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**Some Observations on Net Fiscal Transfers to Recent Immigrants
Resulting From Income Taxes and Government Transfer Programs**

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Abstract:

This paper examines the net fiscal transfers to recent immigrants to Canada resulting from taxes and transfer programs as revealed in the Statistics Canada Census 2006 Public Use Microdata File (PUMF). It calculates that recent immigrants (defined as arriving between 1990 and 2004) on average only paid about half as much income tax as native Canadians in 2005 (\$4,172.69 per capita compared to \$8,130.82). The most recent cohort of immigrants from 2000 to 2004 paid only 40 per cent as much income tax as native Canadians. And even the cohort that immigrated from 1990 to 1994 still are only paying 60 per cent as much income tax per capita as native Canadians. The reason for the lower income tax paid is the lower level of total income. There does not seem to be disproportionate transfer payments to recent immigrants yet as most have not been in the country long enough to qualify for government pensions. But excluding government pensions, and taking into account Other Government Transfer Income, Child Benefits and Employment Insurance, recent immigrants received \$346.15 more per capita from Government Transfers than non-immigrants.

JEL Classification Codes: H23 - Externalities; Redistributive Effects; Environmental Taxes and Subsidies; H24 - Personal Income and Other Non-business Taxes and Subsidies

Keywords: income taxes, transfer payments, recent immigrants to Canada, immigration policy, immigrant labour, human capital

Introduction

One of the most important ways that new immigrants contribute to Canada is through paying taxes. If immigrants coming to Canada are to really benefit existing Canadians, and not be a fiscal burden, they must pay more in taxes than they receive in benefits from government expenditures. In fact, this is the premise behind the case made by the advocates for more immigration. They argue that Canada needs more immigrants to pay for the costly health and pensions required by an aging Canadian population.

In spite of the centrality of fiscal benefits from immigration as the key rationale of the Government's policy of mass migration, there has been a scarcity of studies of the net fiscal impact of immigration in recent years since the Government has stepped up the number of immigrants admitted.

The only systematic study was done by Herbert Grubel (2005). He estimated that the cohort of immigrants who entered the country in 1990 received net fiscal transfers of \$6,294 each or \$1.36 billion in total. And applying this to the 2.9 million immigrants that entered the country between 1990 and 2003, he estimated the total net fiscal transfers to recent immigrants would be \$18.3 billion per year.¹

This paper is written to further pursue the research program initiated by Herbert Grubel. While it is less ambitious in that it does not seek to provide an overall estimate of the fiscal transfer to recent cohorts of immigrants in 1990 and subsequent years, it does seek to refine the estimates of one of the most important components of the fiscal transfer calculation. More specifically, it takes advantage of the comprehensive data on income taxes paid by immigrants and others and the government transfer payments received by immigrants and others provided by the 2006 Census from income tax statistics.

The Census data was recently made available to researchers in the 2006 Census Public Use Microdata File (PUMF), which contains 844,476 records, presenting census data on individuals representing 2.7 per cent of the Canadian population. This is a large enough sample to permit reliable conclusions to be drawn on the income taxes paid and transfers received by recent cohorts of immigrants. The PUMF presents a snapshot of how all these cohorts were doing in 2005. This eliminates the need to estimate the performance of many cohorts based on the performance of one as was done by Grubel (2005).

