



2022 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 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 directed by Tommy Gagné-Dubé with the participation of Luc Godbout, Suzie St-Cerny, Julie S. Gosselin, and Michaël Robert-Angers.

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About the report

The **2022 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 **2022 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-2022/>):

1. Tax announcements in 2021
2. Tax burden
3. Sources of taxation
4. Tax expenditures
5. Net tax burden
6. Profile of Québec taxpayers
7. Progressivity
8. 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-ressources/bilan-de-la-fiscalite/>

Word from the Chairholder **1**

The 2022 edition in brief **4**

Word from the Chairholder

The Chaire de recherche en fiscalité et en finances publiques (CFFP) presents the new edition of its **Bilan de la fiscalité au Québec**¹. The report reviews a host of key indicators and the most up-to-date aggregate data, in more than 100 charts, tables and boxes with brief comments.

The 2022 edition paints a broad picture of taxation in Québec. By drawing on a vast array of data, numerous comparisons are made possible not only to track the evolution of Québec taxation over time, but also to see how Québec stacks up against its main economic partners and a series of other member states of the Organisation for Economic Cooperation and Development (OECD).

This edition of the Bilan is divided into eight sections examining taxation in Québec from different angles, including recent tax announcements, inequality indicators, tax burden, and sources of taxation. In the eyes of the CFFP collective, the Bilan is a helpful reference tool that can be used throughout the year.

Based on the information contained in this report, I intend to take advantage of the space afforded me here to make a few observations regarding taxation in Québec.

Before getting started, however, I would like to expend a few words to settle a matter in short order. The reason the tax burden is heavier in Québec than elsewhere is because of the extent of government intervention in the province. There are two sides to the coin. The state collects more taxes in order to finance the public services it delivers.

Impact of the COVID-19 pandemic

The tax data in the 2022 edition of the Bilan allows us to measure the initial impact of the COVID-19 pandemic on various indicators.

First and foremost, the various levels of government in Québec on the whole collected 174 billion dollars in tax revenues 2020, a slight decrease in absolute terms from the previous year.

Though tax revenues were down in dollar terms, it was nowhere as bad as the decline in GDP. Consequently, the ratio of tax to GDP rose. In the end, however, thanks to the financial support extended by the federal government to individuals and businesses, COVID-19 had a much smaller impact on tax revenues than on the economy. In fact, the tax burden in the Québec economy was the highest it has ever been in twenty years.

It is interesting to compare the impact of the COVID-19 pandemic with that of the previous major shock, that is, the Great Recession of 2008. What emerges clearly is that the sources of tax revenue were affected quite differently. In 2009, revenues from personal income taxes were the ones hardest hit, while consumption taxes held up much better. With the COVID-19 pandemic, the inverse has been true.

There is an obvious explanation for this. In Canada, as in many OECD countries, government financial support measures served to buffer the impact on personal income tax revenues of the changes to the economic situation caused by the pandemic. Inversely, because of the COVID-19 pandemic and the ensuing lockdown, the consumption of goods that generate sales taxes diminished. Travel was down, too, which put a dent in gasoline tax revenues as well.

“Thanks to the financial support extend by the federal government to individuals and businesses, COVID-19 had a much smaller effect on tax revenues than on the economy.”

1. The data presented in this document were those available as at December 10, 2021.

The COVID-19 pandemic also had an impact on the cost of certain tax measures. Although shutting down large swathes of the economy reduced the amount of GST-QST collected, including from consumption in restaurants, the cost of zero-rated basic groceries increased. Similarly, working from home translated, in particular, into a sharp decline in the cost of zero-rated public transit and by a drop in the cost of the refundable tax credit for childcare.

Of course, these are but the immediate effects of the pandemic in 2020. Its impact will continue to be felt in the coming editions of the Bilan. For example, the pandemic has brought into sharper focus the issue of inequality and the size of deficits, which has brought to the forefront the question of an additional contribution to tax revenues by the wealthiest. As such, the federal government introduced a tax on certain luxury goods beginning in 2022, and Newfoundland and Labrador will raise the rates on the top brackets of its personal income tax structure and add new brackets with higher rates in 2022. Moreover, certain international agreements seem to have gained some forward momentum from the COVID-19 pandemic.

