Low income entry and exit rates in Canada, 2019

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Canadian tax filers are falling into low income less often and are rising out of it faster

The COVID-19 pandemic has hit low-income earners harder than other Canadians. To help assess the economic impacts of the pandemic on Canadians, it is important to examine trends in the prevalence and dynamics of low income in Canada in the years leading up to the pandemic. This release highlights how different groups of tax filers transitioned into and out of low income in 2019 and earlier, based on data from the Longitudinal Administrative Databank (LAD).

Every year, some Canadians fall into low income, while others rise out of it. Approximately 1 in 25 Canadian tax filers (3.9%) fell into low income in 2019, similar to the low levels seen in the preceding years. Conversely, almost one-third (29.5%) of tax filers who had been in low income rose out of it in 2019, up 1.4 percentage points from a year earlier. This increase in the exit rate shortened the median stay in low income from 2.5 years to 2.3 years for Canadian tax filers as a whole.

Canadian tax filers exit low income faster, while the rate at which they fall into low income remains near the record low

After hitting a high of 5.2% in 1996, the rate at which Canadian tax filers have been falling into low income has declined. By 2016, the proportion of Canadian tax filers falling into low income reached a low of 3.9%, and it remained stable in 2018 and 2019.

However, a declining entry rate does not necessarily lead to a drop in the overall low-income rate. Both the low-income entry rate and the low-income exit rate contribute to changes in the overall low-income rate.

Following a period of recovery and growth in the gross domestic product after the 2008/2009 recession, and with a declining unemployment rate, Canadian tax filers have started to rise out of low income at a faster pace. In 2019, the exit rate out of low income was 29.5%, up from 26.2% in 2014. The increasing exit rate, combined with a stable entry rate hovering around its historical low, helped drive Canada's low-income and poverty rates down every year from 2014 to 2019.

All groups of tax filers exit low income at a faster pace

From 2018 to 2019, the low-income exit rate rose from 28.1% to 29.5%. The rate increased not only for Canadian tax filers as a whole, but also for all groups of tax filers tracked in the LAD. This was only the fourth time all these groups of tax filers have seen a rising exit rate since the start of the series in 1992 (the other years when this occurred were 1998, 2003 and 2015).

Men and women tax filers saw their exit rates rise at a similar pace in 2019. For men, the exit rate increased from 29.7% to 31.2%, shortening their stay in low income by about one month, to 2.2 years. For women, the exit rate rose from 26.8% to 28.2%, also shortening their median stay in low income by about one month, to 2.5 years.

Buoyed by faster increases in full-time employment, tax filers aged 25 to 54 had stronger growth in their exit rate (from 31.7% in 2018 to 34.1% in 2019) than those in other age groups. For example, the exit rate of tax filers aged 18 to 24 rose from 34.7% to 36.1% in 2019, while that of tax filers aged 65 and older edged up from 20.0% to 20.2%.

Canada

Tax filers in couple families with children rose out of low income at a faster pace (37.9% to 40.9%) in 2019 than tax filers not living in a family (22.2% to 23.7%) and tax filers living in lone-parent families (23.3% to 24.4%). While improvement in labour market conditions was an important factor for all groups of tax filers, the introduction of the Canada Child Benefit has been a key factor helping couple families with children exit low income at an increasing pace since the mid-2010s.

Immigrant tax filers as a whole also saw their exit rate rise (from 28.6% in 2018 to 29.4% in 2019). However, those who had lived in Canada longer saw a stronger increase in their exit rate than those who had lived in Canada for five years or less. For example, the growth in the exit rate for immigrant tax filers who had lived in Canada for 16 to 20 years (+2.4 percentage points) was twice that of immigrant tax filers who had lived in Canada for 5 years or less (+1.2 percentage points) in 2019.