The Results

Income Tax

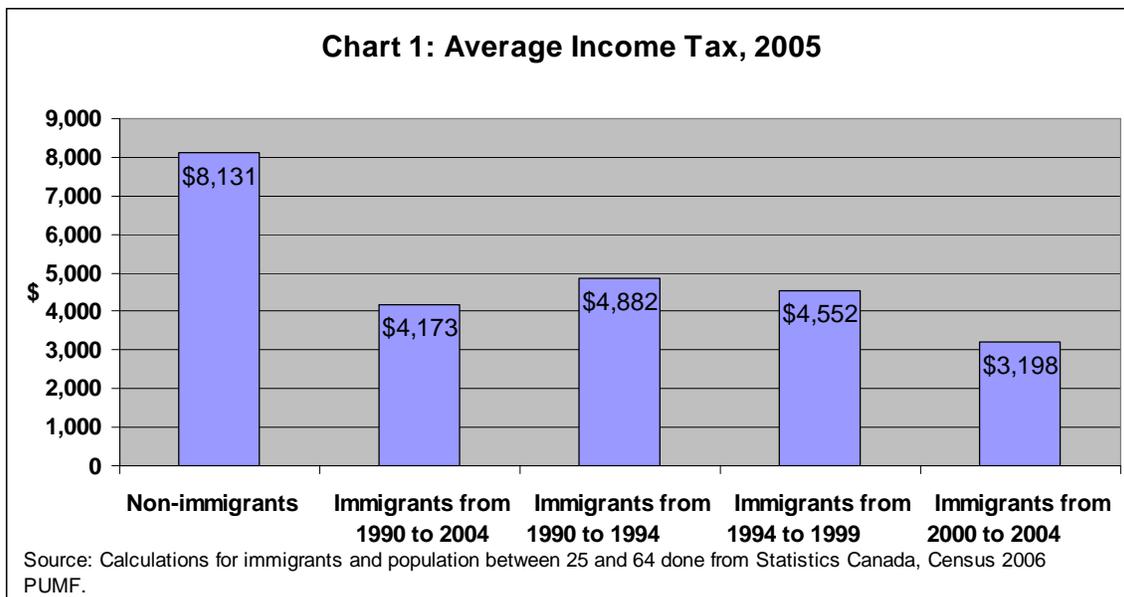
For our purposes, the income tax data provided in the 2006 Census PUMF is the most valuable source of information on the fiscal contributions of recent immigrants. The average income tax was calculated for immigrants arriving between 1990 and 2004. The beginning year of 1990 was picked because it followed the increase in the immigration target implemented by the Conservative Government in 1988. The end year of 2004 was selected because immigrants arriving in that year were in Canada for the full 2005 census year for which income and income taxes were reported. The immigrants and native Canadians included in the analysis were those who were between 25 and 64 in the census year as to make a rough allowance for those who had reached the customary age where they qualify for the Old Age Security/Guaranteed Income Supplement pensions and are no longer expected to participate in the labour force from the point of view of pension policy. The income tax paid by recent immigrants was also disaggregated by the period of arrival into three five-year periods: 1990 to 1994; 1995 to 1999; and 2000 to 2004.

The analysis as presented in Table 1 and portrayed in Chart 1 revealed that recent immigrants on average only paid about half as much income tax as native Canadians (\$4,172.69 per capita compared to \$8,130.82). It also showed that the most recent cohort of immigrants from 2000 to 2004 paid only 40 per cent as much income tax as native Canadians. And even the cohort that immigrated from 1990 to 1994 still are only paying 60 per cent as much income tax per capita as native Canadians. The reason for the lower income tax paid is the lower level of total income (also shown on Table 1).

Table 1: Analysis of Income Tax Paid by Recent Immigrants and Non-immigrants in 2005

	Average Total Income (\$)	Average Income Tax (\$)	Difference from Non- immigrants (\$)	Percent Diff.	No. in Sample	No. in Pop.
Non-Immigrants	43,549.89	8,130.82			355,217	13,141,100
Recent Immigrants arriving from:						
1990 to 2004	29,643.67	4,172.69	-3,958.12	-48.7	41,675	1,541,749
1990 to 1994	32,551.49	4,881.56	-3,249.26	-40.0	14,063	520,255
1994 to 1999	31,507.65	4,552.08	-3,578.73	-44.0	12,516	463,024
2000 to 2004	25,389.40	3,197.79	-4,933.03	-60.7	15,096	558,470

Source: Calculations for recent immigrants and non-immigrant population between 25 and 64 done from Statistics Canada, Census 2006 PUMF. Total income is provided by the variable totinc in the file, and income tax by the variable inctax.



