



2024 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, Michaël Robert-Angers, Julie S. Gosselin, and Samuel Carbonneau.

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About the report

The **2024 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 **2024 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 full report. The *In brief* section, for its part, provides an overview of what these sections contain.

The full version of the report ([available in French only](#)) includes the following sections:

1. Tax burden
2. Sources of taxation
3. Tax expenditures
4. Net tax burden
5. Profile of Québec taxpayers
6. Progressivity
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](#).

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Word from the Chairholder

The *Chaire de recherche en fiscalité et en finances publiques*, which celebrated its 20th anniversary in 2023, is pleased to present the new edition of its **Bilan de la fiscalité au Québec**. This report takes stock of a multitude of key indicators and a wide array of statistics regarding taxation in Québec. These are collected and arranged into a hundred or so figures, tables and insets, each briefly explained.

Through this far-ranging survey of the latest available data, the 2024 edition draws a broad picture of taxation in Québec that allows tracking how the province has evolved over time in this regard and how it compares in the matter against its principal economic partners and a host of advanced economies covered by the Organisation for Economic Co-operation and Development (OECD).

This edition comprises seven sections that look at taxation in Québec from different angles, including tax burden, sources of tax revenue, inequality indicators, and the profile of Québec taxpayers. The CFFP team has designed the *Bilan* as a handy reference tool that may be consulted throughout the year.

Finally, I would like to take this opportunity to share a few observations regarding the taxation situation in Québec.

Income tax cuts take over from one-off measures

The one-off measures introduced in 2022 to help with the sharp increase in the cost of living that year were not renewed in 2023. Instead, this task was left to the indexation of the parameters of the personal income tax system, as this would compensate for inflation with a certain lag.

What marked 2023 primarily was an income tax cut. Québec lowered the rates of its first two taxable income brackets by 1 percentage point, respectively, from 15% to 14% and from 20% to 19%. Given that the reduction applies to the whole year but went into effect only as of July 1st, the excess income tax withheld at source in the first half of the year should translate into a refund for a good many taxpayers when they file their tax returns in the spring of 2024.

Recession, slowdown or soft landing?

In 2022, the Québec economy was coming out of a slowdown caused by the pandemic and ran at full potential. In 2023, results were rather mixed. At time of writing, statistics showed that Québec's real GDP had shrunk for a second quarter in a row. In purely technical terms, according to a traditional definition (two consecutive quarters of declining real GDP), this means the province slid into recession. That said, provincial Finance Minister Eric Girard was quick to comment that it was "too soon to say that Québec is in a recession, since the drop in economic activity was not generalized". Numerous economists, too, qualified the notion of recession, underscoring the vigour of the labour market or of domestic demand.

Be that as it may, the CFFP's latest analysis indicates that the Québec economy will operate below potential in 2024.

Staying the course back to budget balance

While growth forecasts all point toward an economic downturn, whether a slowdown, a soft landing or a recession, it is premature to call for additional government intervention and preferable, instead, to let prospective cuts to the policy interest rate do their thing. That said, one thing is certain: Governments at both the federal and the provincial level must stay the course towards restoring sound public finances.

Government of Canada

None of the governments under Prime Minister Justin Trudeau have ever presented a balanced budget. They have all run deficits while ensuring that the debt as a share of GDP remained on a downtrend over the long term. Never have they set a deadline for returning to a balanced budget. Needless to say that the large deficits caused by the COVID-19 crisis, together with the recent interest rate hikes, have exacerbated the government debt situation. In three years, interest on the debt has soared from \$20.4 billion in 2020-2021 to \$46.5 billion in 2023-2024. It is estimated that it will reach \$60.7 billion in 2028-2029.

Moreover, the agreement between the NDP and the Liberals provides for the delivery of new public services. It is, of course, legitimate for a government to expand the coverage of public services. I do not mean to be critical in this regard. However, in the current budget context, it is essential that the federal government identify a source of funding for each of its new initiatives, all the more so that these initiatives are of a permanent nature.

Government of Québec

Québec amended the *Balanced Budget Act* and the *Act to reduce the debt and establish the Generations Fund*.

Back in March when the 2023-2024 budget was tabled, provincial Finance Minister Eric Girard outlined a plan to return to a balanced budget that provided for the deficit, as defined under the *Balanced Budget Act*, to decrease \$1 billion per year from \$5 billion in 2022-2023 to zero in 2027-2028. The budget specified in black and white that, to achieve this goal, expenditure growth would be kept in line with revenue growth. What's more, the budget included a contingency reserve.

However, based on the more recent data presented in the *Fall 2023 Update on Québec's Economic and Financial Situation* and in the *Report on Québec's Financial Situation for the Second Quarter of 2023-2024*, we can see that the downward revision to economic growth projections impacted the contingency reserve. Whereas contributions to the fund were initially supposed to total \$6.5 billion over five years, those planned for 2023-2024, 2024-2025, and 2025-2026 have now vanished and only those in the amount of \$500 million per year for 2026-2027 and 2027-2028 remain.

