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The weight of payroll taxes

September 2023

Table of contents

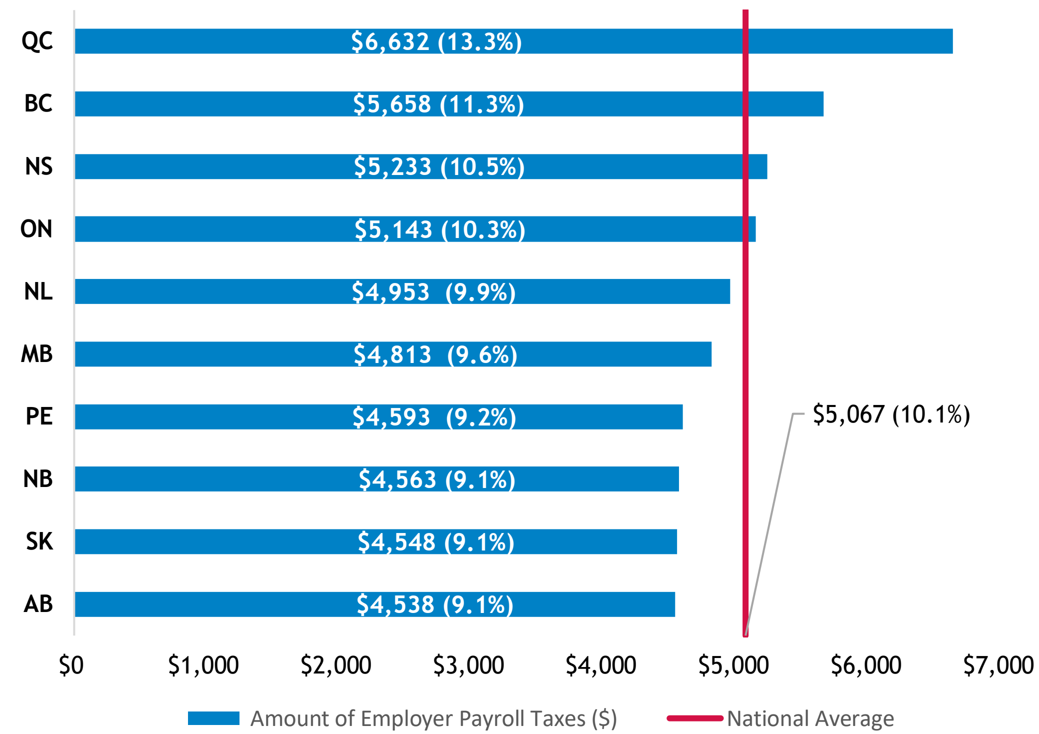
Highlights from this report

- Small business owners presently find themselves navigating an economic landscape riddled with challenges, including reduced revenues, mounting debt, inflationary pressures, persistent labour shortages, and higher overall costs of doing business.
- In recent surveys, they have said that taxes are their top issue of serious concern, and that payroll taxes are the most harmful type of tax.
- Payroll taxes are a cost that employers must pay regardless of profit, and they can entail a heavy administrative burden.
- Depending on where their business is located, an employer pays between three and seven different payroll taxes, including CPP/QPP, EI, workers' compensation, and provincial payroll taxes. Payroll taxes make it less affordable for employers to raise wages and create new jobs.
- On a $50,000 salary, an employer may pay between $4,538 in Alberta (9.1% effective rate) to $6,632 in Quebec (13.3% effective rate) in overall payroll taxes (see Figure 1).
- For employees, payroll taxes reduce their take-home pay (a 7% cut on a $50,000 salary) and purchasing power. They can also be a deterrent to increased workforce participation.
- This report offers several important recommendations to governments on how to modify payroll taxes to enhance small business growth and competitiveness, such as delaying the introduction of the second CPP/QPP earnings threshold increase, lowering EI premiums for small businesses, and gradually phasing out provincial payroll taxes.

Figure 1

Overall payroll taxes increase employer labour costs by 9.1% to 13.3% on top of a $50,000 salary

Employer effective payroll contribution ($) and equivalent overall payroll tax rate (%) on a $50,000 salary, by province in 2023 (as of August 2023)



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

Context: The post-pandemic business environment

Business owners presently find themselves navigating an economic landscape riddled with challenges, including reduced revenues, mounting debt, inflationary pressures, persistent labour shortages, and higher payroll taxes.

- **Businesses' finances are fragile** — 49% are making below normal revenues and 61% are making below normal profits.[1] Also, 58% are still holding pandemic-related debt, averaging over $104,000.[2] With 43% not knowing whether they will be able to pay it down, it is threatening the viability of their business.[3]
- **Economic headwinds are still strong** — 94% of business owners are concerned about inflation levels[4] and about 7 in 10 report that their business is negatively impacted by rising interest rates.[5]
- **The labour situation remains tricky** — 59% of small businesses are facing labour shortages[6] and 65% of firms are struggling with wage costs above the historical average.[7]
- **Payroll taxes' squeeze gets tighter** — The Federal government increased Canada Pension Plan (CPP) and Employment Insurance (EI) premiums on January 1, 2023. This means Canadians' take-home income dropped by up to $305 due to these hikes, while an employer is paying up to $325 more per employee.

With all these factors at play, small businesses are feeling the squeeze. Payroll taxes, and taxes in general, are within governments' direct control and are one area where they can provide fast, meaningful relief.

Payroll taxes, top of mind

Each tax incurred by business owners carries its own financial weight and results in trade-offs. Only so much of these costs can be passed on to consumers without impacting a business's ability to compete.

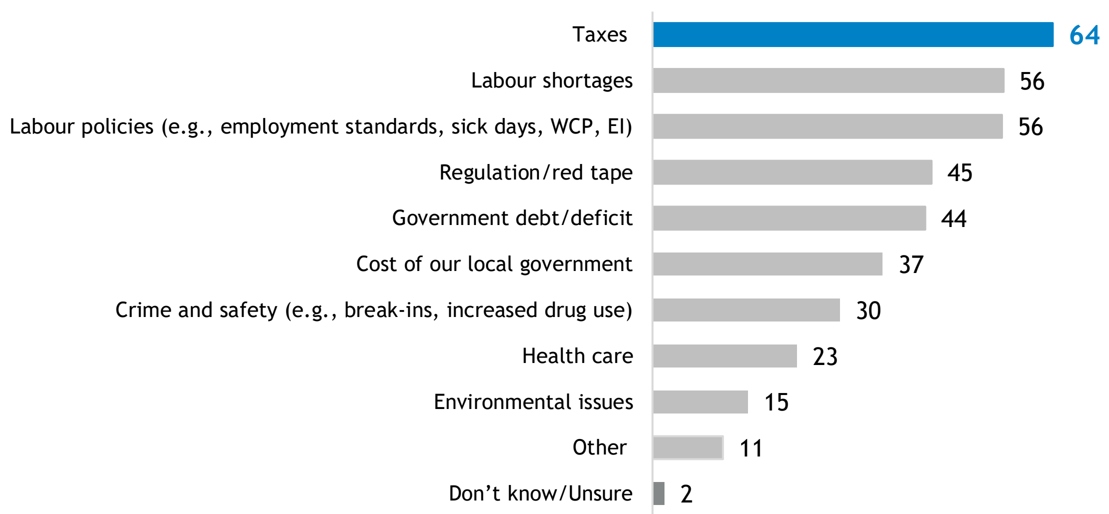
As a result, it is of no surprise that taxes are top of mind for small businesses coming out of the pandemic. Small businesses currently rank taxes as the top issue of serious concern to their business (see Figure 2).

An overwhelming majority of business owners (71%) identified payroll taxes as the tax form that hinders business growth the most. This is due to their insensitivity to business size or profits, costs, and administrative burdens, which collectively impede the development and expansion of businesses (see Figure 3).

Figure 2

Taxes are currently the top issue of serious concern for small businesses

Issues of most serious concern to small businesses (% response)



Source: CFIB, Your Voice – May 2023 survey. Total responses = 2,664.

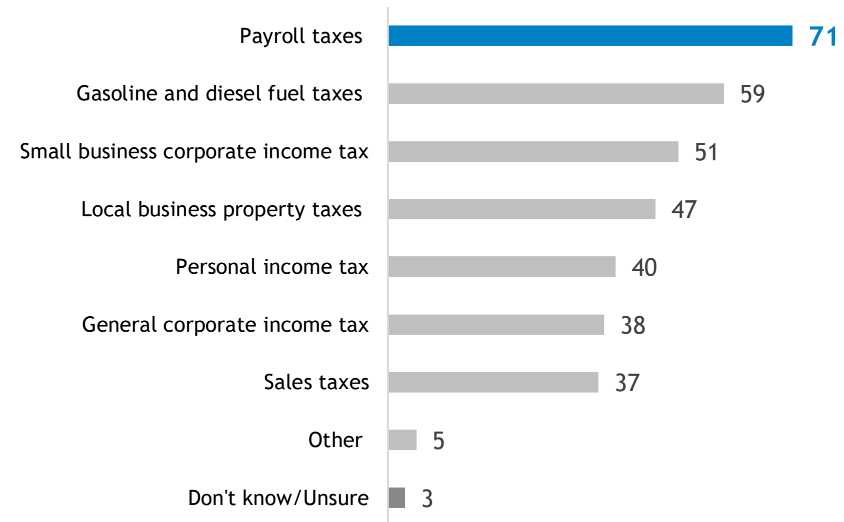
Question: "Which of the following are a serious concern to your business? (Select all that apply)"

Note: Respondents could select more than one answer; the total of all percentages will exceed 100%.

