



**CANADIAN FEDERATION
OF INDEPENDENT BUSINESS™**

Ranking Provincial Tax Systems in Canada:

CFIB's 2013 Small Business Provincial Tax Index



Powered by Entrepreneurs™

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CFIB's 2013 Small Business Provincial Tax Index

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Canadian Federation of Independent Business
4141 Yonge Street
Toronto, ON M2P 2A6

ISBN 978-0-9878958-4-4
Printed in Canada

Également publié en français sous le titre *Classement des régimes fiscaux provinciaux au Canada : Indice des taxes et impôts provinciaux des PME, 2013, de la FCEI*

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Executive Summary

This is the Canadian Federation of Independent Business' (CFIB) second edition of the *Small Business Provincial Tax Index*. Similar to the first edition, published in 2009, CFIB's 2013 *Index* examines elements of the provincial tax system through the lens of the small- and medium-sized business (SME) owner. The 2013 *Index* encompasses 53 indicators in five major areas of the tax system—premiums and payroll tax; sales and excise tax; corporate income tax; personal income tax; and property tax.

2013 Small Business Provincial Tax Index (10 is best; 0 is worst)

Best (10)		Overall Index Scores	Premiums and Payroll Tax Subindex	Sales and Excise Tax Subindex	Corporate Income Tax Subindex	Personal Income Tax Subindex	Property Tax Subindex
	Alberta	8.53	9.6	9.7	7.3	9.1	5.8
	Saskatchewan	7.01	9.1	3.5	7.5	6.7	7.4
	New Brunswick	6.98	9.2	6.4	6.4	5.7	5.6
	Newfoundland and Labrador	6.17	6.5	4.8	6.7	5.4	7.5
	Prince Edward Island	5.90	7.5	5.0	5.9	3.3	6.9
	Manitoba	5.67	6.5	4.8	7.4	4.1	4.9
	British Columbia	5.65	7.0	1.8	7.6	6.9	4.3
	Ontario	5.50	4.6	7.2	6.1	6.6	3.1
	Nova Scotia	5.22	7.5	4.6	3.7	4.2	4.7
Worst (0)	Quebec	3.97	3.7	5.3	3.0	2.3	5.8

As it did in 2009, Alberta tops the list of the 2013 *Index* (overall score of 8.53 out of 10), while Quebec once again fares the poorest (overall score of 3.97 out of 10). Newfoundland and Labrador and Prince Edward Island experienced the largest improvement in rankings from 2009, each moving two positions from 6th to 4th position and from 7th to 5th position respectively. British Columbia experienced the largest drop in the rankings moving from 4th to 7th position.

Small Business Provincial Tax Index, Rank and Overall Score 2013 vs. 2009 (10 is best; 0 is worst)

Province	2013 Rank	2013 Overall Score	2009 Rank	2009 Overall Score	Change from 2009 to 2013	
					Rank	Overall Score
Alberta	1	8.53	1	7.98	0	0.55
Saskatchewan	2	7.01	3	6.30	1	0.71
New Brunswick	3	6.98	2	6.32	-1	0.66
Newfoundland and Labrador	4	6.17	6	5.45	2	0.72
Prince Edward Island	5	5.90	7	5.24	2	0.66
Manitoba	6	5.67	5	5.60	-1	0.07
British Columbia	7	5.65	4	5.72	-3	-0.07
Ontario	8	5.50	9	4.10	1	1.40
Nova Scotia	9	5.22	8	5.08	-1	0.14
Quebec	10	3.97	10	4.02	0	-0.05

It is CFIB's intention that these scores be incorporated into provincial policy development as a way to create a tax system that embraces, not hinders, the growth potential of SMEs. Given that Canada depends on the SME sector for its economic growth and vitality, it is critical that policymakers have greater insight as to how the tax system impacts smaller businesses.

Introduction

A competitive tax system plays a key role in attracting new investment and generating economic growth. Small- and medium-sized businesses (SMEs) offer the greatest potential for creating new jobs and innovation, which is critical to the health of the Canadian economy. Tax reform that takes into account the role of the small business sector can provide a significant boost to Canadian entrepreneurship. As such, creating a flourishing tax climate for SMEs should be a priority for policymakers at all levels of government.

For small businesses, an ideal tax system should be:

- ▶ Simple and understandable so that it minimizes the administrative burden of compliance;
- ▶ Visible and transparent to help ensure accountability;
- ▶ Stable and predictable to facilitate accurate tax planning for businesses;
- ▶ Neutral and competitive by assuring the efficient allocation of resources and by aiming to boost business productivity;
- ▶ Fair by having taxpayers with a similar ability to pay taxed the same or similar amounts and, conversely, taxpayers with a greater ability to pay should pay more.

The Canadian Federation of Independent Business' 2013 *Small Business Provincial Tax Index*¹ identifies the provincial tax system that is best for SMEs to do business. This unique research presents a comparison of provincial tax systems from the perspective of a small business owner. This is the second edition of the *Small Business Provincial Tax Index*. The first edition was published in April 2009.

CFIB created this unique report to increase the level of awareness of taxation issues affecting the SME sector among tax experts, government policymakers, CFIB members, private think tanks and the academic community. It is also a helpful tool for entrepreneurs looking to understand the impact of jurisdictional tax policy on the success of their businesses.

¹ Territories are treated separately, and do not affect the ranking of the provinces. See Appendix for the Territorial scoring.

Assessing Provincial Tax Systems

CFIB's 2013 *Small Business Provincial Tax Index* was developed as a comprehensive ranking based on the five main components (subindex) of the tax structure. These are:

Subindex A. Premiums and Payroll Tax Subindex (10 indicators)

Subindex B. Sales and Excise Tax Subindex (10 indicators)

Subindex C. Corporate Income Tax Subindex (14 indicators)

Subindex D. Personal Income Tax Subindex (12 indicators)

Subindex E. Property Tax Subindex (7 indicators)

Each subindex was designed to rate each province's tax system on a scale of zero (worst) to 10 (best). Various indicators are incorporated into each subindex and each one is categorized as either a primary or secondary indicator. Primary indicators are those which have the most harmful impact on smaller business owners because they represent a significant tax burden, are levied on all businesses, and are levied on a more frequent basis. Secondary indicators are those which have a lesser impact on businesses, or are levied on only some businesses, or are levied on a less frequent basis.

Primary indicators are given 70 per cent weights each and secondary indicators are weighted 30 per cent each. The exception is the Premiums and Payroll Tax Subindex, which is equally weighted between workers' compensation board indicators and payroll tax indicators.

Each indicator is either a scalar indicator (has a value on a scale between 0 and 10), or a binary indicator (has a value of either 0 and 10, or 0 and 1). Overall, within the five indexes there are 53 indicators (see Appendix B). The *Index* is designed as a relative index, in which each indicator is ranked relative to the indicator's range in other provinces.

In calculating the overall score, the five subindexes are weighted according to how each form of taxation affects the growth of SMEs. Based on results from CFIB's *2013 Federal Budget Survey*², the following weights were assigned:

29 per cent—Premiums and Payroll Tax Subindex

20 per cent—Sales and Excise Tax Subindex

19 per cent—Corporate Income Tax Subindex

17 per cent—Personal Income Tax Subindex

15 per cent—Property Tax Subindex

² *Point of View: 2013 Federal Budget Survey*. Conducted online September 17 – October 25, 2012. Total responses: 7,599.

Refer to the Methodology section in Appendix B for more details on how scores were calculated. The 2013 *Index* is based on tax rules and rates that were in effect as of July 1st, 2013 (specific dates for each indicator are listed in Tables 3, 4, 5, 7, and 9). Its purpose is to serve as the basis for tax comparisons, rather than providing specific tax advice for business owners.

Principal Findings

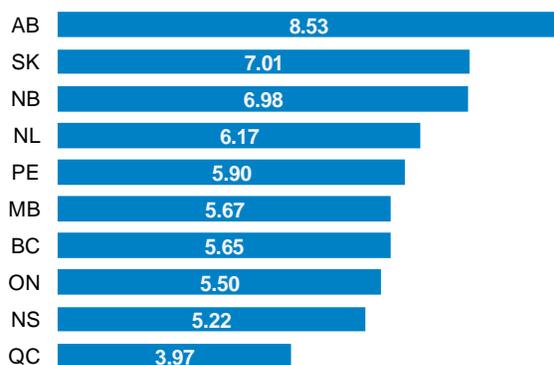
Provinces are ranked according to their ability to provide an equitable and effective tax system which helps to foster a competitive environment for small- and medium-sized businesses. Those provinces that score the best levy low tax rates and apply broad-based incentives that are simple and accessible to as many taxpayers as possible, while also making efforts to minimize the tax burden on the small- and medium-sized business sector.

Alberta tops the 2013 *Index* with an overall score of 8.53 out of 10 (see Figure 1). The province's top ranking is helped in part by not having its own provincial sales tax, a high basic personal exemption, low workers' compensation premiums, and no employer or employee-paid payroll taxes. Quebec, on the other hand, ranks at the bottom with an overall score of 3.97. This score reflects the high tax rates and the large amount of tax credits that exist in the corporate and personal income tax systems—too many tax credits can complicate the tax system, narrow the tax base and drive up tax rates for businesses that do not qualify. In addition, the province also suffers from the highest payroll tax burden on employers in the country.

Overall Rankings and Scores

Figure 1

2013 Small Business Provincial Tax Index, Overall Score (10 is best; 0 is worst)



Highest Score—Alberta

- ▶ No employee or employer payroll taxes.
- ▶ No provincial sales tax.
- ▶ Low personal income tax rate and high personal exemption.

Lowest Score—Quebec

- ▶ High employer-paid payroll taxes.
- ▶ High number of corporate and personal income tax credits.
- ▶ High corporate and personal income tax rates.

Source: CFIB calculations, see Table 2.

In comparing the 2013 *Index* rankings with the 2009 rankings, Alberta continues to take the top spot, while Quebec maintains its bottom rank (see Table 1). Newfoundland and Labrador and Prince Edward Island experienced the largest improvement in rankings from 2009, each moving two positions from 6th to 4th position and from 7th to 5th position respectively. While British Columbia experienced the largest drop in the rankings moving from 4th to 7th position. Conversely, Ontario had the most improved score.

Table 1

Small Business Provincial Tax Index, Rank and Overall Score 2013 vs. 2009 (10 is best; 0 is worst)

Province	2013 Rank	2013 Overall Score	2009 Rank	2009 Overall Score	Change from 2009 to 2013 Rank	Change from 2009 to 2013 Overall Score
Alberta	1	8.53	1	7.98	0	0.55
Saskatchewan	2	7.01	3	6.30	1	0.71
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Nova Scotia	9	5.22	8	5.08	-1	0.14
Quebec	10	3.97	10	4.02	0	-0.05

The scores for each of the five major areas in the 2013 *Index* vary significantly, a clear sign that tax treatment for smaller businesses differs according to province (see Table 2). Alberta earns the highest score in three of the five major subindexes, including premiums and payroll tax, personal income tax, and sales and excise tax. Newfoundland and Labrador tops the property tax subindex, and British Columbia scores the best in the corporate income tax subindex. At the other end, Quebec earns the lowest position for three of the five areas including premiums and payroll tax, corporate income tax, and personal income tax. Ontario scores the poorest in the property tax subindex, and British Columbia scores the worst in the sales and excise tax subindex.