Needless to say that, regardless of their pertinence, the enhanced offers ultimately made by the government as part of the government employees' new collective agreement, which were above and beyond the initial offers that were incorporated in the budgetary provisions, will need to be factored into the government's financial framework. Achieving the goals of the plan to return to a balanced budget already required that revenues outgrow expenditures by \$1 billion annually. The enhanced offers render the challenge facing the Finance Minister even more daunting.

Prime Minister's support

Should the budgetary situation worsen, both Justin Trudeau and François Legault will need to muster all the leadership at their disposal by unreservedly supporting the actions, however unpopular they may be, of their Finance Ministers, just as Prime Ministers Lévesque, Chrétien and Bouchard did before them, who lent their finance ministers their firmest support in tough budgetary times. History teaches us that the prime minister's unwavering support is a necessary condition to maintaining public finances on a sound course when things take a turn for the worse.

A few words on the government objective to close the standard-of-living gap with Ontario

Since the *Fall 2021 Update on Québec's Economic and Financial Situation*, the government has regularly expressed a commitment to closing the gap in real GDP per inhabitant with Ontario. In this regard, the report we prepared in response to the government's public call to economists for their views on reducing the wealth gap or increasing the province's economic potential showed that the targets set by the government are ambitious and that, based on the latest budgetary figures available for Québec and Ontario, they will not be reached by 2026. If the Finance Minister is serious about this objective, he will need to draw up a formal framework that is much more than just a policy statement.

Real GDP per inhabitant is not the only indicator that can be used to measure the gap in standard of living between Québec and Ontario. There are others, of course. However, on this basis and just to give a rough idea of what it represents, the CFFP estimated that, in 2022, had there been no wealth gap between the two provinces, Québec would have collected about \$15.7 billion more in own-source revenues. This amount could then be used to make up for lost federal equalization payments (\$13.7 billion in 2022-2023), to enhance funding for public services, to cut income tax, or a combination of these. Furthermore, if we consider the components of GDP as a share of GDP in 2022, had Québec caught up with Ontario in terms of real GDP per inhabitant, it would have translated also into an estimated recurring wage increase of \$8,700 per worker.

Time to overhaul corporate taxation

A consensus is slowly forming to the effect that the time is ripe for an overhaul of the tax assistance offered corporations, especially assistance determined on the basis of job creation in these times of labour shortages.

Clearly, it is not a question of throwing the baby out with the bath water, but rather of determining whether some tax credits might be reconsidered in order to sustain productivity growth more effectively. In Ontario, such an exercise has already been undertaken and has led to a reform of the tax system. Their objective is to improve competitiveness, productivity and growth over the long term, and to assess the effectiveness of the tax breaks offered. In this regard, it would be interesting to see the Government of Québec's next budget contain measures geared to targeting the assistance offered corporations better in the aim of boosting their productivity.

Might this (finally) be the year of green taxation?

The data in the *Bilan* show that tax administrations in Québec under-use green taxation. Green taxation in the province essentially boils down to fuel taxes and a carbon tax. At the international level, Québec fares poorly against advanced countries in this regard, coming in second for lowest fuel taxes. Within Canada, however, it is the province where these taxes are highest.

Where the price of gasoline is concerned, taxpayers tend to react more when it goes up than when it comes down.

Truth be told, in constant December 2023 dollars, the price of gasoline at the pump was higher in 2013 (\$1.72) than in 2023 (\$1.58). From this angle, it is easier to see that the price signal does not work!

If we really want to change behaviours, however unpleasant it may appear to some, we need to ramp up the use of green taxation so that the signal currently provided by the market takes greater account of pollution. This is all the more necessary given that the Land Transportation Network Fund, where fuel tax revenues are deposited, is presently running a deficit. Remember that the mission of this Fund is to finance the construction and operation of road infrastructure and public transit infrastructure and services. To make matters worse, public transit still cannot count on stable funding.

In this regard, it need be pointed out that the rate of taxes charged in Québec on gasoline by volume (per litre) has remained unchanged for more than 10 years in the case of the provincial fuel tax and for nearly 30 years in the case of the federal excise tax.

Under these circumstances, governments should, if not just revise their rates upward, at least index these specific gasoline taxes minimally, like they do with the tax system. It goes without saying that this would be a first step towards a better fit between what it costs to maintain and develop the road network and how much users contribute to it.

Given the seriousness of environmental issues, let us hope that 2024 will see a broad consensus come together on the need for green taxation to promote the adoption of eco-friendly behaviours. The imposition of such taxes must not be considered as a mere increase of the tax burden, but rather as a necessary instrument of action.