Figure 3

Businesses say payroll taxes are the most detrimental form of taxation to their operations

Most harmful taxes to the operation of a small business (% response)



Source: CFIB, Your Voice – April 2023 survey. Total responses = 2,535.

Question: "Which of the following taxes are the most harmful to the operation of your business? (Select all that apply)"

Note: Respondents could select more than one answer; the total of all percentages will exceed 100%.

Payroll taxes across the country

Generally, payroll taxes are levied based on employee earnings to finance specific programs. They fall into two broad categories:

- First, payroll taxes that are levied on both employers and employees and applied to individual (employee/self-employed) earnings up to a limit, such as Employment Insurance (EI), Canada Pension Plan (CPP)/Quebec Pension Plan (QPP),[8] and Quebec's Parental Insurance Plan (QPIP) (Quebec only).
- Second, payroll taxes levied solely on employers. Some (such as health and education taxes, Quebec's contribution related to labour standards,[9] and its contribution to the Workforce Skills Development and Recognition Fund[10]) are applied on the business's entire payroll. Others (such as workers' compensation premiums) are applied to an employee's salary up to a limit.

In Canada, both the federal and provincial governments impose payroll taxes.

As such, depending on where their business is located an employer can face between three and seven payroll taxes (see Table 1).

Quebec lists the highest number of taxes at seven, while British Columbia, Manitoba, Ontario, and Newfoundland and Labrador all have four taxes. Alberta, Saskatchewan, New Brunswick, Nova Scotia, and Prince Edward Island have the least number of payroll taxes at three. However, the number of taxes does not fully reflect the financial burden placed on businesses, as will be shown when measuring the current employer tax burden.

Table 1

Payroll taxes by province

	QC	*BC*	*MB*	*ON*	*NL*	*AB*	*SK*	*NB*	*NS*	*PE*
Employer and employee payroll taxes										
Canada Pension Plan (CPP)		•	•	•	•	•	•	•	•	•
Quebec Pension Plan (QPP)	•									
Employment Insurance (EI)	•	•	•	•	•	•	•	•	•	•
Quebec Parental Insurance Plan (QPIP)	•									
Employer-only payroll taxes										
Contribution to Workers' Compensation Board (WCB)	•	•	•	•	•	•	•	•	•	•
Provincial payroll tax (e.g., health 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

Payroll taxes and small businesses – A closer look

Largely insensitive to business size and profit

While some provincial payroll taxes have exclusions or special provisions for smaller businesses,[11] payroll taxes must be paid in most cases, whether a business has one or one hundred employees. There is often no special treatment for smaller businesses. For example, the same rates for federal payroll taxes (CPP/QPP, EI) and workers' compensation premiums currently apply to all business owners who have employees, irrespective of business size.

Further, payroll taxes must be paid irrespective of profits. No matter the revenues or expenditures, if wages were paid, payroll taxes must be paid. Conversely, corporate income taxes apply only to profits. By making tough years even less affordable, increases in payroll taxes can delay a small business's growth, complicate multi-year planning, or even prevent important investments. Businesses with little flexibility to absorb increases in payroll taxes may need to raise prices, which in turn can result in lost sales. Larger businesses tend to have greater economies of scale and more room to manoeuvre to absorb costs and remain competitive following an increase in payroll taxes.

A plentiful source of red tape

Employers must remit both the employee and employer portions of payroll taxes to government. Payroll taxes can be particularly challenging for small businesses to manage, as they often have limited resources to navigate the complex payroll tax system, including the required paperwork and calculations.

Additional costs for employers, less disposable income for employees

Employers experience their portion of the contribution as a payroll tax and a part of labour costs. Every time a government increases payroll taxes, it increases the cost of labour, forcing business owners to make tough decisions. Some may in turn decrease their demand for labour.[12] Others may increase the price of their products and services, passing on some of their tax burden to consumers, or reduce/delay wage increases or other employee investments.[13] Some businesses may look to move to friendlier jurisdictions or close up shop altogether.

Further, the greater the increase in payroll tax is, the greater the cost of labour becomes for employers. The higher the payroll taxes are, the greater the cost of any additional wage increase provided to employees becomes. Payroll taxes affect what employers can pay their employees.

For an employee, these payroll taxes or contributions are deferred income (CPP/QPP) or payments towards an insurance scheme that provide temporary income and work transition support to eligible workers (EI, QPIP). They decrease take-home pay today in exchange for future income continuity assurances. However, employees are increasingly facing financial pressures that they need to meet today.

Consequently, payroll taxes can render small business owners more susceptible to labour shortages in a tight labour market, as an increase in payroll taxes diminishes the amount of funds available to offer competitive wages to attract and retain workers. If the needed staff cannot be retained or recruited, this can have adverse effects on different aspects of a business, including production, services offerings, and revenues. Conversely, a decrease in taxes, including payroll taxes, can improve an employer's ability to provide higher wages.

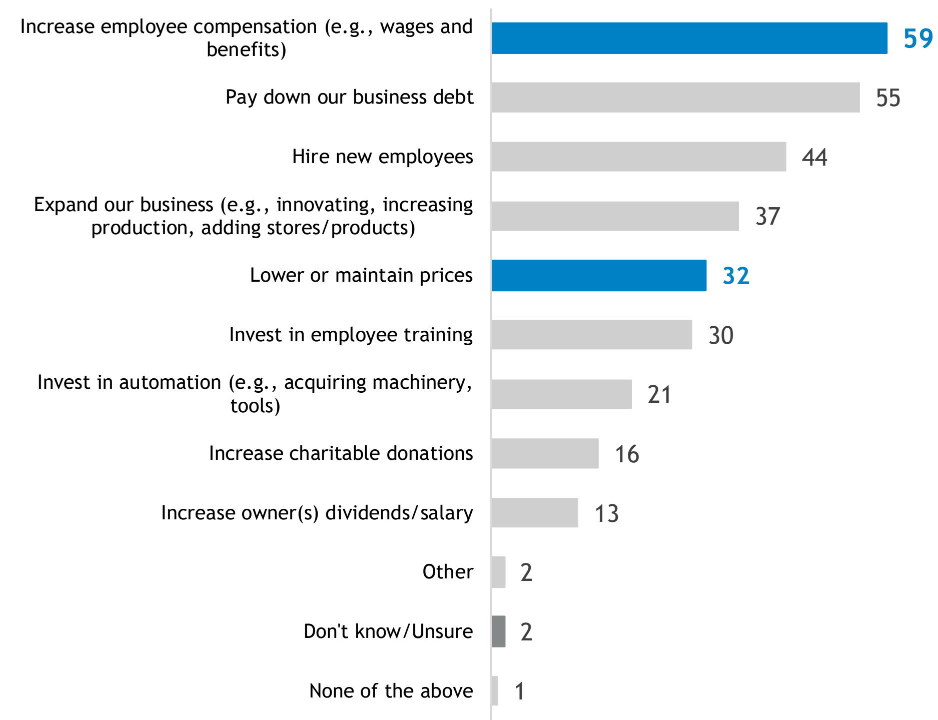
CFIB surveyed business owners to gain their insight on the impacts of payroll taxes. A total of 59% of small business owners stated that all or part of the fiscal reprieve provided by government through a decrease in tax would be reinvested in their employees, either through higher wages or better benefits, while 32% would lower or keep prices the same (see Figure 4).[14]

Ultimately, payroll and other taxes may have become too high for individuals as well as business owners, as indicated in some of the comments obtained through CFIB's Your Voice - April 2023 omnibus survey (see Figure 5).

Figure 4

If their overall tax burden were reduced, 59% of business owners would prioritize increasing employee compensation through higher wages or better benefits

Business owners' intended use of generated savings if the tax burden were reduced (% response)



Source: CFIB, Your Voice – September 2022 survey. Total responses = 3,619.

Question: "If governments were to reduce the overall burden of taxes and fees, what would your business do with the savings generated? (Select all that apply)"

Note: Respondents could select more than one answer; the total of all percentages will exceed 100%.

Figure 5

Business owners' comments on payroll taxes and impacts of recent increases

Increases in CPP, especially during the last several very difficult years, have been a challenge. Employees don't understand why they are getting less money 'now' and I feel obligated to cover the increase since they already face tough challenges in this economy. Even a small increase in CPP can result in an increase of several hundred dollars per month on payroll. When margins are already tight, this is a big deal.

— AB, Professional Services

I can't hire staff as they want to be paid under the table to avoid paying more in taxes. Great idea, the more someone works to try and get ahead, the more they have to pay in taxes.

— AB, Hospitality

These [payroll] tax increases have increased our overhead so much. And it's hard to recoup that. The consumer is already paying high prices for the goods we sell and we end up having to keep raising prices. Never-ending cycle.

