Plan as well as the Health Contribution. Detailed calculations

of the various taxes and other deductions, and of the disposable income of each household, can be found in the Appendix on the MEI's website.

In the first scenario, given its family income of \$50,000, the couple is entitled to receive the federal Canada Child Tax Benefit as well as Quebec's child assistance payment. For this employee household, opportunities for reducing the amount of taxes paid are limited. The household has not made any charitable donations, but did contribute \$1,000 to an RRSP. The family does not have a private prescription drug insurance plan, and therefore subscribes to Quebec's



1. We are grateful to the firm Samson Bélair/Deloitte & Touche, s.e.n.c.r.l. for its help in the preparation of this Economic Note.

Public Prescription Drug Insurance Plan. The couple has the following annual expenses: \$10,000 of mortgage payments and \$13,000 of groceries – two non-taxable sums – as well as \$18,000 of other expenses subject to the Goods and Services Tax (GST) and the Quebec Sales Tax (QST). This first household lives in a single-family house with an assessed value of \$182,000 in Blainville and therefore pays the municipal and school taxes for that locality.

In the second scenario, a medical specialist earns a gross business income of \$275,000 and deducts \$25,000 in business expenses, for a net income of \$250,000. He also earns \$10,000 in investment income, namely \$5,000 in determined dividends and \$5,000 in interest. A household at this income level generally does not use advanced tax planning involving the sharing of income between spouses. Indeed, the fees of a tax consultant would negate the gains from tax savings. The taxpayer made \$2,000 in charitable donations and made the maximum allowable RRSP contribution, namely \$22,000. The couple is entitled to Quebec's child assistance payment. The household does not contribute to the Public Prescription Drug Insurance Plan since it must subscribe to the plan offered by the Fédération des médecins spécialistes du Québec. The family has the following annual expenses: \$30,000 in mortgage payments, \$20,000 in groceries and \$50,000 in other expenses subject to the GST and QST. This family lives in a house in Ville Saint-Laurent with an assessed value of \$715,000.

In the third scenario, an executive, who occupies a key position in a private corporation listed on the stock market, earns an income of \$900,000 including her salary, her bonus and a pension plan provided by her employer. This executive also exercised stock options from her employer according to her employment contract. More precisely, she must include in her income a taxable benefit of \$100,000.² She also made \$10,000 of charitable donations. At this income level, it is worth it to use tax planning such as can be offered by a firm like Samson Bélair/Deloitte & Touche. This planning was integrated into our calculations in order to reduce the taxes paid as much as possible. As a result of this planning, the spouse that does not work earns an investment income of

\$50,000, namely \$25,000 in determined dividends and \$25,000 in interest. These earnings come from a loan from the working spouse, whose interest of \$10,000 is payable annually. This strategy allows a portion of income to be transferred to the spouse who is not working and to reduce a portion of taxes paid. The couple is entitled to Quebec's child assistance payment. The spouses are covered by a private prescription drug insurance plan and are therefore not subject to Quebec's Public Prescription Drug Insurance Plan. Given the existence of a private pension plan, buying RRSPs is impossible. The family has the following annual expenses: \$50,000 in mortgage payments, \$20,000 in groceries and \$260,000 in other taxable expenses. As we will see below, a good part of their net income is therefore saved and not subject to consumption taxes. This last family lives in a luxurious home in Westmount with an assessed value of \$1,605,000.

Despite the help of a tax consultant, high-income families pay far more taxes than a middle-class family.

Taxes paid³

The total family income of the family in the first scenario, including government transfers, is \$55,499. The family pays \$8,901 in taxes (federal, provincial, municipal and school), as well as \$4,224 in additional deductions and \$2,318 of GST and QST, for a total of \$15,443. It therefore paid 27.8% of its income to the state.

The family in the second scenario earns a total income of \$286,175. It pays \$100,206 in taxes, \$5,938 in deductions and \$6,438 of GST and QST, for a total of \$112,582, or 39.3% of its income.

As for the household in the third scenario, which has a total income of \$1,061,175, it pays \$470,098 in taxes, \$3,267 in deductions and \$33,475 of GST and QST. Its total tax burden is therefore \$506,840, or 48.2% of its income.