The net fiscal transfer to immigrants from the lower per capita income taxes can be calculated by multiplying the per capita fiscal transfer of \$4,173 by the number of recent immigrants between 1990 and 2004 of 1,541,749. It is \$6.1 billion.²

Government Transfer Programs

The 2006 Census PUMF also contains some valuable information on government transfer programs (but unfortunately no information on the incidence of other costly government programs like health and education). The analysis of transfer income for recent immigrants in comparison to non-immigrants is provided in Table 2. The population of 65 and over was excluded from the analysis as they qualify for OAS/GIS. While non-immigrants currently receive a disproportionate share of old age pensions, this only reflects the differing ages of the recent immigrant and non-immigrant populations. The recent immigrants too will benefit from OAS/GIS when they reach age 65. In fact, they will benefit disproportionately if their incomes remain lower than native Canadians because of the income-gear nature of the support provided. The Quebec Canada Pension Plan transfers were also excluded because of the contributory nature of the pension, which will ensure that in due course recent immigrants will receive their share of the benefits.

The Other Government Transfer Income category is a catch-all for “all transfer payments, excluding those covered as a separate income source (child benefits, old age security

pensions and guaranteed income supplements, Canada or Quebec Pension Plan benefits and employment insurance benefits) received from federal, provincial, territorial or municipal programs.”³ It thus covers social assistance of various types. Interestingly, recent immigrants received per capita amounts in 2005 that are \$13.05 less than non-immigrants so there is no prima facie evidence of disproportionate reliance on social assistance from the Census (but if the over 65 age group is included recent immigrants receive \$68.81 per capita more, perhaps reflecting the reduced eligibility of some elderly recent immigrants for OAS/GIS and additional resources provided by provincial social assistance). The one area where recent immigrants got a disproportionate share of government transfers is child benefits. This reflects their larger number of dependent children, which could be a result of their lower average age or greater proclivity to have children. It also suggests that recent immigrants could be benefiting more than average from education expenditures. On the other hand, recent immigrants received a lower per capita amount of employment insurance benefits. This could reflect their tendency to locate in areas with stricter eligibility requirements for EI such as the Toronto Metropolitan Region in 2005. Taking into account Other Government Transfer Income, Child Benefits and Employment Insurance, recent immigrants received \$346.15 more per capita from Government Transfers than non-immigrants. In total, this would amount to \$534 million, an amount that is small in relation to the fiscal transfer resulting from lower per capita income taxes paid.

Table 2: Comparison of Average Transfers for Immigrants Post 1990 and Native Canadians

	Average Amount \$	Difference from Non- immigrants (\$)	Net Fiscal Transfer (mil \$)
Other Government Transfer Income			
Immigrants from 1990 to 2004	715.40	-13.05	-20.13
Non-Immigrants	728.46		
Child Benefits			
Immigrants from 1990 to 2004	1,020.45	434.82	670.38
Non-Immigrants	585.63		
Employment Insurance			
Immigrants from 1990 to 2004	597.14	-78.48	-121.00
Non-Immigrants	675.62		
Total Government Transfer Payments excluding QCPP			
Immigrants from 1990 to 2004	2,357.26	346.15	533.68
Non-Immigrants	2,011.11		

Source: Calculations for recent immigrants and non-immigrant population between 25 and 64 done from Statistics Canada, Census 2006 PUMF. Other Government Transfers is provided by the variable govti in the file; Child Benefits by the variable chdbn; Employment Insurance Benefits by the variable eicbnn; and Total Government Benefits excluding QCPP is calculated by gtrfs minus cqppb.

Conclusions

While the results for government transfer payments do not suggest worrying net fiscal transfers to recent immigrants from that source, the result that recent immigrants are only paying half as much income tax as native Canadians should be cause for concern. It shows that, even after ten to fifteen years, recent immigrants are not earning enough income to pay the per capita amount of income tax paid by native Canadians.

