

## Provincial Summary<sup>1</sup>

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

### Key Findings from CFIB Surveys on Taxation in Ontario

#### Tax Burden is Affecting Business Growth

**71%**

of business owners say tax burden is their top concern.

**79%**

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

#### Reducing Taxes Would Help Businesses Grow

**83%**

of business owners say reducing taxes helps growth the most.

### The Problem with Payroll Taxes for Business 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 Ontario 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.<sup>2,3</sup> Ontario employers face among the highest payroll taxes in the country at \$5,114 per employee, good for a 10.23% effective payroll tax rate (see Figure 1). One reason for this is Ontario's Employer Health Tax (EHT) which is levied on employers whose cumulative annual payroll exceeds \$490,000.<sup>4</sup> Not surprisingly, other provinces with similar taxes also rank among those with the highest payroll tax burden – Quebec, British Columbia, and Manitoba. This type of tax creates a competitive disadvantage for business owners in these provinces, compared to those where no such tax exists.

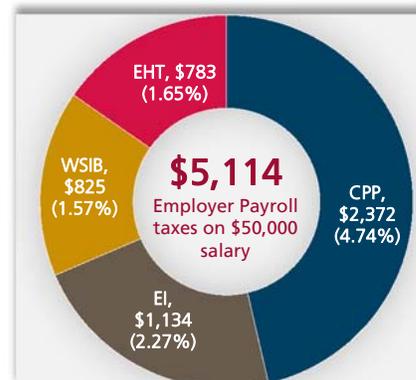
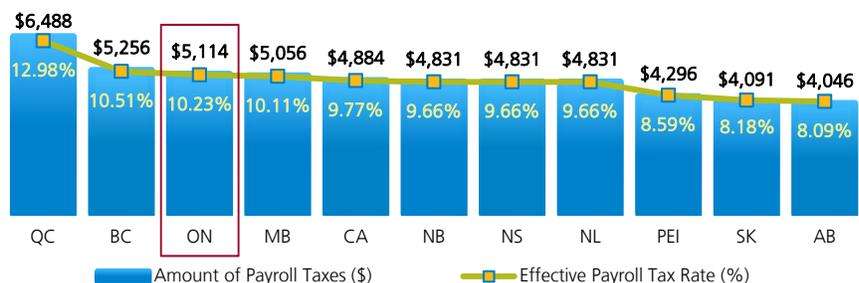
<sup>1</sup> This summary is based on CFIB's main report on payroll taxes in Canada — *Taxing Payroll: A Barrier to Business Growth and Competitiveness*.

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

<sup>3</sup> 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.

<sup>4</sup> Payroll between \$490,000 and \$5 million is taxed at 1.95%. Payroll over \$5 million is taxed at 1.95% on the total payroll.

**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 Ontario's Employer Health Tax

- Ontario's EHT creates a disincentive for businesses to grow. Consider a business whose total payroll is near the exemption threshold of \$490,000. For this business, the cost of hiring one additional employee is taxed at 1.95% of the employee's salary.
- The current exemption level fails to shield small businesses. For instance, a small business with 50 employees (each earning an average salary of \$50,000) has a payroll of \$2.5 million, far exceeding the \$490,000 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 adjusts the EHT exemption level every five years based on inflation, rather than annually. This means the threshold does not reflect the changing dynamics of the economy, resulting in more businesses having to pay the tax every year.

Payroll	Employer Payroll Tax in Ontario on a \$50,000 Salary in 2019, by Payroll	
	Effective Payroll Tax Rate	Payroll Costs
\$490K	8.66%	\$4,331
\$2.5M	10.23%	\$5,114

Notes: For payroll between \$490,000 and \$5 million, tax rate = 1.95% of total the payroll — after deducting any tax exemption.  
Source: CFIB calculations.

### Lowering the Payroll Burden in Ontario

Taxes imposed on small businesses create an uncompetitive business environment. Steps need to be taken to provide employers with the opportunity to invest in their business and increase the compensation and training opportunities for their staff. Helping businesses afford competitive job conditions has a direct positive outcome for employees and also for the overall economy. With this aim, CFIB has the following recommendations to implement a better payroll tax system in Ontario:

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| <b>Employer Health Tax (EHT)</b>                   | <ul style="list-style-type: none"> <li>✓ Eliminate the EHT (e.g. commit to a 10-year plan to phase out the provincial payroll tax).</li> <li>✓ In the meantime, to shield small business from the EHT, raise the existing threshold to at least \$2.5 million and index it to inflation annually.</li> <li>✓ Genuinely earmark the EHT with a direct link between the tax and its intended program.</li> </ul>   |
| <b>Workplace Safety and Insurance Board (WSIB)</b> | <ul style="list-style-type: none"> <li>✓ The WSIB should practice continued vigilance on administration costs.</li> <li>✓ Funding should be monitored closely and invested in the most prudent manner possible.</li> <li>✓ In general, CFIB advocates across Canada for a workers' compensation board funding ratio (ratio between total assets and total liabilities) of 100-110 per cent. However, the WSIB's Chief Actuary is in the best position to recommend the exact appropriate target level of funding for Ontario.</li> <li>✓ Introduce a mandatory rebate or credit policy to return extra money to the employers who paid it in any year the target funding level is exceeded (i.e., if and when a surplus is realized).</li> </ul> |

For a complete list of CFIB's recommendations on the general payroll tax system in Canada, please refer to the full report.<sup>5</sup>

<sup>5</sup> This summary is based on CFIB's main report on payroll taxes in Canada — [Taxing Payroll: A Barrier to Business Growth and Competitiveness](#).