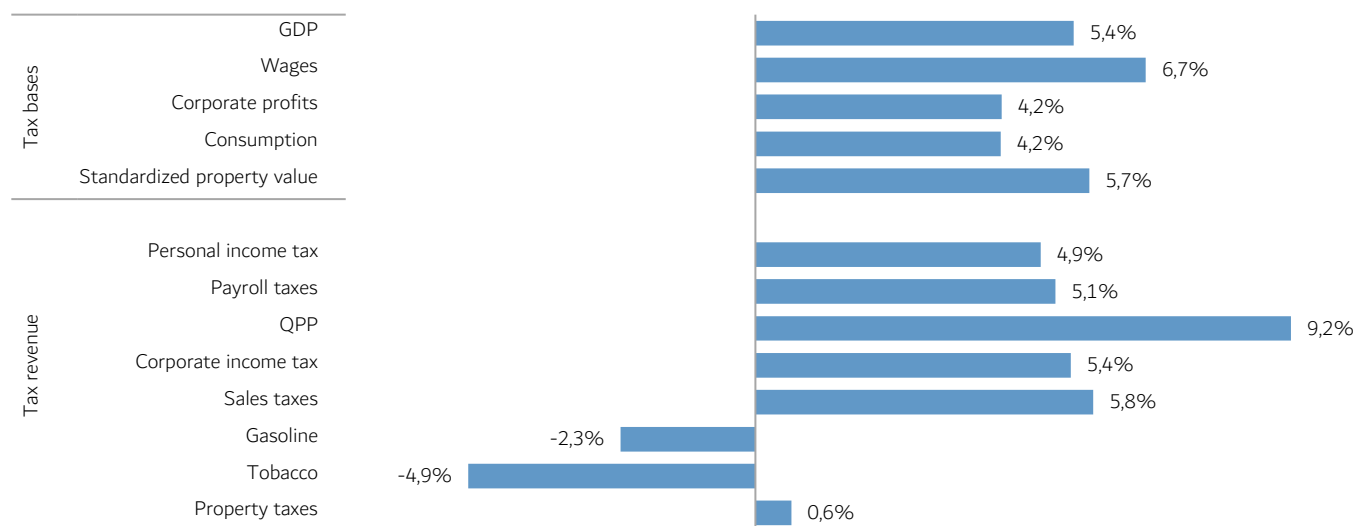
What has driven tax revenue growth in Québec over the past five years?

The tax revenues collected in Québec by all of the tax administrations exceeded \$210 billion in 2022. This was more than \$50 billion more than in 2017. The main source of this growth was income taxes.

Interesting as these figures may be, they tell us nothing, however, about how revenues derived from different sources have changed relative to their tax bases.

Let us take a closer look, then, at the main income taxes, other taxes and contributions collected by public administrations in Québec, namely, the Government of Québec, municipalities, and Retraite Québec.

Average annual growth rate in Québec from 2017 to 2022 for GDP, some of its components, property value, and tax revenue



The table above shows the average annual growth rate in Québec from 2017 to 2022 for GDP and some of its components, as well as for revenues from various sources.

Over this period, wages (6.7%) outpaced GDP (5.4%), while corporate profits and consumption lagged behind (4.2%).

Meanwhile, income tax collected by the Government of Québec grew at a slower pace than did GDP (4.9% vs. 5.4%). This can be explained by certain income tax cuts and the bolstering of certain tax measures offered beginning in 2017. These include, in particular, lowering of the rate on the first taxable income bracket and enhancement of the tax shield and of the tax credit for career extension.

Similarly, payroll taxes did not keep up with wages (5.1% vs. 6.7%). This is attributable to a reduction of the Health Services Fund (HSF) contribution rate for SMBs.

Inversely, QPP contributions outran wages by a wide margin (9.2% vs. 6.7%). In this case, the gap can be explained by the phasing in since 2019 of an additional plan that will allow enhancing future benefits for those who contribute to it. The contribution rate for the base plan remained unchanged.

Corporate income tax collected by the Government of Québec grew at a faster rate than did corporate profits (5.4% vs. 4.2%) despite the fact that the tax rate was reduced over this period for both SMBs and large corporations.

While consumption grew at an average rate of 4.2% per year, consumption taxes grew at a much faster rate of 5.8%. One factor that explains this gap at least in part is the requirement since 2019 for suppliers outside Québec to collect the Québec sales tax (QST).

For some consumer goods, however, the average annual growth rate over this period was negative. This was the case for gasoline and tobacco. Obviously, we can welcome the decrease in tobacco tax revenues as good news. Since the rate for this tax did not change, the drop suggests that tobacco use was on the decline. The same could be said about gasoline, except that the revenues generated by this tax serve to fund the province's transportation infrastructures. All this militates in favour of raising the gasoline tax or, at the very least, subjecting it to indexation.

Finally, we need to highlight the fact that one of the tax bases that grew the most from 2017 to 2022 was property value. It did so at an average annual rate of 5.7%. Yet, property taxes as a source of tax revenue grew a paltry 0.6% over this period. This gap can be explained in part by the reduction of the school tax beginning in 2018, when rates were standardized based on the lowest effective rate in each of the province's administrative regions and the first \$25,000 in property valuation was exempted from the tax.

In 2019, the government took matters a step further by applying a single school tax rate across Québec at 17.83 cents in 2019 and then lowered progressively to 10.24 cents per \$100 pf property valuation in 2022.

If we focus exclusively on property taxes collected by municipalities, we see that this source of revenue grew at an average annual rate of 2.5%. This was far lower than the growth rate for standardized property value and GDP. On this basis, by lowering their property tax rates they reduced the relative weight of this tax, be it as a share of the province's tax structure (from 9.4% in 2017 to 7.3% in 2022) or as a share of GDP (from 3.6% in 2017 to 2.8% in 2022). In this light, the tax hikes announced by municipalities in the fall of 2023 take on a different meaning.