Labour shortage

Even though it had been predicted for years that the demographic transition would cause the pool of potential workers in the province to shrink, we had to see labour shortages in various sectors of activity with our own eyes in everyday life to gain a true appreciation of the challenge that this represents for Québec—a challenge that, alas, will beset the province over the next decade and beyond. However, it is important to remember that work incentives have been implemented in recent years to try to mitigate the problem. For instance, the tax credit for career extension, which was created in 2012 under a different name, is today one of the province's biggest tax expenditures for workers 60 and over. In addition, the creation of a similar credit to attenuate the effects of labour shortages is an objective stipulated in the mandate letter of the federal Minister of Finance.

“Despite what people think, it is in the financial interest of retirees to keep working.”

There is no doubt that taxation can make the difference whether seniors decide to continue working. In this regard, other possible measures have been put forth, including making contributions to the Québec Pension Plan optional for workers 65 and over (as is the case elsewhere in Canada) and making the existing tax credit for career extension refundable.

Needless to say that, in times of labour shortages, expanding the worker pool cannot but contribute positively to economic growth.

Whereas, for 2021 (January to November), the employment rates for each of the age groups from 20 to 59 in Québec were higher than those observed in Ontario, those for 60- to 69-year-olds remained lower. The employment rate for 60- to 64-year-olds was 49.7% in Québec compared with 55.4% in Ontario, a 5.7-point lag. For 65- to 69-year-olds, the lag was a full 7 points (20.5% versus 27.5%). To put this into perspective, if the rates for these two age groups had been the same as in Ontario, there would have been some 73,000 additional workers in the Québec labour force.

Closing this rate gap progressively for these groups would clearly not solve the labour shortage problem as a whole. However, at the cost of repeating myself, any increase whatsoever in the worker pool will make a positive contribution to economic growth.

Despite what some people might think, it is in the financial interest of retirees to keep working. In fact, the portion of employment income that would be genuinely disposable is much higher than most people think. For example, low-income seniors get to keep 89% of \$5,000 in employment income that they earn. Consequently, efforts must be made to change the public's perception: Remaining in or returning to the labour market can be worthwhile.

Taxation and economic growth

In the summer of 2021, the Finance Minister sought the advice of the community of university economists on the role that taxation can play to boost Québec's economic potential. The CFFP rose to the call, in particular, by producing studies (yet to be published) on the benefits to be had from revising the corporate taxation system and by extolling the merits of adjusting the relative weight of income tax and consumption tax as sources of revenue.

It is a known fact that some taxes are more harmful than others to economic growth and it is widely understood that consumption taxes are less harmful than income taxes as sources of revenue. As it happens, the data in the Bilan show that Québec runs counter to the OECD by overusing more harmful sources of taxation and by underusing less harmful ones. In a field of 39, Québec ranks 3rd highest for personal income taxes, 5th highest for corporate income taxes, but only 29th highest for general sales taxes.

What's more, while the OECD countries on average increased the weight of consumption taxes, particularly general sales taxes, by one percentage point of GDP from 1981 to 2020 and reduced the weight of personal income taxes by 1.7 percentage point, Québec took the opposite route. Indeed, despite the common impression that consumption taxes have increased in Québec, the data indicate that their weight in the economy is less today than it was in 1981! What's more, the differences with the OECD average tax structure are far from small. For 2020, the relative weight of personal income taxes in Québec's tax structure was more than 45% greater and, inversely, that of general sales taxes was 30% smaller.

At a time where, on the one hand, the government has clearly voiced its intention to take action to boost Québec's economic growth potential and, on the other, the demographic transition will bring about slower economic growth over the next decade, the possibility of leaning towards a tax structure less harmful to the economy is an avenue worth considering.

These are some of the thoughts I wanted to share on the 2022 edition of the Bilan de la fiscalité.

2022: an election year

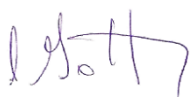
In closing, 2022 will be marked by a general election in Québec.

Because the economy performed better in 2021 than initially forecast in the 2021 Budget, deficits turned out smaller than expected. When these were revised downward in the Economic and Fiscal Update, the windfall opened up the possibility of new measures in the 2022-2023 budget to be tabled before the general election. However, at time of writing, the situation has taken yet another turn and remains steeped in uncertainty as the COVID-19 omicron wave unfurls across the province. The restrictions resurfacing in its wake are likely to have repercussions on economic growth and on government revenues and expenditures.