Higher entry rates, lower exit rates or a combination of the two make some groups of tax filers more vulnerable to low income than others

Survey data show that several groups of Canadians, such as seniors, people living in lone-parent families, people not living in families and recent immigrants, are more vulnerable to low income than others. For example, while the low-income rate for the Canadian population was 12.1% in 2019, it was higher for Canadians aged 65 and older (15.2%) and much higher for people living in lone-parent families (29.1%) and people not living in families (28.9%).

The higher rate of low income for seniors was mostly driven by their lower exit rate—they were less likely to fall into low income but had a harder time rising out once in it. In 2019, 3.5% of tax filers aged 65 and older fell into low income, a rate lower than that of tax filers as a whole (3.9%). However, among seniors who were in low income, 20.2% rose out, far lower than the exit rate for tax filers as a whole (29.5%).

For tax filers living in lone-parent families and those not living in a family, the higher low-income rates were primarily driven by higher entry rates, but lower exit rates also helped push their low-income rates up. Relative to the overall entry and exit rates in 2019 (3.5% and 29.5%, respectively), people living in lone-parent families had an entry rate (9.6%) close to three times as high, while people not living in a family had an entry rate (6.1%) nearly twice as high. At the same time, the rates at which they rose out of low income (24.4% and 23.7%, respectively) were more than five percentage points lower than those for all tax filers.

Since recent immigrants had a relatively higher exit rate out of low income (38.9%, compared with the 29.5% overall level in 2019), their higher rate of low income stemmed mainly from their higher entry rate. For example, immigrant tax filers who had been living in Canada for five years or less were nearly twice as likely to fall into low income as tax filers as a whole (7.0% vs. 3.9%) in 2019. While the low-income entry rate for recent immigrants was still relatively high, it has declined steadily since the early 2010s, mirroring the finding that newer immigrants earned more than their predecessors upon landing in Canada.

## Tax filers rise out of low income at a faster pace in every province

Tax filers in every province rose out of low income at a faster pace in 2019 compared with one year earlier. However, in New Brunswick, Manitoba and Saskatchewan, this faster pace occurred in tandem with a higher entry rate into low income, so a higher proportion of tax filers in these provinces tended to fall into low income and to stay in it for a relatively short time. Conversely, in the seven other provinces, the rising exit rate occurred in tandem with either a declining or a stable entry rate, resulting in reductions in their low-income rates.

Relative to five years earlier, tax filers living in Quebec, Ontario, British Columbia and Prince Edward Island experienced either a falling or a stable entry rate and a rising exit rate. They largely contributed to the Canada-wide declines in the low-income and poverty rates.

By contrast, low-income reduction remained a challenge in several other provinces with a combination of an increasing entry rate and a decreasing or stable exit rate. Following the fall of resource prices in the mid-2010s, tax filers in Saskatchewan and in Newfoundland and Labrador became more likely to fall into low income and less likely to rise out of it. While tax filers in Nova Scotia, New Brunswick and Manitoba had stable exit rates, their entry rates into low income rose relative to five years earlier.

The pace at which tax filers in Alberta rose out of low income declined from 2015 to 2019, but, at the same time, fewer tax filers were falling into low income. Moreover, the exit rate from low income for Alberta tax filers remained much higher than that for tax filers in the other provinces, even after its recent declines. The relatively high exit rate, together with a decreasing entry rate, helped drive the low-income and poverty rates lower in Alberta than in any other province.