— BC, Hospitality

Government is raising my source deduction payables [...] Raised prices in November and the feedback is not positive. I will lose customers. [...] Owners can only be pushed so far before doors close forever.

— ON, Personal and miscellaneous services

[...] I know my employees are working as hard as they ever did but making less. I feel the need to now give wage increases to offset their losses, which of course will only increase taxes paid. One step forward, two steps back - that's how it feels.

— BC, Social Services

Increased employer premiums and wage-tied premiums (WCB) will not allow us to increase wages. That has led to tougher hiring and more employee turnover.

— AB, Enterprises & Admin. Mgmt.

Increased payroll taxes limit overall profitability, which decreases our ability to reinvest, grow, and ultimately employ and/or provide better, higher paying wages for our employees.

— AB, Construction

It is only right to provide wage increases to our employees who faced increased costs of living. This is hard to do when you factor in all of the other expenses that go along with a single dollar paid to an employee...

— AB, Manufacturing

We have had to reduce hours to keep within budgeted numbers. To have these high taxes while suffering under the pressures of inflation, our thin margins are just getting eaten up.

— AB, Retail

[RE: Payroll taxes] We are reconsidering plans to grow production lines in Ontario vs. offshore.

— ON, Wholesale

Measuring the current employer tax burden

To assess the overall payroll tax burden, CFIB examined the effective payroll tax rates (i.e., 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.[15] Payroll taxes included in this analysis are CPP/QPP, EI/parental, workers' compensation, and provincial payroll taxes.[16]

As seen in Figure 6, nationally, the employer pays an effective rate[17] of 10.1% (or $5,067) on top of a $50,000 salary. This means that, on average nationally, an employer pays $55,067 on a $50,000 salary. Employers in Quebec face the highest payroll tax burden with an effective rate of 13.3%[18] ($6,632). Employers in British Columbia pay the second-highest effective rate (11.3%), followed by Nova Scotia (10.5%) and Ontario (10.3%). The effective payroll tax rate for these four provinces is higher than the national average of 10.1%.

Overall, across the country, the most significant payroll taxes paid are CPP/QPP and EI/parental payments (QPIP), which combine for an effective tax rate of 7.8% (8.4% in Quebec). On average, workers' compensation premiums add another 1.5% in additional payroll costs.

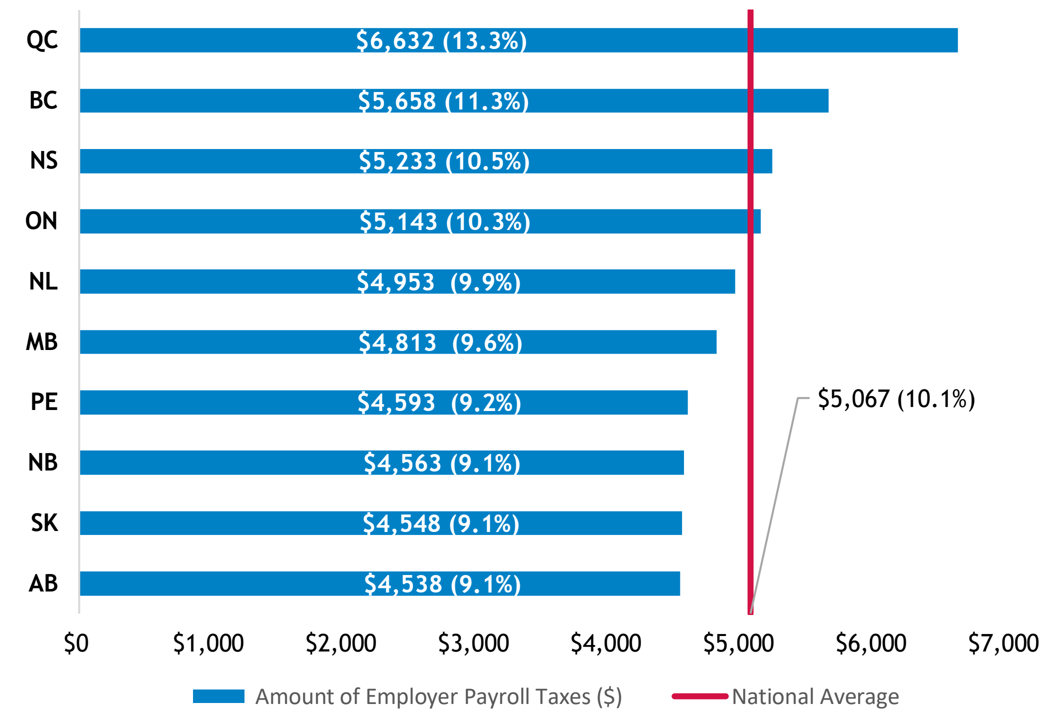
The effective employee and employer tax rates for each payroll tax used in each province are available in Appendix A, Table A1 and Figure A1.

Quebec has the heaviest employer tax burden; Alberta the lightest.

Figure 6

Provincial disparities in the overall payroll tax burden: Quebec and British Columbia top the list, while Alberta and Saskatchewan rank the lowest

Employer effective payroll contribution ($) and equivalent overall payroll tax rate (%) on a $50,000 salary by province in 2023 (as of August 2023)



Source: Provincial governments and CFIB calculations.

Note: Based on a small business with a payroll of $2.5 million at $50,000 per employee.

Comparing effective payroll tax rates between 2019 and 2023

Total wages and salaries in Canada have experienced a significant increase of over 25%[19] between 2019 and 2023. This substantial growth implies that even with stagnant rates, contributory plans and governments would have observed a boost in their payroll tax revenue. However, overall effective payroll tax rates have also risen in all provinces except for Manitoba and New Brunswick (see Figure 7). Despite having the lowest effective payroll tax rates in the country, Alberta and Saskatchewan have seen the greatest increase in the effective payroll tax rate since 2019 (1 and 0.9 percentage points respectively) – in part due to increases in the average workers' compensation premium rate (see Appendix A).

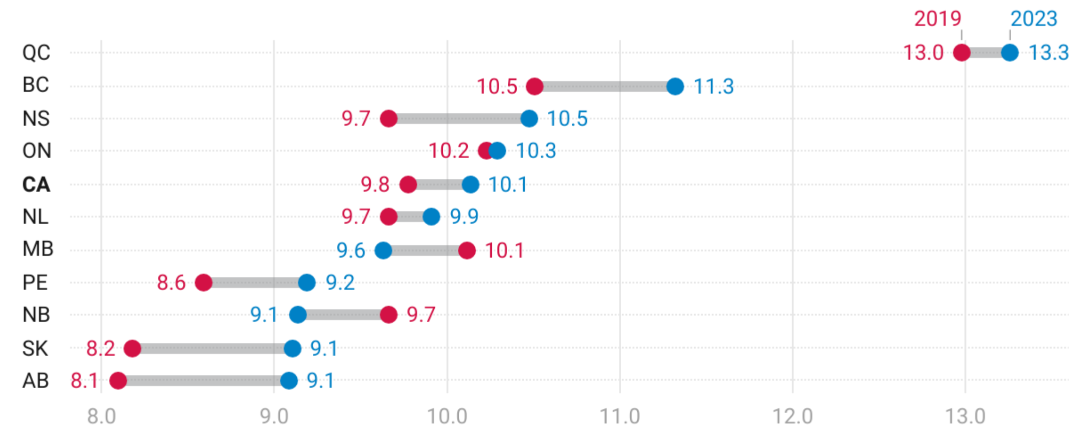
On average, there has been a 3.1 percentage change increase (see Appendix B) in 2023 compared to 2019. As a result, employers in most provinces now incur higher costs for an employee earning a $50,000 salary today compared to 2019, while employees receive a reduced net amount compared to their counterparts earning the same salary in 2019.

The overall employer payroll tax rate has increased in 8 of the 10 provinces since 2019.

Figure 7

Alberta and Saskatchewan experience the steepest rise in effective overall payroll tax rate since 2019

Employer's effective overall payroll tax rates (%) on a $50,000 salary in 2019 vs. 2023, by province



Source: Provincial governments and CFIB calculations.

Note: Based on a small business with a payroll of $2.5 million at $50,000 per employee.