The income tax is the most important tax from the point of view of income redistribution. It is the most progressive tax and enables the Government to pay for the health and social programs provided to all Canadians. The lower per capita income taxes paid by recent immigrants provides strong presumptive evidence that they are not paying their share of the cost of government programs. If confirmed by evidence that recent immigrants are receiving at least their per capita share of government spending, it means that, far from coming to Canada as contended by the promoters of immigration to help support increasing spending on health and social welfare as the population ages, recent immigrants are actually coming to Canada instead to themselves become the beneficiaries of the country's generous spending programs, including those on health and education and eventually income support for the elderly.

Those who believe that immigration is the answer to Canada's looming fiscal crisis from an aging population are living in a fool's paradise. Continued immigration at recent levels will actually exacerbate the fiscal crisis rather than alleviate it.

Footnotes

1. Grubel's methodology was crude, but comprehensive (Grubel, 2005, pp.14-20). He used data on the income of the 1990 cohort of immigrants relative to all Canadians to calculate their per capita share of the various tax revenue sources and used information from a Fraser Institute study of the incidence of Government spending to allocate expenditures to the cohort. This enabled him to produce an estimate of the average per capita fiscal transfer (\$6,294 in 2000 dollars) accruing to this cohort of immigrants by taking the difference in per capita government expenditures received by the immigrants compared to other Canadians and subtracting the difference in per capita taxes. He then calculated the total value of this transfer for the whole cohort by multiplying the per capita amount by the number of immigrants in 1990 (216,396), which yielded a total fiscal benefit of \$1.36 billion (again in 2000 dollars). Finally, he calculated the total fiscal benefit for all the immigrant cohorts between 1990 and 2003 by multiplying the 1990 per capita transfer by the total number of immigrants over the entire period (2.9 million), which yielded an overall fiscal benefit to all immigrants between 1990 and 2003 of \$18.3 billion.

2. This number is not strictly comparable with Grubel's \$18.3 estimate of fiscal transfers because it only covers income tax. However, it is interesting to note that the per capita income tax difference calculated here at \$4,173 is almost as large as Grubel's total per

capita fiscal transfer estimate of \$6,294. On the other hand, the total number of recent immigrants over the 1990 to 2003 used by Grubel to calculate his estimate of the total fiscal transfer estimate of \$18.3 billion was 2.9 million, whereas the number used in this paper is only 1,541,749 covering only the population between age 25 and 64 who actually filed income tax returns in 2005 and who necessarily had to have stayed in Canada till 2006 to be counted by the Census. Grubel (2005, p.17) estimated that recent immigrants paid \$968 per capita in income taxes and \$1,023 in social insurance and health taxes in 2000 for total income taxes of \$1,991 and that non-immigrants paid 4543 in income taxes and \$1,279 in social insurance and health taxes for total income taxes of \$5,822. The difference between recent immigrants and non-immigrants is thus \$3,831, which is very close to the estimate made here of \$4,173, taking into account that it is for 2000 rather than 2005 and for all immigrant cohorts after 1990 and not just the 1990 cohort. Overall, given that the analysis in this paper focused only on income taxes and government transfers and that its estimates for income tax are close to Grubel's, it certainly does not call into question the order of magnitude of Grubel's estimate and can even be interpreted as providing support.

3. According to Statistics Canada (2009, p.75), "this source includes social assistance payments received by persons in need, such as mothers with dependent children, persons temporarily or permanently unable to work, elderly individuals, the blind and persons with disabilities. Included are provincial income supplement payments to seniors and provincial payments to help offset accommodation costs. Also included are other transfer payments, such as payments received from training programs sponsored by the federal and provincial governments, veterans' pensions, war veterans' allowance, pensions to widows and dependants of veterans, and workers' compensation. Additionally, refundable provincial tax credits and refunds of the Goods and Services Tax (GST), Quebec Sales Tax (QST), Saskatchewan Sales Tax Credit (SSTC) or Harmonized Sales Tax (HST) received in 2005 are included.

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