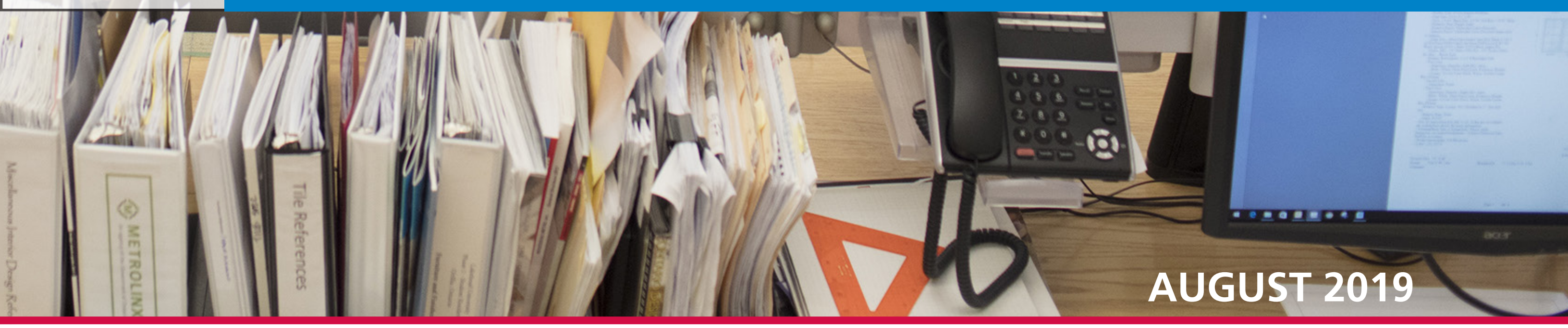
TAXING PAYROLL:
A BARRIER TO BUSINESS GROWTH AND COMPETITIVENESS



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The Canadian Federation of Independent Business (CFIB) is Canada's largest association of small and medium-sized businesses with 110,000 members across every industry and region. CFIB conducts research, member surveys and economic analyses to study the impact of policies on independent businesses and advise governments on how they can support entrepreneurship. Learn more at cfib.ca/research.

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EXECUTIVE SUMMARY

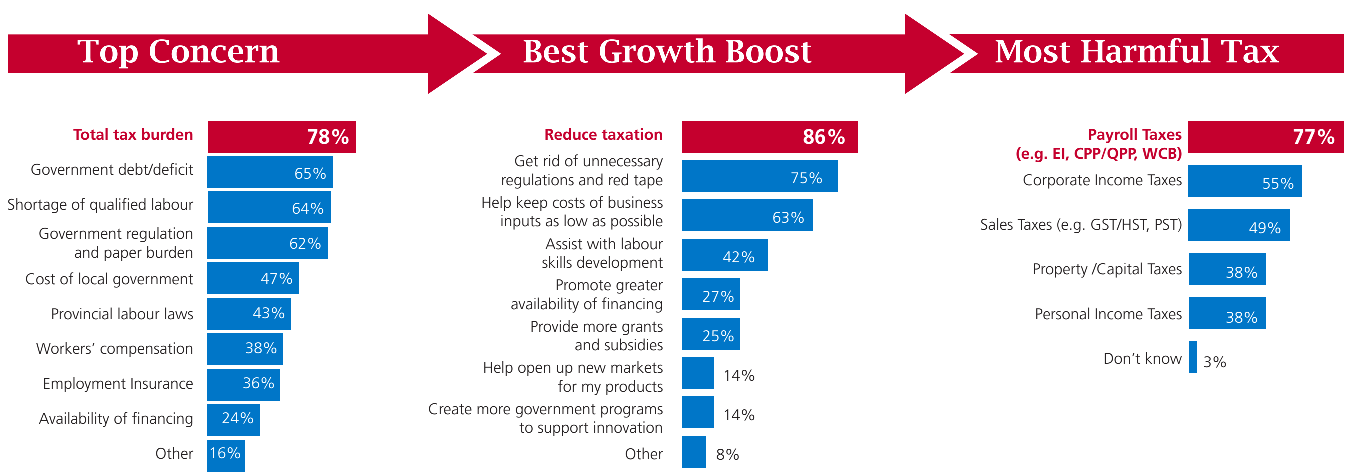
Starting in 2019, and over the next 7 years, contributions to the Canada/Quebec Pension Plan (CPP/QPP) will increase by at least 20%—the biggest federal payroll tax hike in more than a decade. For small business owners this represents a significant increase in their payroll taxes. Not only do the additional costs create a huge burden for struggling businesses, they also limit available resources. This makes it less affordable for business owners to grow and enhance their business' competitiveness through investments, innovation, increases to employee wages, and job creation—ultimately weakening Canada's overall economy.

In general, payroll taxes constitute one of the most damaging forms of taxation for business owners as they are costly, profit insensitive, and administratively burdensome. When levied on employees, a payroll tax directly lowers their take-home pay and buying power, and acts as disincentive for increased participation in the job market. This report sheds light on the payroll costs imposed on employers and employees across the country; and provides key recommendations on what changes can be made to payroll taxes to promote growth and competitiveness of Canadian small businesses.

