



2021 edition

Highlights

Bilan

de la

fiscalité

au Québec

Acknowledgments

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Mission of the Chaire de recherche en fiscalité et en finances publiques

The Chaire de recherche en fiscalité et en finances publiques (CFFP) was created on April 15, 2003. Its mission is to develop multidisciplinary research on and disseminate knowledge of the socio-economic issues related to tax policy and public finances.

For more information on the CFFP, visit its official website at: <http://cftp.recherche.usherbrooke.ca>.

This annual publication is the fruit of a collective endeavour by Tommy Gagné-Dubé, Luc Godbout and Suzie St-Cerny.

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About the report

The **2021 edition** of the **Bilan de la fiscalité au Québec** (available in French only) presents a series of key indicators widely used in taxation analysis. Together they paint a portrait of the tax situation in Québec based on the latest available data. It is not an exhaustive portrait, but it does allow grouping these key indicators in a single document, along with a brief explanation and discussion of each.

About these highlights

These highlights of the **2021 edition** of the **Bilan de la fiscalité au Québec** includes a word from the Chairholder and an *In brief* section.

The *Word from the Chairholder* serves as an introduction and allows making a few observations based on the data found in the different sections of the report. The *In brief* section, for its part, provides an overview of what the sections contain.

The full version of the report (available in French only) includes the following sections

(<https://cffp.recherche.usherbrooke.ca/bilan-de-la-fiscalite-au-quebec-edition-2021/>):

1. Tax announcements in 2020
2. Tax burden
3. Sources of taxation
4. Tax expenditures
5. Net tax burden
6. Profile of Québec taxpayers
7. Taxation and income inequality

An interactive tool makes it possible to select certain variables. Thus, the key indicators used in comparative taxation, namely, tax structure, time series and a summary of the variables by country, are just a few clicks away (<https://cffp.recherche.usherbrooke.ca/outils/bilan2021/>).

Word from the Chairholder **1**

The 2021 edition in brief **4**

Word from the Chairholder

The Chaire de recherche en fiscalité et en finances publiques is happy to present this year the 7th edition of its **Bilan de la fiscalité au Québec**¹. The report examines a series of key indicators and the latest data grouped in some 100 charts, tables and boxes. The 2021 edition offers a vast portrait of the tax situation in Québec that allows tracing its evolution and comparing it against the tax situation elsewhere. This makes this publication a useful reference tool throughout the year.

I would like to take advantage of the space granted me here to make a few observations on taxation in Québec based on the information presented in the report.

But before doing so, I cannot ignore the fact that this edition was prepared in a year marked by a pandemic. Aside from covering the main changes made to how taxes were raised by the provincial and federal governments, the section on tax announcements must necessarily touch on the principal measures of government support offered to Quebecers in connection with COVID-19, whether in the area of taxation or not. These include the Canada Emergency Response Benefit (CERB) and the Canada Emergency Wage Subsidy (CEWS), not to mention other forms of direct assistance provided by the federal and Québec governments.

As was the case elsewhere, the COVID-19 crisis quickly turned into a major economic crisis, forcing governments to intervene like never before since World War II. The massive spending by public administrations during the first and second waves of the pandemic may have served to remind people that governments are key economic agents that intervene in the economy for the sake of the public good. While the magnitude of the deficits is staggering, it is hard to fathom just how deep the economic crisis stemming from the health crisis would have been without the relief that was provided.

The current pandemic crisis forced large swathes of the economy to shut down for several weeks. Presently, confinement measures continue to prevent activity from fully resuming and the second wave is causing concern. This renders economic recovery forecasts particularly uncertain. Still, it is possible at this point in time to assess the extent of the damage, while bearing in mind that the final results in terms of deficits and debt levels could be much worse. For now, despite the launch of the vaccination campaign, the health crisis continues to hold centre stage. Only later will a genuine economic recovery be possible. In this regard, the 2021 budgets of the federal and Québec governments will, it is hoped, be resolutely geared toward recovery.

One last thing regarding COVID-19: The tax data in the 2021 edition of the report obviously do not take account of the effects of the pandemic. Indeed, the most recent data available on tax revenues and GDP used to construct indicators are those for 2019. Consequently, it is only next year that the impact, naturally downward on tax revenues and GDP, will mark the report's tables and charts. This edition of the report will then serve as the "pre-COVID" reference point. Where the "post-COVID" period is concerned, some people worry that the federal and Québec governments will increase the tax burden to counter the pandemic's effects on public finances. If they do, time will tell in the tables and charts of the future editions of the report.