Provincial rankings of overall effective payroll tax rates 2019 vs. 2023

For 2023, as was the case in 2019, Alberta and Saskatchewan rank the best with the lowest overall effective rates, while Quebec and British Columbia rank the worst (see Figure 8). **For a comparison of effective tax rates across provinces between 2019 and 2023 by the type of tax, see Appendix A.**

New Brunswick, Manitoba, and Ontario have seen their rankings improve since 2019. Manitoba and New Brunswick are the only provinces that have seen a decrease in their overall effective payroll tax rates and contributions since 2019. New Brunswick has moved up three spots, now ranking as the third lowest effective payroll tax rate in the country, as opposed to 6th lowest in 2019, largely due to a decrease in the province's average workers' compensation premiums (see Appendix A). Manitoba[20] has moved up two spots, now ranking slightly above the national average; and Ontario has edged up one spot.[21]

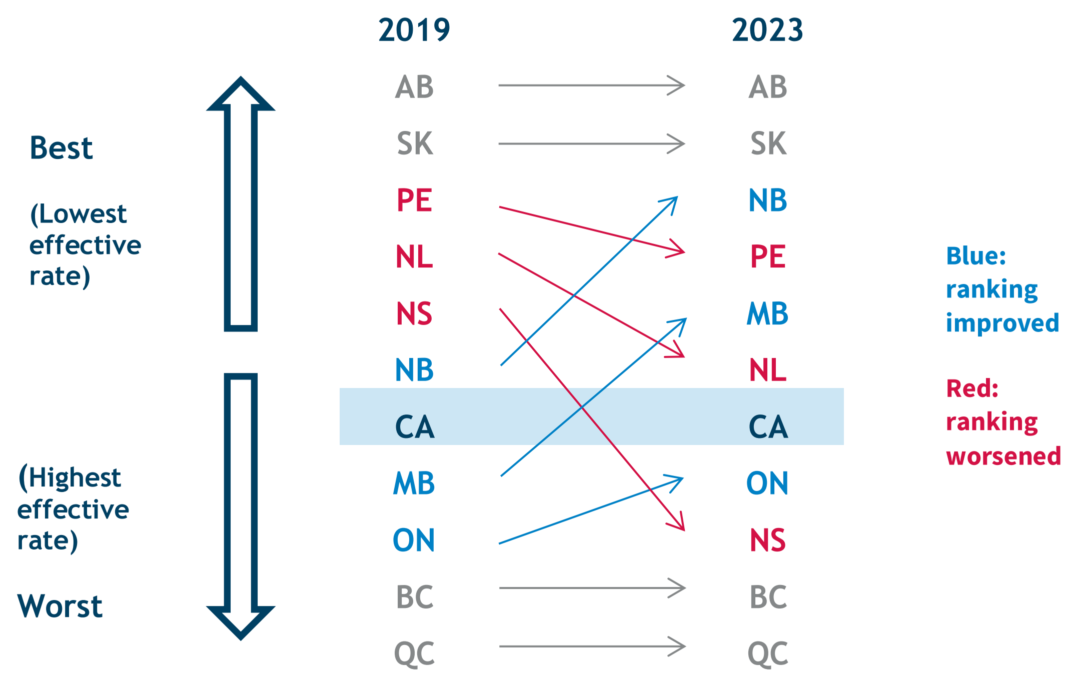
Nova Scotia, Newfoundland and Labrador, and Prince Edward Island have all seen a worsening in their ranking since 2019. Nova Scotia's effective overall payroll tax rate was below the national average in 2019. Today, it ranks as the third highest in the country. This is because Nova Scotia is among the provinces that have maintained their current average workers' compensation premium rates. Its rates are currently the highest in the country. Newfoundland and Labrador[22] and Prince Edward Island[23] have also worsened in rankings (by one spot respectively).

New Brunswick and Manitoba have improved their payroll tax competitiveness the most over the past 4 years.

Figure 8

No change at the top and bottom of the class, but in the middle New Brunswick, Manitoba, and Ontario have improved their payroll tax competitiveness since 2019

Changes in ranking in employers' overall effective payroll tax rates (%) on a $50,000 salary in 2019 vs. 2023, by province



Source: Provincial governments and CFIB calculations.

Note: Based on a small business with a payroll of $2.5 million at $50,000 per employee.

The payroll taxes in question: significance and recent developments

Canada Pension Plan (CPP)/Quebec Pension Plan (QPP)

The CPP is a social insurance plan that is funded by the contributions of employees, employers, and self-employed people as well as the revenue earned on CPP investments.[24] It covers virtually all employed and self-employed people in Canada, excluding Quebec, which operates its own comprehensive plan, the QPP. These programs provide income replacement to contributors and their families in the event of retirement, disability, or death.[25]

Employers and employees share the cost of contributions 50-50. CPP contributions are mandatory for all under 65 years of age. Even when a worker begins to receive a CPP/QPP pension, they must continue to contribute to the Post-Retirement Benefit until the age of 65. Contributions after 65 are voluntary under the CPP. This will also be the case under the QPP as of 2024.

To increase how much future generations of seniors would get in deferred income, the CPP/QPP contribution rates were gradually increased from 2019 to 2023.[26] With the increase in the CPP contribution rate and the maximum pensionable earnings to which it applies, business owners and employees will each be required to pay up to $3,754 in 2023 (for workers earning $66,600 or more), which represents a $1,005 increase ($1,047 for the QPP) in premiums payable for both employees and employers since 2019. This represents an increase of over 35% over five years.

Further, a second earnings ceiling (known as the Year's Additional Maximum Pensionable Earnings) will come into effect in 2024. This new ceiling will increase the amount of earnings on which CPP/QPP contributions must be paid. The value of the second earnings ceiling will be based on the value of the first earnings ceiling (7% in 2024 and 14% as of 2025). Both will increase each year to reflect wage growth. Employees and employers will each contribute at a rate of 4%, and self-employed individuals at a rate of 8% on pensionable income earned between the first and second ceilings (see Table 2). Consequently, middle-income workers will take home less income than they did the year before and employers' payroll costs will continue to increase.

Table 2

Additional costs of the CPP second maximum annual pensionable earnings ceiling, % and $ increase (2024-2025)[27]

Year	*Yearly Maximum Pensionable Earnings, first ceiling (YMPE)*	*Yearly Additional Maximum Pensionable Earnings, second ceiling (YAMPE)*	*Difference between ceilings ($)*	*Contribution rate*	*Estimated maximum amount paid in additional contributions*
2024 (7%)	$67,700	$72,400	$4,700	4%	$188
2025 (14%)	$69,700	$79,400	$9,700	4%	$388

As inflation is still well above the Bank of Canada's 2% target, CFIB recommends delaying the introduction of the second ceiling, enabling affected business owners and workers to retain more money for the pressures they face now.

Federal and provincial governments should also review the impacts of recent changes in the CPP contribution rate and consider providing a special targeted credit to small business owners.

Further, the federal basic exemption amount is now at $3,500 and has not changed since 1997. If it had been pegged to 10% of YMPE, contributions would not need to be paid on the first $6,660. The base exemption could be rebased (increased).

Employment Insurance (EI)/Quebec Parental Insurance Plan (QPIP)

The EI program provides temporary income support to unemployed workers while they look for employment, or to workers who take time off work due to specific life events such as pregnancy and maternity leave (QPIP in Quebec), illness, or caring for a family member.[28]

Workers receive EI benefits only if they have paid premiums in the past year and meet qualifying conditions. Beneficiaries can receive up to 55% of their average insurable weekly earnings. As of January 1, 2023, the maximum yearly insurable earnings amount is $61,500 and the maximum benefit amount was $650 per week.[29]

The premiums are set according to a seven-year forecast break-even rate, with caps on rate increases (a five-cent maximum for employees per $100 earned, which means seven cents for employers). Employers contribute 1.4 times what employees pay and have done so since 1972. The 1.4 rate was established at a time when the employer had greater control over employment decisions. With the introduction of various special benefits over the years, employees may become entitled for benefits without being terminated by their employer. The EI program has increasingly shifted from being a job loss protection program to a social program that provides income continuity in the event of absences resulting from select life events.

EI premium rates and maximum insurable earnings thresholds have increased in 2023. Employees are paying up to $1,002 and employers up to $1,403 into EI this year [30](see Table 3). This represents just shy of a $50 EI premium increase for employees and a $70 increase for employers (for workers earning $61,500 or more). Overall, EI premiums for business owners have increased by as much as 5.2% per employee. When combined, the increases in CPP and EI could cost business owners up to $325 more per employee in 2023, a 6.7% increase from 2022.

Table 3

EI premium rates and maximum annual contribution (2019-2023) (outside of Quebec)

Year	EI employee premium rate (%)	EI employer premium rate (%)	Maximum insurable earnings (MIE)	Maximum annual employee contribution	Maximum annual employer contribution
2023	1.63%	2.28%	$61,500	$1,002	$1,403
2022	1.58%	2.21%	$60,300	$953	$1,334
2021	1.58%	2.21%	$56,300	$890	$1,245
2020	1.58%	2.21%	$54,200	$856	$1,199
2019	1.62%	2.27%	$53,100	$860	$1,204

EI premium rates were forecasted to increase in future years to recover the deficit accrued by the plan because of the extraordinary measures introduced during the pandemic. On a positive note, if it actually comes to be, EI premiums are not projected to increase for the next seven years due to strong labour market conditions according to the 2023 Federal Budget. That being said, the MIE threshold, the amount up to which an employee and their employer pay EI premiums, will likely increase.

CFIB urges government to ensure that any future EI changes or reforms not result in any net increase in costs for small businesses. This could be done by implementing a 50:50 split in EI premiums between employers and employees, or introducing a permanent, targeted, EI premium credit for small businesses to effectively lower the amount of premiums they pay to be equal to that of their employees. Reducing, or at least not increasing, EI premiums will help small businesses already dealing with many other rising costs.

Workers' compensation premiums

Workers' compensation (WC)[31] premiums are levied on employers in all provinces and territories with the same objective: to fund workers' compensation systems (operations and benefits to injured workers). In contrast to EI and CPP/QPP taxes, WC premium rates vary across jurisdictions.