1 PAYROLL TAXES: THE WORST OF ALL TAXES

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, carbon taxes, and payroll taxes. Bearing in mind the wide variety of taxes that can be potentially levied on businesses, each having their own financial impact, it is not surprising that the majority of business owners (78%) cite the total tax burden as their top concern (see Figure 1). Further, close to nine in ten business owners recognize a reduction in taxation as a measure that would most help boost business growth. With regards to which form of tax more severely impedes business growth, the majority of owners (77%) point to payroll taxes. This includes CPP/QPP, Employment Insurance (EI), and workers' compensation costs. **Some governments and government agencies object to the phrase "payroll tax" to describe charges like CPP or workers' compensation. They suggest these are future investments or forms of insurance. CFIB continues to use the phrase "payroll tax" as these charges are based on wages, not voluntary, and enforced by government law.**

FIGURE 1: A PRIME SOLUTION TO A TOP CONCERN



Sources:

CFIB. *Canada Revenue Agency (CRA) 2017 Survey*. May 4 – June 2, 2017. Total responses = 8,324.

CFIB. *2019 Federal Budget and Election Survey.* October 3 – November 14, 2018. Total responses = 6,615.

CFIB. *Our Members Opinions Survey No. 83*. July – December 2018. Total responses = 13,951.

2 BUSINESS AND PAYROLL TAXES: A CLOSER LOOK

One burden, multiple sources

Generally, payroll taxes are levied on wages and the funds collected are earmarked to finance a specific purpose. In Canada, both the federal and provincial governments impose payroll taxes. The type of tax employers are subject to, as well as their respective rates and structure, varies from province to province.[1] As such, depending on where their business is located an employer can face between three and seven payroll taxes (see Figure 2). Employers in Quebec face the highest number of payroll taxes at seven. Payroll taxes can generally be grouped into two broad categories:

- Payroll taxes levied on both employers and employees: **CPP/QPP**, **EI**, and Quebec's Parental Insurance Plan (QPIP). These taxes are applied on each employee's salary up to a limit.
- Payroll taxes levied solely on employers include:
  - **Workers' compensation premiums**. These taxes are applied on each employee's salary up to a limit.
  - **Provincial payroll taxes** (health and/or education taxes). These taxes are applied on the business' payroll.

FIGURE 2: TYPES OF PAYROLL TAXES AND WHO PAYS THEM

	QC	BC	MB	ON	NL	AB	SK	NB	NS	PEI
Employer and Employee Payroll Taxes										
Canada/Quebec Pension Plan	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Employment Insurance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Quebec Parental Insurance Plan	✓									
Employer-Only Payroll Taxes										
Workers' Compensation Premiums	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Provincial Payroll Tax (i.e. Health and/or Education taxes)	✓	✓	✓	✓	✓					
Contribution Related to Labour Standards	✓									
Contribution to the Workforce Skills Development and Recognition Fund (WSDRF)	✓									
Total Payroll Taxes on Employers	**7**	**4**	**4**	**4**	**4**	**3**	**3**	**3**	**3**	**3**

1. Territorial governments also impose payroll taxes, however, this report will focus on the payroll tax environment in Canada's provinces.

A business owner's headache

For business owners, the difficulties presented by payroll taxes stem from three distinguishing features: Payroll taxes are regressive, profit insensitive, and create an admistrative burden.

Regressive	**Payroll taxes place a disproportionate burden on smaller businesses.** Small businesses are more labour intensive than larger businesses, and are therefore impacted more severely by payroll taxes.[2]
Profit insensitive	**Payroll taxes must be paid whether a business is profitable or not.** By making tough years even less affordable, they can delay the business' growth, complicate multi-year planning or even prevent important investments.
Administrative burden	**Reporting and remitting payroll taxes takes time away from running a business.** In fact, federal payroll taxes (CPP/QPP and EI) alone rank as the top compliance irritants for business owners, with nearly two in three business owners citing them as such.[3]

Figure 3 contains a few examples of the headaches of dealing with payroll taxes as described by business owners.

FIGURE 3: THE HEADACHES OF DEALING WITH PAYROLL TAXES – BUSINESS OWNER'S COMMENTS

> "We are an accounting firm who works with owner-managed businesses. Without a doubt, payroll and WSIB are the most onerous and stressful requirements for our clients. They cause significant headache, worries, and we frequently have to refile or correct payroll filings done by our clients incorrectly because of excessively complex requirements.
>
> *Accounting services, ON*"

> "The new (BC) Employer Heath Tax will hurt businesses and force us to change or minimize other benefits offered to employees.
>
> *Manufacturing business, BC*"

> "We have decreased the amount of hours per week for our employees to justify the wages/wage levies. They make about the same but less hours, therefore no big increase in this expense. If I knew previously what I know now, I would work for someone else.
>
> *Retail business, PEI*"

> "The government is taking more money from us than what we make [by way of] CPP, EI contributions, GST, Carbon Tax, Environmental Fees, Tire and Battery Disposal fees. We can't afford to advertise the way we want to... government is taking whatever profit we make.
>
> *Personal services, AB*"

> "As a result of the minimum wage increase which also made the CPP, EI & WSIB (workers' compensation premiums) go up, my business is suffering...CPP going up might just be the nail in the coffin for my business.
>
> *Hospitality business, ON*"

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2. Small- and medium-sized businesses (i.e. less than 500 employees), accounted for 58.3% of labour income, but 42.3% of operating surplus and mixed income in 2008. Source: *Statistics Canada. Small, Medium-sized, and Large Businesses in the Canadian Economy: Measuring Their Contribution to Gross Domestic Product from 2001 to 2008.* 2011.
3. CFIB. *Regulation and Paperburden Survey.* June 1 – September 19, 2017. Total responses = 7,823.