“A vast portrait of taxation in Québec that allows tracing its evolution and comparing it against the tax situation elsewhere”

¹ The data presented in this document were those available as at December 10, 2020.

Back to the content of the report. Thanks to its far-reaching review of the data, the report allows us not only to compare taxation in Québec over time but also Québec against its main economic partners and a series of other member countries of the Organisation for Economic Co-operation and Development (OECD).

“Government resorts to higher taxation to fund more public services”

Needless to say that the report presents only one side of the coin: tax revenues and their weight in the economy. With 179 billion dollars in tax revenues raised in Québec by all levels of government in 2019, the tax burden in Québec as a percentage of GDP reached 38.9%. As in the past, the tax burden was higher here than in any other Canadian province and ranked in the top third compared with OECD member countries. What’s more, the tax burden continued to trend up despite recent tax cuts.

However, we must not forget the flipside of the coin not presented in the report, namely, how tax revenues are spent. In the *Panorama des Finances publiques*, another annual publication put out by the Chaire en fiscalité et en finances publiques (available in French only), what emerges is that public spending, too, was higher in Québec than in Canada as a whole, while among the OECD countries, Québec ranked 7th for total spending by all public administrations combined. In other words, government interventionism was manifested in Québec by higher taxation, on the one hand, which served, on the other hand, to spend more.

Once established that governments resort to higher taxation to fund more public services, another aspect worthy of attention is how tax revenues are raised.

It is not the first time that the report shows that Québec and Canada stand out in international comparisons in terms of both greater recourse to income taxes and lower use of sales taxes and excise duties. This phenomenon has been accentuated since the early 1980s and, in this regard, Québec and Canada have run against the flow within the OECD.

While the OECD countries on average increased the weight of their sales taxes and excise duties (1.5 percentage points of GDP from 1981 to 2019) and reduced the weight of their income taxes (1.9 percentage points of GDP), Québec instead did the opposite. Despite the widely held impression that sales taxes and excise duties have increased in Québec, the fact of the matter is that their weight in the economy was smaller in 2019 than it was in 1981. What’s more, the differences are far from slim. In 2019, the relative weight of income taxes in Québec was 66% higher than the OECD average. Inversely, compared with the OECD average, sales taxes and excise duties were 24% lower.

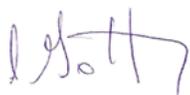
Where corporate income taxes are concerned, many people bring up that rates today are lower than they were before. The data sheds a nuanced light on both the OECD average and Québec. Within the OECD, the average corporate income tax rate did in fact fall by practically half from 47.5% in 1981 to 23.7% in 2019. Yet, over the same period, the weight of this source of taxation rose from 2.3% of GDP to 3.0%. In Québec, the general combined federal-provincial corporate income tax rate also fell by practically half from 50.8% in 1981 to 26.6% in 2019 but, similarly, the weight of corporate income taxes in the economy increased from 2.6% to 4.5% over this period.

Finally, a few words must also be spent on what might be referred to as the “Canadian paradox” regarding taxation and family in Québec and in Canada on the whole. For various household situations, particularly when they include children, Québec stands out for its low net tax burden. For couples with two children and family income of about \$52,000 (i.e., the average wage of one-earned), the net tax burden in 2019 was lower in Québec than in any of the OECD countries. The result was essentially the same for couples with two children in Canada, which came in 3rd out of 37 in this regard. However,

even in cases where the net tax burden was low, a very small increment in family income might be taxed at a very high rate. This is referred to as the effective marginal tax rate (EMTR). It has been shown regarding the average income that a 1% increment in employment income (about \$520) is subject to an EMTR of 71.9% in Québec. Of all of the OECD countries, only Canada tops Québec at 73.1%. Consequently, the conclusions to be drawn for both Canada and Québec need to be nuanced: Though the net tax burden for couples with two children was very low, the incentive to increase their income, even the slightest bit, was very low as well. Québec taxpayers in this situation can feel comfort, on the one hand, and indifference, on the other. They can find comfort in knowing that Québec has the best ratio of disposable income after tax, social security contributions and benefits to employment income. However, they will feel indifferent about increasing their workload given that, at this income level, households get to keep only 28.1% of each additional \$100 in employment income that they earn, the rest being accounted for by additional taxes and social security contributions, as well as lost benefits. While this phenomenon is not exclusive to Québec, seeing how it also exists in Canada as a whole and elsewhere, it turns out to be much bigger here than anywhere in the OECD. Similar findings were reported as far back as 1984 in the White Paper on the Personal Tax and Transfer Systems. Consequently, governments, and the federal government above all, must continue their efforts to make work financially rewarding at all times.