Chart 1
Low-income rate and low-income entry rate

%
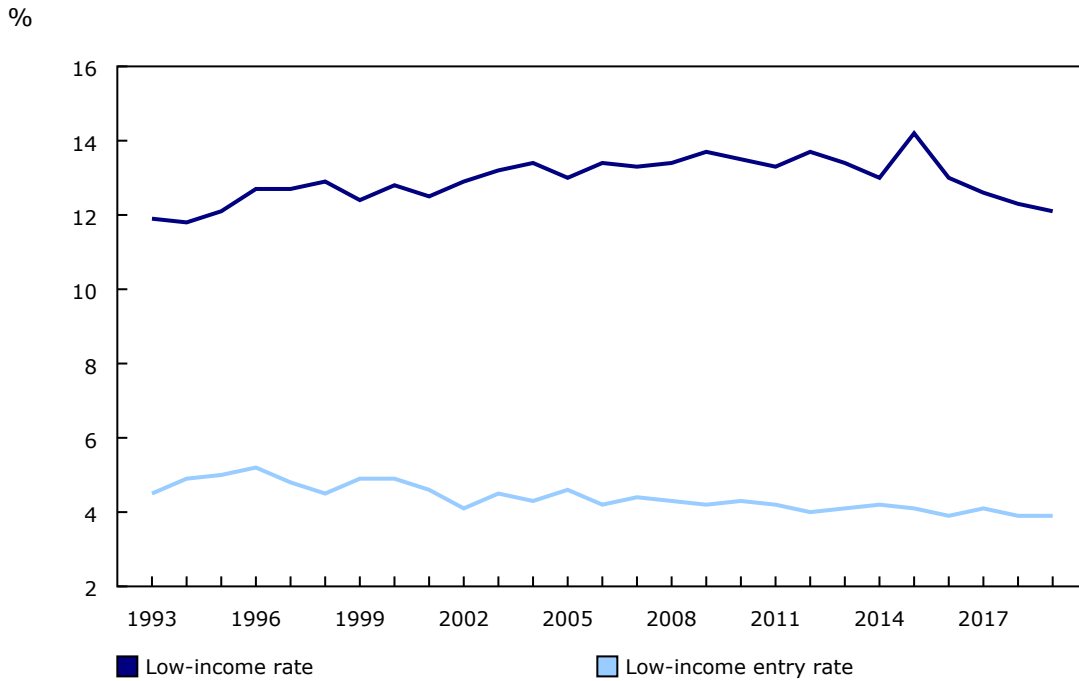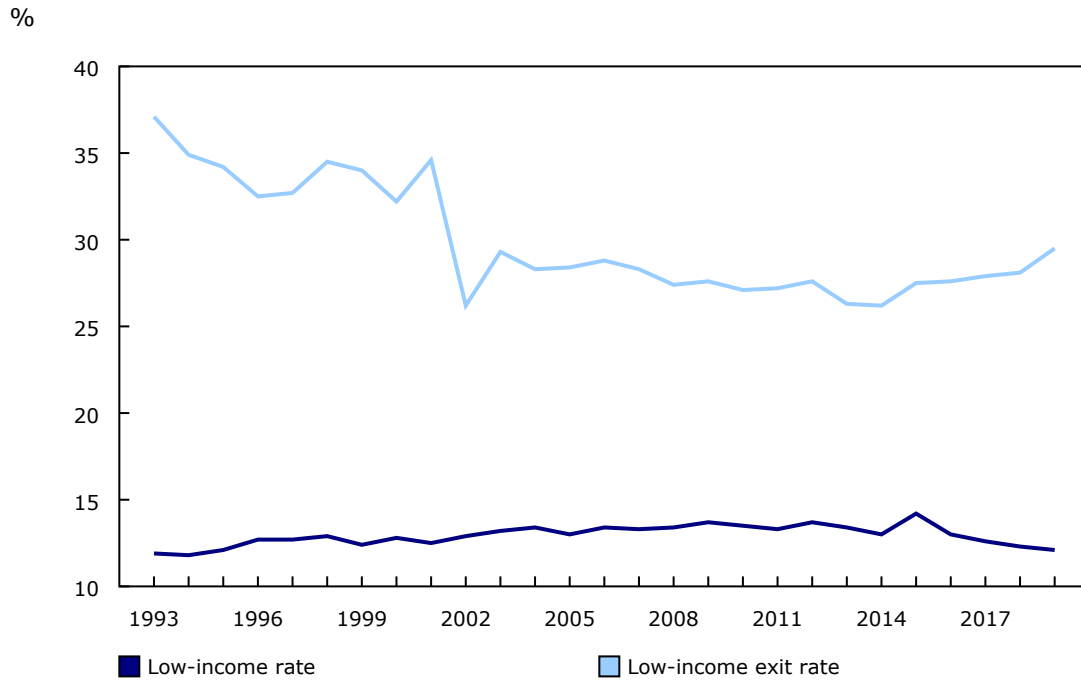

Source(s): Tables 11-10-0135-01 and 11-10-0024-01.