Where changes to the tax system are concerned, it should be noted that the tax program that the current Québec government ran on in the last election has been actualized so to speak: family allowance increased, school tax lowered, additional contributions for subsidized childcare eliminated, and measures for family caregivers enhanced. The coming election cycle will no doubt generate its lot of tax commitments from the political parties.

In all cases, these commitments will have to abide by the financial framework presented in the next Pre-election Report on the State of Québec's Public Finances.

I hope you enjoy the report!



Luc Godbout

Chairholder, Chaire de recherche en fiscalité et en finances publiques

“Québec runs counter to the OECD by overusing the more harmful sources of taxation and underusing the less harmful ones.”



The *2022 edition* of the *Bilan de la fiscalité au Québec* is based primarily on 2020 data and, as such, will be the COVID-19 Year Report. It allows taking stock of the situation in Québec, from a taxation point of view, in this year of health and economic crisis. It need be underscored, as is the case each year but perhaps even more so for 2020, that the tax data published are preliminary and subject to revision. Still, this first look provides interesting indications regarding the tendencies caused by the COVID-19 crisis.

This edition of the *Bilan de la fiscalité au Québec* comprises eight 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 Organisation for Economic Co-operation and Development (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). The seventh section of 2022 edition is a new one and focuses on tax progressivity indicators. Finally, the last section looks at various indicators of income inequality and how governments reduce inequality through taxation.

Tax announcements in 2021

COVID-19 is not yet done playing a major role in the tax policy decisions of the governments of Canada. However, in 2021, these governments began to address the challenges that will come to the fore post-pandemic. These include short-term challenges such as the increase in the cost of living that marked the Update on Québec's Economic and Financial Situation in the fall of 2021, and the situations regarding labour (shortage, qualification, retraining) and housing, which have been central issues for numerous governments, not to mention long term challenges like environmental taxation, the constitutionality of which was upheld by a Supreme Court of Canada ruling but the development of which is still only at an embryonic stage.

The pandemic has had another major impact on taxation, namely, that of adding thrust to international cooperation. In particular, the introduction of a global minimum tax rate on corporate earnings still seemed like a distant project only a few months ago. A deal has now been struck in this regard².

Next, comparing the tax situation in Québec with that in the OECD countries and the other Canadian provinces brought out the following elements in particular.

Tax burden

The tax revenues raised by all levels of government in Québec in 2020 totalled 174 billion dollars, a decrease of 1.2 billion dollars over 2019. As a result, the tax burden in Québec amounted to 38.8% of GDP, which ranked 9th highest out of 39 when included with the OECD member countries. These revenues derived from a small set of income and other taxes, with 12 of these generating nearly 90% of all the taxes raised in the province.

Of all these tax revenues, 50% was raised by the provincial government, 32% by the federal government, 9% by local governments, and 10% by pension plans. Québec is the only province where the federal government collected less than 37% 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 35% 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 2020, 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 5.4 percentage points in 2020. Compared with the other Canadian provinces, Québec still had the highest tax burden in 2020. Among the provinces with the lowest tax burden, three were oil-producing, namely, Alberta, Saskatchewan, and Newfoundland and Labrador.

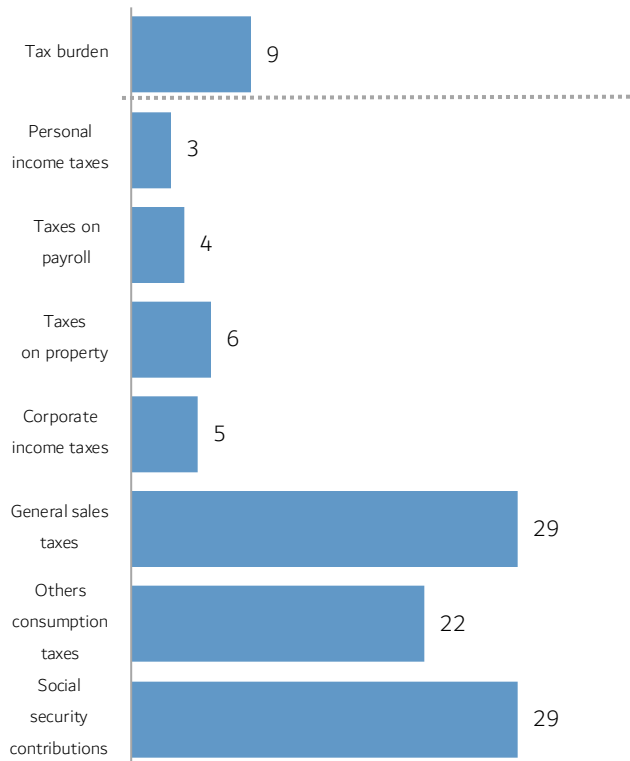
Sources of Taxation

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 so 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. Part of this change is explained by the addition of new member countries in the OECD average. 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.