“Governments must continue their efforts to make work financially rewarding at all times”

Enough said. Check it out for yourself. Enjoy the read!



Luc Godbout

Chairholder, Chaire en fiscalité et en finances publiques



2021 edition in brief

The *2021 edition* of the *Bilan de la fiscalité au Québec* is based primarily on 2019 data and, as such, will serve as the pre-COVID point of reference. It allows taking stock of the taxation situation in Québec before the advent of this health and economic crisis, which knows no parallel in modern history.

This edition of the *Bilan de la fiscalité au Québec* comprises seven sections. The first presents the tax announcements made by the Québec and federal governments, and by those of the other provinces, since the previous edition of the report. The next two sections compare Québec against the OECD countries and the other Canadian provinces in terms of taxation. The fourth section presents an overview of tax expenditures in Québec and evidences the choices made regarding the different sources of tax revenues. Then, two sections examine taxation from different angles, namely, households (net tax burden) and individuals (profile of Québec taxpayers). Finally, the last section looks at various indicators of income inequality and how governments reduce inequality through taxation.

Tax announcements in 2020

The tax announcements and news in 2020 were heavily tainted by what we might call COVID measures. Though six of the ten Canadian provinces,² including Québec, had already tabled their budget before the first wave of the pandemic, the number of tax announcements unrelated to the health crisis was nonetheless very high. However, as of mid-March, governments were taken up almost entirely by the pandemic and its consequences, so much so that budgets and updates thereafter were dominated by COVID-19.

At the federal level, exceptionally, no budget was tabled in 2020. Aside from the impressive measures implemented in response to the pandemic, the Government of Canada still did nevertheless make a series of major announcements concerning the digital economy in its Fall Economic Statement.

In Québec, the tax announcements unrelated to the pandemic were in keeping with those of the past two years: continuation and acceleration of the school tax reform aimed at applying a single rate province wide, introduction of a series of measures to stimulate innovation among Québec corporations, and overhaul and enhancement of tax credits for family caregivers.

² British Columbia (February 18), Nova Scotia (February 25), Alberta (February 27), Québec (March 10), New Brunswick (March 10) and Manitoba (March 11).

Elsewhere in the country, several provinces lowered their corporate income tax rate, led by Alberta and Nova Scotia, which cut their general rate by 2 percentage points. Where personal income taxes are concerned, British Columbia added a tax bracket for high-income earners. Regarding payroll taxes, Ontario raised its exemption threshold, as did Manitoba, albeit to a lesser degree. As for property taxes, Ontario capped corporate property taxes in order to reduce certain sizeable disparities. Finally, in the area of consumption taxes, Manitoba cut its retail sales tax from 7% to 6% before postponing it until further notice a few weeks later due to the pandemic. Several provinces subjected vaping products to a special tax.

Lastly, the subject of pollution pricing remained front and central on the tax stage in the country. The decision to be rendered soon by the Supreme Court in the matter of carbon pollution pricing will be crucial for what happens next in this regard.

Below are the main findings that emerged when we compared the tax situation in Québec against the situation in the OECD countries and in the other Canadian provinces.

Tax burden

The tax revenues raised by all levels of government in Québec in 2019 totalled 179 billion dollars, an increase of 9.1 billion dollars over 2018. As a result, the tax burden in Québec amounted to 38.9% of GDP, which ranked 11th highest out of 38 when included with the OECD member countries. These revenues derived from a small set of income and other taxes, with 13 of these generating nearly 90% of all the taxes raised in the province.

Of all these tax revenues, 49% was raised by the provincial government, 33% by the federal government, and 9% each by local governments and pension plans. Québec is the only province where the federal government collected less than 39% of the tax revenues. Of course, the special Québec abatement explains this result in part. However, even without it, the share of the revenues collected would be 46% by the Québec government and 36% by the federal government.

As of 1981, the tax burden in Québec grew steadily until it peaked at 39.9% in 2000. It then trended down until it hit a low of 36.2% in 2008. In 2019, it was roughly where it was in 1997. While the tax burden in Québec exceeded the OECD average over this period, the OECD average did trend up as well over this lapse of time.