Table 2

2013 Small Business Provincial Tax Index, Subindex Scores (10 is best; 0 is worst)

Overall Score	Premiums and Payroll Tax Subindex	Sales and Excise Tax Subindex	Corporate Income Tax Subindex	Personal Income Tax Subindex	Property Tax Subindex
AB 8.53	AB 9.6	AB 9.7	BC 7.6	AB 9.1	NL 7.5
SK 7.01	NB 9.2	ON 7.0	SK 7.5	BC 6.9	SK 7.4
NB 6.98	SK 9.1	NB 6.2	MB 7.4	SK 6.7	PE 6.9
NL 6.17	PE 7.5	QC 5.0	AB 7.3	ON 6.6	QC 5.8
PE 5.90	NS 7.5	MB 4.6	NL 6.7	NB 5.7	AB 5.8
MB 5.67	BC 7.0	NL 4.5	NB 6.4	NL 5.4	NB 5.6
BC 5.65	NL 6.5	PE 4.5	ON 6.1	NS 4.2	MB 4.9
ON 5.50	MB 6.5	NS 4.3	PE 5.9	MB 4.1	NS 4.7
NS 5.22	ON 4.6	SK 3.9	NS 3.7	PE 3.3	BC 4.3
QC 3.97	QC 3.7	BC 1.8	QC 3.0	QC 2.3	ON 3.1

A detailed description of each component indicator, and scores for each subindex will be discussed in the next sub-sections (A to E).

Table 3: Premiums and Payroll Tax Subindex (score below data, score: best—10; worst—0)

Workers' Compensation Indicators	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
A1.1 Rate: Restaurants—\$ per \$100 insurable earnings	\$0.96 (9.2)	\$0.85 (10.0)	\$0.99 (8.9)	\$0.91 ¹ (9.5)	\$1.68 (3.7)	\$1.72 (3.4)	\$0.98 (9.0)	\$1.79 (2.8)	\$0.95 (9.2)	\$2.16 (0.0)
A1.2 Rate: Machine Shop General—\$ per \$100 insurable earnings	\$1.91 (7.5)	\$1.16 (10.0)	\$2.22 (6.5)	\$2.84 ¹ (4.5)	\$2.61 (5.2)	\$3.52 (2.2)	\$2.26 (6.4)	\$2.39 (5.9)	\$4.19 (0.0)	\$3.73 (1.5)
A1.3 Rate: Landscaping—\$ per \$100 insurable earnings	\$2.49 (8.8)	\$1.86 (9.9)	\$2.19 (9.3)	\$2.20 ¹ (9.3)	\$4.93 (4.7)	\$7.70 (0.0)	\$1.79 (10.0)	\$3.89 (6.4)	\$3.94 (6.4)	\$2.93 (8.1)
A1.4 Rate: General Trucking—\$ per \$100 insurable earnings	\$5.62 (5.6)	\$4.25 (7.9)	\$3.73 (8.7)	\$2.95 ¹ (10.0)	\$6.72 (3.8)	\$9.01 (0.0)	\$3.18 (9.6)	\$5.81 (5.3)	\$7.10 (3.2)	\$4.89 (6.8)
A1.5 Gap between maximum insurable earnings and average yearly earnings ² —%	34% (6.1)	13% (7.6)	-19% (10.0)	117% ³ (0.0)	46% (5.2)	26% (6.7)	20% (7.1)	11% (7.8)	16% (7.4)	-14% (9.6)
A1.6 Total % change of the average assessment rate, 2004–2013	-17.2% (4.5)	-53.1% (10.0)	-23.0% (5.4)	-12.8% (3.8)	11.8% (0.0)	-2.8% (2.2)	-39.3% (7.9)	2.3% (1.5)	-14.6% (4.1)	-19.2% (4.8)
Health and Payroll Tax Indicators ⁴	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
A2.1 Employer-paid payroll tax, no threshold—\$ per average employee	0.0 (10.0)	0.0 (10.0)	0.0 (10.0)	0.0 (10.0)	0.0 (10.0)	\$2,361 ⁵ (0.0)	0.0 (10.0)	0.0 (10.0)	0.0 (10.0)	0.0 (10.0)
A2.2 Employer-paid payroll tax, with threshold—\$ per average employee	\$0 (10.0)	\$0 (10.0)	\$0 (10.0)	\$2,013 (0.0)	\$913 (5.5)	\$468 (7.7)	\$0 (10.0)	\$0 (10.0)	\$0 (10.0)	\$937 (5.3)
A2.3 Threshold for employer-paid payroll taxes—\$ ⁶	na (10.0)	na (10.0)	na (10.0)	\$1.25M (6.1)	\$400,000 ⁷ (1.9)	\$1.0M ⁸ (4.9)	na (10.0)	na (10.0)	na (10.0)	\$1.2M (5.8)
A2.4 Employee-paid premium/payroll tax—\$ per average employee	\$798 ⁹ (0.0)	\$0 (10.0)	\$0 (10.0)	\$0 (10.0)	\$450 ⁹ (4.4)	\$262 ¹⁰ (6.7)	\$0 (10.0)	\$0 (10.0)	\$0 (10.0)	\$0 (10.0)
Overall Score	7.0	9.6	9.1	6.5	4.6	3.7	9.2	7.5	7.5	6.5

Note: A1.1 to A2.4—2013 data.

1. Manitoba's industry rates are the new firm rates for 2012. Categories used for comparison are restaurants and catering, metal working plants, landscaping and cartage trucking.

2. Average yearly earnings for each province is calculated by multiplying the January 2013 average weekly earnings, seasonally adjusted, for the goods producing industries by 52. Source: Statistics Canada, Table 281-0028.

3. While there is no limit on insurable earnings used for calculation of a worker's benefits, there is a limit on assessable earnings per worker used in the calculation of an employer's assessment. For 2013, the maximum assessable earnings level is \$111,000.

4. Employer and employee-paid payroll taxes are calculated using the average national wage of \$46,825—annualized industrial aggregate excluding unclassified businesses (Canada) January 2013. Source: Statistics Canada, Table 281-0028.

5. Calculation performed with the use of WinRAS application.

6. Provinces with no payroll tax, represented as "na" (not applicable), receive a perfect score of 10.

7. Eligible employers are exempt from the Employer Health Tax (EHT) on the first \$400,000 of total Ontario remuneration each year. As of January 2014, the EHT threshold will be increased to \$450,000 for companies under \$5million of annual payroll.

8. Workforce Skills Development and Recognition Fund (WSDRF)

9. Employee-paid premiums were calculated using health premiums for a single individual.

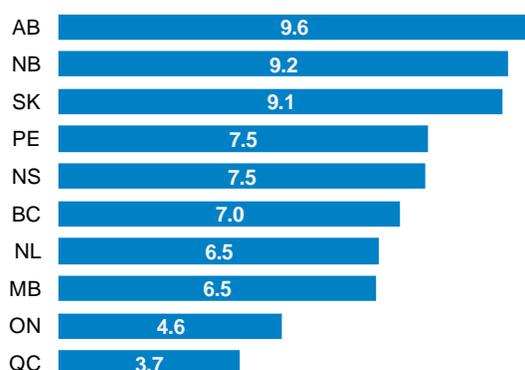
10. Calculation performed with the use of WinRAS application.

A. Premiums and Payroll Tax Subindex

Workers' compensation premiums and payroll taxes pose a particular challenge for smaller businesses as they are insensitive to profit. They also tend to place a disproportionate burden on SMEs, which are more labour intensive than larger firms. High payroll tax rates make it more difficult for small business owners to increase their employee wages, invest in their business and create jobs. All of the indicators in this subindex (see Table 3) focus on either workers' compensation premiums or the various types of provincial³ taxes on payroll, paid by either the employer or the employee.

Figure 2

Premiums and Payroll Tax Subindex (Score: Best—10; Worst—0)



Highest Score—Alberta

- ▶ Some of the lowest workers' compensation rates in the country.
- ▶ No employee or employer payroll taxes.

Lowest Score—Quebec

- ▶ High workers' compensation premium rates.
- ▶ Only province with an employer paid payroll tax with no threshold.

Source: CFIB calculations, see Table 3.

A1. Workers' Compensation Indicators

A1.1–A1.4 Rates for Major Industries

Assessment rates vary significantly from one industry to another. Likewise the industry composition also varies from one province to another. As a result, comparisons between provincial average assessment rates can be misleading. To provide a comparison of workers' compensation assessment rates, four different industries that are inclusive of a significant representation of the small business community were selected. Provinces with lower assessment rates for each industry receive higher scores.

³ Payroll taxes and premiums paid at the federal level are levied through Employment Insurance (EI) and the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP).

A1.1 Restaurants

In the restaurant category, Alberta scores the best with a rate of \$0.85 per \$100 of assessed payroll (see Figure 3). Newfoundland and Labrador scores worst with a rate of \$2.16 per \$100 of assessed payroll.

A1.2 Machine Shop

For machine shop general category, Alberta scores best with a rate of \$1.16 per \$100 of assessed payroll. Prince Edward Island scores lowest with a rate of \$4.19 per \$100 of assessed payroll.

