



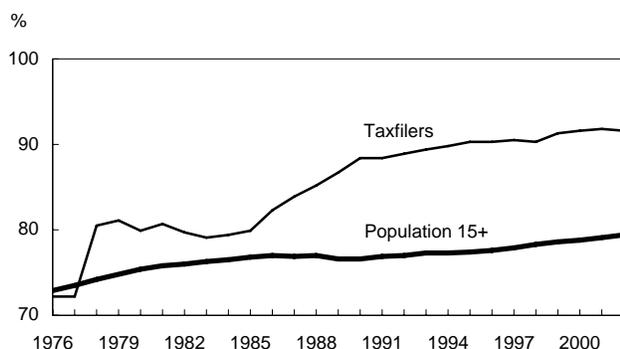
February  
2005

# PERSPECTIVES

ON LABOUR AND INCOME

## Taxfilers: 1972-2002

### Overall proportion of population 15 and over and those who filed a tax return



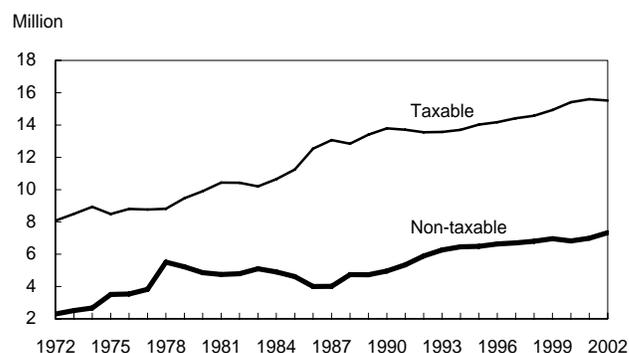
In 1972, just over 10 million Canadians filed a tax return, with over three-quarters paying tax. Thirty years later, the number had reached almost 23 million with more than two-thirds paying tax. Although a higher proportion of the population were taxfilers in 2002, the growth in non-taxable returns outweighed the growth in taxable returns.

### Data sources

Tax data come from the Canada Revenue Agency, other data from Statistics Canada. For further information, contact Raj Chawla at (613) 951-6901 or [raj.chawla@statcan.ca](mailto:raj.chawla@statcan.ca).

Canada's population is aging. Persons 15 and over accounted for 79.4% of the total population of 31.4 million in 2002 compared with 72.9% of the 23.4 million in 1976. The proportion of taxfilers grew even more—from 72.2% to 91.6%. Part of the growth can be attributed to the steady increase since the late 1980s in those with little or no income filing a return to claim GST or other tax credits, and partly to the increase in those receiving employment, investment and pension income, and government transfers.

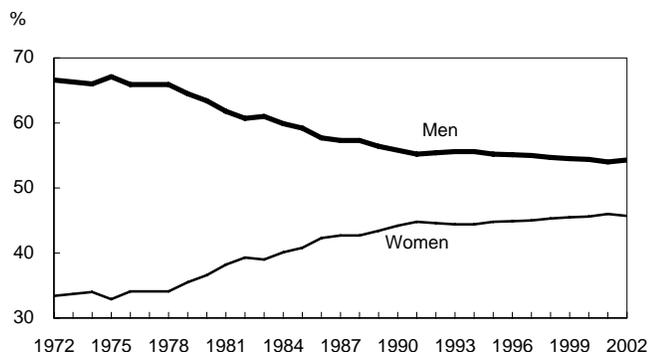
### Returns filed by tax status



Statistics Canada  
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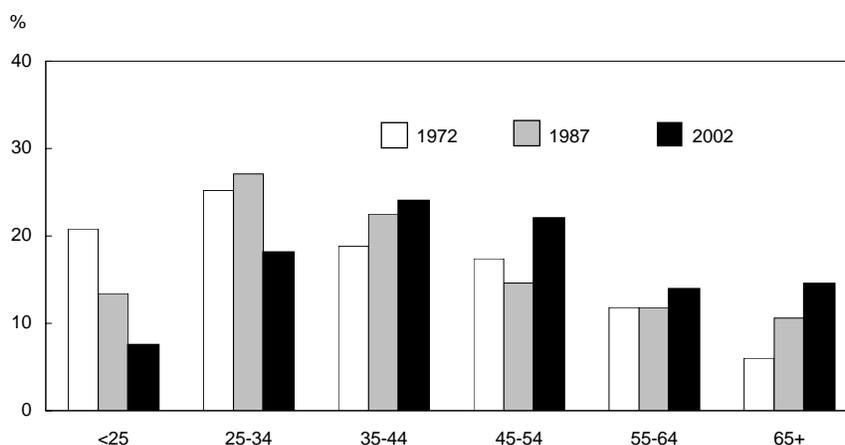
### Taxable returns filed by men and women



