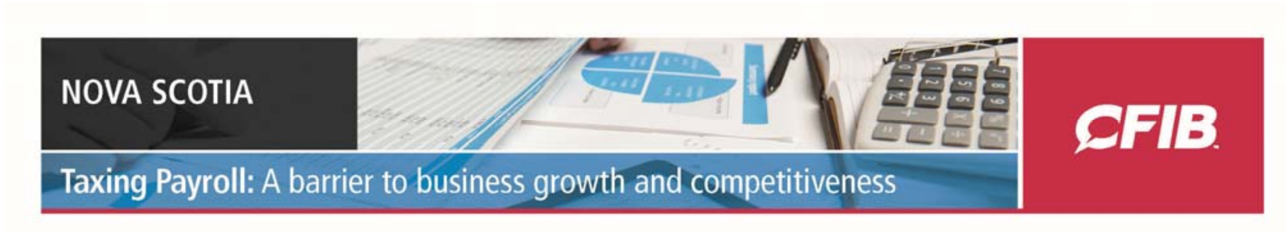

Provincial Summary[1]

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Marvin Cruz, Senior Research Analyst

Business owners in Canada are responsible for collecting, remitting, and/or paying several types of taxes based on their business type, location, and business structure. Among the types of taxes are corporate income taxes, personal income taxes, sales taxes, property taxes, and carbon taxes. None, however, is as impactful on businesses growth as payroll taxes. Overall, payroll taxes increase the cost of labour, total business costs and take time away from running a business—limiting the resources required to spur business growth and competitiveness through investments, innovation, and job creation. Ultimately, reducing the amount of taxes on businesses—in particular payroll taxes—would help boost their competitiveness and growth.

Key Findings from CFIB Surveys on Taxation in Nova Scotia

Tax Burden is Affecting Business Growth

72%

of business owners say **tax burden is their top concern**

70%

of business owners say **payroll taxes affects business growth the most**

Reducing Taxes Would Help Businesses Grow

87%

of business owners say **reducing taxes helps growth the most**

The Problem with Payroll Taxes for Businesses Owners

Profit Insensitive

Payroll taxes must be paid, whether a business is profitable or not.

Administrative Burden

Reporting and remitting payroll taxes takes time away from running a business.

Regressive

As small businesses are more labour intensive than larger businesses, payroll taxes place a disproportionate burden on smaller businesses.

Employer Payroll Tax Burden in 2019 – Where does Nova Scotia Stack Up?

Payroll burden on employers is assessed using the effective payroll tax rate—i.e. payroll taxes as a percentage of salary—on a small business with 50 employees, each earning a typical salary of $50,000 resulting in a total payroll of $2.5 million.[2,3] The level of payroll taxes faced by employers in Nova Scotia is $4,831 or 9.66% effective payroll tax rate — see Figure 1. Presently there are three payroll taxes levied on employers in Nova Scotia—Employment Insurance (EI), Canada Pension Plan (CPP), and workers' compensation. EI and CPP are levied by the federal government and they are standard throughout the country. As such, the level of workers' compensation costs levied by the province can create a competitive advantage or disadvantage. Employers in Nova Scotia pay an average of $2.65 per $100 of assessable earnings—the highest in the country, a distinction it shares with New Brunswick. This clearly places employers in Nova Scotia at a disadvantage with the other provinces. One should note that Nova Scotia does not have a provincial employer payroll tax, however, its effective payroll tax rate is on par with that experienced in Newfoundland and Labrador, where such a tax exists. Employers pay premiums to fund the operations and benefits from WCB Nova Scotia. As such, workers' compensation boards should continue to strive to adequately balance their funding to protect the compensation benefits of injured workers in the long-term, while at the same time preventing the volatility of premiums or overcharging employers.