A1.3 Landscaping

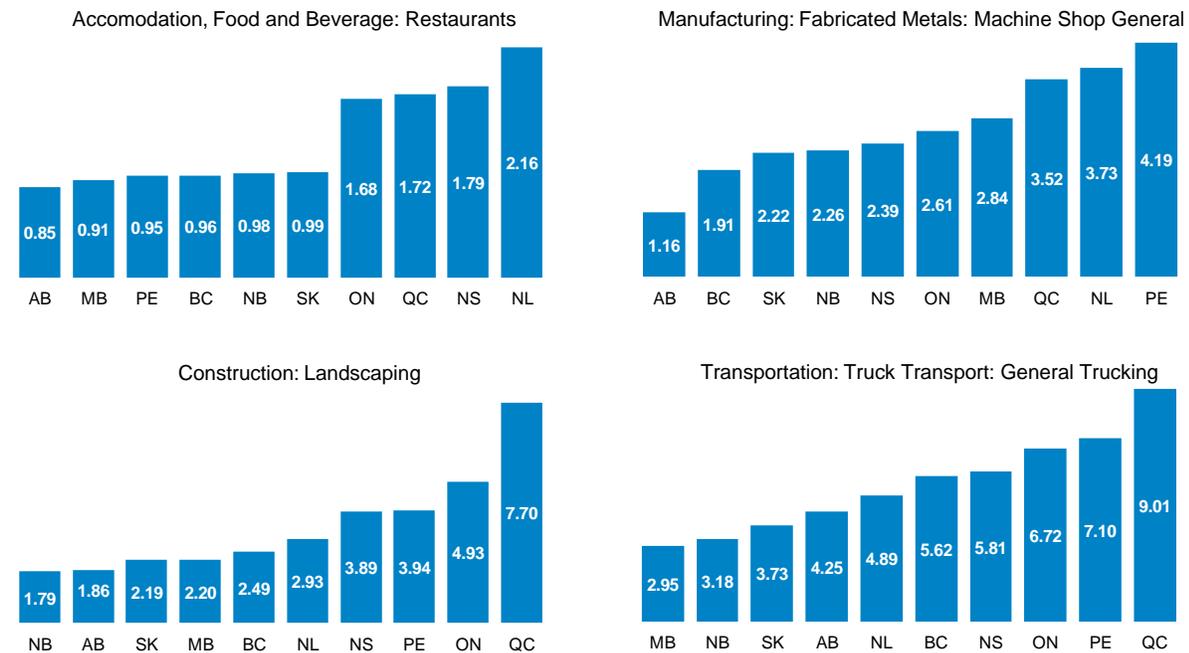
In landscaping, New Brunswick takes the top spot with a rate of \$1.79 per \$100 of assessed payroll, whereas Quebec scores by far the worst with a rate of \$7.70 per \$100 of assessed payroll.

A1.4 General Trucking

For general trucking, Manitoba scores the best with a premium of \$2.95 per \$100 of assessed payroll, while Quebec again scores lowest with a premium rate of \$9.01 per \$100 of assessed payroll.

Figure 3

Workers' Compensation Premiums for Major Industries, \$ per \$100 of insurable earnings, 2013



Source: Workers' compensation boards

A1.5 Gap Between Maximum Insurable Earnings and Average Yearly Earnings

Workers' compensation insurable earnings are the portion of an employee's gross earnings on which an employer must pay assessments, before deductions for income and payroll taxes. The maximum insurable earnings mark the highest level up to which an employer pays premiums.

In practice, maximum insurable earnings should be close to the average annual earnings, to assure program costs are under control and that benefits are not overly generous. As a result, the lower the gap between maximum insurable earnings and the average annual earnings, the higher the score.

To account for wage differences among provinces, this indicator compares the maximum insurable earnings to the average annualized earnings for goods producing industries by province⁴. Workers' compensation systems generally provide coverage to the goods-producing sector, which offers a higher-than-average wage level.

Saskatchewan receives the highest score for this indicator. Manitoba receives the lowest score for this indicator since it does not have a maximum insurable earning limit. This may result in creating a disincentive for injured workers to return to work. It is also unfair to smaller firms since basing benefits on income for which no premiums are paid likely means that firms with lower wages are subsidizing those with higher wages.

A1.6 Total Percentage Change of the Average Assessment Rate, 2004–2013

This indicator is intended to capture the overall trend in the average assessment rate of each province during the past ten years. A province with a downward trend in the average assessment rate receives a higher score, while a province with an upward trend receives a lower score.

All provinces with the exception of Ontario and Nova Scotia had a downward trend in their total percentage change in average assessment rate. Alberta scores the highest with an overall downward trend of 53.1 per cent. Ontario scores the lowest in this indicator with the most severe upward trend of 11.8 per cent.

A2 Health and Payroll Tax Indicators

In certain provinces payroll taxes are paid by employers whose cumulative annual payroll exceeds a predetermined exemption threshold. Employer-paid payroll taxes exist in Manitoba, Ontario, Quebec, and Newfoundland and Labrador.

⁴ Average weekly earnings—Industrial aggregate excluding unclassified businesses January 2013. Statistics Canada, Table 281-0028. <http://www5.statcan.gc.ca/cansim/a03?lang=eng&pattern=281-0023.281-0039&p2=31>.

A2.1 Employer-paid Payroll Tax, No Threshold

Quebec is the only province that charges employers payroll taxes with no threshold for businesses with smaller payrolls. This indicator is made up of three taxes:

- ▶ ***The Health Services Fund Tax (HSF)***: For employers, the HSF contribution rate is generally 2.7 per cent of total payroll for employers with annual payroll of \$1 million or less. The contribution rate varies, based on a formula, for businesses with an annual payroll between \$1 million and \$5 million. The rate is 4.26 per cent of total payroll for employers whose total payroll is greater than \$5 million. For employees earning over \$13,660, the HSF contribution is equal to 1 per cent of earnings up to a maximum of \$150. For employees earning between \$47,660 and \$132,491, the rate is 1 per cent of earnings plus \$150. All employees earning over that pay \$1,000.
- ▶ ***The Quebec Parental Insurance Plan (QPIP)***: For employees and employers the premiums are 0.559 per cent, 0.782 per cent of earnings respectively. For self-employed workers, the rate is 0.99 per cent of earnings under \$66,000.
- ▶ ***Contribution to the Financing of the Commission des normes du travail (CNT)***: This is a payroll tax of 0.08 per cent of payroll, with a maximum of \$67,500 per employee.

These employer taxes can add as much as \$2,361 to the cost of hiring an average worker earning \$46,825⁵. Quebec scores zero in this indicator; all other provinces receive a score of 10.

A2.2 Employer-paid Payroll Tax, with Threshold

Quebec, Ontario, Manitoba and Newfoundland and Labrador have employer payroll taxes that have thresholds for businesses with smaller payrolls.

Quebec's *Workforce Skills Development and Recognition Fund (WSDRF)*, is a premium of 1 per cent for employers with payrolls above \$1 million who have not allotted at least 1 per cent of payroll to training. Such employers must pay a contribution equal to the difference between 1 per cent of their total payroll and the amount of their eligible training expenditures.

Manitoba's *Health and Post Secondary Education Tax* is levied on businesses with payrolls between \$1.25 million and \$2.5 million at a rate of 4.3 per cent on the amount in excess of \$1.25 million. When a business's payroll is above \$2.5 million the rate is set at 2.15 per cent of total payroll.

⁵ Average national wage of \$46,825—annualized industrial aggregate excluding unclassified businesses (Canada) January 2013. Source: Statistics Canada, Table 281-0028.

Ontario's *Employer Health Tax* is applied to businesses with a payroll over \$400,000 at a rate of 1.95 per cent on the portion of their payroll that is in excess of \$400,000. To acknowledge the higher compliance costs on small employers, Ontario allows businesses with payrolls less than \$600,000⁶ to remit this tax annually rather than monthly.

Newfoundland and Labrador's *Health and Post Secondary Payroll Tax* applies to businesses with payrolls over \$1.2 million at a rate of 2 per cent on the portion of their payroll that is in excess of the tax free exemption amount.

To compare the burden of employer-paid payroll taxes between provinces, this indicator considers the tax that would be paid for an average worker earning an average annual salary (\$46,825)⁷ if the business was taxed at the highest rate.

Provinces with no employer-paid payroll tax score a perfect 10. Among those that do levy a payroll tax with thresholds, Manitoba scores the worst with premiums totaling \$2,013.

A2.3 Threshold for Employer-paid Payroll Taxes

To shield smaller businesses from these types of payroll taxes, the provinces would have to set their thresholds fairly high. For instance, a \$2.5 million payroll threshold would exempt most employers with fewer than 50 employees earning the average wage (46,825)⁸. For this indicator, provinces are scored relative to this benchmark (\$2.5 million payroll threshold).

Those provinces with no employer-paid payroll tax score a perfect 10. Among those provinces with employer-paid payroll taxes, Ontario scores the lowest with a threshold of \$400,000.

A2.4 Employee-paid Premium/Payroll Tax

The majority of provinces do not impose a payroll tax that is paid by employees; only British Columbia, Ontario and Quebec impose such a tax.

All provinces that do not collect an employee-paid premium receive a score of 10 in this indicator. British Columbia scores the worst overall by charging an individual flat tax of \$768 regardless of wage or salary level. Ontario also receives a low score due to its employee health tax which amounts to \$450 per single individual employee. Quebec scores poorly since employees in the province contribute to the Quebec Parental Insurance Plan at a rate of \$0.56 per \$100 of payroll with no threshold for exemption.

⁶ As of January 2014, the EHT exemption threshold will increase to \$450,000 for companies with annual payroll under \$5 million.

⁷ Average national wage of \$46,825—annualized industrial aggregate excluding unclassified businesses (Canada) January 2013. Source: Statistics Canada, Table 281-0028.

⁸ Ibid.

Table 4: Sales and Excise Tax Subindex (score below data, score: best—10; worst—0)¹

Primary Indicators	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
B1.1 PST rate—%	7.0% (3.0)	0.0% (10.0)	5.0% (5.0)	7.5% ² (2.5)	8.0% ³ (2.0)	9.975% (0.0)	8.0% ³ (2.0)	10.0% ³ (0.0)	9.25% ^{3,4} (0.8)	8.0% ³ (2.0)
B1.2 Tax on business inputs—Yes/No	Yes (0)	No (10)	Yes (0)	Yes (0)	No (10)	No (10)	No (10)	No (10)	No (10)	No (10)
B1.3 Fuel tax: clear gasoline—cents per litre	23.22¢ ⁵ (0.0)	9.00¢ (10.0)	15.00¢ (5.8)	14.00¢ (6.5)	14.70¢ (6.0)	19.20¢ (2.8)	13.60¢ (6.8)	15.50¢ (5.4)	13.10¢ (7.1)	16.50¢ (4.7)
B1.4 Fuel tax: clear diesel—cents per litre	24.72¢ ⁵ (0.0)	9.00¢ (10.0)	15.00¢ (6.2)	14.00¢ (6.8)	14.30¢ (6.6)	20.20¢ (2.9)	19.20¢ (3.5)	15.40¢ (5.9)	20.20¢ (2.9)	16.50¢ (5.2)
Secondary Indicators	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
B2.1 Insurance tax: life, accident, sickness—%	2.00% (10.0)	2.00% (10.0)	3.00% (5.0)	2.00% (10.0)	2.00% (10.0)	2.30% (8.5)	2.00% (10.0)	3.00% (5.0)	3.50% (2.5)	4.00% (0.0)
B2.2 Insurance tax: automobile—%	4.40% (3.0)	3.00% (10.0)	5.00% (0.0)	3.00% (10.0)	3.00% (10.0)	3.30% (8.5)	3.00% (10.0)	4.00% (5.0)	3.50% (7.5)	4.00% (5.0)
B2.3 Insurance tax: property plus fire—%	4.40% (3.8)	3.00% (10.0)	5.00% (1.1)	4.25% (4.4)	3.50% (7.8)	3.30% (8.7)	4.00% (5.6)	5.25% (0.0)	4.50% (3.3)	4.00% (5.6)
B2.4 Insurance tax: all other premiums—%	4.00% (0.0)	3.00% (10.0)	4.00% (0.0)	3.00% (10.0)	3.00% (10.0)	3.30% (7.0)	3.00% (10.0)	4.00% (0.0)	3.50% (5.0)	4.00% (0.0)
B2.5 Tobacco tax—cents per cigarette	21.30¢ (4.6)	20.00¢ (5.4)	25.00¢ (2.4)	29.00¢ (0.0)	12.35¢ (10.0)	12.90¢ (9.7)	19.00¢ (6.0)	23.52¢ (3.3)	22.50¢ (3.9)	20.50¢ (5.1)
B2.6 Single sales tax administration—Yes/No ⁵	No (0.0)	na ⁶ (1.0)	No (0.0)	No (0.0)	Yes (1.0)	Yes (1.0)	Yes (1.0)	Yes (1.0)	Yes (1.0)	Yes (1.0)
Overall Score	1.8	9.7	3.5	4.8	7.2	5.3	6.4	4.6	5.0	4.8

Note: B1.1 to B2.6—2013 data.