Note that the actual burden of government is undoubtedly heavier for each of the families in our three scenarios. Excise taxes on gasoline add approximately \$440 in Quebec for each vehicle⁴ the household owns. If the households consume beer, they pay nearly \$9 per case of 24 bottles in various taxes, in addition to the GST and QST. For wine, the figure is approximately \$1.80 per 750-mL bottle. For

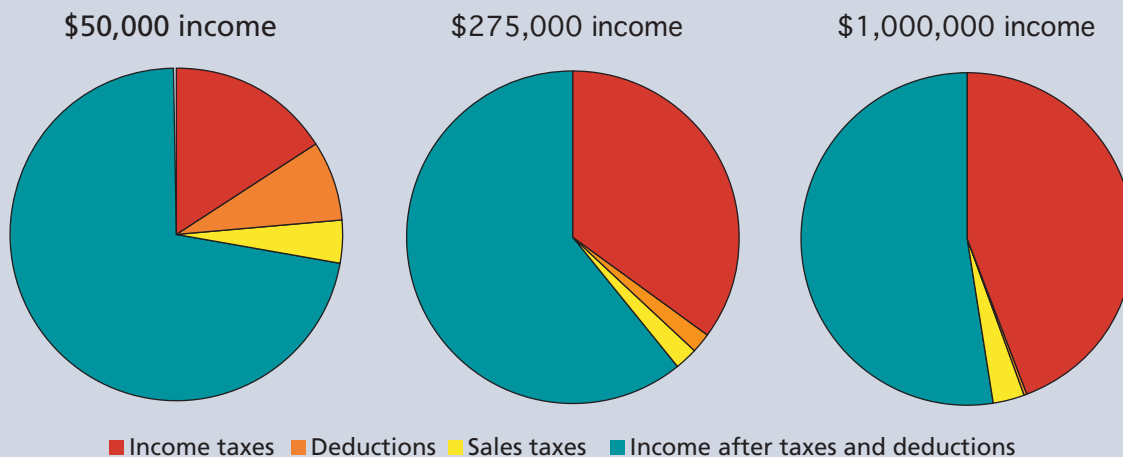
2. Over the course of several years, the hypothesis that options represent an average of 10% of income seems realistic.

3. See the Appendix on the MEI's website for detailed calculations.

4. Data calculated based on the consumption of 1,500 litres of regular gasoline per year and taxes of \$0.292 per litre (excluding GST and QST).

FIGURE 1

Share of taxes and deductions paid according to income



Source: calculations by the authors with the help of Samson Bélair/Deloitte & Touche.

cigarettes, excise taxes cost about \$490 a year.⁵ We should also add customs tariffs, which raise the prices of consumer goods by restricting foreign competition. In the case of butter, for example, the tariff is 298.5%. Moreover, even the portion of taxes on employment earnings paid by employers is in practice paid by workers. In Quebec, businesses actually pay an additional \$0.145 for each dollar paid to an employee.⁶

In 2007, the fifth of taxpayers with the highest incomes earned 50% of total income in Quebec, but paid 70% of Quebec income taxes.

Despite the help of a tax consultant, we can see that the two high-income families pay far more taxes than the middle-class family. This conclusion is true not only in absolute terms, but also as a share of income. These results are very important, for they reveal the nature of incentives that have consequences for the behaviour of taxpayers.

The aggregate data

Many people will nonetheless still believe that a lot of high-income taxpayers succeed in paying very little in taxes. A

simple way of verifying such a belief is to examine the aggregate data for governments' tax revenue.

From 1980 to 2007 (the latest year for which data are available), the number of people completing income tax returns in Quebec rose by 74%, while the number of those who completed forms but paid no taxes rose by 162%.⁷ In 1980, the fifth of taxpayers with the highest incomes earned 48% of total income in Quebec and paid 65% of Quebec income taxes.⁸ In 2007, the fifth of taxpayers with the highest incomes earned 50% of total income in Quebec, but paid 70% of Quebec income taxes.⁹ The proportion of Quebec income taxes paid by the richest quintile therefore went up in the last three decades (faster than its share of income).