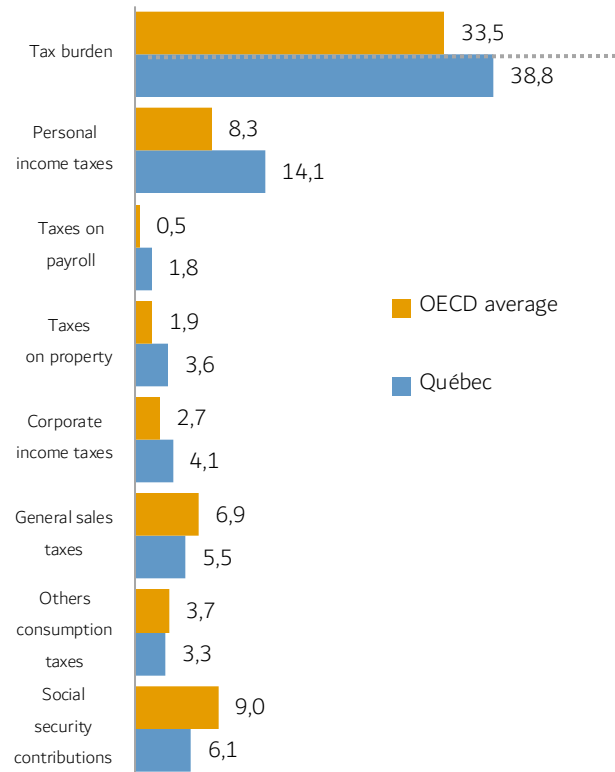
The charts below show how Québec ranks by source of tax revenue as a percentage of GDP against the OECD member countries and the other Canadian provinces. In the left-hand charts, the lower the rank, the higher the weight. In the right-hand charts, weights in Québec are compared against the OECD average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

² OECD (October 8, 2021), *International community strikes a ground-breaking tax deal for the digital age*. 136 countries and jurisdictions approved this agreement, which ensures that multinational enterprises will be subject to a minimum 15% tax rate as of 2023.

Québec ranking among OECD countries (out of 39; #1 → highest tax burden)



Tax revenue as a percentage of GDP



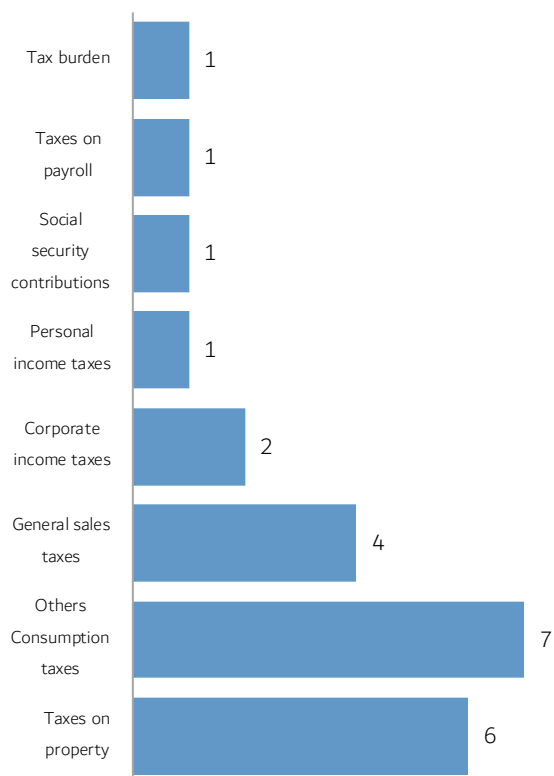
While Québec ranked 9th among the OECD member countries in terms of tax burden, its ranking by weight of revenue source as a percentage of GDP was much more extreme:

- ▶ 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.