1. B2.6, score: Yes—1; No—0.

2. Tax rate has been pro-rated. Effective July 1, 2013, the general sales tax rate will change from 7% to 8%. Hence the tax rate reported is 7.5%.

3. Provincial portion of HST.

4. Tax rate has been pro-rated. Effective April 1, 2013, the Province of Prince Edward Island implemented the harmonized sales tax (HST). HST replaced the provincial sales tax (PST @ 10%). Under HST, the provincial portion is 9%. Hence the tax rate reported is 9.25%.

5. Total provincial fuel tax rates weighted according to the following regions: Vancouver area, Victoria area, and the remainder of the province. Total provincial fuel tax rate includes British Columbia's carbon tax which adds 6.67 cents to the total cost of a litre of gasoline and 7.67 cents per litre of diesel.

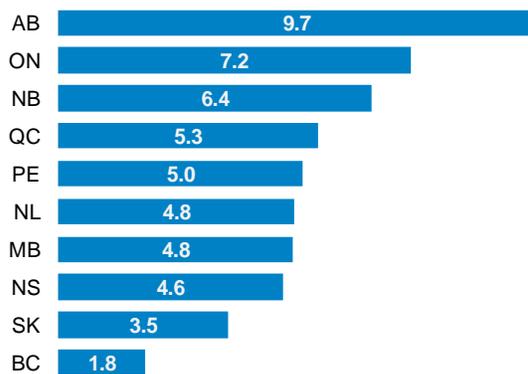
6. na—Not applicable. Alberta does not levy a provincial sales tax.

B. Sales and Excise Tax Subindex

This subindex looks at both excise and sales taxes levied at the provincial⁹ level (see Table 4). There are a variety of taxes levied on consumers, and not all of them are transparent. This makes it difficult for consumers to know how much of the price of the product they purchase is going to their governments. Taxing consumption is often viewed as the most efficient and desirable way to raise taxes, but the administration of these taxes can be complicated for business owners to collect and remit. There are even cases where jurisdictions that levy both excise and sales taxes benefit from a tax on tax anomaly, since point of sales taxes are charged on top of a product including excise taxes.

Figure 4

Sales and Excise Tax Subindex, (Score: Best—10; Worst—0)



Highest Score—Alberta

- ▶ Only province that does not levy a provincial sales tax.
- ▶ No tax on business inputs.
- ▶ Low fuel, and insurance taxes.

Lowest Score—British Columbia

- ▶ High excise taxes on fuel due to provincial carbon tax.
- ▶ Tax on business inputs.
- ▶ High tax rates on certain types of insurance.

Source: CFIB calculations, see Table 4.

B1. Primary Indicators

B1.1 Provincial Sales Tax Rate

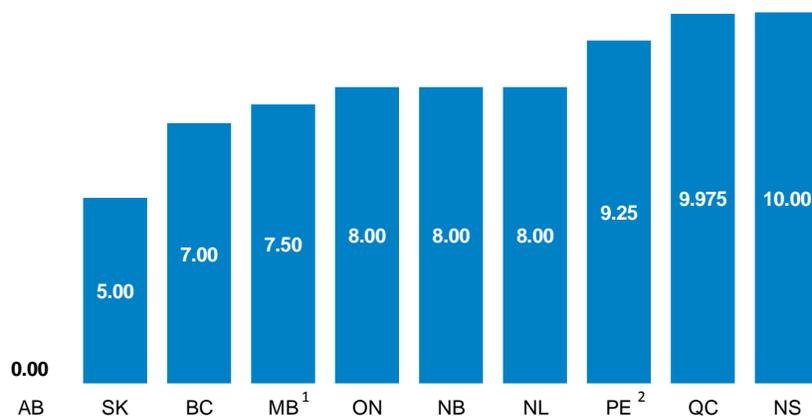
This indicator looks at the general sales tax applicable to most purchases. A high sales tax rate reduces demand for retail sales and can ultimately act as a deterrent to consumption. For border cities, a high sales tax can act as an incentive to cross-border shopping. Provinces with high sales tax rates (provincial sales tax rate or provincial portion of a harmonized sales tax rate) receive lower scores.

⁹ The Goods and Services Tax (GST) and federal excise taxes are levied consistently across the country; they do not impact the overall ranking of provinces. As of 2008, the federal GST is levied at a rate of 5 per cent.

Alberta does not have a general provincial sales tax (PST) and thus is given a score of 10 (see Figure 5). Saskatchewan earns the highest score among the provinces that do levy a province wide sales tax, with a sales tax rate of 5 per cent. Nova Scotia scores the lowest with a rate of 10 per cent, followed closely by Quebec and Prince Edward Island with rates of 9.975 and 9.25 per cent respectively.

Figure 5

Provincial Sales Tax Rates, 2013 (in %)



1. Tax rate has been pro-rated. Effective July 1, 2013, the general sales tax rate will change from 7% to 8%. Hence the tax rate reported is 7.5%.

2. Tax rate has been pro-rated. Effective April 1, 2013, the Province of Prince Edward Island implemented the harmonized sales tax (HST). HST replaced the provincial sales tax (PST @ 10%). Under HST, the provincial portion is 9%. Hence the tax rate reported is 9.25%.

Source: Provincial finance ministries

B1.2 Tax on Business Inputs

Provinces that have harmonized their provincial sales tax with the federal GST do not tax business inputs and receive a score of 10 for this indicator. This includes all provinces, with the exception of Saskatchewan, Manitoba and British Columbia¹⁰—these three provinces earn a score of 0.

B1.3–B1.4 Fuel Taxes

Gasoline and diesel represent a large input cost for most businesses, particularly those active in the transportation sector or located in remote areas. Any province¹¹ that increases fuel taxes reduces the favourable tax climate for business and scores lower on the following two indicators.

¹⁰ British Columbia harmonized its PST with the GST effective July 1, 2010. The HST was subsequently defeated in a public referendum in 2011. As of April 1, 2013 the 12% HST was replaced by the 5% GST and 7% PST.

¹¹ The federal government charges an excise tax of 10 cents per litre on gasoline and 4 cents per litre on diesel.

B1.3 Excise Tax on Gasoline

Alberta scores the highest in this indicator with the lowest provincial gasoline tax in Canada at 9 cents per litre. British Columbia has the highest gasoline tax at 23.22¹² cents a litre. British Columbia's carbon tax added 6.67 cents to the total cost of a litre of gasoline. Several other provinces charge high rates of 15 cents or more, including Saskatchewan, Quebec, Nova Scotia and Newfoundland and Labrador.

B1.4 Excise Tax on Diesel

Alberta earns the top position for this indicator since it charges a tax of 9 cents on a litre of diesel—the lowest across all jurisdictions. The province with the highest rate is British Columbia¹³. This is due to the province's carbon tax, which adds an additional 7.67 cents per litre of diesel.

B2 Secondary Indicators

B2.1–B2.4 Insurance Taxes

This indicator examines the amount of insurance taxes levied on the price of an insurance contract. It has been argued the reason provinces levy insurance taxes is to offset the cost to the general public that occurs in the event of an auto accident, sickness or fire. However, due to the fact that these funds go into general revenue, that is not necessarily always the case. Insurance companies pass along the burden of premium taxes to consumers, which can have an important secondary effect. This indicator compares the tax rates in four different insurance categories. Provinces with lower tax rates score higher.

Life, accident, sickness

British Columbia, Alberta, Manitoba, Ontario and New Brunswick all achieve a score of 10 on this indicator with a tax rate of 2 per cent. The lowest score goes to Newfoundland and Labrador with a tax rate of 4 per cent.

Automobile

Alberta, Manitoba, Ontario and New Brunswick score the highest with a rate of 3 per cent. Saskatchewan receives the worst score on this indicator with a rate of 5 per cent.

Property

Alberta earns the top score as the insurance tax on property, including the premium for fire, is 3 per cent. Nova Scotia scores the worst with its tax rate of 5.25 per cent.

¹² Total provincial full tax rate weighted according to the following regions: Vancouver area, Victoria area, and the remainder of the province.

¹³ Ibid.

All Other Premiums

On all other insurance policies, which include directors' insurance and other business insurance, Alberta, Manitoba, Ontario, New Brunswick levy a 3 per cent tax and receive a score of 10. British Columbia, Saskatchewan, Nova Scotia and Newfoundland and Labrador all score 0 with a rate of 4 per cent.

B2.5 Tobacco Taxes

Excise taxes on tobacco are levied at both the federal and provincial level. While tobacco taxes represent a secondary consideration for smaller businesses, they can greatly impact those in the retail and hospitality sectors. Tobacco taxes are considered a sin tax, which have the intention to reduce the consumption of the product that is being taxed. However, excessively high rates of taxation on tobacco can have a negative impact. More broadly, it can lead to an increase in criminal activity, from black market purchases to theft. For these reasons, provinces should aim to keep these rates reasonable, relative to other jurisdictions.

Ontario which receives the best score has the lowest tax at 12.35 cents per cigarette, followed by Quebec with a tax of 12.90 cents per cigarette. By comparison, Manitoba earns the worst score as its tobacco tax is 29 cents per cigarette.

B2.6 Single Sales Tax Administration

When a sales tax is administered by a single authority, it not only makes it simple for the business owner to comply, but it also makes it simpler for the government to enforce. It reduces the administrative burden for businesses and provides one point of contact for audits, appeals and taxpayer services.

A majority of provinces have a single administration (e.g. Harmonized Sales Tax) and therefore receive a score of 1 in this indicator. British Columbia, Saskatchewan and Manitoba do not have a single administration and thus score zero.