The tax burden in Canada minus Québec has trended down slightly, but the gap with Québec, which stood at 7.6 percentage points in 2014, narrowed to 6 percentage points in 2019. Compared with the other Canadian provinces, Québec still had the highest tax burden in 2019. Among the provinces with the lowest tax burden, three were oil producing, namely, Alberta, Saskatchewan, and Newfoundland and Labrador.

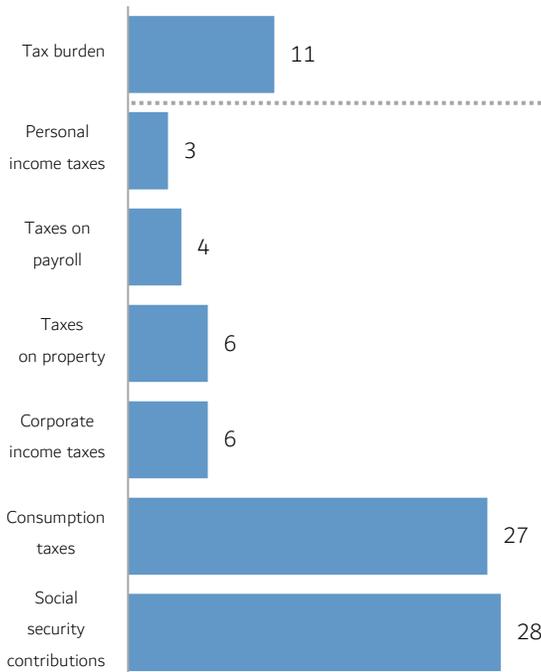
Sources of Taxation

How tax revenues are raised in Québec differs significantly from how they are raised on average in the OECD member countries and some differences have grown over time. In 1981, income taxes were the top source of tax revenue in Québec, just as they were for the OECD on average. They have remained such in Québec while they gradually slipped to second and then third place for the OECD on average, topped today by both consumption taxes and social security contributions. Though similar, the tax structures in Québec and in Canada minus Québec have evolved with some differences. For example, personal income taxes are on the rise in Canada minus Québec while they are on the decline in Québec, and the weight of corporate income taxes is rather stable in Canada minus Québec while it is on the rise in Québec.

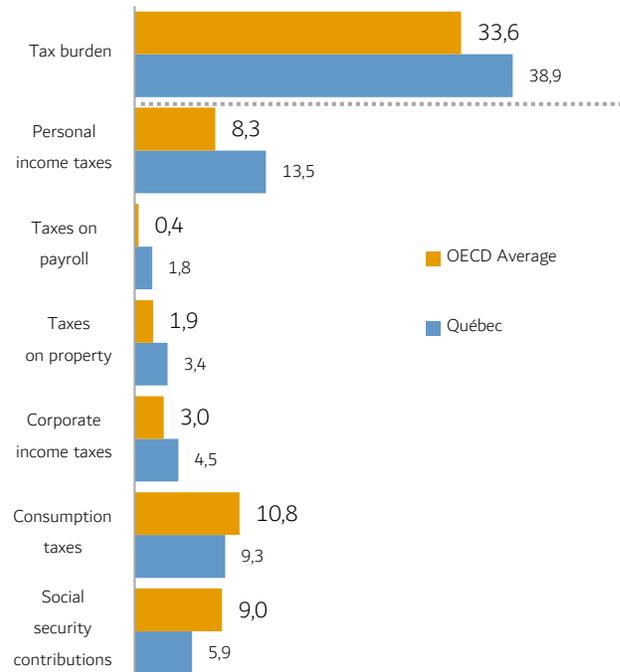
The charts below show how Québec ranks by source of tax revenue as a percentage of GDP against the OECD member countries and the other Canadian provinces. In the left-hand charts, the lower the rank, the higher the weight. In the right-hand charts, weights in Québec are compared against the OECD average or weights in Canada minus Québec.