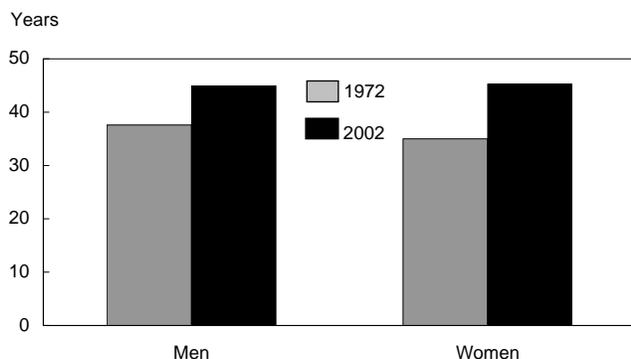
Not only were more women employed in 2002 than in 1972, but more were also heading lone-parent families or living by themselves as elderly. As expected, the number of women filing returns rose steadily. The discrepancy between men and women in filing taxable returns diminished over the 30-year period, with women filing 46% of such returns in 2002 compared with 33% in 1972.

The aging of the population is also apparent in the shift in age distribution of those who filed taxable returns. Taxfilers were fairly young in 1972. About 46% were under 35, and only 6% were 65 or more. By 2002, these proportions were 26% and 14%. However, relatively more taxfilers were aged 45 to 54 in 2002 than in 1972; this is the age bracket when incomes tend to peak.

### Taxable returns by age of taxfiler



### Median age of those filing taxable returns

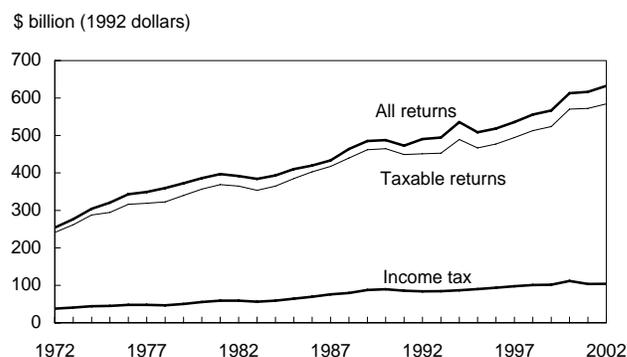


The shift in the age distribution of taxfilers resulted in the median age for men rising from 37.6 to 45.0 while women's rose from 35.0 to 45.3. The greater increase for women can be attributed to an increase in the proportion of women aged 45 to 64 filing taxable returns in 2002 (36% compared with 27% in 1972; the corresponding proportions for men were 36% and 30%).

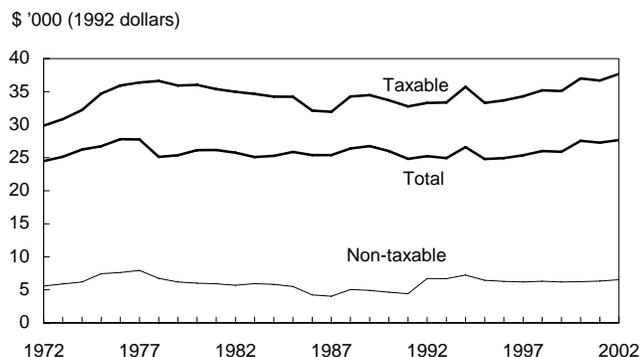
Between 1972 and 2002, total income assessed (in 1992 dollars) on all returns rose from \$254 billion to \$634 billion—an increase of 150% compared with only 41% in the overall population, or 120% in the number of returns. Of total assessed income, only 5% pertained to non-taxable returns in 1972 compared with 8% in 2002. This was the result of the rise in the number of people filing non-taxable returns. However, the incomes of such filers are very low and therefore constitute a small fraction of total assessed income in contrast to their representation among all taxfilers—20% in 1972 and 33% in 2002.

As total assessed income increased, so did income tax (from \$38 billion to \$104 billion). However, the growth in income tax paid outpaced the growth of total assessed income.