Chart 2
Low-income rate and low-income exit rate

%

■ Low-income rate   □ Low-income exit rate

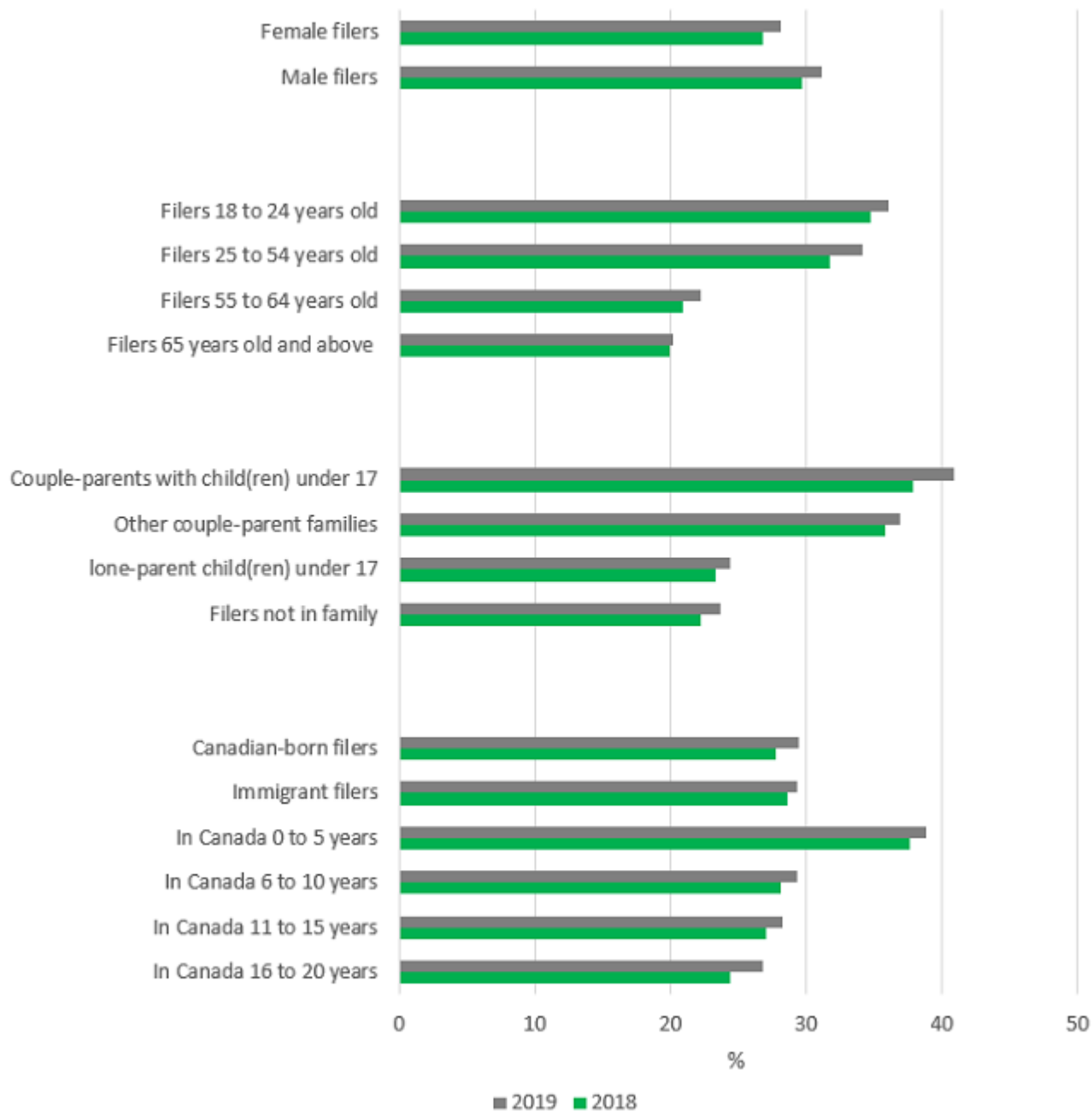