Québec ranking among OECD countries

(out of 38; #1 → highest tax burden)



Tax revenue, as a percentage of GDP



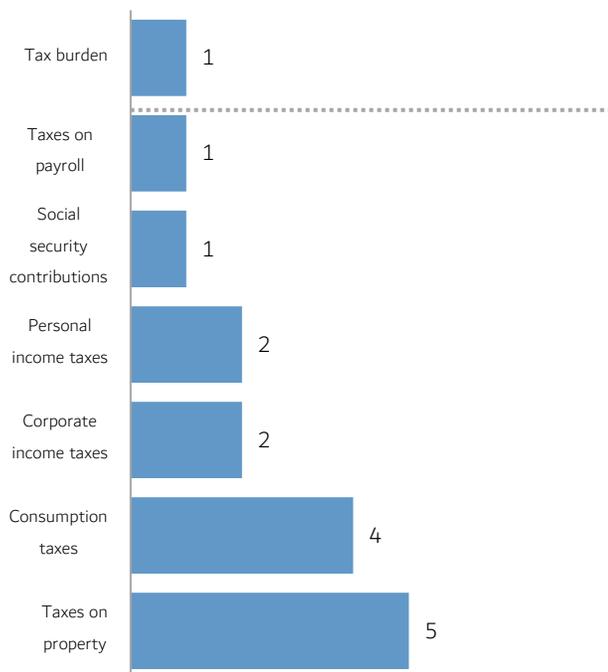
While Québec ranked 11th against the OECD member countries in terms of tax burden, its ranking by weight of revenue source as a percentage of GDP was much more extreme:

- ▶ Québec ranked in the top fifth for four sources, namely, personal income taxes, payroll taxes, property taxes and corporate income taxes, with weights significantly higher than the OECD average.
- ▶ Québec ranked in the bottom third for consumption taxes and social security contributions, with weights below the OECD average.

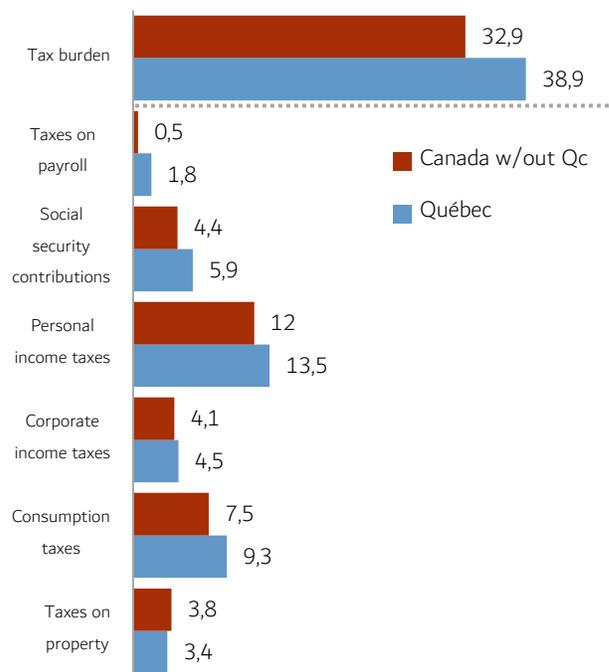
Among the Canadian provinces, Québec ranked 1st for tax burden and for weight of payroll taxes and of social security contributions as a percentage of GDP. For corporate income taxes and consumption taxes, Québec came in second highest. Of the five sources of revenue indicated, Québec came in behind Canada minus Québec only with respect to property taxes.

Canada minus Québec came in on the same side as Québec relative to the OECD average (above or below) across all sources of revenue, albeit at a different distance. As a result of this, contrary to Québec, Canada minus Québec in the end had a tax burden below the OECD average.

Québec ranking among provinces
(out of 38, #1 → highest tax burden)



Tax revenue, as a percentage of GDP



Tax revenues derived from environment-related taxes do not constitute a category of their own. They are generally lumped in with consumption taxes. In Québec and in Canada, these boil down essentially to gasoline taxes. Whether in terms of gasoline taxes or, more broadly, of environment-related taxes, Québec and Canada figured among the jurisdictions where these were lowest compared with the OECD member countries.

Tax Expenditures

Tax expenditures are the result of tax decisions about how tax revenues are raised. Indeed, governments resort to tax expenditures to make economic or social interventions by way of taxation. Whenever a government sets up tax credits, deductions or exemptions within its baseline tax system, this deprives it of tax revenues.

The overall weight of the Québec government's tax expenditures in the economy has trended up since the mid-1990s, though not always steadily. In 2019, nearly 65% of Québec's tax expenditures were tied to the individual income tax system. In some cases, particularly those that apply to individuals, they were broad based and benefited millions of taxpayers, such as the deduction for workers, which was claimed by more than half of the 6.7 million tax filers in the province. Some measures, however, target a very small number of beneficiaries. Where corporations are concerned, a very large portion of the tax credits in Québec is granted to a very small number of companies.