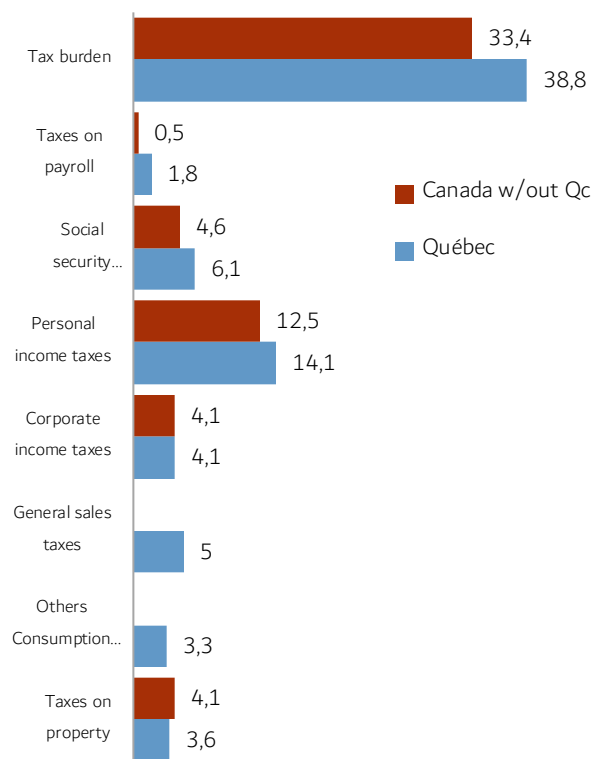
Among the Canadian provinces, Québec ranked 1st for tax burden and for weight of payroll taxes and of social security contributions as a percentage of GDP. Moreover, it ranked 2nd for corporate income taxes and 4th for general sales taxes. Of the six sources of revenue indicated, Québec came in behind Canada minus Québec only for property taxes.

Canada minus Québec came in on the same side as Québec (above or below) relative to the OECD average 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 10; #1 → highest tax burden)



Tax revenue
as a percentage of GDP



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 2020, nearly 68% 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 (2017 data). 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.

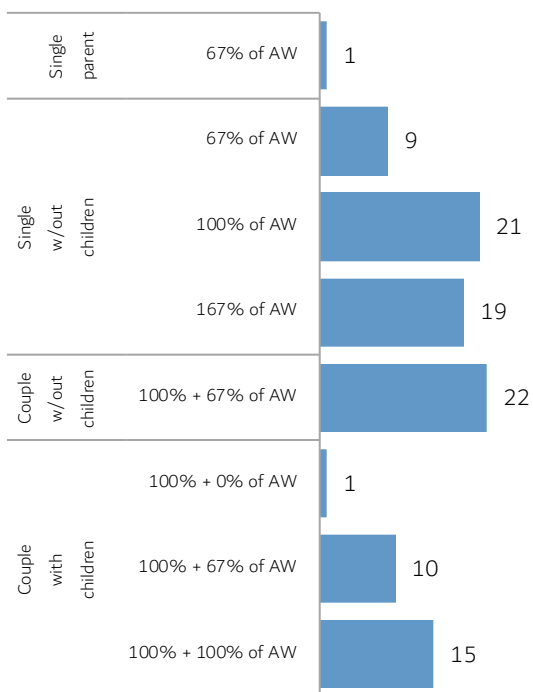
Net tax burden

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 2020, AW in Québec was \$54,289). 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.