How it bites: economic impact of payroll tax increases

Keeping in mind the various difficulties that payroll taxes present for business owners, a payroll tax increase—such as the CPP/QPP expansion—can place an additional strain on business owners whose finances may already be stretched. In turn, business owners will look to offset the additional costs they incur. For example, they can react by passing some of their tax burden either to consumers through higher prices or to employees through reduced wages. Other actions include accepting a reduction in their profits or reducing their demand for labour.

When it comes to which action business owners take, much of the existing literature agrees that in the long run a payroll tax on businesses is ultimately shifted to employees (i.e. labour) in the form of lower wages. Canadian empirical studies confirm that between 87% and 100% of payroll taxes will ultimately fall on employees.[4] In the short run, however, cost increases on employers will lower the demand for labour with negative effects on employment, output, and increases to unemployment.[5]

There are indications that wages are also affected significantly in the very short term—a 1% increase in the employer portion of the payroll tax rate decreases the hourly wage rate from 0.03% to 0.14%.[6,7] Further, to the extent that not all costs may be shifted to employees, the cost increases to the business can lead to more permanent effects in the long run. For instance, a study on the impact of employer payroll taxes on employment and wages in Canada finds that a one percentage point increase in payroll taxes, reduces wages by about 2.5% and employment by about 2%.[8]

Another problem associated with payroll hikes is the impact on the labour shortages experienced by small businesses. In particular, a payroll tax hike further reduces the funds available to offer wages that are as high as they would otherwise be able to offer in order to attract workers to fill labour shortages (i.e. wage rate is too low for labour demand to match labour supply), and as such the situation persists.[9]

4. Marcel Bédard. *A Primer on Payroll Taxes in Canada. Applied Research Branch Strategic Policy Human Resources Development Canada*. January 1998.
5. Peter Dungan. *The CPP Payroll Tax Hike: Macroeconomic Transition Costs and Alternatives.* Institute for Policy Analysis University of Toronto. 1998.
6. Payroll tax rate is the sum of contributions rates for CPP/QPP, EI/Parental, workers' compensation, and provincial payroll taxes.
7. Pouya Ebrahimi and François Vaillancourt. *The Effect of Corporate Income and Payroll Taxes on the Wages of Canadian Workers*. Fraser Institute. 2016.
8. Morley Gunderson. *Payroll Taxes: Killers of Jobs, Killer of Wages*. Atlantic Institute for Market Studies. 2008.
9. Morley Gunderson. *The Impact of High Worker's Compensation Premiums on Newfoundland and Labrador.* NL Employers' Council. August 2012.

Focus on CPP/QPP expansion: expected effects on employers and the economy

CPP/QPP EXPANSION

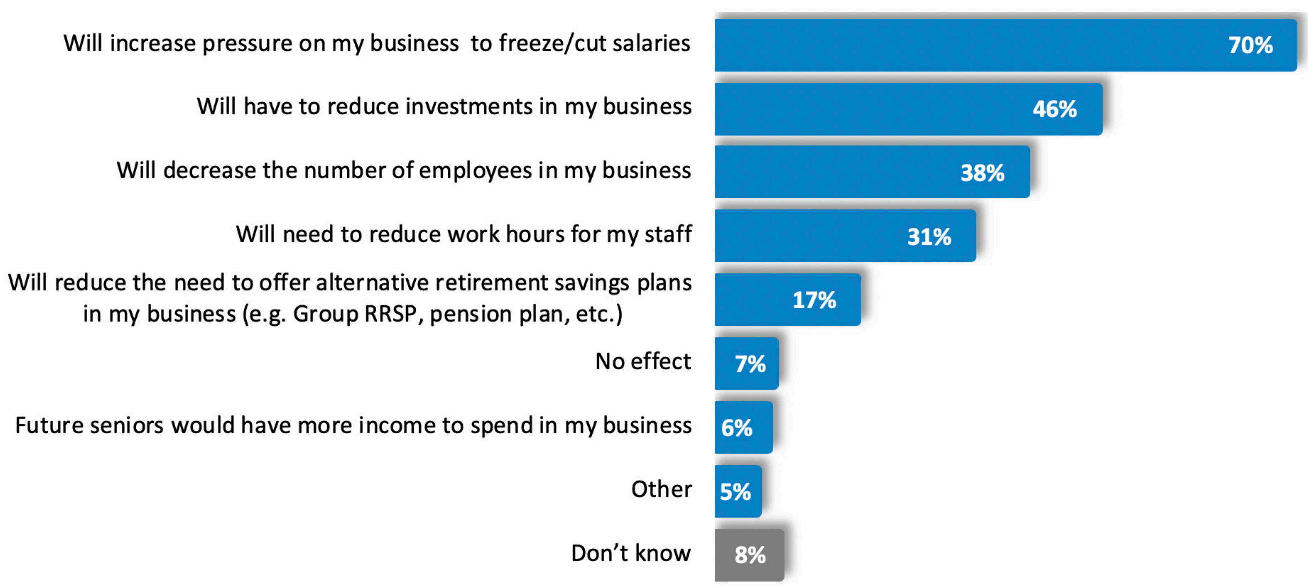
Starting January 1, 2019, Canada Pension Plan (CPP) contributions rates for employers and employees will rise from 4.95% to 5.95% in 2023. Starting in 2024 employers and employees will pay a separate contribution rate of 4% on an additional range of earnings, up to an estimated limit of $79,400. The Quebec Pension Plan will also see an enhancement similar to that of the CPP.

By 2025, once the rates and threshold limits are fully raised, employers will be paying between 20% and 32% in additional premiums per employee per year.* Employees will face the same cost.