Enough said for now about taxation and public finances in 2023. There will be plenty to look at and report on next year and the years after that.

I hope you find the 2024 edition of the *Bilan de la fiscalité au Québec* instructive and useful. Cheers!



Luc Godbout

Chairholder, Chaire en fiscalité et en finances publiques (CFFP)



2024 edition in brief

The *2024 edition* of the *Bilan de la fiscalité au Québec* is based primarily on data regarding fiscal 2022. It allows taking stock of the tax situation in Québec and comparing it against the rest of Canada and the advanced economies of the Organisation for Economic Co-operation and Development (OECD). It should be stressed that the published tax data are preliminary and subject to revision.

This edition of the *Bilan* comprises seven sections.¹ The first two compare Québec against the OECD advanced economies and the other Canadian provinces in terms of taxation. At the international level, Québec will be compared against 31 OECD member states considered advanced economies as defined by the International Monetary Fund (IMF). The third 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 sixth section focuses on tax progressivity indicators. Finally, the seventh section looks at various indicators of income inequality and how governments reduce inequality through taxation.

Tax burden

The tax revenues raised by all levels of government in Québec in 2022 totalled 212.3 billion dollars, an increase of 15.3 billion dollars or 7.8% over 2021. As a result, the tax burden in Québec amounted to 38.9% of GDP, placing it 11th highest out of 32 when compared against the 31 OECD advanced economies. 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, 47% was raised by the provincial government, 34% by the federal government, 8% by local governments, and 11% by pension plans. Québec is the only province where the federal government collected less than 36% 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 44% by the Québec government and 37% by the federal government.

¹ The first section of previous editions, entitled "Tax Announcements", is now published at the same time as the *Bilan*, but in a separate publication (available in French only). You will find it under the "Publications" section of the CFFP website by scrolling down and clicking on "Publications à la CFFP": Tommy Gagné-Dubé et Samuel Carboneau (2024), "Principaux faits saillants de la fiscalité au Canada en 2023", *Regard CFFP* n° R2024-01.

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. The tax burden then resumed an upward trend, reaching its highest weight since the 2000 peak in 2021. In 2022, preliminary data show a dip in the ratio of 0.2 percentage point. Although Québec's tax burden was consistently higher than the average for the OECD advanced economies over this period, the OECD average nevertheless followed a similar upward trend.

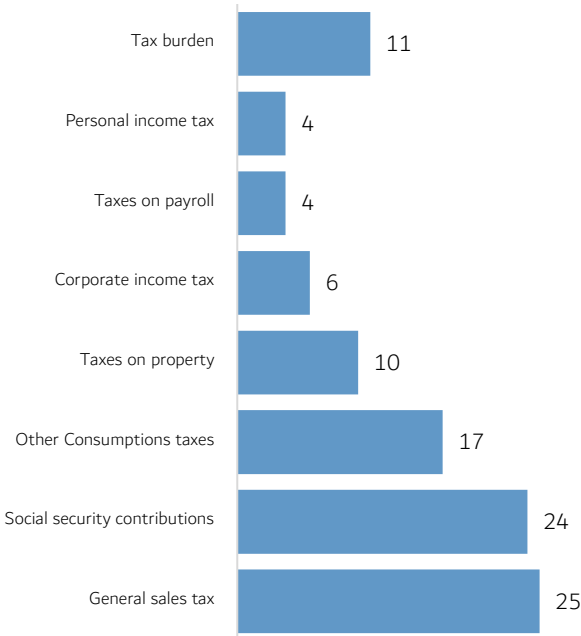
The tax burden in Canada minus Québec relatively flat over this period, trending upward somewhat since hitting a low point in the early 2010s. The tax burden gap between Québec and that in Canada excluding Quebec reached 6.1 percentage points in 2022. Québec still had the highest tax burden of all the provinces in 2022. Among those with the lowest tax burden, three were oil-producing, namely, Alberta, Newfoundland and Labrador, and Saskatchewan.

Sources of taxation

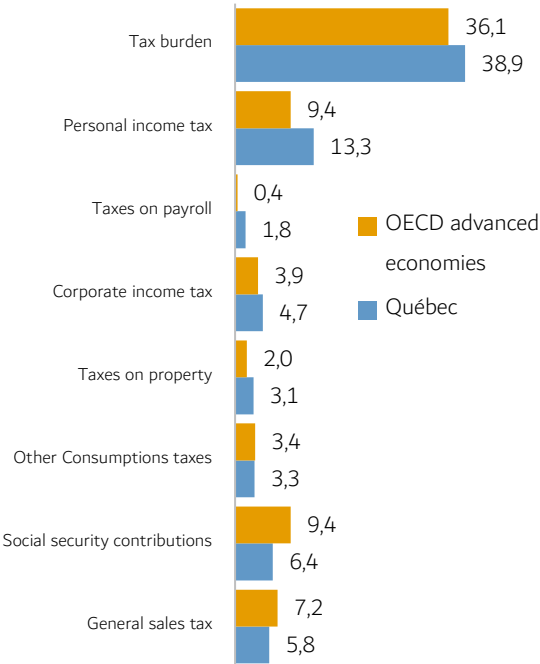
How tax revenues are raised in Québec differs significantly from how they are raised on average in the OECD advanced economies, and some differences have grown over time. In 1981, income taxes were the top source of tax revenue in Québec as in the OECD advanced economies on average. While they have remained so in Québec, income taxes gradually slipped to second and then third place in the OECD advanced economies on average, behind 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, since 1981, personal income taxes have been on the rise in Canada minus Québec but on the decline in Québec.