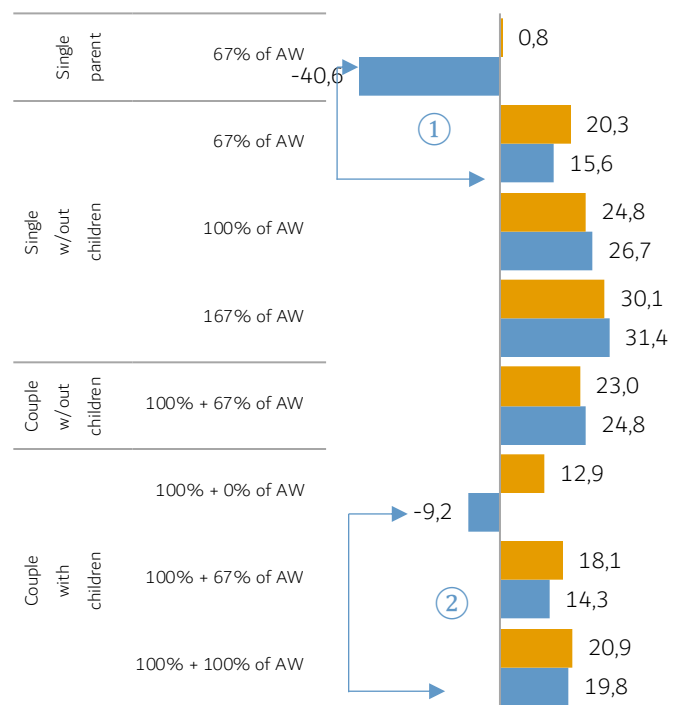
Québec ranking among OECD countries

(out of 38; #1 → lowest net tax burden)



Net tax burden, as a percentage

■ OECD Average ■ Québec

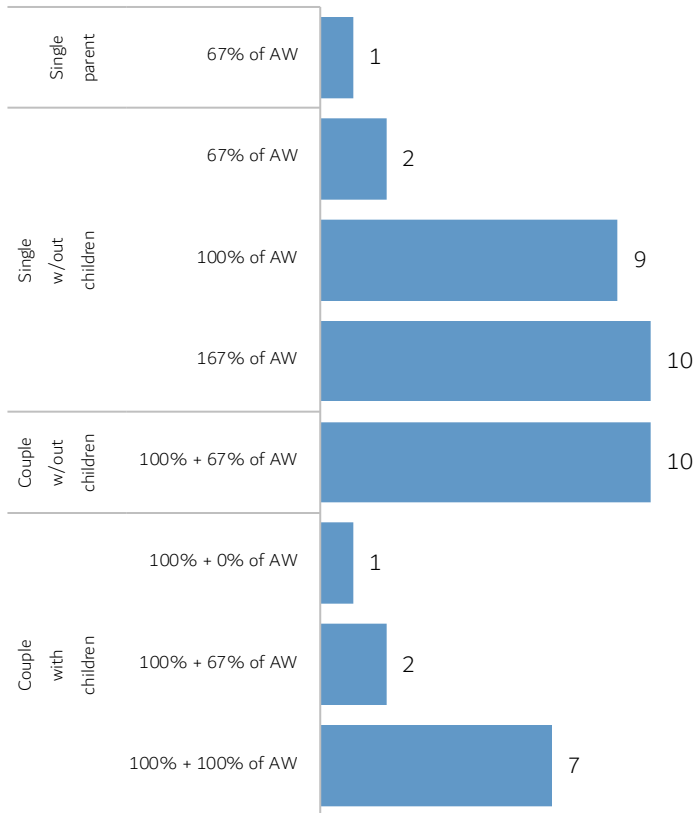


For single persons earning 67% of AW, the net tax burden was 15.6% and, relative to this, the rate for single-parent families with the same income was 56.2 percentage points lower ①. This result indicates that children are given tremendous consideration within Québec's tax and benefits structure.

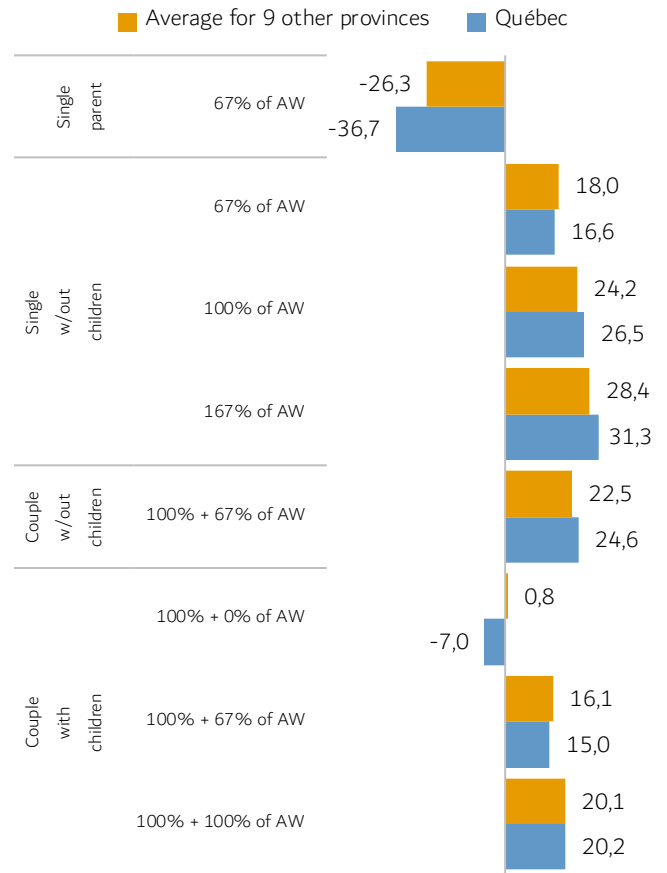
For couples with children earning 100% of AW (100% + 0%), the net tax burden was -9.2%. However, when these couples earned 200% of AW, the net tax burden rose to 19.8%, an increase of 29 percentage points ②. Here, the result shows the Québec tax system to be highly progressive.