### Assessed income and taxes paid



### Average assessed income per taxable and non-taxable return



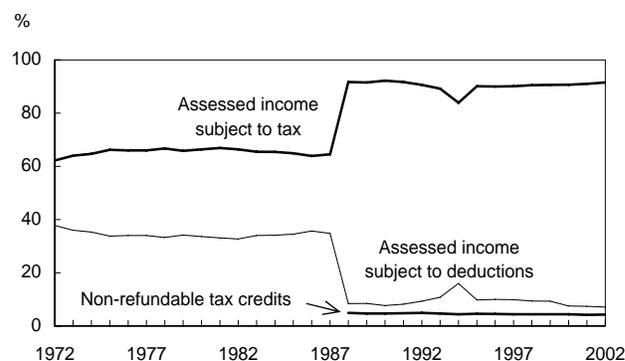
The average assessed income (in 1992 dollars) per taxable return rose from \$29,900 in 1972 to \$37,700 in 2002; for non-taxable returns, it climbed from \$5,600 to \$6,500. The widening gap in average incomes indicates a rise in income inequality.

The average assessed income per non-taxable return has been more or less constant since 1995, whereas for taxable returns it showed more fluctuation, reflecting swings in the economy and labour market as well as the demographics of taxfilers.

A portion of assessed income is not taxed because of deductions allowed by the tax system. In 1972, deductions amounted to 38% of assessed income; in 1987, 35%—leaving 62% and 65% subject to tax. In 1988, the Canadian tax system introduced the concept of non-refundable tax credits. This dropped the deduction portion and raised the taxable portion. Apart from a dip to 84% during the recession in the early 1990s, the taxable portion stood close to 92% from 1988 to 2002. In other words, the switch to non-refundable tax credits left much more of assessed income subject to tax.

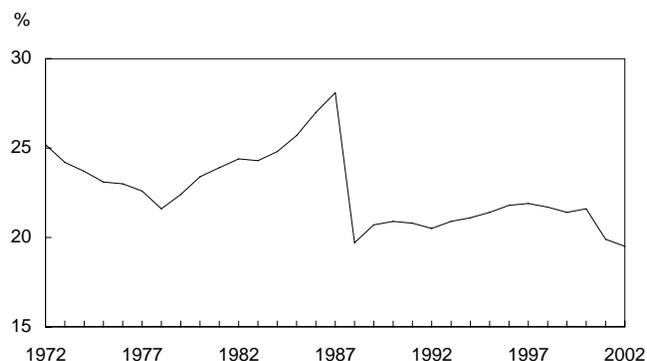
Over the 1988 to 2002 period, non-refundable tax credits hovered between 4% and 5% of total assessed income.

### Assessed income\* subject to deductions and tax



\* Based on taxable returns.

### Income tax paid as a proportion of taxable assessed income\*



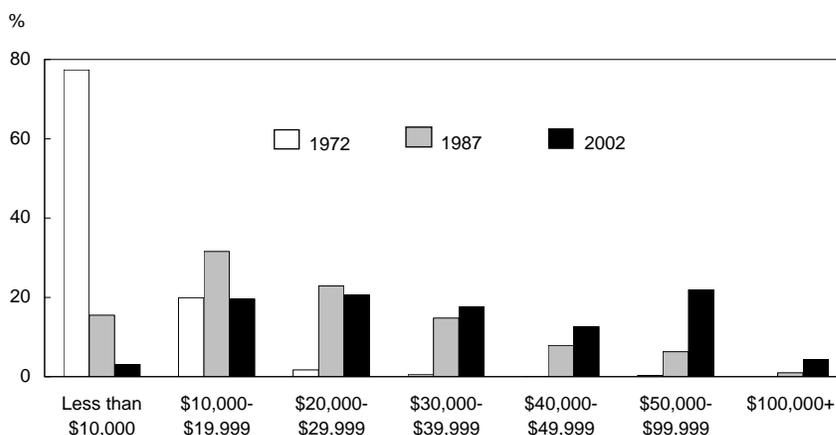
\* Taxable returns

Average income tax paid (in 1992 dollars) per taxable return rose from \$4,700 to \$5,800 between 1972 and 1987 and from \$6,200 to \$6,700 between 1988 and 2002. The switch from eligible deductions to non-refundable tax credits resulted in an increase between 1987 and 1988 of 7% in average tax paid. Canadians with taxable returns paid 25% of their assessed income as tax in 1972 compared with 28% in 1987. However, with the switch in the system, the ratio of tax to taxable assessed income dropped significantly because of the relatively large denominator. From 1988 onwards, a different trend emerged as the incidence of taxation increased from 1988 to 1990, then from 1992 to 1997, and so on. After 2000, however, the incidence dropped steadily—attributable to tax deductions and other measures to reduce the tax burden, introduced by both the federal and provincial governments.