***CFIB Calculation based on Canada Revenue Agency, Canada Pension Plan enhancement.**

With respect to how small business owners will respond to the Canada/Quebec Pension Plan expansion, findings from a CFIB survey show that business owners will have to: reduce or freeze salaries (70%); reduce investments in their business (46%); decrease the number of employees (38%); or reduce staff work hours (31%) see Figure 4.[10] Other consequences include a reduction in the employee benefits, automating of processes in the workplace, or passing the cost onto customers in the form of higher prices, which can reduce demand for goods and services.

FIGURE 4: **HOW WILL THE INCREASE IN THE CANADA PENSION PLAN (CPP) AFFECT YOUR BUSINESS?**



Note: Multiple answer question; therefore data does not add up to 100%.

Source: CFIB. *2019 Federal Budget and Election*. October 3 – November 14, 2018. Total responses = 6,615.

10. CFIB. *2019 Federal Budget and Election Survey*. October 3 – November 14, 2018. Total responses = 6,615.

A payroll tax hike, such as a CPP expansion, will affect the overall economy. A CFIB study, conducted by the University of Toronto's Policy and Economic Analysis Program, found that the CPP/QPP hike will initially result in 64,000 fewer jobs—particularly affecting younger and less-skilled workers.[11] Indeed, it is often more costly to hire youth with less work experience as training costs are as much as double that of a hire with previous experience.[12] Further, the study finds that household disposable income will decrease by as much as $700 by 2025; and a reduction of about $400 as late as 2040. Without changes in fiscal policy, federal deficits are expected to grow by roughly $4 billion per year as a result of higher employment insurance payments and constrained incomes.

The federal government has made efforts to help small business cope with increases in CPP/QPP premiums (e.g. reduction in the small business tax rate and EI premiums). Nevertheless, more needs to be done to help businesses with all the extra costs that they are now facing.

11. CFIB. *Forced Savings: The Hidden Costs of Expanding Public Pensions*. February 2018.

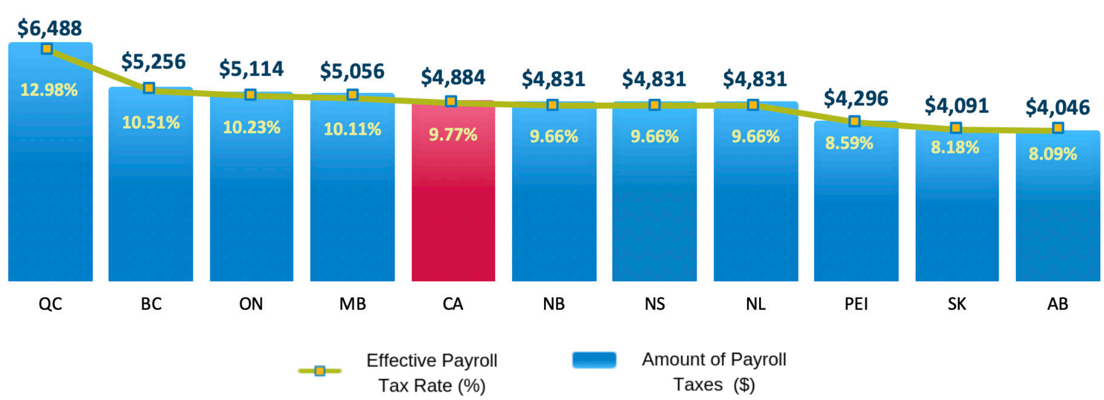
12. CFIB. *Hire Education Connecting Youth and Small Businesses for the Jobs of Today*. October 2018.

3 MEASURING THE CURRENT EMPLOYER PAYROLL TAX BURDEN

To assess the payroll burden imposed on business owners, CFIB examined the effective payroll tax rates—i.e. payroll taxes as a percentage of salary—based on a small business with 50 employees, each earning a typical salary of $50,000 resulting in a total payroll of $2.5 million.[13,14] This study considers all payroll taxes in Canada: **CPP/QPP, EI/parental, workers' compensation, and provincial payroll taxes.**[15]

Employers in Quebec face the highest payroll tax burden with an effective rate of 12.98%, which amounts to $6,488 in payroll taxes on a $50,000 salary (see Figure 5). In essence, since payroll taxes are layered on top of salary, the employee actually costs the business $56,488. Employers in British Columbia pay the second highest effective rate (10.51%), followed by those in Ontario (10.23%) and Manitoba (10.11%). The effective payroll tax rate for all four of these provinces is higher than the Canadian average of 9.77%. This is not surprising given that these provinces levy a provincial payroll tax on a business' payroll. The effective employee and employer tax rates for each payroll tax used in each province, as well as the payroll costs for employers are available in the Appendix Table 1A and Figure 1A.

FIGURE 5: EMPLOYER EFFECTIVE PAYROLL TAX RATE (%) AND CONTRIBUTION ($) ON A $50,000 SALARY, BY PROVINCE IN 2019



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

13. A small business has 1 to 99 paid employees, as defined by Innovation, Science and Economic Development Canada (ISED). Source: Statistics Canada. Key Small Business Statistics - January 2019.

14. 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), Annualized industrial aggregate excluding unclassified businesses (Canada) 2017.

15. Effective rate for workers' compensation was calculated using the provincial average assessment rate. For Quebec's Health Services Fund, the rate for SMEs in sectors other than the primary and manufacturing sectors was used.