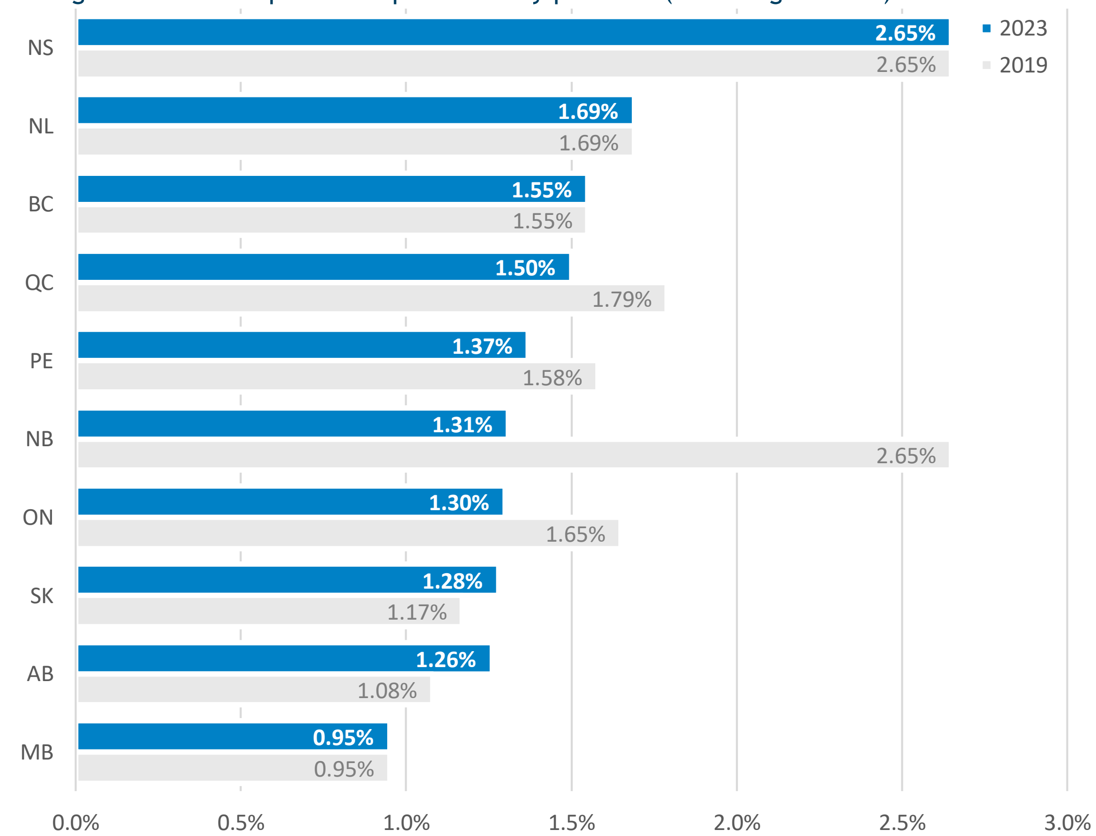
The average premium rate ranges from $0.95 per $100 of insurable earnings in Manitoba to $2.65 in Nova Scotia (see Figure 9). Despite having no other provincial payroll tax (such as on health or education), Nova Scotia's very high WC premium rate makes its overall effective payroll tax rate (see Figures 7 and 8) on par with the rate experienced in provinces where such a tax exists.

Since 2019, New Brunswick has reduced its WC premiums from $2.65 to $1.31 (including a 22% decrease from 2022–2023), placing its effective payroll tax rate among the lowest in the country.[32] This is positive for New Brunswick employers.

To avoid volatility in premium costs, workers' compensation boards must remain vigilant of administration costs and regularly review the rate-setting process. Further, if the plan is in a surplus position, they should rebate the surplus funds or reduce premium rates, with a preference for rebates.

Figure 9

Average workers' compensation premiums by province (as of August 2023)



Source: Provincial governments and CFIB calculations.

Provincial payroll taxes

Most provincial payroll taxes have been introduced to either help fund health care, or post-secondary education. Five provinces levy provincial payroll taxes on employers: British Columbia, Manitoba, Ontario, Newfoundland and Labrador, and Quebec[33] (see Figure 10, and see Appendix D for details on provincial payroll tax rate calculations).[34] Provincial payroll taxes are not entirely earmarked for their intended purposes and the funds flow into general revenues, so they basically act as a corporate tax.[35]

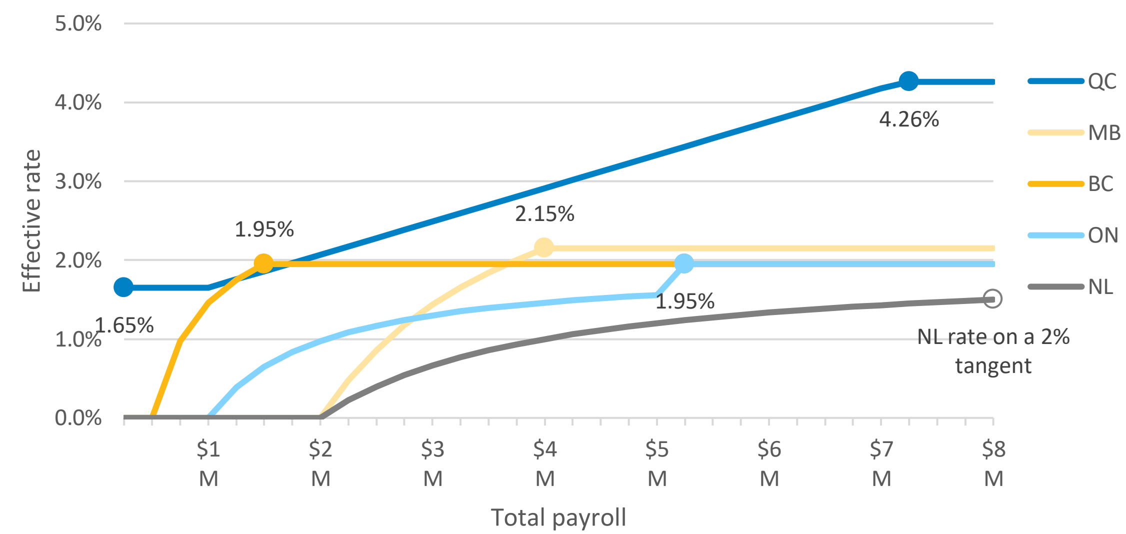
While most provinces offer an exemption,[36] none of them adjust the threshold levels for inflation annually or for increases in average industrial wages. Therefore, more and more businesses are subject to the tax every year as wages rise. Three provinces have increased their exemption threshold since 2019: Manitoba[37] (from $1.25M to $2M), Ontario (from $450,000 to $1M), and Newfoundland and Labrador (from $1.3M to $2M). As British Columbia's exemption threshold has remained at $500,000 for the past four years, it has room to follow in these provinces' footsteps. Although there are some variations among sectors and communities, Quebec does not provide exemption thresholds for its Health Services Fund to shield smaller businesses from this payroll tax.[38] The province should move swiftly to implement one to end its lack of competitiveness there.

CFIB recommends that all provinces introduce an exemption threshold for small businesses or raise existing thresholds to at least $2.5 million and index them to inflation. Ultimately, the gradual phaseout of provincial payroll taxes would be welcome.

As demonstrated throughout this report, payroll taxes impose several constraints on business owners by increasing costs, subsequently prompting them to mitigate these expenses by raising consumer prices, accepting reduced profits and/or labour demand, or lowering employee wages.

Figure 10

Provincial health and education taxes, effective tax rates on total payroll, August 2023



Source: Provincial governments and CFIB calculations.

Notes:

1. Exemption thresholds – British Columbia Employer Health Tax ($500,000 or less of annual remuneration); Manitoba Health and Post-Secondary Education Tax Levy ($2 million or less); Ontario Employer Health Tax ($1 million or less); Newfoundland and Labrador Health and Post-Secondary Education Tax ($2 million or less).

2. Only the provinces with provincial payroll taxes are included in this figure.

3. Ontario Employer Health Tax - Typically, eligible employers and groups of associated employers in Ontario with an annual payroll exceeding $5 million are not granted any exemptions.

4. Quebec Health Services Fund - Rate for SMEs in sectors other than the primary and manufacturing sectors. Only the Quebec Health Services Fund is represented; the figure does not consider contributions related to labour standards and the WSDRF.

5. This presumes that all employees are earning $50,000.

The employee tax burden and the cumulative impact on employers and employees

All employees across Canada (except those in Quebec) face the same tax rates for CPP and EI, resulting in an effective payroll tax rate of 7.2% on an annual salary of $50,000 in 2023, up from 6.4% in 2019. This reduces an employee's salary by $3,582. Therefore, an employee earning $50,000 in 2023 will receive $46,418 after payroll taxes are applied, down from $46,818 in 2019.