At the provincial level, 214,000 people (3.6% of taxpayers) declared incomes of \$100,000 or more in 2007.¹⁰ Their incomes added up to \$39.3 billion, or 18.8% of the total.¹¹ These people paid 30.8% of total Quebec income taxes.¹²

5. Data calculated by assuming a consumption of two packs of 25 cigarettes per week.

6. Norma Kozhaya, *Taxer les salaires : le désavantage québécois*, Conseil du patronat du Québec, May 2009, p. 3.

7. Quebec Department of Finance, *Statistiques fiscales des particuliers 2007*, June 2010, p. 37.

8. *Id.*, p. 41. The two figures are slightly overestimated for 1980, since the Department of Finance does not supply quintile distributions for that year. The highest-income quintile is therefore an approximation (22.2% rather than 20%) established based on income levels. In reality, the proportion of taxes paid by the top quintile has therefore increased even more since 1980.

9. *Id.*, p. 24.

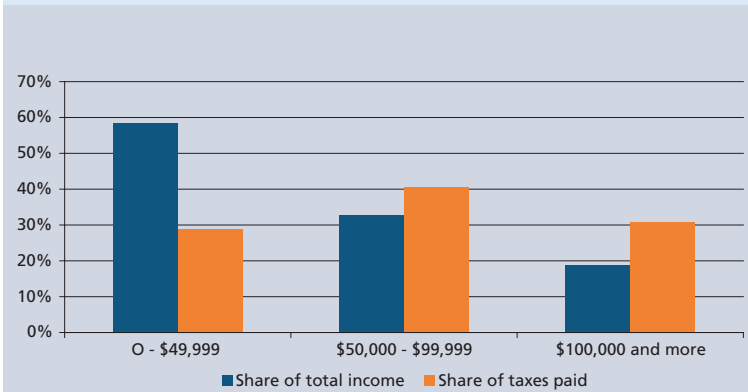
10. *Id.*, p. 9.

11. *Id.*, p. 14.

12. *Id.*, p. 23.

FIGURE 2

Portion of total income and of Quebec income taxes paid, according to income level (2007)



Source: Quebec Department of Finance, *Statistiques fiscales des particuliers 2007*, June 2010.

Among these taxpayers, 0.8% paid no Quebec income taxes,¹³ which amounts to 1,712 people. These people could for example be employed by an international organization or have received an inheritance. Low income earners who pay no taxes are far more numerous. Out of the 2,426,000 people earning under \$20,000 who filled out a provincial income tax return in 2007, 80% paid no Quebec income tax.¹⁴

Finally, how do Quebec residents compare to those living in other provinces? The data that follow are for two-parent families with two children, as in the above calculations. In 2009,

Taxpayers earning more than \$100,000 pay higher taxes in Quebec than in any other Canadian province.

\$5,825 more in Quebec, compared with \$4,459 in Ontario. The Quebec worker will end up with a lower pre-tax paycheque thanks to higher employee contributions in Quebec.

The conclusions are clear. First, whether we look at absolute figures or shares of total income, high-income earners pay an enormous share of taxes in Quebec. Second, they pay more than anyone else in Canada. Third, Quebec's high-income earners pay a large share of total taxes that has not fallen in 30 years, on the contrary.

Quebec taxpayers earning \$100,000 or \$200,000 had to pay \$30,542 and \$78,036 respectively in combined federal and provincial taxes.¹⁵ The corresponding figures are lower in every other Canadian province. Alberta is the province with the smallest tax burden, with corresponding figures of \$22,503 and \$60,640. The various taxes on employment earnings are also higher in Quebec than anywhere else in Canada.¹⁶

For example, an employee receiving a \$40,000 salary will in fact cost his employer \$5,825 more in Quebec, compared with \$4,459 in Ontario. The Quebec worker will end up with a lower pre-tax paycheque thanks to higher employee contributions in Quebec.

The conclusions are clear. First, whether we look at absolute figures or shares of total income, high-income earners pay an enormous share of taxes in Quebec. Second, they pay more than anyone else in Canada. Third, Quebec's high-income earners pay a large share of total taxes that has not fallen in 30 years, on the contrary.



1010, Sherbrooke Street W., Suite 930
 Montreal (Quebec) H3A 2R7, Canada
 Telephone (514) 273-0969
 Fax (514) 273-2581
 Web site www.iedm.org

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13. *Id.*, p. 10.
 14. *Id.*, p. 28.
 15. Canadian Tax Foundation, *Finances of the Nation 2009*, table 3.12.
 16. Norma Kozhaya, *op. cit.*, footnote 6, p. 2.