Provincial payroll taxes

Currently, five provinces levy a payroll tax on employers based on total annual salaries earned by their employees, namely Quebec — *Health Services Fund*; British Columbia — *Employer Health Tax*; Ontario — *Employer Health Tax*; Manitoba — *Health and Post-Secondary Education Tax Levy*; and Newfoundland and Labrador — *Health and Post-Secondary Education Tax*.

Exempting smaller businesses and adjusting thresholds for inflation

All provinces, with the exception of Quebec, provide an exemption threshold ranging from $490,000 in Ontario to $1.3 million in Newfoundland and Labador (see Table 1). At these current levels, a small business such as that examined in our study ($2.5 million payroll) is not exempt from paying the tax. A $2.5 million annual payroll threshold would exempt most small businesses with fewer than 50 employees earning an average wage of $50,000. Further, the thresholds are not indexed for inflation annually. For example, Manitoba's threshold was last adjusted in 2008 ($1.25 million); if the exemption level had been adjusted for inflation over the last ten years, it would be over $1.47 million in 2019.[16] Failure to adjust to inflation means the threshold does not reflect the changing dynamics of the economy, resulting in more businesses having to pay the tax every year.

TABLE 1 : PROVINCIAL PAYROLL TAX FEATURES, 2019

	Payroll	Tax rate
BC, Employer Health Tax	$500,000 or less	Exempt
	Over $500,000 to $1.5 Million	2.925% x (Payroll -$500,000)
	Over $1.5 Million	1.95% x Payroll
MB, Health and Post-Secondary Education Tax Levy	1.25 Million or Less	Exempt
	Over $1.25 Million to $2.5 Million	4.3% x (Payroll - $1.25 Million)
	Over $2.5 Million	2.15% x Payroll
ON, Employer Health Tax[1]	$490,000 or less	Exempt
	Over $490,000 to $5 Million	1.95% (Payroll - $490,000)
	Over $5 Million	1.95% x Payroll
QC, Health Services Fund[2]	$1 Million or less	1.7% x Payroll
	Over $1 Million but under $6 Million	1.1880% + (0.5120% x Payroll/$1 Million)
	$6 Million and over	4.26% x Payroll
NL, Health and Post-Secondary Education Tax	$1.3 Million or Less	Exempt
	Over $1.3 Million	2% x (Payroll - $1.3 Million)

Notes:
1. Employers normally cannot claim the exemption if their Ontario payroll for the year (including the payroll of any associated employers) is over $5 million.
2. Rate for SMEs in sectors other than the primary and manufacturing sectors.

16. CFIB Calculation, based on Statistics Canada. Table 18-10-0005-01 Consumer Price Index, annual average, not seasonally adjusted.

With regards to our assessment of the effective rate on a $50,000 salary, a business with a payroll of $2.5 million (50 employees each earning $50,000) pays the highest provincial payroll tax rate in Quebec at 2.47%, followed by Manitoba (2.15%), British Columbia (1.95%), Ontario (1.57%) and Newfoundland and Labador (0.96%). The resulting labour costs on a business owner are substantial, and creates a disincentive for them to grow their business. Further, these costs also create a competitive disadvantage for business owners in these provinces compared to those provinces where no such tax exists.

A TALE OF TWO PROVINCIAL TAX RATES

When it comes to provincial payroll taxes, the picture is quite different from one province to another. In particular, Quebec decided a few years ago to reduce their reliance on this particular type of tax, while British Columbia has chosen to impose a new payroll tax on business owners starting in 2019. Quebec's experience should serve as an example of a realistic reduction plan for other provinces where such a tax exists.

British Columbia Employer Health Tax

Effective January 1, 2019, the Employer Health Tax (EHT) was implemented in BC. Employers whose total annual payroll is less than $500,000 will not pay EHT. The effective tax rate increases gradually on payrolls between $500,001 (virtually 0%) and $1.5 million (1.95%) and remains flat thereafter.

The tax is projected to generate $1.85 billion in revenue in 2019-2020. With an estimated 48% of BC businesses being subject to the EHT.

Sources: Budget 2018. Budget and Fiscal Plan 2018/19 - 2020/21. February 2018. CFIB Survey, BC Post-Budget. February - March 2019 Total responses = 450

Quebec Health Services Fund

Recognizing that businesses in Quebec pay significantly more in payroll taxes than in other provinces and that these type of taxes can have an impact on job creation and competitiveness, the Quebec government has taken measures since 2014 to reduce their provincial payroll tax burden. Other planned reductions in the next four years should further enhance their competitiveness relative to other Canadian provinces. Over the 2014-2022 period, the provincial payroll tax burden for a Quebec business with $1 million in payroll will have been reduced by 39% to 54%, depending on the industry.

Source: 2018-2019 Budget. The Québec Economic Plan. March 2018, pages D10-D12.A

EARMARKING PROVINCIAL PAYROLL TAXES

All provincial payroll taxes were introduced with a label which suggests a direct link between the taxes and the funding it provides: Quebec — *Health Services Fund*; Ontario — *Employer Health Tax*; Manitoba — *Health and Post-Secondary Education Tax Levy*; British Columbia — *Employer Health Tax*; and Newfoundland and Labrador — *Health and Post-Secondary Education Tax*. The tax revenue collected from all provincial payroll taxes is considerable, ranging from over $6 billion in Quebec and Ontario to $169 million in Newfoundland and Labrador (see Table 2). In all cases, however, the revenues collected from the payroll tax are not large enough to cover the full cost of the programs they are intended to fund, nor are the expenditures on said programs directly related to the revenues collected. As such, there is no true fiscal link to the suggested earmarking. Rather, the labels given to these taxes are used to garner support and make it more appealing to implement.[17,18]

TABLE 2: REVENUE FROM PROVINCIAL PAYROLL TAXES, 2017-2018

	Revenue ($millions)
QC, Health Services Fund	$6,221
ON, Employer Health Tax	$6,205
BC, Employer Health Tax	$1,850*
MB, Health and Post-Secondary Education Tax Levy	$356
NL, Health and Post-Secondary Education Tax	$169

*Projected 2019

Sources: Provincial Financial Statements.