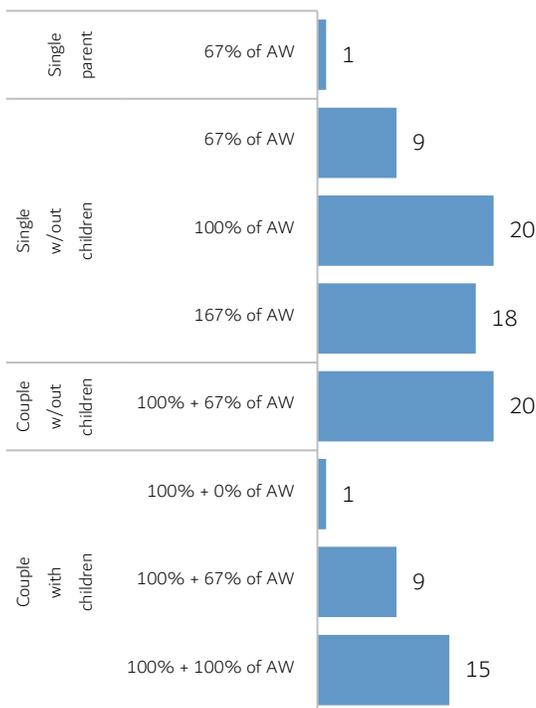
Comparing the Québec and federal governments on their main tax expenditures revealed many similarities. Ten of the 15 main tax expenditures of one government had a counterpart among the 15 main tax expenditures of the other.

Net tax burden

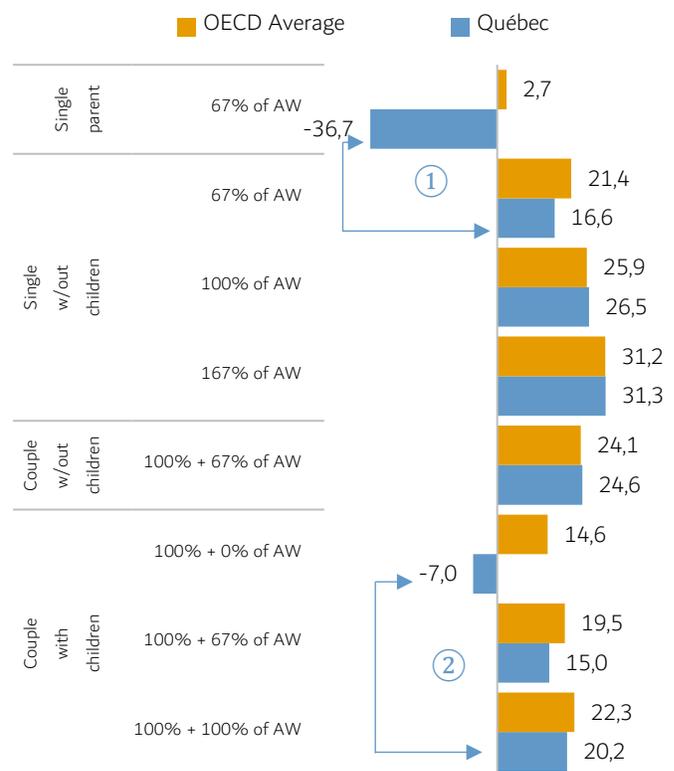
While indicators of tax burden and tax revenue sources for Québec show the weight of total tax revenues or of income taxes as a percentage of GDP to be rather high, analyzing the net tax burden sheds a finer light on the matter when, in addition to income taxes, social security contributions paid and benefits received are also taken into account.

Ranked among the OECD member countries, Québec presented the lowest net tax burden in two of the eight cases analyzed, namely, single-parent families with two children earning 67% of the average wage (AW) in the province and couples with two children earning 100% of AW (in 2019, AW in Québec was \$51,695). Québec also fell in the lower third for two other cases, namely, single persons with no children earning 67% of AW and couples with two children earning 167% of AW.