Not only did the number of taxfilers increase but their average age also climbed between 1982 and 2002. And at the same time, the size and mix of the economy and the purchasing power of the dollar changed. For instance, 65.6% of the employed were in the service sector in 1972 compared with 74.4% in 2002; over the same period, goods and services worth \$1.00 in 1972 jumped to \$4.56 in 2002.

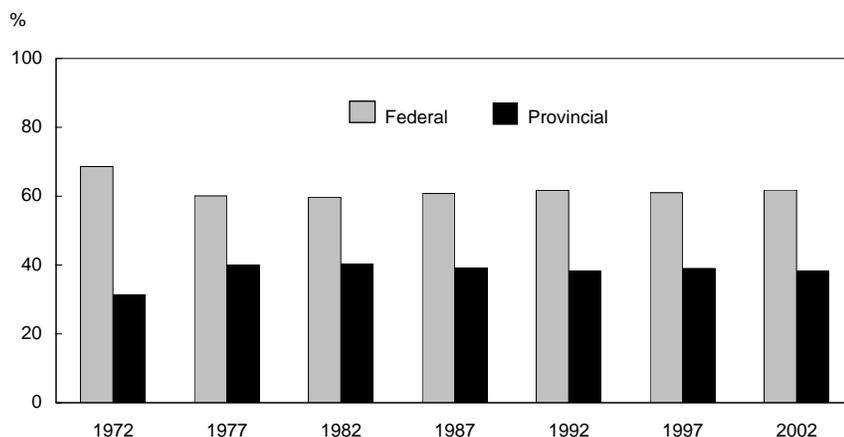
In 1972, a little over three-quarters (77.4%) of filers of taxable returns had incomes under \$10,000 (in current dollars), and only 0.3% had \$50,000 or more; by 2002, the respective proportions were 3.0% and 26.3%. The shift in income distribution is clearly evident in the declining proportion of filers at the lower end and the expanding share at the upper end. However,

### Taxable returns by total income



\$10,000 in 1972 would approximate \$50,000 by 2002, a level accounting for 73.7% of all filers of taxable returns in that year. Over the 30 years, after adjusting for inflation, the proportion of filers at the lower end of the income scale changed very little (less than 4 percentage points).

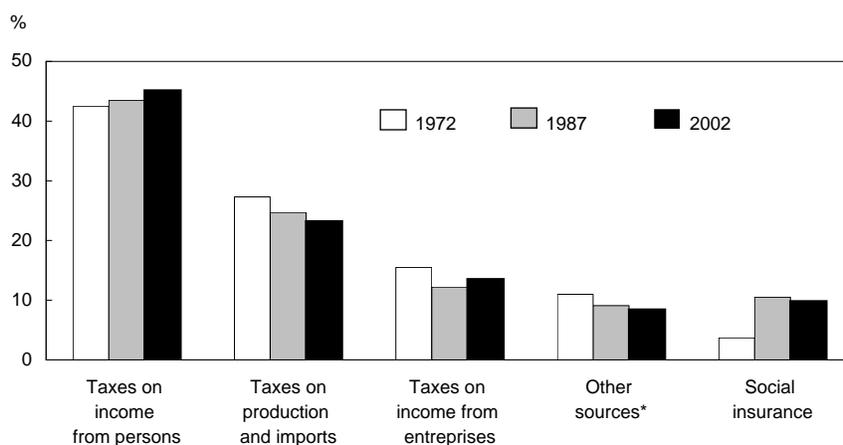
### Federal and provincial shares of income tax from persons



Both federal and provincial governments can determine marginal tax rates, impose surtaxes, and set deductions and non-refundable tax credits. These may vary from province to province. Of total income tax from persons in 1972, 69% was federal and 31% provincial; 30 years later, the respective proportions were 62% and 38%. The maximum provincial share reached 45% in 1978 and stayed between 42% and 36% from 1979 to 2002.