The charts below show how Québec compared in 2022 against the OECD advanced economies and the other Canadian provinces in terms of tax burden and sources of tax revenue as a percentage of GDP. In the left-hand charts, Québec is ranked among the OECD advanced economies (out of 32) and among the Canadian provinces (out of 10), with 1st place indicating the highest burden. In the right-hand charts, weights in Québec are compared against the average for the OECD advanced economies and Canada minus Québec.

Québec ranking among OECD advanced economies
(out of 32; #1 → highest tax burden)



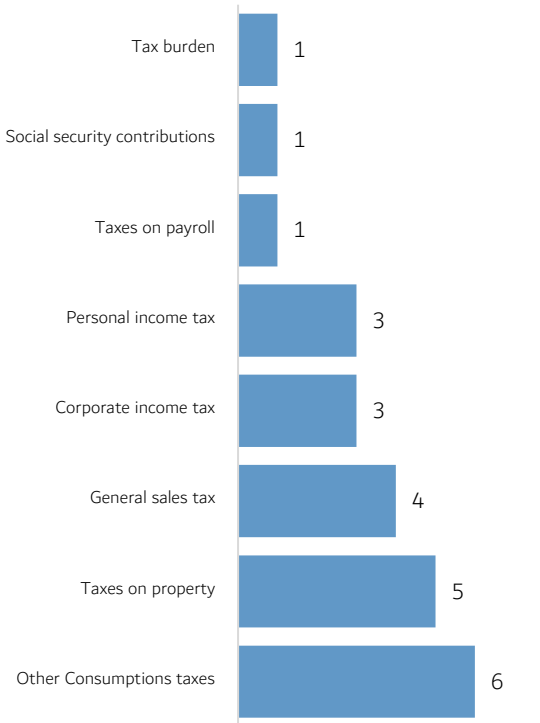
Tax revenue as a percentage of GDP



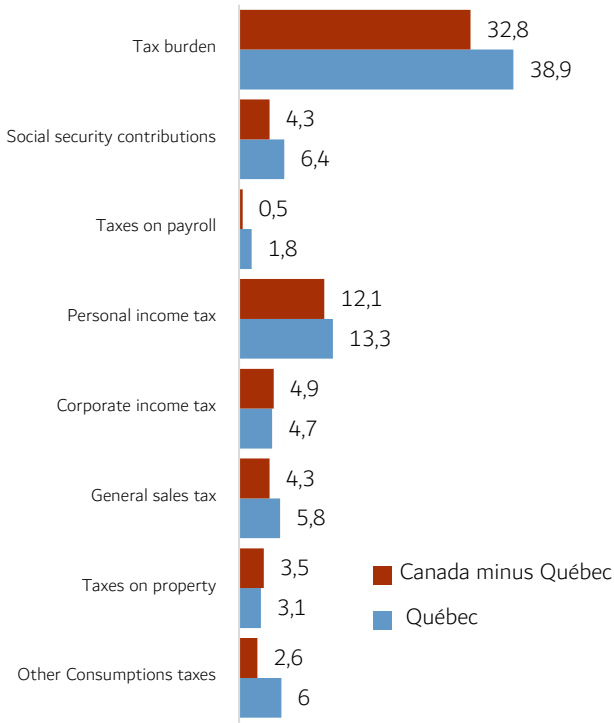
Among the Canadian provinces, Québec ranked 1st for highest tax burden and highest weight of social security contributions and payroll taxes as a percentage of GDP. Moreover, it ranked 3rd highest for personal income taxes and corporate income taxes and 4th highest for general sales taxes. Of the seven sources of revenue indicated, Québec came in behind Canada minus Québec only for corporate income taxes and property taxes.

Canada minus Québec came in on the same side as Québec (above or below) relative to the average for the OECD advanced economies across all sources of revenue, albeit at a different distance. As a result, 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 in connection with how tax revenues are raised. 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 2022, more than 72% of Québec’s tax expenditures were tied to the personal income tax system. In some cases, particularly when they apply to individuals, tax expenditures are broad-based and benefit millions of taxpayers. This is the case, for instance, with the deduction for workers, which in 2020 was claimed by more than 60% of the 6.8 million tax filers in the province. Some measures, however, target a very small number of beneficiaries. This is

especially true of tax expenditures that apply to corporations. In this case, a very large portion of the available tax credits in the province is granted to a very small number of companies.