Québec ranking among OECD countries
(out of 37; #1 → lowest net tax burden)



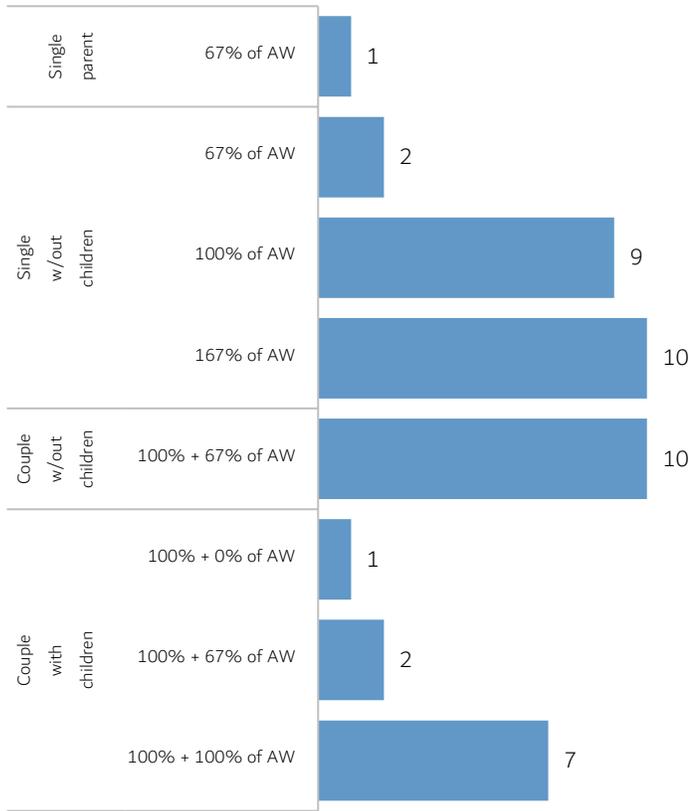
Net tax burden, as a percentage



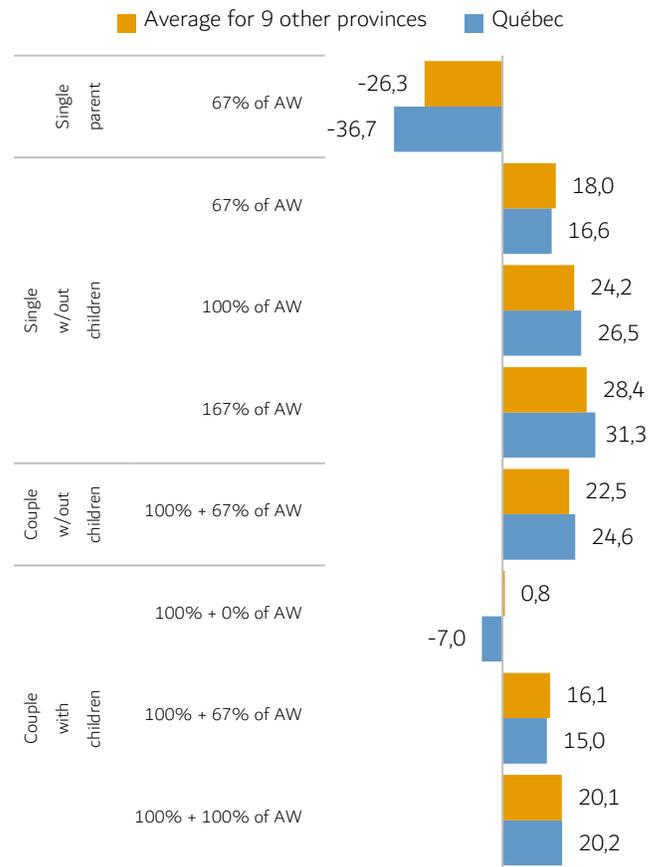
For single persons earning 67% of AW, the net tax burden was 16.6% and, relative to this, the rate for single-parent families with the same income was 53.3 percentage points lower ^①. This result indicates that children are given tremendous consideration within Québec's tax and benefits structure.

For couples with children earning 100% of AW (100% + 0%), the net tax burden was -7.0%. However, when these couples earned 200% of AW, the net tax burden rose to 20.2%, an increase of 27.2 percentage points ^②. Here, the result shows the Québec tax system to be highly progressive. When Québec is compared against the other Canadian provinces, results essentially tell the same story, namely, that the net tax burden in Québec was either the lowest or among the lowest when income was very low and families included children.

Québec ranking among Canadian provinces
(out of 10; #1 → lowest net tax burden)



Net tax burden, as a percentage



Since the early 2000s, the net tax burden in Québec for single persons earning 100% of AW and for couples with two children earning 167% of AW has been trending down.