Table 5: Corporate Income Tax Subindex (score below data, score: best—10; worst—0)¹

Primary Indicators	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
C1.1 Small business rate—%	2.5% (6.9)	3.0% (6.3)	2.0% (7.5)	0.0% (10.0)	4.5% (4.4)	8.0% (0.0)	4.5% (4.4)	3.5% (5.6)	3.6% ² (5.5)	4.0% (5.0)
C1.2 General rate—%	10.75% ³ (8.8)	10.0% (10.0)	12.0% (6.7)	12.0% (6.7)	11.5% (7.5)	11.9% (6.8)	11.0% ⁴ (8.3)	16.0% (0.0)	16.0% (0.0)	14.0% (3.3)
C1.3 Small business threshold—\$ ⁵	\$500,000 (10.0)	\$500,000 (10.0)	\$500,000 (10.0)	\$400,000 (6.7)	\$500,000 (10.0)	\$500,000 (10.0)	\$500,000 (10.0)	\$400,000 (6.7)	\$500,000 (10.0)	\$500,000 (10.0)
C1.4 Tax payable on \$300,000 in 2012 (federal and provincial)—\$ ⁶	\$40,500 (6.9)	\$42,000 (6.3)	\$39,000 (7.5)	\$33,000 (10.0)	\$46,500 (4.4)	\$57,000 (0.0)	\$46,500 (4.4)	\$45,000 (5.0)	\$36,000 (8.8)	\$45,000 (5.0)
C1.5 Tax payable on \$600,000 in 2012 (federal and provincial)—\$ ⁶	\$92,500 (9.5)	\$95,000 (8.7)	\$92,000 (9.7)	\$94,000 (9.0)	\$104,000 (5.8)	\$121,900 (0.0)	\$102,500 (6.3)	\$118,000 (1.3)	\$91,000 (10.0)	\$104,000 (5.8)
C1.6 Tax payable on \$1.5M in 2012 (federal and provincial)—\$ ⁶	\$317,500 (10.0)	\$320,000 (9.7)	\$335,000 (7.8)	\$337,000 (7.6)	\$342,500 (6.9)	\$364,000 (4.2)	\$327,500 (8.8)	\$397,746 (0.0)	\$370,000 (3.5)	\$365,000 (4.1)
Secondary Indicators	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
C2.1 Difference between general rate and manufacturing and processing rate—%	0% (0.0)	0% (0.0)	2% (2.2)	0% (0.0)	1.5% (1.7)	0% (0.0)	0% (0.0)	0% (0.0)	0% (0.0)	9% (10.0)
C2.2 Education and training tax credit—Yes/No ⁷	Yes (1)	No (0)	No (0)	Yes (1)	Yes (1)	Yes (1)	No (0)	No (0)	No (0)	No (0)
C2.3 Manufacturing and processing tax credit—Yes/No ⁷	No (0)	No (0)	Yes (1)	Yes (1)	Yes (1)	Yes (1)	No (0)	No (0)	Yes (1)	Yes (1)
C2.4 Research and development tax credit—Yes/No ⁷	Yes (1)	Yes (1)	Yes (1)	Yes (1)	Yes (1)	Yes (1)	Yes (1)	Yes (1)	No (0)	Yes (1)
C2.5 Other provincial tax credits—Yes/No ⁸	Yes (1)	No (0)	No (0)	Yes (1)	No (0)	No (0)	No (0)	Yes (1)	No (0)	Yes (1)
C2.6 Total number of tax credits ⁷	13 (8.4)	7 (9.5)	8 (9.3)	16 (7.8)	18 (7.5)	59 (0.0)	4 (10.0)	7 (9.5)	4 (10.0)	8 (9.3)
C2.7 Corporate minimum tax—Yes/No ⁷	No (1)	No (1)	No (1)	No (1)	Yes (0)	No (1)	No (1)	No (1)	No (1)	No (1)
C2.8 Single corporate income tax administration—Yes/No ⁷	Yes (1)	No (0)	Yes (1)	Yes (1)	Yes (1)	No (0)	Yes (1)	Yes (1)	Yes (1)	Yes (1)
Overall Score	7.6	7.3	7.5	7.4	6.1	3.0	6.4	3.7	5.9	6.7

Notes: C1.1 to C1.3, C2.1 to C2.8—2013 data. C1.4 to C1.5—2012 data.

1. C2.2—C2.5, C2.6—C2.7; score: Yes—1; No—0.

2. Tax rate has been pro-rated. The small business rate is 4.5% effective April 1, 2013. It was previously 1%. Hence the tax rate reported is 3.6%.

3. Tax rate has been pro-rated. The general rate is 11% effective April 1, 2013. It was previously 10%. Hence the tax rate reported is 10.75%.

4. Tax rate has been pro-rated. The general rate is 12% effective July 1, 2013. It was previously 10%. Hence the tax rate reported is 11.0%.

5. Federal and corporate income tax systems used a \$200,000 small business income threshold for many years, as such this level is used as a benchmark (\$200,000 results in a score of zero).

6. C1.4 – C1.6; All calculations are based on 2012 rates and thresholds. All calculations performed with the use of Intuit Profile, version 2012.4.7.

7. Rebate programs are not included in the total count. It only includes those tax benefits that are administered through the corporate income tax system.

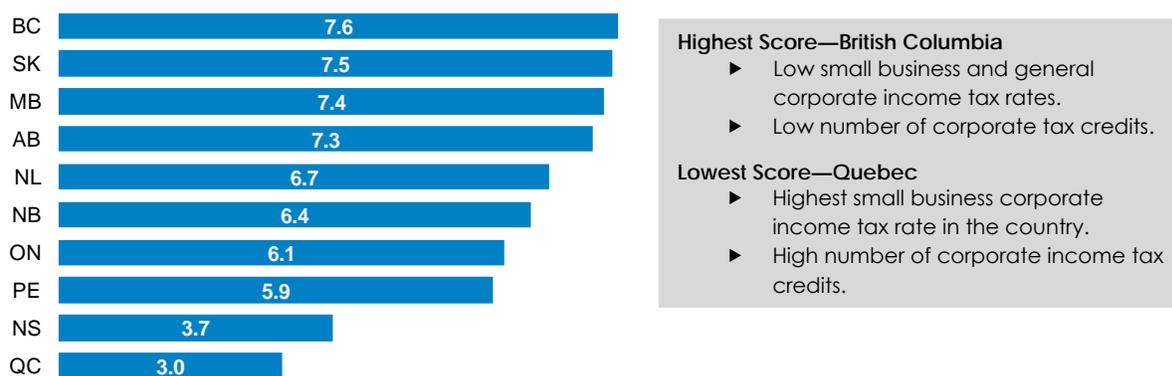
8. BC, MB—Small Business Venture Capital Tax Credit; NS—New Small Business Tax Deduction; NL—Economic Diversification and Growth Enterprises Program (EDGE) tax holiday.

C. Corporate Income Tax Subindex

Corporate income taxes in Canada are levied at both the provincial and federal¹⁴ levels. Corporate income tax rates, credits and exemptions vary considerably from province to province. This subindex provides a comparison of provincial corporate income tax systems based on 14 indicators (see Table 5).

Figure 6

Corporate Income Tax Subindex (Score: Best—10; Worst—0)



Source: CFIB calculations, see Table 5.

C1 Primary Indicators

C1.1 Small Business Rate

Small businesses often have greater difficulties accessing financing, have fewer economies of scale and more often, do not qualify for tax credits. As a result, the small business (lower) corporate income tax rate, which applies to business income of Canadian controlled private corporations up to a certain threshold amount, was put in place to reward entrepreneurship and stimulate economic growth.

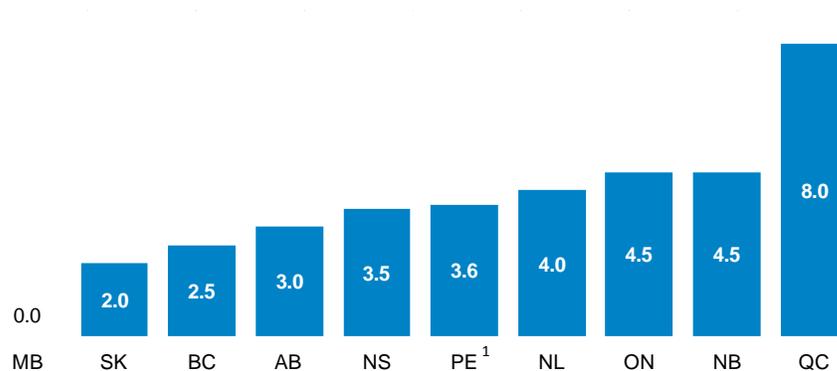
This indicator is critical in assessing the tax competitiveness for small businesses in Canada. The lower the small business rate, the higher the score.

Manitoba scores the highest in this indicator having reduced its small business tax rate to zero (see Figure 7). Saskatchewan and British Columbia follow, while Quebec scores zero with the highest small business tax rate of 8 per cent.

¹⁴ In 2012, the federal small business corporate income tax rate was 11 per cent, and its threshold was \$500,000. The general corporate income tax rate was 15 per cent. These provisions are consistent across the country and thus do not impact the overall ranking of provinces.

Figure 7

Small Business Corporate Income Tax Rates, 2013 (in %)



1. Tax rate has been pro-rated. The small business rate is 4.5% effective April 1, 2013. It was previously 1%. Hence the tax rate reported is 3.6%.

Source: Provincial finance ministries

C1.2 General Rate

The general corporate income tax rate is applied to all corporate income above the small business threshold. CFIB supports that a lower general rate helps to foster a more competitive tax regime and greater investment in Canada¹⁵. Provinces with lower general rates receive higher scores.

Alberta scores the highest in this indicator with the lowest general rate across the country at 10 per cent. Meanwhile, Nova Scotia and Prince Edward Island both score zero with a rate of 16 per cent.

C1.3 Small Business Threshold

This indicator measures the level of business income at which provincial tax systems will apply their general (higher) corporate tax rate. A higher threshold provides a greater overall tax advantage for small- and medium-sized businesses by permitting more of them to be eligible for the lower rate. Federal and corporate income tax systems used a \$200,000 small business income threshold for many years, as such this level is used as a benchmark (\$200,000 results in a score of zero). Provincial tax systems with higher thresholds receive higher scores.

The small business income threshold in most provinces is \$500,000 and all provinces with this threshold receive full marks. Only Nova Scotia and Manitoba have a lower small business income threshold of \$400,000, resulting in both provinces receiving the lowest scores.

¹⁵ Peter McQuillan, "We Need a Simpler Corporate Tax Levied At a Lower Rate", Policy Options, Toronto; IRPP, December 1998, pp. 32-36.