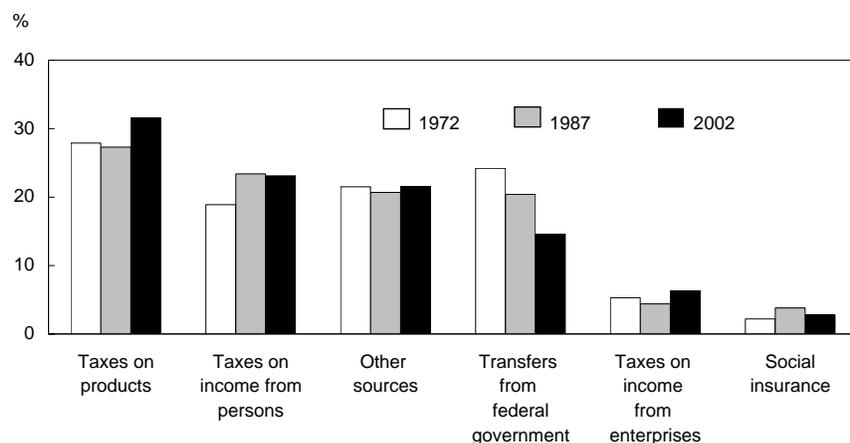
Total revenue (in current dollars) of the federal government rose from \$18.8 billion in 1972 to \$191.1 billion in 2002. Of this, personal income taxes accounted for 43% in 1972 compared with 45% in 2002. The lowest share, 36%, was hit in 1981 (during a severe recession); the highest, 49%, in 1990 (during a somewhat longer but less severe recession). Other major sources of federal revenue include taxes on production and imports (or consumption tax), and premiums for social insurance (such as Employment Insurance, CPP, and other pensions). Collectively these accounted for 74% of total federal revenue in 1972 compared with 78% in 2002.

### Sources of federal government revenue



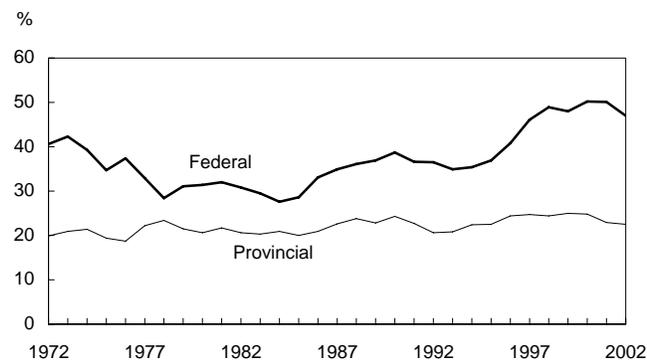
\* Includes investment income, sales, taxes from non-residents and other transfers from persons.

### Sources of provincial government revenue



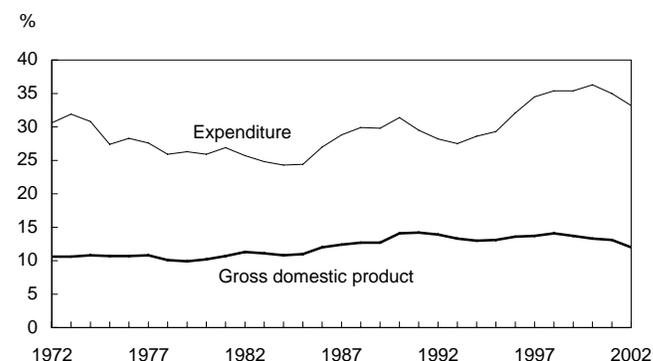
Total provincial government revenues (in current dollars) jumped from \$19.3 billion in 1972 to \$229.5 billion in 2002. Besides income tax and sales taxes, transfers from the federal government are another major source of provincial revenue. Of total provincial revenue in 1972, personal income taxes constituted only 19% compared with 28% from sales taxes and another 24% from federal transfers. By 2002, the respective proportions were 23%, 32% and 15%.

### Income tax from persons as a proportion of federal and provincial government expenditures



For both levels of government, income taxes increased in line with the need to finance public services. Since income taxes are the major source of federal government revenue, the proportion of such taxes to expenditures was much larger than in the provinces. At the federal level, it moved from 41% to 47% and at the provincial level, from 20% to 23%. The proportion peaked at 50% for the federal government in 2000 compared with 25% for provincial governments in 1999.

### Federal and provincial income tax as a proportion of GDP and expenditures



Over time, as the population increased, so did government expenditures, income taxes, and the size of the overall economy measured in terms of gross domestic product (GDP). About 30.6% of federal and provincial expenditures on goods and services were financed by income taxes in 1972 compared with 33.2% in 2002 (the proportion peaked at 36.3% in 2000—the year with the lowest unemployment rate). On the other hand, the ratio of income taxes to GDP crept up from 10.6% to 12.0%, reaching a maximum of 14.2% in 1991 (a recessionary period when GDP slumped or lagged behind the growth in income taxes).