17. Jonathan Kesselman. *Canadian Provincial Payroll Taxation: A Structural and Policy Analysis*. Canadian Tax Journal, Vol. 42, No. 1, 1994.
18. Neil A. MacKinnon. *Should New Brunswick Implement a Payroll Tax?* Acadia University, Department of Economics, 2009.

Workers' compensation premiums

The impact of workers's compensation premiums on employers is considerable, with the average premium ranging from $0.95 per $100 of insurable earnings in Manitoba to $2.65 in Nova Scotia and New Brunswick (See Appendix Table 1A, Average Workers' Compensation Premiums). It should be noted that, while neither New Brunswick or Nova Scotia have a provincial payroll tax, their effective payroll tax rate is on par with the rate experienced in Newfoundland and Labrador, where such a tax exists. This is the result of having high workers' compensation premiums. Employers pay premiums to fund the workers' compensation system (operations and benefits to workers injured on the job). As such, workers' compensation boards should 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. To help keep premiums low for employers and deal with funding issues, boards should implement a short-term waiting period for workers' compensation benefits. Under a waiting period system, injured workers receive no income replacement benefits for a certain number of days of a claim (e.g. three days). All things being equal, fewer claims mean lower overall claim costs and curb premium increases.

CPP/QPP and EI/QPIP

The most significant payroll taxes paid are **CPP/QPP** and **EI/QPIP** payments, which combine for an effective tax rate of 7.01% (7.65% in Quebec). Unlike provincial payroll taxes, the revenues from these taxes are genuinely earmarked as they fund the entire program and can only be used for the intended program.

Employers and employees share the cost of the CPP/QPP system, however, employees contributions are considered deferred income while for an employer the premiums act as a tax and presents an additional cost to hiring. When it comes to EI and QPIP contributions, employers contribute 1.4 times what employees put into the system. In effect, since both types of taxes are based on employee earnings, the costs multiply based on an employee's salary and/or the number of employees, adding a direct cost to employment and growth.

Another concerning aspect of such taxes is that while employees are refunded their over contributions as part of their annual income tax return, employers who hire workers who switch jobs and end up paying more than the maximum in annual premiums are currently not refunded any of their over-contributions. As a result of this practice, employers have likely over-contributed hundreds of millions of dollars yearly in premiums. This inequitable treatment in payroll tax collection has been allowed to continue mainly on the claim that it is administratively difficult to refund overpayments to employers. To bring fairness to employers, the federal government should implement a system that refunds employers for over-contributions—a measure that is supported by the vast majority (94%) of business owners.[19]

THE CANADA TRAINING BENEFIT

Starting in 2020, a new benefit administered through Employment Insurance — the Canada Training Benefit (CTB) — aims to provide employees with flexible options for finding time and money to pursue training. Such a benefit represents a positive step in addressing the skills and labour shortages. However, in its current form the CTB would create a major challenge in a small business workplace. For instance, the benefit would allow an employee to take any accredited training program, whether or not it has any relevance to the current job or employer, and an employer would be required to provide a leave and hold their job open while the employee does so. This has the potential to affect the employee-employer relationship. To ensure the CTB is beneficial to both parties, employers should have a say in the type of training and in the timing of the leave.

The CTB is expected to increase the cost of the EI system by over $300 million per year in its first five years alone, potentially resulting in an increase to EI premiums over time.* While the federal government has included a rebate for small businesses to help offset some of the costs, the amount is expected to be small, while business owners are already struggling with additional cost pressures (e.g. CPP/QPP increase, carbon taxes). The rebate could be made more substantial to provide help to business owners and encourage them to support the program.

***Government of Canada. *Investing in the Middle Class.* Budget 2019.**

19. CFIB. *Employment Insurance Survey*. March – April 2016. Total responses = 7,880.

4 EMPLOYEE PAYROLL TAX BURDEN IN 2019

All employees across Canada (except Quebec) face the same tax rates for **CPP** and **EI**, resulting in an effective payroll tax rate of 6.36% on an annual income of $50,000, which reduces their salary by $3,182—such that they are left with only $46,818 after payroll taxes are applied. In Quebec, employees face a higher burden, with a rate of 6.94% or $3,469 in contributions, reducing their salary to $46,531—the result of a QPP premium that is higher than the CPP premium, and an additional QPIP contribution.

All things considered, payroll taxes effectively reduce an employee's take-home pay and purchasing power. Further, they act as a disincentive for increased participation in the job market, particularly when applied outside of an employee's typical working life (i.e. under the age of 18 or over the age of 65). For example, older workers may choose not to return to work after retirement as they may be concerned about the cost of EI/QPIP premiums. For employers, this results in a reduction in the supply of labour that is available, further fostering labour shortages.