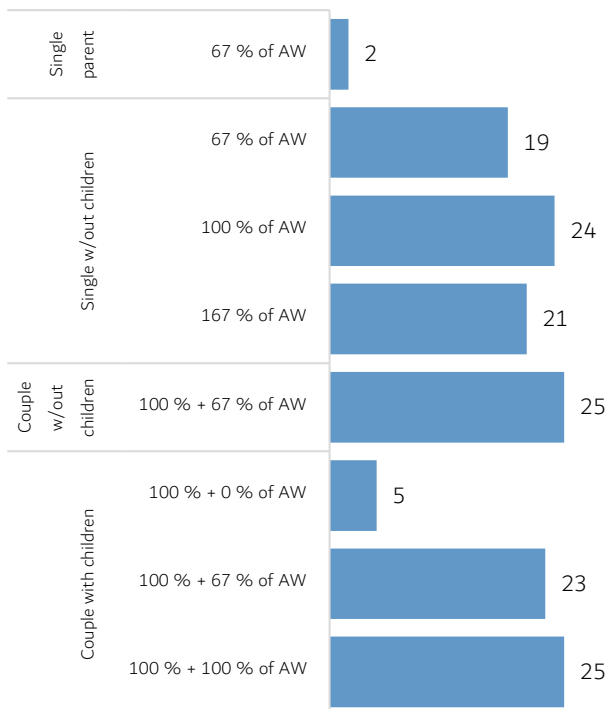
Comparing the Québec and federal governments on their main tax expenditures revealed many similarities. Nine of the 15 main tax expenditures of one level of government had a counterpart among the 15 main tax expenditures of the other level.

Net tax burden

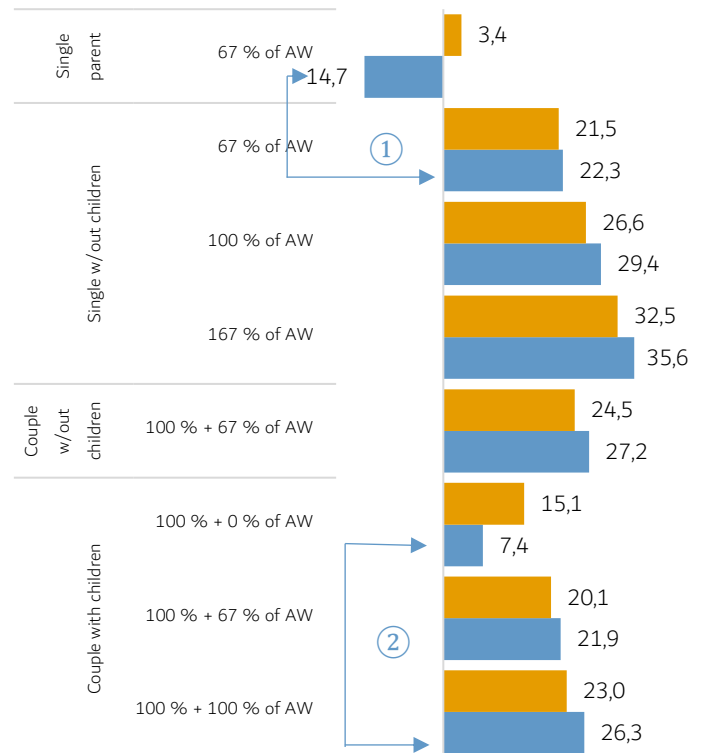
While indicators of tax burden and tax revenue sources for Québec show the weight of total tax revenues or of income taxes as a percentage of GDP to be rather high in 2022, analyzing the net tax burden casts a finer light on the situation when, in addition to income taxes, social security contributions paid and benefits received are also taken into account.

Ranked among the OECD advanced economies (out of 32), Québec came in 2nd for lowest net tax burden in the case of single-parent families with two children earning 67% of the average wage (AW) and 5th lowest for couples with two children earning 100% of AW (in 2022, 100% of AW amounted to \$78,108 in Québec). For the other cases considered, Québec came in the bottom third for lowest net tax burden and presented net tax burden rates above the average for the OECD advanced economies.

Québec ranking among OECD advanced economies
(out of 32; #1 → lowest net tax burden)