**Source(s):** Tables 11-10-0135-01 and 11-10-0024-01.
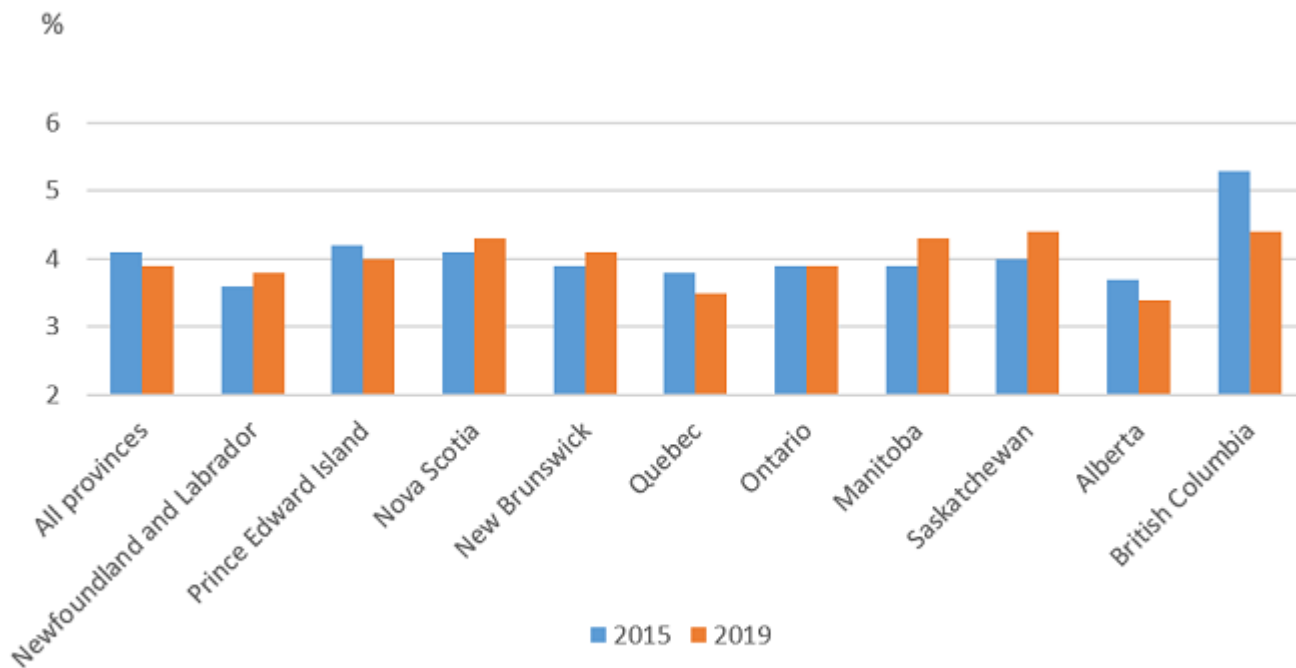
Infographic 1 – Low-income exit