In Quebec, employees face a higher effective payroll tax rate of 7.7%, or $3,858 in contributions, thereby reducing their pre-income tax salary to $46,142. This is due to higher premium rates for the province's public pension plan (QPP completely replaces CPP) and its parental insurance plan (QPIP replaces some of the EI provisions for parental leave that are in place in other provinces). The national cumulative impact of payroll taxes on employers and employees amounts to $8,676 (see Figure 11).

Increases in payroll taxes levied on employees can lower their disposable income and overall earnings, which in turn affects their ability to maintain their standard of living and purchasing power. This may lead employees to decrease their labour supply or request higher wages before taxes. Consequently, the outcome could be a decline in overall employment levels or an increase in labour expenses for business owners (employers) resulting in a reduction in labour demand. These concerns remain a topic of ongoing discussion and analysis.

Given the current labour shortage and low unemployment rate, these adverse work incentive effects are not ideal for employers.

In 2023, the overall payroll tax burden represents a 7% cut on the typical Canadian worker's disposable income.

Figure 11

Employees face a $3,609 (7.2%) deduction in payroll taxes on a $50,000 salary

	Employee in Canada (except Quebec):	Employee in Quebec:
Receives:	$50,000	$50,000
Pays:	-$3,582 (-7.2%)	-$3,858 (-7.7%)
Left with:	$46,418	$46,142

Note: These pictograms do not depict the effects of applicable federal and provincial income taxes deducted at source, which further decrease take-home pay.

Conclusion

Small businesses tend to be more labour-intensive, thus more sensitive to changes in payroll taxes that must be paid irrespective of whether the business is making any profit. For employers and employees in most Canadian jurisdictions (except for Manitoba and New Brunswick), the burden of payroll taxes has become heavier since 2019, increasing the cost of doing business and decreasing take-home pay. Payroll tax hikes affect business decisions such as pricing, future planned wage increases, the number of employees and the hours of work. Payroll taxes may also be affecting some individuals' decisions relating to work.

Small business owners would reinvest fiscal reprieve provided by governments through a decrease in tax burden to their employees, either through higher wages or better benefits, or passed on to customers.[39] Small business owners, their employees, and their clients would all benefit from decreases in payroll taxes. CFIB encourages both federal and provincial governments to reconsider and lower existing payroll taxes.

Recommendations

General recommendations:

1. Build in supports for small businesses through targeted credits or premium holidays.
2. Simplify payroll administration with small business owners in mind.
3. When a payroll tax is intended to fund a particular government function, its revenues should be clearly earmarked for that function, with regular reviews to control inefficient spending and reduce costs.

CPP/QPP:

4. Delay the introduction of the second CPP/QPP earnings threshold increase.
5. Review the impacts of recent rate increases on Canadians, employers, and the economy.
6. Provide relief through a targeted premium “credit” or “holiday” for small businesses to help them with increasing payroll costs.
7. Rebase the base exemption, at least for the Post-Retirement Benefit. The basic exemption amount is $3,500 and has not changed since 1997. Had they been pegged to 10% of Yearly Maximum Pensionable Earnings (YMPE), CPP contributions would not need to be paid on the first $6,660 in 2023.

EI/QPIP

8. Implement a 50:50 split in EI premiums between employers and employees, or a lower rate or a credit for small businesses.
9. Introduce an EI premium holiday for small businesses hiring youth.
10. Make EI voluntary for those 65 and older.

Workers’ compensation

11. Workers’ compensation boards must practice continued vigilance on administration costs and regularly review the rate-setting process.
12. Regularly review the board’s efficiency (e.g., every 5 years).
13. If in surplus position, rebate surplus funds or reduce premium rates, with a preference for rebates.
14. Legislate surplus distribution policies.

Provincial payroll taxes (health and/or education)

15. Introduce a provincial payroll tax exemption threshold for small businesses where none exist or raise existing ones to at least $2.5 million and index them to inflation.
16. Ultimately, gradually phase out provincial payroll taxes.

Appendix A: Effective payroll tax rates (%) on a $50,000 salary for 2023[1] and 2019

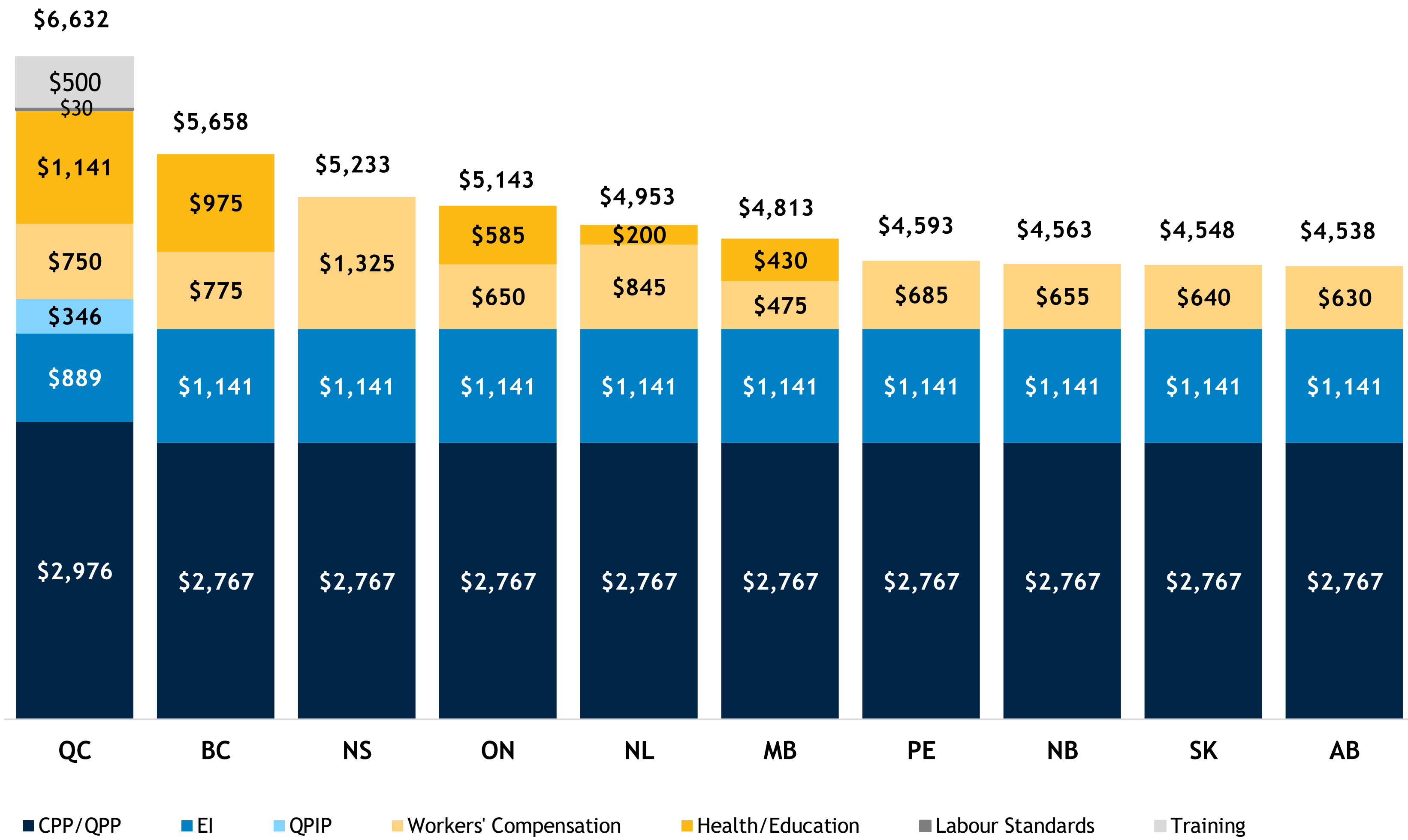
Table A1

		BC		AB		SK		MB		ON		QC		NB		NS		PE		NL	
	Employer and employee effective payroll rates	**2023**	**2019**	**2023**	**2019**	**2023**	**2019**	**2023**	**2019**	**2023**	**2019**	**2023**	**2019**	**2023**	**2019**	**2023**	**2019**	**2023**	**2019**	**2023**	**2019**
	CPP/QPP employer and employee rate[2]	5.53	4.74	5.53	4.74	5.53	4.74	5.53	4.74	5.53	4.74	5.95	5.16	5.53	4.74	5.53	4.74	5.53	4.74	5.53	4.74
Employment Insurance	Employer rate	2.28	2.27	2.28	2.27	2.28	2.27	2.28	2.27	2.28	2.27	1.78	1.75	2.28	2.27	2.28	2.27	2.28	2.27	2.28	2.27
	Employee rate	1.63	1.62	1.63	1.62	1.63	1.62	1.63	1.62	1.63	1.62	1.27	1.25	1.63	1.62	1.63	1.62	1.63	1.62	1.63	1.62
Quebec Parental Insurance Plan	Employer rate	--	--	--	--	--	--	--	--	--	--	0.692	0.736	--	--	--	--	--	--	--	--
	Employee rate	--	--	--	--	--	--	--	--	--	--	0.494	0.526	--	--	--	--	--	--	--	--
	Employer only effective payroll tax rates																				
	Average workers' compensation premiums	1.55	1.55	1.26	1.08	1.28	1.17	0.95	0.95	1.30	1.65	1.50	1.79	1.31	2.65	2.65	2.65	1.37	1.58	1.69	1.69
	Provincial payroll tax (health/education)	1.95[3]	1.95	--	--	--	--	0.86[4]	2.15	1.17[5]	1.57	2.28[6]	2.47	--	--	--	--	--	--	0.40[7]	0.96
	Contribution related to labour standards	--	--	--	--	--	--	--	--	--	--	0.06	0.07	--	--	--	--	--	--	--	--
	Training	--	--	--	--	--	--	--	--	--	--	1.0[8]	1.0	--	--	--	--	--	--	--	--
	Total provincial *employer* effective tax rate[9]	11.32	10.51	9.08	8.09	9.10	8.18	9.63	10.11	10.29	10.23	13.26	12.98	9.13	9.66	10.47	9.66	9.19	8.59	9.91	9.66
	Total provincial *employee* effective tax rate[10]	7.16	6.36	7.16	6.36	7.16	6.36	7.16	6.36	7.16	6.36	7.72	6.94	7.16	6.36	7.16	6.36	7.16	6.36	7.16	6.36