Net tax burden, as a percentage
■ OECD advanced economies ■ Québec

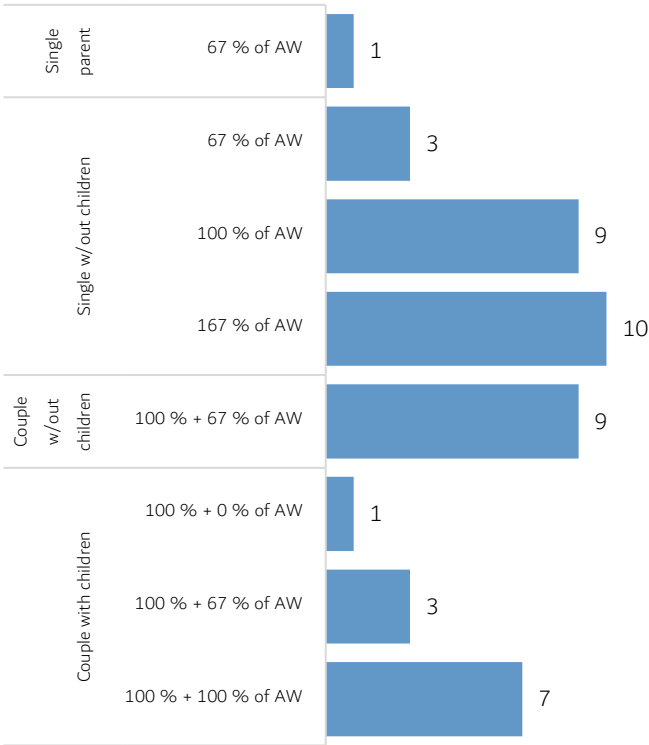


For single persons earning 67% of AW, the net tax burden rate was 22.3% and, relative to this, the rate for single-parent families with the same income was 37 percentage points lower ^①. This result indicates that children are given tremendous consideration within Québec's tax and benefits structure.

For couples with children where one spouse earned 100% of AW and the other 0% of AW (100% + 0%), the net tax burden rate was 7.4%. However, for couples with children where each spouse earned 100% of AW (100% + 100%), the rate rose to 26.3%, an increase of 18.9 percentage points ^②. Here, the result shows the Québec tax system to be highly progressive.

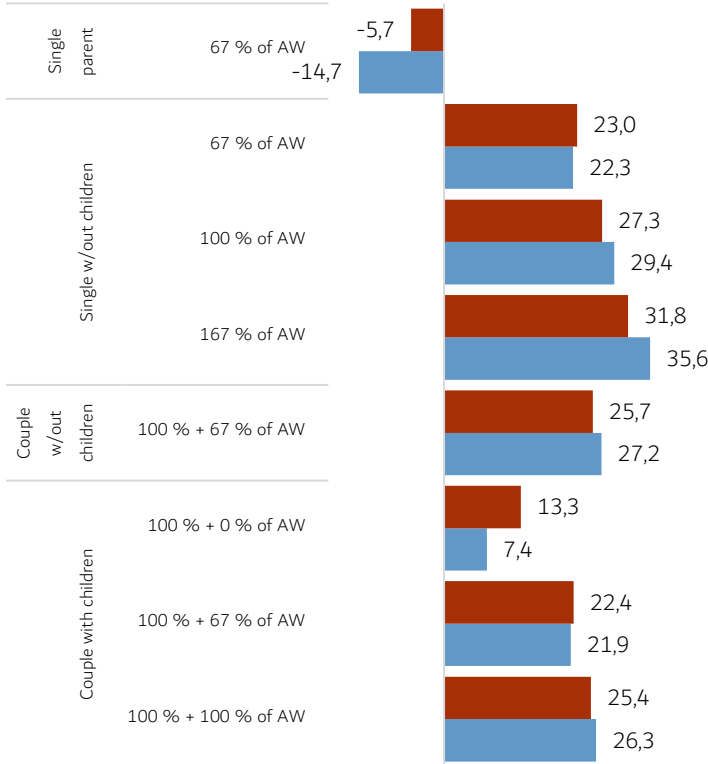
When Québec is compared against the other Canadian provinces, results essentially tell the same story, namely, that net tax burden rates in Québec were either the lowest or among the three lowest for households with very low income and children. The situation is notably better in Québec for households with children, except in the case of couples with children earning 200% of AW. However, one particularity stood out in 2022: Québec moved down the rankings from 2021 in all the situations considered, except for single persons earning 167% of AW, where it came in 10th as in 2021, and for the two situations where it ranked 1st as in 2021 for the lowest net tax burden rate. The explanation for this lies in the relatively more generous one-off measures taken by the Québec government to offset the higher cost of living.

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



Net tax burden, as a percentage

■ Average for 9 other provinces ■ Québec



Since the early 2000s, the net tax burden rate in Québec for single persons earning 100% of AW and for couples with two children earning 167% of AW (100% + 67%) has been trending down.

Profile of Québec taxpayers

The most recent federal and Québec personal income tax statistics available are those for 2020, the first year of the COVID-19 pandemic. The effects of the economic shutdown and the introduction of (taxable) emergency benefits had a significant impact, particularly on reported income. These effects justify the addition, in several cases, of comparisons between the 2020 and 2019 statistics.

Thus, in 2020, 23.2% of Québécois who filed a federal income tax return had total income of less than \$20,000, down significantly from 28.6% in 2019. All other income categories saw their weight increase. The percentage of tax filers who earned less than \$20,000 fell in all the other provinces as well.

Also, the composition of total income underwent a significant change in 2020. Employment income accounted for 60.3%, down from 63.6% in 2019, a drop of 3.3 percentage points. However, this decline was more than offset by "Other" income, which increased by 4.8 percentage points. This category was made up primarily of government transfers, including employment insurance benefits and COVID-19 taxable benefits. That said, in 2020 as in previous years, the composition of total income varied by income level. For example, retirement income and other income (including government benefits) made up a relatively high proportion of total income for taxpayers who earned less than \$30,000, while investment income represented a higher share of total income for those who earned \$100,000 or more than for those in the other income groups.