rate, groups of tax filers by gender, age, family type and immigrant status, 2018 and 2019
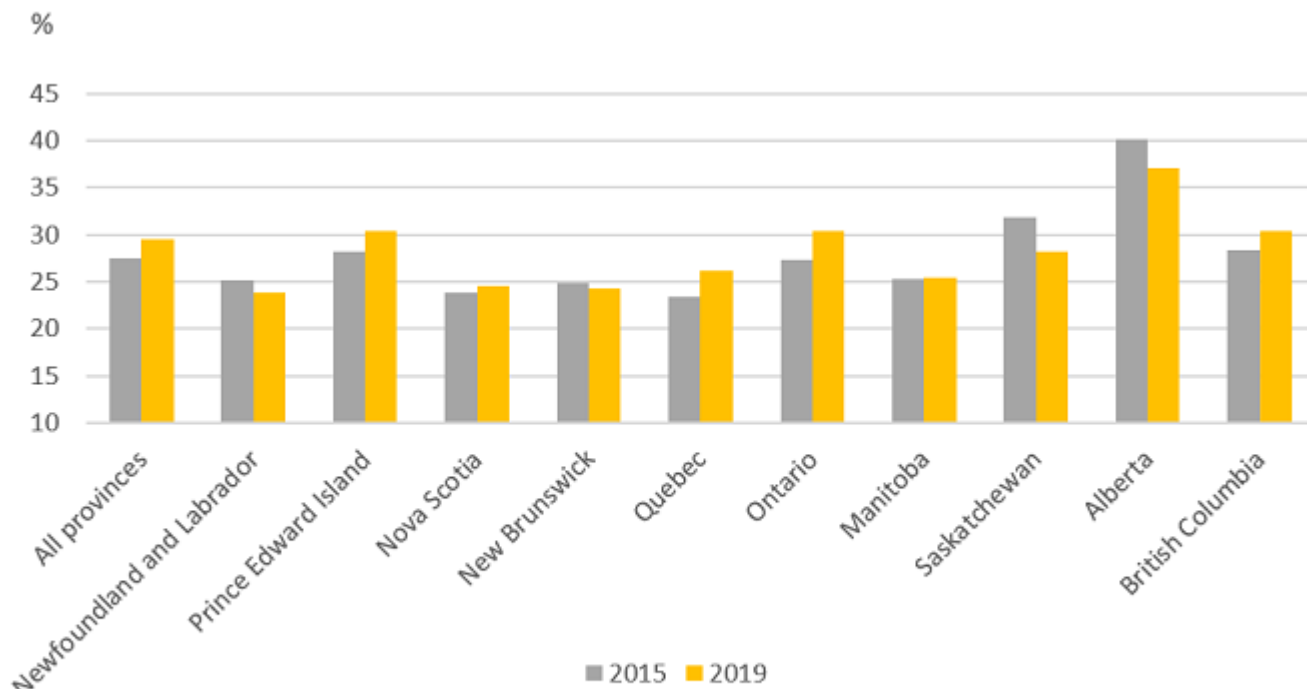