[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 2023 is 5.95% (6.4% for the QPP). The annual exemption for both plans is $3,500 in 2023. Following a deduction in the basic exemption, the total earnings subject to contribution is $46,500. Therefore, the effective tax rate (i.e., payroll as a percentage of salary) is 5.53% for the CPP and 5.95% for the QPP.
[3] For payroll over $1.5 million, the effective tax rate is 1.95% of total payroll.
[4] For payroll between $2 million and $4 million, the effective rate is 4.3% on the amount in excess of $2 million (notch provision).
[5] For payroll between $1 million and $5 million, the effective tax rate is 1.95% of total payroll, after deducting any tax exemption.
[6] Rate for SMEs in sectors others than the primary and manufacturing sectors.
[7] For payroll over $2 million, the effective tax rate is 2% of total payroll, after deducting the tax exemption of $2 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 business 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 its total payroll and the amount of its eligible training expenditures.
[9] Total employer effective tax rate = CPP employer rate + EI employer rate + QPIP employer rate (QC only) + workers' compensation premiums + provincial payroll tax (i.e., health/education) + contribution related to labour standards (QC only) + training (QC only)
[10] Total employee effective tax rate = CPP employee rate + EI employee rate + QPIP employee rate (QC Only)

Figure A1

Employer payroll taxes on a $50,000 salary by tax and province in 2023



Appendix B: Effective payroll tax rates % change, 2019 vs. 2023

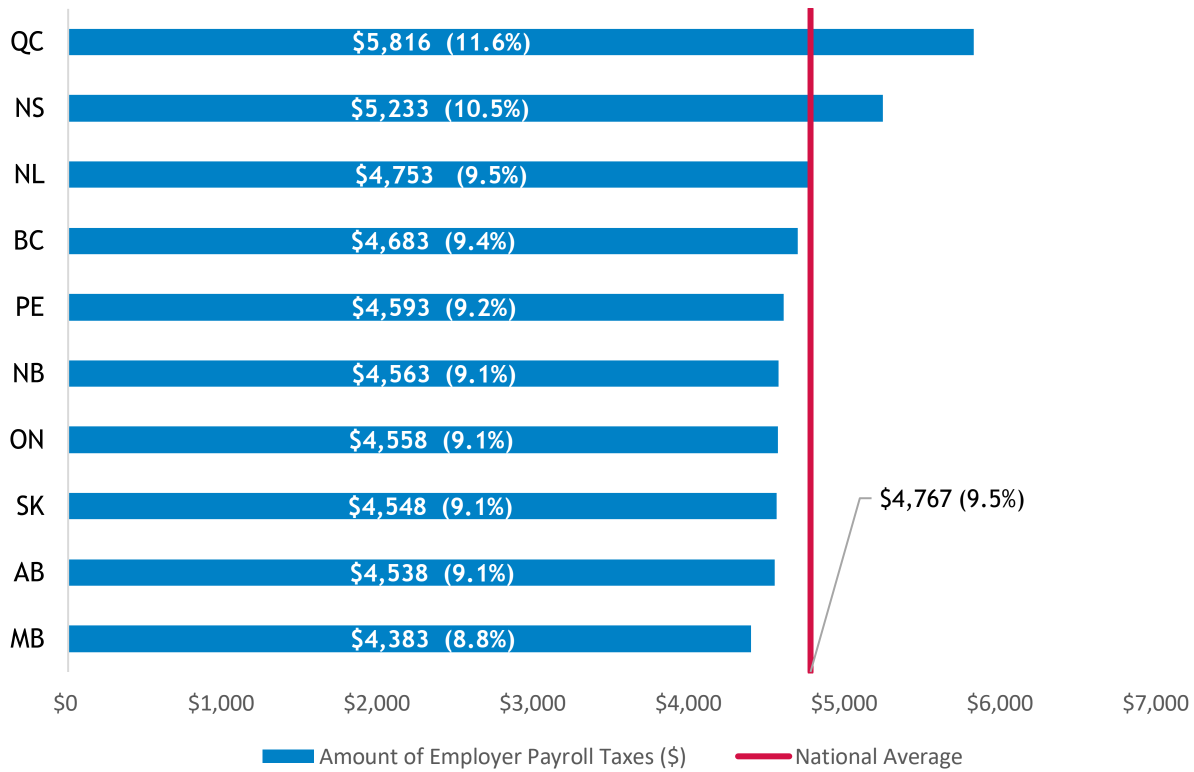
	2019	2023	2019 vs. 2023 difference	2019 vs. 2023 % change
AB	8.1%	9.1%	1.0%	12.3% ⇧
	$4,046	$4,538	$492	
SK	8.2%	9.1%	0.9%	11.0% ⇧
	$4,091	$4,548	$457	
NS	9.7%	10.5%	0.8%	8.2% ⇧
	$4,831	$5,233	$402	
BC	10.5%	11.3%	0.8%	7.6% ⇧
	$5,256	$5,658	$402	
PE	8.6%	9.2%	0.6%	7.0% ⇧
	$4,296	$4,593	$297	
CA	9.8%	10.1%	0.3%	3.1% ⇧
	$4,884	$5,067	$183	
NL	9.7%	9.9%	0.2%	2.1% ⇧
	$4,831	$4,953	$122	
QC	13.0%	13.3%	0.3%	2.3% ⇧
	$6,488	$6,632	$144	
ON	10.2%	10.3%	0.1%	1.0% ⇧
	$5,114	$5,143	$29	
MB	10.1%	9.6%	-0.5%	-5.0% ⇩
	$5,056	$4,813	$-243	
NB	9.7%	9.1%	-0.6%	-6.2% ⇩
	$4,831	$4,563	$-268	

Notes:

1. CFIB calculation, based on a small business with a payroll of $2.5 million, 2019 vs. 2023.
2. Displayed are the effective payroll contribution (nominal $) and tax rate (%) difference and % change on a $50,000 employee salary for 2019 and 2023, by province.

Appendix C: Effective payroll tax rate (%) with a $500,000 payroll

Employer effective payroll contribution ($) and equivalent overall payroll tax rate (%) on a $50,000 salary by province in 2023 (as of August 2023)



Source: Provincial governments and CFIB calculations.

Note: Based on a small business with a payroll of $500,000 at $50,000 per employee.

Appendix D: Provincial health and education taxes by payroll and tax rate (as of August 2023)

	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	$2 million or less	Exempt
	Between $2 million and $4 million	4.3% x (payroll - $2 million)
	Over $4 million	2.15% x payroll
ON Employer Health Tax[1]	$1 million or less	Exempt
	Over $1 million to $5 million	1.95% x (payroll - $1,000,000)
	Over $5 million	1.95% x full payroll
QC Health Services Fund[2]	$1 million or less	1.65% x payroll
	Over $1 million but under $7.2 million	1.229% + (0.421% x payroll/ $1 million)
	$7.2 million and over	4.26% x payroll
NL Health and Post-Secondary Education Tax	$2 million or less	Exempt
	Over $2 million	2% x (payroll - $2 million)

Notes:

1. Typically, eligible employers and groups of associated employers in Ontario with an annual payroll exceeding $5 million are not granted any exemptions.

2. Rate for SMEs in sectors other than the primary and manufacturing sectors.

About CFIB

CFIB is a non-partisan organization exclusively representing the interests of 97,000 small and medium-sized businesses in Canada. CFIB's research capacity is second-to-none because it is able to gather timely and concrete information from members about business issues that affect their day-to-day operation and bottom line. In this capacity, CFIB is an excellent source of up-to-date information for governments to consider when developing policies impacting Canada's small business community.

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Endnotes

[1] CFIB, Your Voice - February 2023, February 8-28, 2023, n=2,746 to 2,760. Question: “Compared to normal levels for your business at this time of year, at what levels are the following currently? (For each line, indicate your best estimate as a share of what normal/full means for your business)”

[2] CFIB, Your Voice – February 2023, February 8-28, 2023, n=1,278. Question: “Are you in a position to tell us roughly how much additional debt incurred due to COVID-19 your business is still holding? (Please enter approximate amount)”

[3] Calling for repayment in December 2023. Source: CFIB, Your business debt and CEBA survey, March 13-22, n=5,166. Question: “By when would you be able to fully repay your CEBA loan? (Reminder: if CEBA loan is fully repaid by the end of 2023, a portion is forgiven. If any amount is left after that, the forgivable portion is lost and added to the loan.)”