5 CONCLUSION AND RECOMMENDATIONS

Taxes imposed on small businesses make running a business less affordable, hinder growth and impact competitiveness. Steps need to be taken to provide businesses with the opportunity to re-invest and increase the pay, benefits and training opportunities for their employees. Helping businesses provide better paying jobs 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 a fairer and more progressive payroll tax system. They represent a true affordability, growth and competitiveness package for Canada.

RECOMMENDATION #1 — PROVINCIAL PAYROLL TAXES *(health and/or education taxes)*

- ✔ Eliminate provincial payroll taxes (e.g. commit to a 10-year plan to phase out provincial payroll taxes).
- ✔ In the meantime, introduce an exemption threshold to shield small businesses, and/or raise the existing one, to at least $2.5 million in total annual payroll and index it to inflation.

RECOMMENDATION #2 — WORKERS' COMPENSATION

- ✔ Regularly review the rate-setting process to avoid wide fluctuations in premium rates.
- ✔ Monitor funding closely and invest in the most prudent manner possible.
- ✔ Maintain a funding ratio (total assets over total liabilities) between 100% and 110%.
- ✔ Reduce premiums or offer surplus rebates to employers, if funding ratio exceeds 110%.
- ✔ Adopt a short-term waiting period (e.g. three days) to lower claims costs and curb increases to premiums.

RECOMMENDATION **CANADA PENSION PLAN (CPP) / QUEBEC PENSION PLAN (QPP)**

#3

- ✔ Halt or slow down additional CPP increases after 2019. Review the current CPP/QPP expansion plans to find better, more effective ways to help Canadians save for their retirement, and to reduce the impact on businesses.
- ✔ Only apply CPP increases to employees, as it is deferred income for them but a tax for employers.
- ✔ In the meantime, offset incoming CPP/QPP contribution hikes with other measures (e.g. a lower small business tax rate) to minimize the impact on business owners.
- ✔ Implement a system to refund CPP/QPP over-contributions back to employers.

RECOMMENDATION **EMPLOYMENT INSURANCE (EI) / PARENTAL LEAVE (EI/QPIP)**

#4

- ✔ The EI Small Business Rebate for the Canada Training Benefit should be made more substantial to encourage more small firms to support the program.
- ✔ Leave provisions for the Canada Training Benefit should require employer consent.
- ✔ Implement an EI credit which effectively lowers the rate for small businesses and is automatically applied by CRA to businesses under a certain payroll threshold. As employers currently pay 1.4 times the employee rate, a credit could lower the rate to 1.2 times the employee rate, on its way to a 50:50 split over time.
- ✔ Create a permanently lower EI rate on the first $800,000 of payroll. A small firm could pay the same rate as the employee on the first $800,000 of payroll.
- ✔ Introduce an EI holiday (e.g. 12 month break on employer premiums) for hiring youth (e.g. age 15–24).
- ✔ Implement a system to refund EI over-contributions back to employers.
- ✔ Review EI spending to ensure it is directly linked to job loss benefits and not general social support spending.
- ✔ Keep administrative costs low.

RECOMMENDATION **GENERAL RECOMMENDATIONS**

#5

- ✔ Genuinely earmark payroll taxes with a direct link between the tax and the program it is intended for.
- ✔ Regularly review (e.g. every 5 years) all spending funded through payroll taxes, allowing for tax relief.
- ✔ Lower payroll taxes for small businesses to recognize that they are more labour intensive and serve as the training grounds for the larger economy by hiring a greater proportion of inexperienced workers.
- ✔ Exempt senior employees (i.e. over 65) and young workers (i.e. under 18) from payroll tax calculations. This will encourage senior workers to participate in the labour force, and provide more opportunities for the next generation of workers.
- ✔ Reduce the administrative requirements and compliance burden associated with payroll taxes.

Appendix

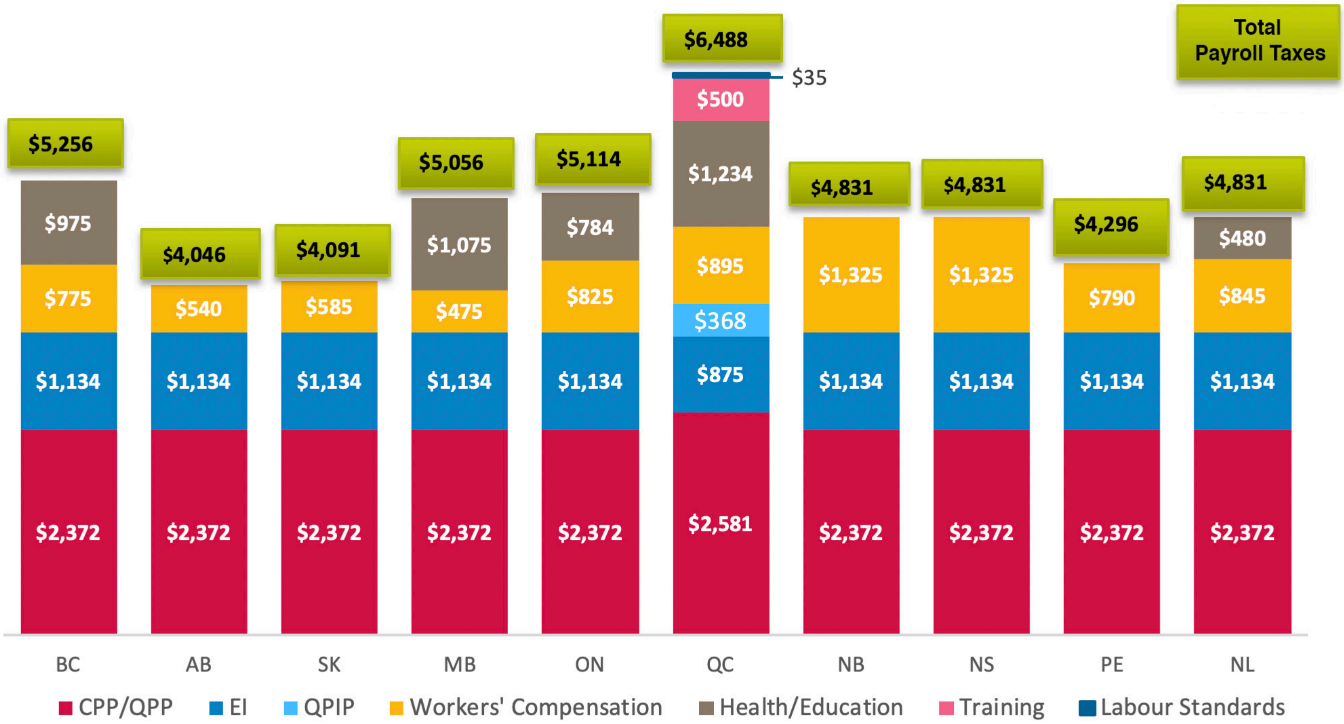
TABLE 1A: EFFECTIVE PAYROLL TAX RATES (%) ON A $50,000 EMPLOYEE SALARY FOR 2019, BY PROVINCE[1]