■ 2019 ■ 2018

Source: Table 11-10-0024-01.

Infographic 2 – Low-income entry rate, Canadian provinces, 2015 and 2019

Source: Table 11-10-0024-01.

Infographic 3 – Low-income exit rates, Canadian provinces, 2015 and 2019

Source: Table 11-10-0024-01.

Table 1
Low-income entry and exit rates, Canada, selected periods

	2014	2015	2016	2017	2018	2019
			Low-income entry rate (%)			
All tax filers	**4.2**	**4.1**	**3.9**	**4.1**	**3.9**	**3.9**
Male filers	3.8	3.8	3.6	3.7	3.5	3.6
Female filers	4.6	4.4	4.1	4.4	4.3	4.2
Filers aged 18 to 24	7.2	7.3	7.1	7.2	6.1	7.0
Filers aged 25 to 54	4.1	4.0	3.9	3.8	3.6	3.7
Filers aged 55 to 64	3.6	3.5	3.5	3.8	3.5	3.5
Filers aged 65 and older	3.6	3.2	2.8	3.6	4.1	3.5
Couple families with children	4.0	3.9	3.6	3.4	3.3	3.4
Other couple families	3.0	3.1	2.9	3.1	2.8	2.9
Lone-parent families	10.8	9.6	9.4	9.6	9.8	9.6
Filers not in a family	6.5	5.8	5.6	6.2	6.6	6.1
Canadian-born filers	3.7	3.6	3.4	3.6	3.5	3.6
Immigrant filers	6.1	6.0	5.5	5.6	5.4	5.1
In Canada 0 to 5 years	9.5	9.4	9.0	8.3	7.3	7.0
In Canada 6 to 10 years	7.7	7.2	6.9	6.6	6.0	5.7
In Canada 11 to 15 years	7.0	6.8	6.1	6.3	6.2	5.8
In Canada 16 to 20 years	6.7	6.8	5.8	5.9	5.9	5.3
In Canada 21 to 25 years	5.1	6.1	5.4	5.8	6.1	5.4
In Canada 26 to 30 years	5.8	5.1	4.8	5.1	5.2	5.0
In Canada more than 30 years	3.2	3.1	3.0	3.4	3.5	3.3
			Low-income exit rate (%)			
All tax filers	**26.2**	**27.5**	**27.6**	**27.9**	**28.1**	**29.5**
Male filers	27.8	28.7	28.8	29.4	29.7	31.2
Female filers	24.9	26.6	26.8	26.7	26.8	28.2
Filers aged 18 to 24	33.0	33.5	33.6	34.1	34.7	36.1
Filers aged 25 to 54	28.3	29.6	30.2	31.3	31.7	34.1
Filers aged 55 to 64	20.0	20.5	20.6	20.4	20.9	22.3
Filers aged 65 and older	18.5	22.3	21.7	20.1	20.0	20.2
Couple families with children	30.6	33.2	34.6	37.0	37.9	40.9
Other couple families	33.2	34.5	33.6	33.7	35.8	36.9
Lone-parent families	22.0	24.3	24.5	24.6	23.3	24.4
Filers not in a family	21.4	22.2	22.5	22.3	22.2	23.7
Canadian-born filers	26.1	27.2	27.3	27.4	27.8	29.5
Immigrant filers	26.3	28.0	28.2	28.7	28.6	29.4
In Canada 0 to 5 years	32.7	34.0	35.6	37.3	37.7	38.9
In Canada 6 to 10 years	24.2	26.1	27.0	28.0	28.1	29.3
In Canada 11 to 15 years	23.5	25.5	25.6	26.3	27.1	28.3
In Canada 16 to 20 years	22.0	24.0	23.7	24.3	24.4	26.8
In Canada 21 to 25 years	22.1	24.1	22.8	22.2	22.9	23.4
In Canada 26 to 30 years	22.0	24.7	23.9	23.1	23.1	23.6
In Canada more than 30 years	25.3	27.5	26.4	25.9	25.2	26.1

Source(s): Table **11-10-0024-01**.

