

## 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, and property 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 Quebec

#### Tax Burden is Affecting Business Growth

**82%**

of business owners say tax burden is their top concern

**68%**

of business owners say payroll taxes are the most difficult tax to absorb

#### Reducing Taxes Would Help Businesses Grow

**87%**

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 Quebec Stack Up?

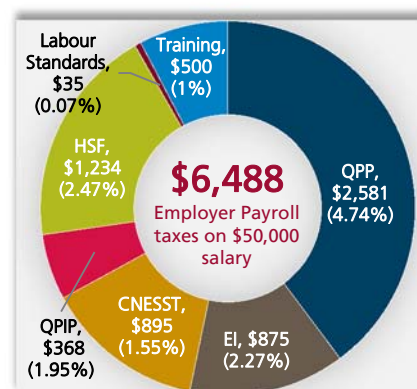
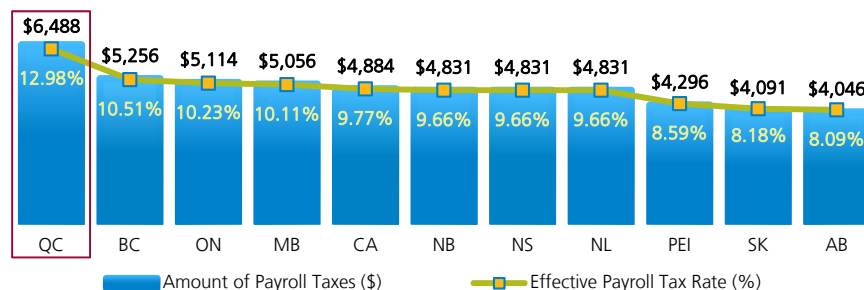
Of all Canadian provinces, employers in Quebec face the highest payroll burden, at \$6,488 or 12.98% effective payroll tax rate on a \$50,000 salary (see Figure 1). This stems from the fact that Quebec employers pay the greatest number of payroll taxes at seven, the next closest is four. Further, Quebec is among those provinces that levies a provincial payroll tax—Health Services Fund (HSF). Other provinces where such a tax exists also rank among those with the highest payroll tax burden—British Columbia, Manitoba, Ontario, and Newfoundland and Labrador. Quebec, however, is the only province that does not provide an exemption threshold for smaller businesses. For business owners in these provinces, this type of tax creates a competitive disadvantage compared to those provinces where no such tax exists. 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>

<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> 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.

<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), Annualized industrial aggregate excluding unclassified businesses (Canada) 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 Quebec’s Health Services Fund

- The HSF creates a disincentive for businesses to grow. For instance, for payroll levels below \$1 million, hiring an additional employee is taxed at 1.70%. For payroll levels from \$1 million to \$6 million there is a variable rate based on a formula. For payrolls above \$6 million, the rate is 4.26%.<sup>4</sup>
- Introducing an exemption threshold for the HSF is the first step to shielding smaller business from paying the tax. To fully shield smaller businesses, a \$2.5 million threshold would exempt most employers with fewer than 50 employees earning the average wage.
- Further, adjusting the exemption level for inflation annually, means the threshold reflects the changing dynamics of the economy.

### Lowering the Payroll Burden in Quebec

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 Quebec.

<b>General Recommendations</b>	<ul style="list-style-type: none"> <li>✓ 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.</li> </ul>
<b>Health Services Fund</b>	<ul style="list-style-type: none"> <li>✓ Eliminate the HSF (e.g. commit to a 10-year plan to phase out this provincial payroll tax).</li> <li>✓ In the meantime, to help shield small business from the HSF, raise the exemption to at least \$2.5 million and index it to inflation.</li> </ul>
<b>CNESST</b>	<ul style="list-style-type: none"> <li>✓ To avoid volatility in premium costs, continue to apply the capitalization policy and review it periodically.</li> <li>✓ Practice continued vigilance on administration costs.</li> <li>✓ Funding should be monitored closely and invested in the most prudent manner possible.</li> </ul>

Note, for a complete list of CFIB’s recommendations pertaining to the general payroll tax system in Canada refer to the full report.<sup>5</sup>

<sup>4</sup> Rate for SMEs in sectors other than the primary and manufacturing sectors.

<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](#).