		BC	AB	SK	MB	ON	QC	NB	NS	PEI	NL
Employer and Employee Effective Payroll Rates											
Canada/Quebec Pension Plan Employer and Employee rate[2]		4.74	4.74	4.74	4.74	4.74	5.16	4.74	4.74	4.74	4.74
Employment Insurance	Employer rate	2.27	2.27	2.27	2.27	2.27	1.75	2.27	2.27	2.27	2.27
	Employee rate	1.62	1.62	1.62	1.62	1.62	1.25	1.62	1.62	1.62	1.62
Quebec Parental Insurance Plan	Employer rate	--	--	--	--	--	0.736	--	--	--	--
	Employee rate	--	--	--	--	--	0.526	--	--	--	--
Employer-Only Effective Payroll Tax Rates											
Average Workers' Compensation Premium		1.55	1.08	1.17	0.95	1.65	1.79	2.65	2.65	1.58	1.69
Provincial Payroll Tax (Health and/or Education)		1.95[3]	--	--	2.15[4]	1.57[5]	2.47[6]	--	--	--	0.96[7]
Contribution Related to Labour Standards		--	--	--	--	--	0.07	--	--	--	--
Workforce Skills Development and Recognition Fund (WSDRF)		--	--	--	--	--	1.0[8]	--	--	--	--
Total Provincial *Employer* Effective Tax Rate[9]		10.51	8.09	8.18	10.11	10.23	12.98	9.66	9.66	8.59	9.66
Total Provincial *Employee* Effective Tax Rate[10]		6.36	6.36	6.36	6.36	6.36	6.94	6.36	6.36	6.36	6.36

NOTES:

1. Payroll taxes as a percentage of salary — based on a typical salary of $50,000 in a business with a payroll of $2.5 million. Payroll taxes included are CPP/QPP, EI/parental, workers' compensation, and provincial payroll taxes.
2. The CPP employer and employee contribution rate in 2019 is 5.10% (5.55% for QPP). The annual basic exemption for both plans is $3,500 in 2019. After deducting the basic exemption, the total earnings subject to contribution is $46,500. As a result, the effective tax rate — payroll tax as a percentage of salary — is 4.74% for CPP and 5.16% for QPP.
3. For payroll over $1.5 million, tax rate = 1.95% of total payroll.
4. For payroll between $1.25 million and $2.5 million, tax rate = 4.3% on the amount in excess of $1.25 million (notch provision).
5. For payroll between $490,000 and $5 million, tax rate = 1.95% of the total payroll — after deducting any tax exemption.
6. Rate for SMEs in sectors other than the primary and manufacturing sectors: For total payroll over $1 million but under $5.5 million the tax rate is determined by the formula 1.1880% + (0.5120% x total payroll/$1 Million).
7. For payroll over $1.3 million, tax rate = 2% of total payroll – after deducting tax exemption of $1.3 million.
8. If total payroll for the year is over $2 million, a business is required to participate in workforce skills development for the year by allotting an amount representing at least 1% of total payroll to eligible training expenditures. If a businesses does not do this, it will be required to pay into the Workforce Skills Development and Recognition Fund (WSDRF) a contribution equal to the difference between 1% of your total payroll and the amount of your eligible training expenditures.
9. Total Provincial Employer Effective Tax Rate = CPP/QPP employer rate + EI employer rate + QPIP employer rate (QC only) + average workers' compensation premium + Provincial Payroll Tax (Health and/or Education) + Contribution Related to Labour Standards (QC only) + Training (QC only).
10. Total Provincial Employee Effective Tax Rate = CPP/QPP Employee rate + EI emloyee rate + QPIP employee rate (QC only).

FIGURE 1A: EMPLOYER PAYROLL TAXES ON A $50,000 SALARY, BY TAX AND PROVINCE IN 2019[1]



NOTES:

1. Payroll taxes as a percentage of salary—based on a typical salary of $50,000 in a business with a payroll of $2.5 million. Payroll taxes included are CPP/QPP, EI/parental, workers' compensation, and provincial payroll taxes.