Table 2
Low-income entry and exit rates, Canadian provinces, selected periods

	2014	2015	2016	2017	2018	2019
			Low-income entry rate (%)			
All provinces	**4.2**	**4.1**	**3.9**	**4.1**	**3.9**	**3.9**
Newfoundland and Labrador	3.9	3.6	3.2	3.8	4.0	3.8
Prince Edward Island	4.5	4.2	3.6	4.3	4.1	4.0
Nova Scotia	4.4	4.1	4.1	4.6	4.3	4.3
New Brunswick	4.2	3.9	3.5	3.8	3.8	4.1
Quebec	4.1	3.8	3.4	3.8	3.6	3.5
Ontario	4.1	3.9	3.7	4.0	3.9	3.9
Manitoba	4.1	3.9	4.0	4.2	4.1	4.3
Saskatchewan	4.1	4.0	4.3	4.3	4.3	4.4
Alberta	3.8	3.7	4.1	3.5	3.6	3.4
British Columbia	4.8	5.3	4.5	4.7	4.4	4.4
			Low-income exit rate (%)			
All provinces	**26.2**	**27.5**	**27.6**	**27.9**	**28.1**	**29.5**
Newfoundland and Labrador	24.5	25.2	28.1	25.4	22.4	23.9
Prince Edward Island	28.0	28.2	29.0	28.9	26.0	30.4
Nova Scotia	22.7	23.9	24.1	23.8	22.9	24.6
New Brunswick	22.4	24.8	25.9	24.9	23.5	24.3
Quebec	22.4	23.4	24.8	24.7	24.9	26.2
Ontario	25.9	27.4	28.3	28.1	29.7	30.4
Manitoba	23.5	25.3	25.4	25.2	24.4	25.4
Saskatchewan	29.1	31.8	28.7	28.5	27.5	28.2
Alberta	39.2	40.2	34.2	37.8	33.8	37.1
British Columbia	26.8	28.3	27.6	28.0	28.5	30.4

Source(s): Table **11-10-0024-01**.

Note to readers

Data for this article were derived from the 2019 Longitudinal Administrative Databank (LAD), which was released on November 15, 2021. This databank now spans 38 years, from 1982 to 2019, and contains information about individuals and their families.

Also, data in this release are associated with tables 11-10-0024-01, 11-10-0025-01 and 11-10-0026-01.

The LAD consists of a 20% longitudinal sample of tax filers drawn from the T1 Family File. The LAD contains a wide variety of income and demographic variables, and its large sample ensures reliable data for Canada, the provinces, the census metropolitan areas and some subprovincial regions. It provides researchers and analysts with a tool for studying changes in the income of individuals and their families.

*In this article, a tax filer is referred to as being in **low income** if their adjusted census family after-tax income falls below 50% of the national median adjusted census family after-tax income. A tax filer's adjusted census family after-tax income is defined as their census family after-tax income divided by the square root of their census family size.*

*__Low income__ is usually defined at the household level, but because household information is not available in the LAD, the census family level of aggregation is used instead. A **census family** is defined as a married or common-law couple with or without children or a lone parent with at least one child living in the same dwelling.*

The magnitude of low-income statistics may differ slightly when the census family is used as the unit of income instead of the household, but the underlying low-income trend and patterns are essentially the same regardless of which is used.

*To derive the **median length of time in low income**, it is assumed that the duration of low income follows the exponential distribution, a popular assumption often made to simplify the analysis. Under this assumption, the median duration can be approximated by $-\ln(0.5)/p$, where ln refers to the natural logarithm and p is the low-income exit rate. The median duration is used rather than the average duration because the median is less affected by extremely long or short durations of low income. However, the percentage difference in low-income duration between different groups is the same whether the median or the average is used.*

*The **low-income entry rate** refers to the percentage of tax filers who fall into low income in a given year when they were not in low income in the year before.*

*The **low-income exit rate** refers to the percentage of tax filers who exit low income in a given year when they were in low income in the year before.*

__Immigrant tax filers__ are identified according to their landing year in Canada. For the 2019 release, the LAD can identify immigrants who arrived in Canada in 1952 or later.

Definitions, data sources and methods: survey number 4107.

The *Longitudinal Administrative Data Dictionary* (**12-585-X**) contains a description for each of the income and demographic variables in the Longitudinal Administrative Databank, including name, acronym, definition, source, historical availability and historical continuity.

The Income, pensions, spending and wealth statistics portal, which is accessible from the Subjects module of the Statistics Canada website, provides users with a single point of access to a wide variety of information related to revenue, pensions, spending and wealth.

For more information, or to enquire about the concepts, methods or data quality of this release, contact us (toll-free 1-800-263-1136; 514-283-8300; **infostats@statcan.gc.ca**) or Media Relations (**statcan.mediahotline-ligneinfomedias.statcan@statcan.gc.ca**).