C1.4 – C1.6 Taxes Payable on Taxable Income of \$300,000, \$600,000 and \$1.5 million in 2012

The following indicators help illustrate how the corporate tax system impacts smaller businesses by combining the effects of both federal and provincial rates and thresholds on business with income of \$300,000, \$600,000 and \$1.5 million in 2012. Provinces with a higher total tax payable amount receive a lower score.

Table 6

Total Tax Payable on Business Income of \$300,000, \$600,000 and \$1.5 million, sorted from lowest to greatest—2012

Taxes Paid on Business Income of \$300,000		Taxes Paid on Business Income of \$600,000		Taxes paid on Business Income of \$1.5 million	
MB	\$33,000	PE	\$91,000	BC	\$317,500
PE	\$36,000	SK	\$92,000	AB	\$320,000
SK	\$39,000	BC	\$92,500	NB	\$327,500
BC	\$40,500	MB	\$94,000	SK	\$335,000
AB	\$42,000	AB	\$95,000	MB	\$337,000
NS	\$45,000	NB	\$102,500	ON	\$342,500
NL	\$45,000	ON	\$104,000	QC	\$364,000
NB	\$46,500	NL	\$104,000	NL	\$365,000
ON	\$46,500	NS	\$118,000	PE	\$370,000
QC	\$57,000	QC	\$121,900	NS	\$397,746

Source: Calculations are based on 2012 rates and thresholds. Calculations completed using Intuit Profile, version 2012.4.7.

Thanks in most part to its zero per cent small business tax rate, Manitoba scores the highest with the total tax payable of \$33,000 for businesses with taxable income of \$300,000 (see Table 6). In comparison, a small business in Quebec with the same taxable income will pay \$57,000 in taxes, earning Quebec the lowest score.

Quebec also scores the lowest in the \$600,000 taxable income indicator primarily due to the province having the highest small business tax rate in the country and a relatively high general rate. Nova Scotia, also scores poorly in the \$600,000 category. Prince Edward Island performs the best in this indicator, benefitting from a 1 per cent small business rate and a high small business threshold in 2012.

Under the \$1.5 million indicator, British Columbia scores highest, benefitting from having one of the lowest general rates in the country (at 10 per cent), a relatively low small business tax rate (at 2.5 per cent) and high threshold (\$500,000) in 2012. Prince Edward Island and Nova Scotia rank the lowest due to having the highest general rates at 16 per cent.

C2 Secondary Indicators

C2.1 Difference between the Manufacturing & Processing (M&P) Rate and General Rate

Some provinces have a different corporate tax rate for manufacturing and processing that is below the general rate. While it would be preferable if more sectors qualified for the lower rate, it should be acknowledged that businesses in this sector do enjoy a benefit from being in a jurisdiction that charges a lower rate. This indicator takes the view that an M&P tax rate that is lower than the general rate is better for encouraging manufacturing and processing activity in the province. Jurisdictions that have introduced rate cuts for manufacturers are rewarded on this indicator—the higher the difference between the M&P rate and the general rate, the higher the score. Provinces with the same M&P and general rate do not receive additional points.

Newfoundland and Labrador has the highest score as its M&P rate is 9 percentage points lower than the general rate. Saskatchewan and Ontario also earn additional points with an M&P rate that is 2 and 1.5 percentage points lower respectively.

C2.2 – C2.4 Tax Credits: Education and Training; Manufacturing & Processing Investment; Research and Development¹⁶

Many provinces offer tax credits which lower effective tax rates for certain industries or investments. Generally speaking, small business owners would prefer fewer credits. They'd rather see lower tax rates and higher thresholds, which help to improve the business tax climate in the long term. Despite this, many do support a number of credits that are reasonably well-structured and are broadly available to a wide range of businesses. For this indicator, provinces receive one point for having credits in each of the following categories: education and training, manufacturing and research and development.

Manitoba scores the best in these indicators by offering a tax credit to businesses in each of the previously mentioned categories.

C2.5 Other Provincial Tax Credits¹⁷

Smaller businesses continue to support a number of tax relief measures that are provincially targeted. This indicator attributes an additional point to those provinces that have other small business friendly tax credits. Provinces such as Newfoundland and Labrador and Nova Scotia receive an additional point for having a long term corporate tax holiday for new and expanding business and a three-year corporate tax deduction for new small businesses, respectively. British Columbia and Manitoba each score a point for their small business venture capital tax credit.

¹⁶ Includes only those tax benefits that are administered through the corporate income tax system; rebate programs are not included.

¹⁷ Ibid.

C2.6 Total Number of Tax Credits¹⁸

This indicator presents a total count of corporate tax credits in each province. Too many tax credits can muddy the tax system, narrow the tax base and drive up tax rates for companies that do not qualify. SMEs have consistently called for broad-based tax reforms and rate cuts and therefore, provinces with fewer credits score higher in this indicator.

New Brunswick and Prince Edward Island score the highest with only four provincial tax credits. Quebec has the lowest score with 59 credits, the most of any province.

C2.7 Corporate Minimum Tax (CMT)

Ontario is the only province that still levies a Corporate Minimum Tax (CMT) at a rate of 2.7 per cent¹⁹ on businesses with total revenue that exceeds \$100 million, or total assets that exceed \$50 million. Although it would mainly impact larger businesses, this tax poses a particular burden for business owners who may have high assets but low income. Ontario receives the lowest score of zero in this indicator. All other provinces score an additional point.

C2.8 Single Corporate Income Tax Administration

Having a single administrator for all matters relating to corporate income tax allows business owners to have a harmonized T2 corporate tax return (i.e. one form serves as a federal, provincial, and territorial corporation income tax return), a single set of rules, one objections and appeals process, and a single point of contact. Such integration provides some administrative relief for small- and medium-sized businesses. Provinces that have a single administrator of the corporate income tax system receive a score of 1, those that do not receive a 0.

All provinces that have corporation tax collection agreements with the Canada Revenue Agency to serve as their single administrator of corporate tax, receive a score of 1. Quebec and Alberta are the only provinces that do not have a corporation tax collection agreements with either the Canada Revenue Agency or Revenu Quebec; as such they receive a score of 0.

¹⁸ Ibid.

¹⁹ Corporate minimum tax is calculated as 2.7% of the "adjusted net income" of the corporation. Adjusted net income is essentially net income for financial statement purposes, adjusted for some non-taxable items such as capital dividends.

Table 7: Personal Income Tax Subindex (score below data, score: best—10; worst—0)

Primary Indicators	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
D1.1 Basic personal exemption—\$	\$10,276 (2.6)	\$17,593 (10.0)	\$15,241 (7.6)	\$8,884 (1.2)	\$9,574 (1.9)	\$11,195 (3.5)	\$9,388 (1.7)	\$8,481 (0.8)	\$7,708 (0.0)	\$8,451 (0.8)
D1.2 Bottom tax rate—%	5.06% (10.0)	10.00% (5.5)	11.00% (4.6)	10.80% (4.7)	5.05% (10.0)	16.00% (0.0)	9.39% ¹ (6.0)	8.79% (6.6)	9.80% (5.7)	7.70% (7.6)
D1.3 Top tax rate—%	14.70% ² (7.0)	10.00% (10.0)	15.00% (6.8)	17.40% (5.3)	20.53% ³ (3.3)	25.75% (0.0)	16.07% ⁴ (6.1)	21.00% (3.0)	18.37% ³ (4.7)	13.30% (7.9)
D1.4 Level of income for top rate—\$	\$104,754 (0.9)	na ⁵	\$122,589 (1.3)	\$67,000 (0.1)	\$509,000 (10.0)	\$100,000 (0.8)	\$126,662 (1.4)	\$150,000 (1.9)	\$63,969 (0.0)	\$67,496 (0.1)
D1.5 Tax payable on \$25,000 in 2012 (federal and provincial)—\$ ⁶	\$4,308 (10.0)	\$4,495 (8.9)	\$4,808 (6.9)	\$5,474 (2.9)	\$4,852 (6.7)	\$5,945 (0.0)	\$4,876 (6.5)	\$5,201 (4.5)	\$5,422 (3.2)	\$5,063 (5.4)
D1.6 Tax payable on \$50,000 in 2012 (federal and provincial)—\$ ⁶	\$12,144 (10.0)	\$12,950 (8.0)	\$13,602 (6.3)	\$14,435 (4.2)	\$12,763 (8.4)	\$16,113 (0.0)	\$13,718 (6.0)	\$14,499 (4.1)	\$14,461 (4.2)	\$13,711 (6.1)
D1.7 Tax payable on \$100,000 in 2012 (federal and provincial)—\$ ⁶	\$28,382 (10.0)	\$29,449 (8.8)	\$31,600 (6.3)	\$33,736 (3.8)	\$30,747 (7.2)	\$36,969 (0.0)	\$31,330 (6.6)	\$34,174 (3.3)	\$33,837 (3.6)	\$31,715 (6.1)
D1.8 Tax payable on \$150,000 in 2012 (federal and provincial)—\$ ⁶	\$49,058 (9.1)	\$47,908 (10.0)	\$52,109 (6.7)	\$55,894 (3.7)	\$52,911 (6.0)	\$60,550 (0.0)	\$51,436 (7.2)	\$56,383 (3.3)	\$56,451 (3.2)	\$51,823 (6.9)
Secondary Indicators	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
D2.1 Indexation of the personal income tax system ⁷	All (10.0)	All (10.0)	All (10.0)	Exemptions ⁸ (5.0)	All (10.0)	All (10.0)	All (10.0)	No (0.0)	No (0.0)	All (10.0)
D2.2 Total number of tax credits	34 (5.8)	24 (10.0)	32 (6.7)	42 (2.5)	29 (7.9)	48 (0.0)	25 (9.6)	29 (7.9)	27 (8.8)	29 (7.9)
D2.3 Difference between basic personal and spousal exemption—\$	\$1,416 (0.8)	\$0 (10.0)	\$0 (10.0)	\$0 (10.0)	\$1,445 (0.6)	\$0 (10.0)	\$1,417 (0.8)	\$0 (10.0)	\$1,162 (2.5)	\$1,545 (0.0)
D2.4 Single personal income tax administration—Yes/No	Yes (1.0)	Yes (1.0)	Yes (1.0)	Yes (1.0)	Yes (1.0)	No (0.0)	Yes (1.0)	Yes (1.0)	Yes (1.0)	Yes (1.0)
Overall Score	6.9	9.1	6.7	4.1	6.6	2.3	5.7	4.2	3.3	5.4

Note: D1.1 to D1.4—2013 data. D1.5 to D1.8—2012 data. D2.1 to D2.4—2013 data. Reported tax rates have been pro-rated from the effective dates of tax increases/cuts.