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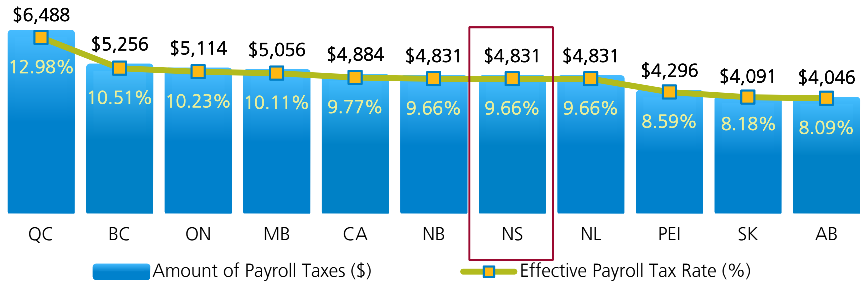
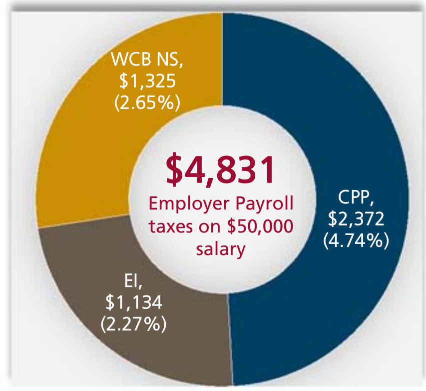
[1] This summary is based on CFIB's main report on payroll taxes in Canada — *Taxing Payroll: A Barrier to Business Growth and Competitiveness*.
[2] Small business is defined as having 1 to 99 paid employees. Source: Statistics Canada. *Key Small Business Statistics* - January 2019.
[3] Average national wage of $50,760 was rounded to $50,000 for simplification. Source: Statistics Canada, Table: 14-10-0204-01 (formerly CANSIM 281-0027). 2017.

Figure 1: Effective Employer Payroll Tax on a $50,000 salary, by Province in 2019





Note: CFIB calculation, based on a small business with 50 employees and a payroll of $2.5 million.

Labour Shortages and Payroll Taxes

With regards to the problem of labour shortages in Nova Scotia, payroll taxes play a significant role. In particular hikes to payroll taxes crowd out an employer's ability to increase their employee's wages. In fact, economists generally agree that a payroll tax hike is ultimately passed on to employees in the form of reduced wages in the long run. An employer's inability to provide a wage that is as high as is needed to attract workers means a reduction in labour supply that is available.

As such, reductions in workers' compensation premiums, provides businesses the opportunity to re-invest and increase the wages to attact workers. Currently, employers in Nova Scotia's pay an average of $2.65 per $100 of assessable earnings—52% higher than the Canadian average ($1.74 of assessable earnings). Reducing Nova Scotia's average assessment rate to Canadian average would lower the amount of worker' compensation premiums paid from $1,325 to $871 on a $50,000 salary—saving businesses $454.

Lowering the Payroll Burden in Nova Scotia

Taxes imposed on small businesses create an uncompetitive business environment for them. Steps need to be taken to provide employers with the opportunity to invest in their business and increase the pay, benefits and training opportunities for their staff. Helping businesses afford competitive job conditions not only has a direct positive outcome for workers but also for the overall economy. With this aim in mind, CFIB has the following recommendations for WCB Nova Scotia in order to implement a fairer and more progressive payroll tax system in Nova Scotia.

- ✓ To avoid volatility in premium costs, WCB Nova Scotia must practice continued vigilance on administration costs and regularly review the rate-setting process.
- ✓ Funding should be monitored closely and invested in the most prudent manner possible. As the elimination of the unfunded liability is closer on the horizon, funding ratio (total assets over total liabilities) should be maintained between 100% and 110%. Reduce premiums or offer surplus distribution to employers, if funding ratio exceeds 110%.
- ✓ Regularly review of the board's efficiencies (e.g. every 5 years).

Note, for a complete list of CFIB's recommendations pertaining to the general payroll tax system in Canada refer to the full report.[4]

[4] This summary is based CFIB's main report on payroll taxes in Canada — *Taxing Payroll: A Barrier to Business Growth and Competitiveness*.