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, almost 70% of Québec taxpayers declared total income of 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.



By comparison, the tax burden of Québec taxpayers was heavier than what they would have been imposed had they been subject instead to the tax structure and transfers for individuals of the majority of the other Canadian provinces. It exceeded by 13.6 billion dollars the gross tax burden, that is, the burden that they would have had if the Ontario system of income tax, consumption tax, and social security contributions had applied in Québec. When transfers were taken into account, the tax burden gap narrowed to 10.1 billion dollars.

The corporate tax statistics presented are those for fiscal year 2014, when 96.7% of the corporations that filed a return in Québec were small businesses (less than 15 million dollars in assets). Of these, 60.6% paid no income tax, but the percentage of those subject to no income tax and no other contributions stood instead at 41.8%.

Progressivity

The progressivity of personal income taxes in Québec and in Canada is key to understanding how the Québec tax system works and how it compares against those of other jurisdictions, particularly because personal income taxes are the dominant source of revenue under the Québec tax structure.

The indicators included in this new section show that progressivity is well established in Québec and, in some cases, is much more so than in many other jurisdictions:

- ▶ In 2020, the top rate in the Québec personal income tax structure was the 7th highest among the OECD countries and the 4th highest among the Canadian provinces. In 2022, however, with Newfoundland and Labrador adding new upper brackets to its tax structure, Québec will drop a rank to 5th.
- ▶ In 2021, marginal effective tax rates (METRs), which are the result of tax progressivity, whereby tax payable increases as income increases, combined with certain government transfers, which, instead, decrease as income increases, reached as high as 83% in Québec for couples with children. These rates are on the rise on account of the enhancement of the Canada workers benefit (CWB).
- ▶ For a single person in Québec, the progressivity of the net tax burden when income increases from 67% to 167% of AW was the 9th highest among the OECD countries and the highest among the Canadian provinces. This bears witness to a high tax progressivity relative to the other jurisdictions considered.
- ▶ The low net tax burden in Québec and Canada in some income situations comes with particularly high METRs. For instance, for a couple with two children where only one of the two spouses earns the AW, Québec has the lowest net tax burden among the OECD countries but the highest METR after Canada.
- ▶ A sign of greater progressivity in Québec than in the other Canadian provinces is that the net tax burden for a single person is the lowest in the country at 50% of the AW, but the highest at 100% of the AW. Progressivity, again measured using the same indicator, is also very high in Québec for a couple with two children.

Taxation and income inequality

Taxation can contribute to stimulate the economy, change how taxpayers behave, and reduce inequality. This last function 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 11.9% of pre-tax income in Québec. After tax, this share dropped to 8.7%. In Canada as a whole, this share dropped from 13.4% before tax to 9.9% after tax. Québec came in 4th among the provinces for the largest percent drop in this share following government intervention through taxes and transfers in 2019.

- ▶ The top 10% of income earners declared 38.4% of pre-tax income. After tax, this share dropped to 29.5%. 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 2019, this ratio dropped from 14.8x pre-tax to 4x 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 33.6%, which was better than the average rate for the OECD member countries (32.3%) and for Canada (29.0%).

According to the Gini coefficient for disposable income, Québec came in 12th out of 38, 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 4th 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 2019 than it was on average from the mid-1990s to 2019. 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 2022 edition of the *Bilan de la fiscalité au Québec* (available in French only).