1. Tax rate has been pro-rated. Bottom rate is 9.68 effective July 1, 2013. It was previously 9.10%. Hence the tax rate reported is 9.39%.
2. As a temporary measure, British Columbia's top rate will increase to 16.8% (from 14.7%) effective for two years beginning January 1, 2014.
3. Ontario's and Prince Edward Island's top rates are calculated by adding in the respective surtaxes to the actual top rates. Ontario surtax of 20% is applied to provincial tax payable greater than \$4,289 and 36% surtax is applied to provincial tax payable greater than \$5,489. Prince Edward Island surtax of 10% is applied to tax payable greater than \$12,500.
4. Tax rate has been pro-rated. Top rate is 17.84% effective July 1, 2013. It was previously 14.30%. Hence the tax rate reported is 16.07%.
5. na—Not applicable. As Alberta's system does not have tax brackets, it is not ranked on this indicator.
6. D1.5 – D1.8: All calculations are based on 2012 rates and thresholds. All calculations performed with the use of UFile Version 2012.1620, based on professional self-employment income for bookkeeping, payroll and related services.
7. Provinces that adjusted both exemptions and brackets (All) receive a top score of 10 in this indicator, and those that only adjusted either exemptions or brackets receive a score of 5.
8. Although Manitoba does not index its brackets or exemptions, it did increase their exemption amounts from \$8,634 in 2012 to \$8,884 in 2013.

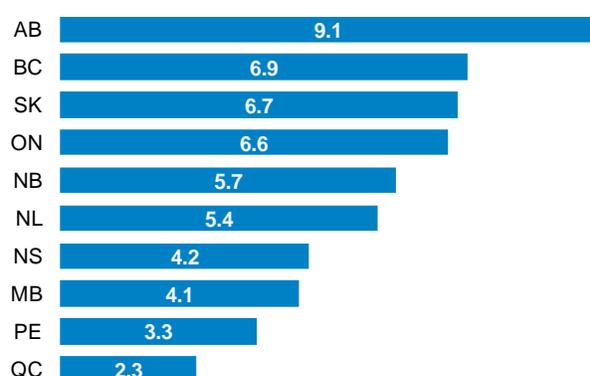
D. Personal Income Tax Subindex

Nearly three out of every five²⁰ (57 per cent) self-employed business owners are unincorporated. This means that the income paid to the owner(s) and their employees is subject to personal income taxes. As such, a province²¹ with excessively high personal income taxes can have a significant impact not only on a business' operations but also on the bottom line of self-employed business owners. This subindex provides a comparison of provincial personal income tax systems based on 12 indicators (see Table 7).

Figure 8

Personal Income Tax Subindex

(Score: Best—10; Worst—0)



Highest Score—Alberta

- ▶ Flat tax rate of 10 per cent regardless of income level.
- ▶ Highest basic personal exemption in the country.
- ▶ Lowest number of personal income tax credits.

Lowest Score—Quebec

- ▶ Highest tax rates in the country for the top and bottom tax brackets.
- ▶ Highest number of personal income tax credits.

Source: CFIB calculations, see Table 7.

D1 Primary Indicators

D1.1 Basic Personal Exemption

The basic personal exemption is the amount of tax-free income an individual can earn. Provinces with a higher exemption permit individuals to benefit more from their income dollars, and ultimately score better in this indicator.

Alberta scores the highest in this indicator with a basic personal exemption of \$17,593. At the other end of the scale, Prince Edward Island receives the lowest score with a basic personal exemption of \$7,708.

²⁰ Statistics Canada, Labour force survey estimates, Table 282-0012.

<http://www5.statcan.gc.ca/cansim/pick-choisir?lang=eng&p2=33&id=2820012>

²¹ Personal federal income tax rates are uniform across the country, with the exception of Quebec. All Quebec tax filers receive the Quebec abatement, a reduction of 16.5 percentage points of federal personal income tax to cover additional costs the province incurs because it assumes some responsibilities (e.g. hospital care, social assistance) that fall under the federal government in other provinces. The federal tax provisions are levied consistently across the country and thus they do not impact the overall ranking of provinces.

D1.2 Bottom Income Bracket Tax Rate

The lower the rate on the bottom tax bracket, the greater the tax relief for lower-income earners. In this indicator, provinces with lower bottom bracket income tax rates score higher.

Ontario scores the highest with a bottom rate at 5.05 per cent on taxable income (see Figure 9). British Columbia is a close second with a rate of 5.06 per cent on taxable income. Both provinces receive a top score of 10. Quebec ranks the lowest in this indicator with a rate of 16 per cent on taxable income.

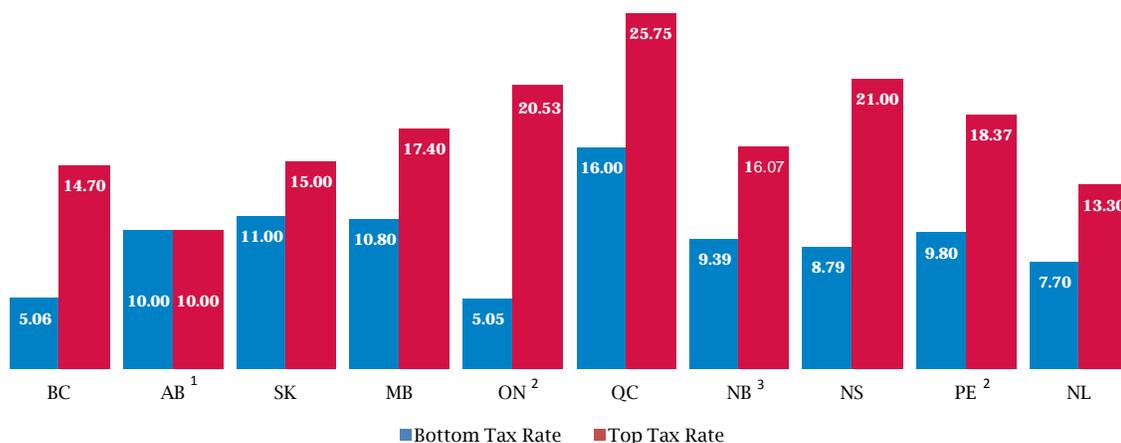
D1.3 Top Income Bracket Tax Rate

Low personal income tax rates result in greater personal income tax relief. Provinces with lower rates score higher in this indicator. To compare the top marginal rates between provinces, it is important to factor in surtaxes on tax payable—Ontario and Prince Edward Island are the only provinces that have a surtax which increases their top rates to 20.53 per cent²² and 18.37 per cent²³ on taxable income respectively.

Alberta scores highest in the top marginal rate category with its 10 per cent flat tax rate (see Figure 9) on taxable income. Nova Scotia, Ontario, Prince Edward Island and Manitoba all score poorly, with rates exceeding 17 per cent. Quebec’s top rate of 25.75 per cent ranks it as the worst overall.

Figure 9

Personal Income Tax Rates for Top and Bottom Income Brackets, 2013 (in %)



1. Alberta applies a flat rate of 10% to all income levels.

2. Includes surtaxes for top rate.

3. Bottom tax rate has been pro-rated. Bottom rate is 9.68% effective July 1, 2013. It was previously 9.10%. Hence the bottom tax rate reported is 9.39%. Top tax rate has been pro-rated. Top rate is 17.84% effective July 1, 2013. It was previously 14.30%. Hence the top tax rate reported is 16.07%.

Source: Provincial finance ministries

²² In Ontario, where the basic provincial tax payable is greater than \$5,489, the surtax is 20% of the basic provincial tax payable over \$4,289, plus 36% of the basic provincial tax payable over \$5,489.

²³ Prince Edward Island surtax of 10% is applied to tax payable greater than \$12,500. Nova Scotia has suspended its high-income surtax.

D1.4 Level of Income for Top Rate

The higher the level of income at which the top rate comes into effect, the better it is for the vast majority of taxpayers, who are generally below this threshold. As Alberta's system does not have tax brackets, it is not ranked on this indicator. Ontario and Nova Scotia perform the best with levels of \$509,000 and \$150,000 respectively. Newfoundland and Labrador, Manitoba and Prince Edward Island score the poorest with levels close to \$65,000.

D1.5 – D1.8 Tax Payable on \$25,000, \$50,000, \$100,000 and \$150,000 in Taxable Income

The following indicators help illustrate how the personal tax system impacts smaller businesses by taking both provincial and federal tax payable into account. To ensure all brackets and rates are considered, the income levels selected are \$25,000, \$50,000, \$100,000 and \$150,000. These amounts are treated as though they would be earned by a single, self-employed individual²⁴. Provinces with the least amount of tax payable score the highest.

At the \$25,000, \$50,000 and \$100,000 levels, British Columbia scores top marks (see Table 8). While at the \$150,000 level, Alberta offers the best tax environment with total tax payable of \$47,908. Meanwhile, Quebec scores the lowest in all four income levels. Despite its tax point sharing system²⁵ with the federal government, Quebec's high income tax rates mean the province ranks worst overall.

Table 8

Individual Personal Income Taxes Payable by Income Levels, sorted from lowest to greatest—2012

Tax payable on \$25,000		Tax payable on \$50,000		Tax payable on \$100,000		Tax payable on \$150,000	
BC	\$4,308	BC	\$12,144	BC	\$28,382	AB	\$47,908
AB	\$4,495	ON	\$12,763	AB	\$29,449	BC	\$49,058
SK	\$4,808	NS	\$14,499	ON	\$30,747	NB	\$51,436
ON	\$4,852	AB	\$12,950	NB	\$31,330	NL	\$51,823
NB	\$4,876	SK	\$13,602	SK	\$31,600	SK	\$52,109
NL	\$5,063	NL	\$13,711	NL	\$31,715	ON	\$52,911
NS	\$5,201	NB	\$13,718	MB	\$33,736	MB	\$55,894
PE	\$5,422	MB	\$14,435	PE	\$33,837	NS	\$56,383
MB	\$5,474	PE	\$14,461	NS	\$34,174	PE	\$56,451
QC	\$5,945	QC	\$16,113	QC	\$36,969	QC	\$60,550

Source: Calculations are based on 2012 rates and thresholds. All calculations performed with the use of UFile Version 2012.1620. Based on professional self-employment income for bookkeeping, payroll and related services.

²⁴ Based on professional self-employment income for bookkeeping, payroll and related services.

²⁵ The Québec's tax point sharing system is provided under the federal-provincial fiscal arrangement, in place of direct cost-sharing by the federal government. If you were a resident of Quebec in 2012, your refundable abatement would be 16.5 per cent of the basic federal tax. This could reduce your balance owing, or result in a refund on your federal personal income tax return.

D2 Secondary Indicators

D2.1 Indexation of the Personal Income Tax System

Indexation is critical to assuring that inflation does not eat away at take-home earnings every year. This report examines the change in brackets and exemptions from 2012 to 2013. Provinces that indexed both exemptions and brackets to inflation receive a top score in this indicator and those that only index one receive half marks.