Profile of Québec taxpayers

In 2017, because of the progressive tax brackets in place, the average tax rate (combined Québec-federal rate) increased in step with income as follows: 19.2% in the income bracket starting at \$50,000, 30.4% in the bracket starting at \$100,000, 35.6% in the bracket starting at \$150,000 and 43.4% in the bracket starting at \$250,000. These average tax rates in Québec were higher than those in the other provinces. However, as of the income bracket starting at \$150,000, the difference with average rates in Ontario narrowed.

In 2017, almost 70% of Québec taxpayers declared total income less than \$50,000. Among the provinces, this rate was slightly higher in the Maritime Provinces (from 70.1% to 72.3%) and lowest in Alberta (58.4%).

Total income was composed for the most part of employment income, but the relative composition varied by income level. For example, retirement income and other income (including government benefits) made up a relatively high share of the total when income was less than \$30,000 whereas the share of business and investment income was higher for the group of taxpayers earning \$100,000 or more than for the other groups.

Analyzing how incomes and taxes paid are distributed by quintile shows again that in 2017 a large share of the income tax raised in Québec (70,8%) was paid by 20% of the highest-income taxpayers, who nevertheless earned more than half of total income declared.

Finally, in 2017, the proportion of taxpayers that paid no provincial income taxes stood at 35.8% in Québec. This was not the highest proportion among the Canadian provinces, where it ran from 27.2% in Prince Edward Island to 41.9% in Saskatchewan. For Canada minus Québec, 36.2% of taxpayers paid no provincial income taxes.

The corporate tax statistics presented are those for fiscal year 2013, when 96.7% of the corporations that filed a return in Québec were small businesses (less than 15 million dollars in assets). Of these, 61% paid no income tax, but the percentage of those subject to no income tax and no other contributions stood instead at 42%.

In 2013, the average tax rate on profits in Québec was 10.7% and ranged from 9.1% for small businesses to 11.9% for large businesses.

Taxation and income inequality

Taxation can contribute to stimulate the economy, change how taxpayers behave, and reduce inequality. This last purpose is actualized in particular through a progressive income tax system and various tax measures intended to benefit lower-income taxpayers.

Various indicators are used to gauge inequality. One of these is the share of income accounted for by the highest-income taxpayers, including the top 1%. Taxation manages to reduce inequalities when this share drops following government intervention, that is, after taxes and transfers.

- ▶ The top 1% of income earners declared 12.1% of pre-tax income in Québec. After tax, this share dropped to 8.7%. In Canada as a whole, this share dropped from 13.3% before tax to 9.8% after tax. Québec came in 5th among the provinces for the largest percent drop in this share following government intervention through taxes and transfers.
- ▶ The top 10% of income earners declared 38.7% of pre-tax income. After tax, this share dropped to 29.7%. The largest percent drop in this share occurred in Newfoundland and Labrador. Québec came in 3rd in this regard.

The interdecile ratio is another indicator that allows gauging the effects of taxation on reducing inequality. It is the ratio between the income cut-off separating the bottom 90% of earners from the top 10% (9th cut-off) and the income cut-off separating the bottom 10% of earners from the top 90% (1st cut-off). In 2018, this ratio dropped from 14.2x pre-tax to 3.8x after-tax.

The Gini coefficient is yet another indicator that allows gauging the impact of government intervention on income inequality. It is widely used, particularly in international comparisons. This indicator serves to compare market income (before taxes and transfers) and disposable income (after taxes and transfers). In Québec, government intervention allowed reducing market income inequality by 34.8%, which was better than the average rate for the OECD member countries (32.5%) and for Canada (29.2%).

According to the Gini coefficient for disposable income, Québec came in 12th out of 37, in increasing order of inequality, when included with the OECD member countries.

Comparing the Gini coefficient for disposable income across Canada shows that Québec was the 3rd province with the least inequality, whereas it came in 8th based on market income. Furthermore, the data indicate that disposable income inequality has been lower in Québec than in Canada as a whole since 1976 and that the Gini coefficient for disposable income in Québec was lower in 2018 than it was on average from the mid-1990s to 2018. This suggests that inequality declined over the years.

Finally, tax burden as measured by tax revenues as a percentage of GDP was analyzed in relation to level of inequality as measured by the Gini coefficient. Results show that jurisdictions with a high tax burden, such as Québec and the Nordic countries, presented a lower level of inequality compared with countries with low taxation.

This report reviewed the key indicators most widely used in taxation analysis. What is presented here is a brief summary of what can be found in the 2021 edition of the Bilan de la fiscalité au Québec (available in French only).