

Provincial Summary¹

August 2019

Marvin Cruz, Senior Research Analyst

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

Key Findings from CFIB Surveys on Taxation in Newfoundland and Labrador**Tax Burden is Affecting Business Growth****77%**

of business owners say
tax burden is their top
concern

81%

of business owners say
payroll taxes affects business
growth the most

Reducing Taxes Would Help Businesses Grow**89%**

of business owners say
reducing taxes helps growth
the most

The Problem with Payroll Taxes for Businesses Owners**Profit Insensitive**

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

**Administrative Burden**

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

**Regressive**

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

Employer Payroll Tax Burden in 2019 – Where does Newfoundland and Labrador Stack Up?

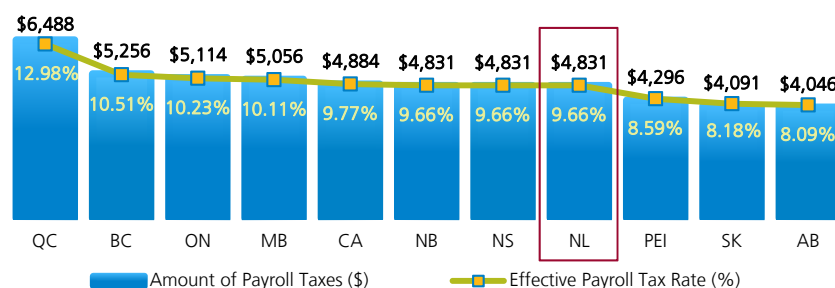
Payroll burden on employers is assessed using the effective payroll tax rate—i.e. payroll taxes as a percentage of salary—on a small business with 50 employees, each earning a typical salary of \$50,000 resulting in a total payroll of \$2.5 million.^{2,3} The level of payroll taxes faced by employers in Newfoundland and Labrador (NL) is \$4,831 or 9.66% effective payroll tax rate (see Figure 1). One reason for this, is NL's Health and Post Secondary Education Tax (HAPSET) which is levied on employers whose cumulative annual payroll exceeds \$1.3 million. Not surprisingly, other provinces where such a tax exist also rank among those with the highest payroll tax burden—British Columbia, Manitoba, Ontario and Quebec. For business owners in these provinces, this type of tax creates a competitive disadvantage compared to those provinces where no such tax exists.

¹ This summary is based on CFIB's main report on payroll taxes in Canada — [Taxing Payroll: A Barrier to Business Growth and Competitiveness](#).

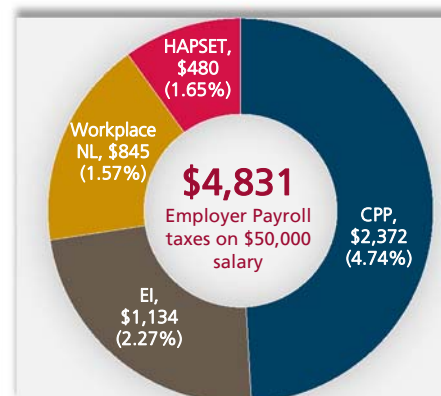
² Small business is defined as having 1 to 99 paid employees. Source: Statistics Canada. *Key Small Business Statistics* - January 2019.

³ Average national wage of \$50,760 was rounded to \$50,000 for simplification. Source: Statistics Canada, Table: 14-10-0204-01 (formerly CANSIM 281-0027). 2017.

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



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



Focus on Newfoundland and Labrador's HAPSET

- Newfoundland and Labrador's HAPSET creates a disincentive for businesses to grow. Consider a business whose total payroll is near the exemption threshold of \$1.3 million. For this business, the cost of hiring one additional employee is taxed at 2% of the employee's salary.
- The current exemption level fails to shield small businesses. For instance, a small business with a 50 employees, each earning an average salary of \$50,000 has a payroll of \$2.5 million; far exceeding the \$1.3 million threshold. A \$2.5 million payroll threshold would exempt most small businesses with fewer than 50 employees earning an average wage of \$50,000.
- Further, the province currently ignores adjusting the exemption level for inflation annually, failure to do so means the threshold does not reflect the changing dynamics of the economy, resulting in more businesses having to pay the tax every year.

Employer Payroll Tax in Newfoundland and Labrador on a \$50,000 Salary in 2019, by Payroll		
Payroll	Effective Payroll Tax Rate	Payroll Costs
\$1.3M	8.66%	\$4,350
\$2.5M	9.66%	\$4,831

Notes: For payroll over \$1.3 million, tax rate = 2% of total payroll – after deducting tax exemption of \$1.3 million.

Source: CFIB calculations.

Lowering the Payroll Burden in Newfoundland and Labrador

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

WorkplaceNL	✓ To avoid volatility in premium costs, workers' compensation boards must practice continued vigilance on administration costs. As well, regularly review the rate-setting process and the board's efficiencies (e.g. every 5 years).
	✓ Funding should be monitored closely and invested in the most prudent manner possible. Funding ratio (total assets over total liabilities) should be maintained between 100% and 110%. Reduce premiums or offer surplus distribution to employers, if funding ratio exceeds 110%.
Health and Post Secondary Education Tax	✓ 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, or raise the existing one, to at least \$2.5 million and index it to inflation.
	✓ Exempt employees that are outside of the worker's normal life contributing period (e.g. under the age of 18 and over the age of 65) from payroll tax calculations, in order to encourage labour force participation and ensure intergenerational equity.

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

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