PRINCE EDWARD ISLAND

Taxing Payroll: A barrier to business growth and competitiveness

CFIB

Provincial Summary[1]

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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, impact businesses growth like 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 Prince Edward Island

Tax Burden is Affecting Business Growth

76%

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

72%

of business owners say **payroll taxes affect business growth the most.**

Reducing Taxes Would Help Businesses Grow

85%

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

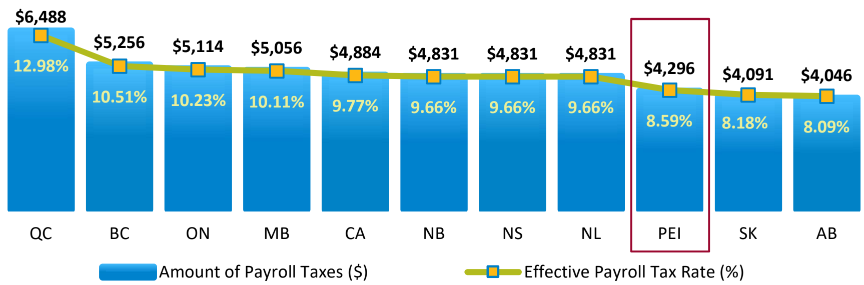
As small businesses are more labour intensive than larger businesses, payroll taxes place a disproportionate burden on smaller businesses.

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

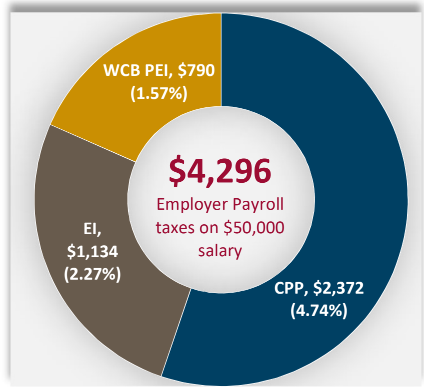
Payroll burden on employers is assessed using the effective payroll tax rate–i.e. payroll taxes as a percentage of salary– on a small business with 50 employees, each earning a typical salary of $50,000 resulting in a total payroll of $2.5 million.[2,3] The PEI employer in our study faces a payroll burden $4,296 per employee, good for a 8.59% effective payroll tax rate (see Figure 1). Presently there are three payroll taxes levied on employers PEI—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, workers' compensation costs which are levied by the province can create a competitive advantage or disadvantage. Employers pay premiums to fund the operations and benefits from the Workers' Compsation Board of PEI (WCB PEI). As such, the board should strive to adequately balance its 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.

[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.



Focus on WCB PEI Financial Accountability

In 2018, WCB PEI was funded at 146.3% (ratio of total assets to total liabilities).[4] Where the funded status rises above 130% the board's policy is to consider a surplus distribution back to eligible employers, in an amount as determined by the board.

CFIB believes the point at which WCB PEI provides refunds to employers should be lowered. Islander employers want WCB to take a more reasonable approach and propose that the refund of surplus monies be triggered when the funded status rises above a threshold of 110%. Further, the surplus should be automatically rebated in the year it is realized. This approach would give employers some of their own money back so they can focus on growing their business, creating jobs, and investing in new and safer equipment.

If WCB PEI were to return the funds accumulated beyond a 110% funding ratio at the end of 2018, the total potential refund to PEI employers would translate into nearly $59 million. For a PEI business with five employees, the potential rebate could be $4,150.[5]

Lowering the Payroll Burden in PEI

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 PEI in order to implement a fairer and more progressive payroll tax system in PEI.

- ✓ To avoid volatility in premium costs, workers' compensation boards 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. Funding ratio (total assets over total liabilities) should be maintained between 100% and 110%. Offer surplus distribution to employers, if funding ratio exceeds 110%.
- ✓ A surplus should automatically rebated in the year it is realized.
- ✓ Regularly review of the board's efficiencies (e.g. every 5 years).
- ✓ Adopt a short-term waiting period (e.g. three days) to lower claims costs and curb increases to premiums.

Note, for a complete list of CFIB's recommendations pertaining to the general payroll tax system in Canada refer to the full report.[6]

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[4] 2018 Annual Report PEI Workers' Compensation Board.
[5] CFIB Calculations.
[6] This summary is based on CFIB's main report on payroll taxes in Canada — *Taxing Payroll: A Barrier to Business Growth and Competitiveness*.