Analyzing the distribution of income and taxes paid by quintile shows that, in both 2019 and 2020, a large proportion of income taxes in Québec (70% and 67.9%, respectively) were paid by the top 20% of income earners, who nevertheless earned about half of the total income reported by taxpayers. The 2019-2020 comparison shows, in particular, that the poorest 60% saw their share of this total income increase from 26.9% to 28.5% and that this increase had an impact on their tax payable, which rose from 9.5% of the total in 2019 to 11.5% in 2020.

Finally, there were proportionally fewer non-taxable taxpayers in 2020 than in 2019, whether we look at this statistic by gender, province, or age.

By comparison, the tax burden of Québec taxpayers was heavier than it would have been had they been subject instead to the tax structure and transfers for individuals of the majority of the other Canadian provinces. For example, in 2022, the gross tax burden of Québécois exceeded what they would have paid under the Ontario system of income tax, consumption tax, and social security contributions by 18.4 billion dollars. However, if we look at net tax burden, which also takes account of transfers, the gap narrowed to 12.4 billion dollars.

The corporate tax statistics presented are those for fiscal 2019, when 96.2% of the corporations that filed a return in Québec were small businesses (less than 15 million dollars in assets). Of these, 58.2% paid no income tax and 41.4% paid no income tax and made no contributions to the Health Services Fund.

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 2022, the top rate in the Québec personal income tax structure was the 6th highest among the OECD advanced economies and the 5th highest among the Canadian provinces.

- ▶ In 2023, marginal effective tax rates (METRs), which derive from the combination of tax progressivity (whereby tax payable increases as income increases) and certain government transfers (which decrease as income increases), peaked at 80.9% in Québec for couples with children.
- ▶ For single persons in Québec, in 2022, the progressivity of the net tax burden when income increased from 67% to 167% of AW was the 9th highest among the OECD advanced economies and the highest among the Canadian provinces.
- ▶ The low net tax burden in Québec and Canada in some income situations came with particularly high METRs in 2022. For instance, for a single-parent family with two children earning 67% of the AW, Québec had the second-lowest net tax burden among the OECD advanced economies but also the second-highest METR.
- ▶ Progressivity runs deeper in Québec than in the other Canadian provinces. A case in point: In 2022, Québec ranked 1st among the province for lowest net tax burden rate for single persons who earned 40% of AW but 10th for single persons who earned 80% of AW. The tax system in Québec is also highly progressive (as measured by the net tax burden rate) in how it treats couples with two children.

Taxation and income inequality

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

The Gini coefficient is one of the best known and widely used inequality indicators, particularly for the purpose of international comparisons. It serves to compare market income (before taxes and transfers) and disposable income (after taxes and transfers). In Québec, government interventions in 2021 allowed reducing market income inequality by 38.5%, which was better than the average rate for the OECD advanced economies (35.7%) and the rate for Canada (33.3%).

According to the after-tax Gini coefficient, in 2021, Québec ranked 6th out of 32 for lowest inequality when added to the group of OECD advanced economies.

Among the ten Canadian provinces, in 2021, Québec tied for 2nd with Nova Scotia for lowest inequality according to the after-tax Gini coefficient, but came in 8th according to the before-tax Gini coefficient. What's more, the data show that, since 1976, the level of after-tax income inequality has been lower in Québec than in Canada as a whole. In 2021, however, inequality increased somewhat, suggesting that the low point struck in 2020 was possibly only a momentary thing. That said, inequality as measured by the Gini coefficient remained lower than in 2019.

The Palma ratio is another inequality indicator. It is the share of total income received by the richest 10% of people divided by the share received by the poorest 40%. According to the after-tax Palma ratio, in 2021, Québec ranked 6th out of 32 when added to the OECD advanced economies (1st place was where inequality was lowest). Among the Canadian provinces, by this same measure, Québec tied for 3rd with New Brunswick for lowest inequality. All in all, though the Gini coefficient and the Palma ratio are calculated differently, the analysis of how they change over time is qualitatively very similar.

Another way of assessing the evolution of inequality is to analyze the share of income accounted for by the highest-income taxpayers, including the top 1%. If this share drops following government intervention (i.e., taxes and transfers), then taxation is also serving to reduce inequality.

- ▶ In 2021, the top 1% declared 13.9% of pre-tax income in Québec. After tax, this share dropped to 10.1%. In Canada as a whole, this share dropped from 15.6% before tax to 11.5% after tax. Québec came in 5th among the provinces for the largest percent drop in this share following government intervention by way of taxes and transfers.

- ▶ Still in 2021, the top 10% in Canada declared 40.3% of pre-tax income. After tax, this share dropped to 30.7%. The largest percent drop in this share occurred in Newfoundland and Labrador. Québec came in 3rd in this regard.

Finally, we examined the relationship between tax burden, as measured by the tax burden rate, and level of inequality, as measured by the Gini coefficient. What emerged is that jurisdictions with a high tax burden, such as Québec and the Nordic countries, also present a lower level of inequality compared with countries with low taxation.

This report reviewed the key indicators most widely used in taxation analysis today. What is presented here is an overview of the highlights of the 2024 edition of the *Bilan de la fiscalité au Québec* (available in French only).