[4] CFIB, Your Voice – January 2023, January 18-31, 2023, n=3,040 to 3,182. Question: “Heading into 2023, please indicate the level of priority you would like governments to place on the following issues. (Select all that apply)”

[5] CFIB, Your Voice – June 2022, June 9-30, 2022, n=2,298. Question: “The Bank of Canada has recently raised interest rates and may raise them again in the coming months. How are raising interest rates impacting your business?”

[6] CFIB, Your Voice – September 2022, September 8-26, 2022, n=3,489. Question: “Which of the following best describes your business situation regarding labour shortages (described here as difficulties hiring, retaining, or getting staff to work the hours needed)?”

[7] CFIB, Monthly Business Barometer. July 2023. Question: “What types of input costs are currently causing difficulties for your business?”

[8] CPP/QPP contributions are levied on employees, employers, and the self-employed.

[9] Revenu Québec, *Contribution Related to Labour Standards*. 2023. https://www.revenuquebec.ca/en/businesses/source-deductions-and-employer-contributions/calculating-source-deductions-and-employer-contributions/contribution-related-to-labour-standards/

[10] Revenu Québec, *Contribution to the Workforce Skills Development and Recognition Fund*. 2023. https://www.revenuquebec.ca/en/businesses/source-deductions-and-employer-contributions/calculating-source-deductions-and-employer-contributions/contribution-to-the-workforce-skills-development-and-recognition-fund/

[11] The federal government also had the Small Business Job Credit in place for 2015 and 2016, which provided temporary relief to small businesses with smaller payrolls through a refundable EI credit.

[12] Jonathan Deslauriers, et al., *Estimating the impacts of payroll taxes: Evidence from Canadian employer-employee tax data*, IZA Institute of Labor Economics, 2018.

[13] Ted D. Englebrecht, et al. *Payroll Tax Incidence on Small Businesses: An Empirical Investigation of Shifting the Payroll Tax Burden*, Old Dominion University, 2001.

[14] CFIB, Your Voice – September 2022, September 8-26, 2022, n=3,619. Question: “If governments were to reduce the overall burden of taxes and fees, what would your business do with the savings generated? (Select all that apply)”

[15] According to Innovation, Science and Economic Development Canada, a small business is defined as an establishment with 1 to 99 paid employees. Source: Statistics Canada, *Key Small Business Statistics*. The payroll of $2.5 million (50 employees on a $50,000 salary) was chosen to ensure continuity with the 2019 report. This figure allows us to showcase all applicable taxes across provinces. However, to reflect our membership more accurately, Appendix C contains the effective payroll tax rates and equivalent payroll contributions for a payroll of $500K (10 employees on a $50,000 salary).

[16] Provincial payroll taxes referred to in this paper are as follows: 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. While not explicitly mentioned in this document, Quebec imposes provincial payroll taxes related to labour standards and workforce skills development, contributing to the overall calculation of the payroll tax rate. For additional information, refer to Table A1 in Appendix A.

[17] The effective payroll tax rates are the total payroll tax revenues collected in each province expressed as a fraction of total wages and salaries. Source: Zhengxi Lin. *Payroll Taxes in Canada Revisited: Structure, Statutory Parameters, and Recent Trends*, Business and Labour Market Analysis Stats Can. August 2001.

[18] This is up from 13.1% in 2019. For 2019, see Cruz, Marvin. *Taxing Payroll: A barrier to business growth and competitiveness*. CFIB. April 2019.

[19] Wages and Salaries: Q1 2019 = 994,648 and Q1 2023 = 1,245,400. Source: Statistics Canada. Table 36-10-0103-01 Gross domestic product, income-based, quarterly (x 1,000,000)

[20] Manitoba moved up two spots, now below the national average. This is largely due to the increase in the exemption threshold for its Health and Post-Secondary Education Tax Levy, which went from $1.25 million of annual remuneration in 2019 to $2 million in 2023.

[21] As a result of increasing the exemption threshold for its Employer Health Tax and lowering its average WC premium rates, Ontario has slightly improved its employer's effective payroll tax rate compared to other provinces.

[22] Newfoundland and Labrador has the second highest average WC premium rates in the country. Consequently, its payroll tax rates, which were just below the national average, have increased despite increasing the exemption threshold for its Health and Post-Secondary Education Tax.

[23] Prince Edward Island has worsened in ranking by one spot, as its average WC premium rates in 2023 are still relatively high compared to other provinces despite a slight decrease since 2019.

[24] The CPP/QPP is financed on a pay-as-you-go basis (i.e., contributions by today's workers finance the benefits of today's recipients). All Canadian workers between the age of 18 and retirement (60 to 70) are covered by the program. Major changes to the plan (e.g., benefit levels, contribution rates, the contributory base, or the investment of the CPP fund) require the approval of the Parliament of Canada and the governments of at least two-thirds of the provinces with two-thirds of Canada's population.

[25] Government of Canada. Canada Pension Plan (2023-04-06). https://www.canada.ca/en/employment-social-development/programs/pension-plan.html

[26] These higher premium rates are meant to finance increases in the amount of future CPP/QPP benefits payable from one-quarter of eligible earnings to up to one-third.

[27] Government of Canada. The Canada Pension Plan enhancement – Businesses, individuals, and self-employed: what it means for you (2023-05-08). https://www.canada.ca/en/revenue-agency/news/2023/05/the-canada-pension-plan-enhancement--businesses-individuals-and-self-employed-what-it-means-for-you.html

[28] The premium rate and the maximum insurable earnings are set by the Canada Employment Insurance Commission, with the approval of the Governor in Council on the recommendation of the Minister of Human Resource Development and the Minister of Finance - Employment Insurance Act, https://laws-lois.justice.gc.ca/eng/acts/e-5.6/FullText.html

[29] Government of Canada, EI regular benefits: How much you can receive (2023-03-30). https://www.canada.ca/en/services/benefits/ei/ei-regular-benefit/benefit-amount.html.

[30] Government of Canada, EI premium rates and maximums (2023-07-19). https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/payroll-deductions-contributions/employment-insurance-ei/ei-premium-rates-maximums.html

[31] The WC tax is determined by the employer's total payroll. However, the tax rate that applies for the same payroll level can vary across different WCBs and industries due to experience rating. As a result, the amount of tax owed is influenced not only by the level of payroll but also by the employer's past utilization of the system, location, and industrial activity mix. For more, see Zhengxi Lin. *Payroll Taxes in Canada Revisited: Structure, Statutory Parameters, and Recent Trends.* Business and Labour Market Analysis Stats Can. August 2001.

[32] This latest reduction in assessment rates is partly due to strong investment returns through 2021, the lowest frequency rate in 13 years, and improved return-to-work outcomes for injured workers.

[33] Additionally, Quebec levies taxes related to labour standards and workforce skills development. For additional information, refer to Table A1 in Appendix A.

[34] British Columbia – Employer Health Tax; Manitoba – Health and Post-Secondary Education Tax Levy; Ontario – Employer Health Tax; Newfoundland – Health and Post-Secondary Education Tax; and Quebec – Health Services Fund.

[35] Jonathan Deslauriers, et al., *Estimating the impacts of payroll taxes: Evidence from Canadian employer-employee tax data*, IZA Institute of Labor Economics, 2018.

[36] Although there are some variations among sectors and communities, Quebec does not provide exemption thresholds to shield smaller businesses from its payroll taxes. Source: Revenu Québec, *Guide for Employers: Source Deductions and Contributions 2023.* https://www.revenuquebec.ca/documents/en/formulaires/tp/TP-1015.G-V%282023-01%29.pdf

[37] Manitoba Government, Budget 2023, Fiscal Summary of Measures: Business Measures *Health and Post-Secondary Education Tax Levy 2023/24*, 2023. "Effective Jan. 1, 2024, the exemption threshold is raised from $2 million to $2.25 million of annual remuneration. In addition, the threshold below which businesses pay a reduced effective rate is raised from $4 million to $4.5 million." https://www.gov.mb.ca/budget2023/tax-measures.html

[38] Revenu Québec, *Guide for Employers: Source Deductions and Contributions 2023.* https://www.revenuquebec.ca/documents/en/formulaires/tp/TP-1015.G-V%282023-01%29.pdf

[39] CFIB, Your Voice – September 2022, September 8-26, 2022, n=3,619. Question: "If governments were to reduce the overall burden of taxes and fees, what would your business do with the savings generated? (Select all that apply)"

Page 2 photo credit: littlenySTOCK, Description: Quebec City, Canada – November 7, 2022. View of historic lower Quebec City in Canada seen at night with people and lights.

Page 4 photo credit: Phuong D. Nguyen, Description: Ottawa, Canada - May 15, 2017. Interior of ByWardMarket in Ottawa, Canada. The market area has been a focal point for French and Irish communities.