The majority of provinces receive scores of 10 since they index both their tax brackets and exemptions, albeit with different inflation rates. The only exceptions are Manitoba, Nova Scotia and Prince Edward Island—none of these provinces index either their tax brackets or exemptions. As such Nova Scotia and Prince Edward Island score a 0. Although Manitoba does not index its brackets or exemptions, it did adjust its exemption amounts (\$250 increase)²⁶ earning it a score of 5.

D2.2 Number of Tax Credits²⁷

A high number of tax credits can increase the system's complexity and compromises the ability to reduce taxes overall. The higher the number of tax credits in a province, the lower it scores.

Alberta and New Brunswick, with 24 and 25 credits respectively, receive the highest scores for this indicator. On the opposite end, Manitoba and Quebec receive the lowest score with 42 and 48 tax credits respectively.

D2.3 Difference between the Basic Personal Amount and the Basic Spousal Amount

The basic spousal exemption is the amount a tax filer can claim for a non-working spouse or eligible dependent. Ideally, the basic spousal exemption and the basic personal exemption should be equal to each other. The smaller the difference between these two exemptions the higher the score.

Alberta, Saskatchewan, Manitoba, Quebec and Nova Scotia have equal levels for both exemptions, scoring 10. All other provinces score poorly in this indicator as the difference between the basic personal amount and the spousal amount exceeds \$1100.

D2.4 Single Personal Income Tax Administration

Integration of personal income tax allows taxpayers to have a single point of contact and one set of rules in filing their tax returns, which reduces complexity and compliance costs. All provinces with single tax administration score 1; Quebec is the only province that does not have single administration either with the Canada Revenue Agency or Revenu Québec and it scores a zero.

²⁶ Budget Paper C, Taxation Adjustments. www.gov.mb.ca/finance/budget11/papers/taxation.pdf

²⁷ Many provinces have tax rebate programs that must be applied for separately. This indicator does not include those initiatives and only includes credits administered through the personal income tax system.

Table 9: Property Tax Subindex (score below data, score: best—10; worst—0)

Primary Indicators	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
E1.1 School board / provincial / municipal property tax—\$ per capita	\$1,179 (4.5)	\$1,743 (0.0)	\$1,378 (2.9)	\$1,281 (3.7)	\$1,707 (0.3)	\$1,228 (4.1)	\$1,456 (2.3)	\$921 (6.5)	\$989 (6.0)	\$485 (10.0)
E1.2 School board / provincial / municipal property tax—% of provincial GDP	2.48% (3.7)	2.23% (4.6)	1.95% (5.6)	2.87% (2.2)	3.49% (0.0)	2.83% (2.4)	3.42% (0.2)	2.36% (4.1)	2.69% (2.9)	0.74% (10.0)
E1.3 Commercial to residential property tax ratio ^{1,2}	3.98 (0.0)	2.76 (6.6)	2.12 (10.0)	2.73 (6.7)	2.94 (5.6)	2.89 (5.8)	2.83 (6.2)	3.30 (3.7)	2.40 (8.5)	2.33 (8.9)
E1.4 Municipal business occupancy tax—\$ per capita	\$0 (10.0)	\$64 (4.8)	\$0 (10.0)	\$48 (6.1)	\$0 (10.0)	\$3 ³ (9.7)	\$0 (10.0)	\$0 ⁴ (10.0)	\$0 (10.0)	\$122 (0.0)
Secondary Indicators	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
E2.1 Provincial real estate transfer tax/fee (\$ of tax paid on \$400,000 property)	\$6,000 (0.1)	\$130 (10.0)	\$1,200 (8.2)	\$5,650 (0.7)	\$4,475 (2.7)	\$4,500 (2.7)	\$2,000 (6.9)	\$6,085 ⁵ (0.0)	\$4,000 (3.5)	\$1,600 (7.5)
E2.2 Probate taxes/fees—\$ of tax paid on \$1 million estate	\$13,658 (1.4)	\$400 (9.8)	\$7,000 (5.6)	\$7,000 (5.6)	\$14,500 (0.8)	\$102 (10.0)	\$5,000 (6.9)	\$15,778 (0.0)	\$4,000 (7.5)	\$5,085 (6.8)
E2.3 Municipal real estate transfer tax—\$ per capita	\$0 (10.0)	\$0 (10.0)	\$0 (10.0)	\$0 (10.0)	\$106 (0.0)	\$32 (7.0)	\$0 (10.0)	\$55 (4.8)	\$0 (10.0)	\$0 (10.0)
Overall Score	4.3	5.8	7.4	4.9	3.1	5.8	5.6	4.7	6.9	7.5

Note: E1.5—2010 data. E1.1, E1.2—2011 data. E1.3, E1.4, E2.1, E2.2—2013 data.

1. Municipalities examined include: BC—Vancouver, Victoria, Abbotsford; AB—Calgary, Edmonton; SK—Saskatoon, Regina; Manitoba—Winnipeg, Brandon; ON—Toronto, Hamilton, London, Ottawa; QC—Montreal CMA, Quebec CMA, Gatineau, Sherbrooke, Trois-Rivieres CMA; NB—Saint John, Moncton, Fredericton; NS—Halifax Regional Municipality, Cape Breton Regional Municipality; PEI—Charlottetown; NL—St. John's, Corner Brook.

2. Includes municipal, education, and other applicable tax rates for businesses.

3. 2011 data.

4. Eliminated in 2013.

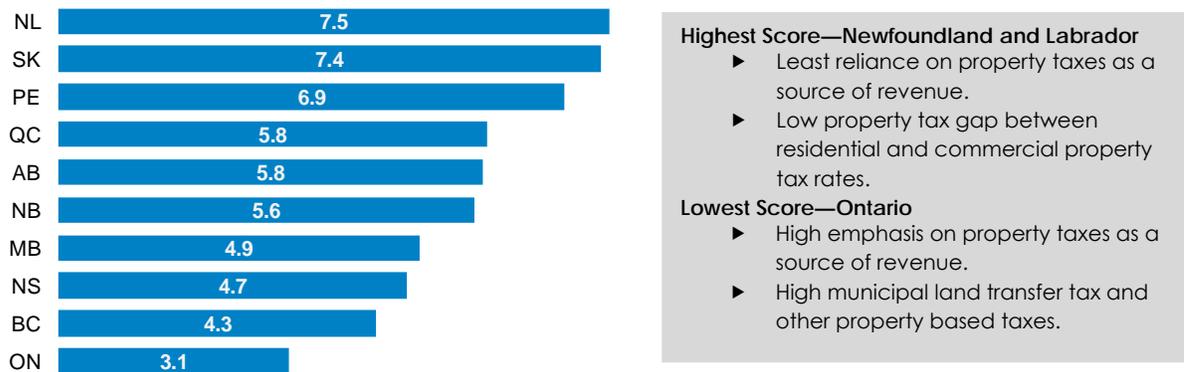
5. Deed Transfer Tax for Halifax Regional Municipality and Cape Breton Regional Municipality—1.5 percent of the purchase price of the property.

E. Property Tax Subindex

The Property Tax Subindex is comprised of taxes on property and transfers of property and estates (see Table 9). These types of taxes are particularly difficult for smaller businesses as they are insensitive to profit. Even though many SME owners lease commercial space, they still bear the burden of property taxes indirectly, as these costs are typically passed down in their rent.

Figure 10

Property Tax Subindex (Score: Best—10; Worst—0)



Source: CFIB calculations, see Table 9.

E1 Primary Indicators

E1.1 School board / Provincial / Municipal property taxes per capita

This indicator is intended to capture the relative tax burden imposed on taxpayers by comparing the taxpayer’s total contribution to government revenues (school board, provincial and municipal). Provinces that rely heavily on property taxes impose a higher tax burden, and receive a lower score for this indicator.

Newfoundland and Labrador receives the highest score for collecting the least amount of revenue through property taxes on a per capita basis. Nova Scotia and Prince Edward Island also score well in this indicator. Alberta and Ontario, on the other hand, receive the worst scores as more property taxes per person are collected than in any other provinces—\$1,743 and \$1,707 respectively.

E1.2 School board / Provincial / Municipal Property Taxes as Share of Provincial GDP

Comparing the amount of taxes collected by the amount of income a province receives for its products, indicates how much a province's economy is fueled by its tax collection. A higher ratio places more emphasis on property taxes as a source of revenue and will receive a lower score.

Newfoundland and Labrador scores the highest in this indicator, while Ontario and New Brunswick score the worst with collections nearing 3.5 per cent as a share of GDP.

*E1.3 Commercial to Residential Property Tax Ratio*²⁸

In most jurisdictions, different classes of property typically pay different property tax rates. Typically, the property tax burden tends to be shifted more onto business ratepayers to subsidize services to residents. Ultimately, this affects a business' bottom line and its ability to grow. This indicator identifies the extent of this practice, by considering the ratio of the total commercial property tax to the total residential property tax (including municipal, education, and other applicable tax rates for businesses). Jurisdictions that charge a disproportionately higher total property tax rate on commercial properties receive a lower score.

British Columbia and Nova Scotia score the worst, as their commercial property tax rates are 3.98 and 3.30 times higher than residential rates respectively. The best score goes to Saskatchewan and Newfoundland and Labrador, as their commercial property tax rates are 2.12 and 2.33 times higher than residential rates respectively.

E1.4 Municipal Business Occupancy Tax

The business occupancy tax is a tax levied on businesses by municipalities in addition to the commercial property tax, without any additional services being rendered to the business ratepayer. Provinces whose municipalities do not collect this tax receive a perfect score.

Among the four provinces which allow the use of municipal business occupancy tax—Alberta, Manitoba, Quebec, and Newfoundland and Labrador—municipalities in Newfoundland and Labrador are the most reliant on this tax, with per capita receipts of \$122.

²⁸ Municipalities examined include: BC—Abbotsford, Vancouver, Victoria; AB—Calgary, Edmonton; SK—Saskatoon, Regina; Manitoba—Winnipeg, Brandon; ON—Toronto CMA, Hamilton, London, Ottawa; QC—Montreal CMA, Quebec CMA, Gatineau, Sherbrooke, Trois-Rivieres CMA; NB—Saint John, Moncton, Fredericton; NS—Halifax Regional Municipality, Cape Breton Regional Municipality; PEI—Charlottetown; NL—St. John's, Corner Brook.

E2 Secondary Indicators

E2.1 Provincial Real Estate Transfer Tax/Fee (\$ of tax paid on a \$400,000 property)

Taxes/fees on the transfer of assets increase the cost of transferring property and can be particularly harmful for business owners who are contemplating succession and selling their property. This indicator compares the real estate transfer tax/fee paid on a \$400,000²⁹ property—the lower the total tax paid the higher the score.

Alberta scores highest with \$130 of taxes paid on a similar property. The amount of tax paid on the sale of a \$400,000 commercial property is highest in Nova Scotia and British Columbia, \$6085 and \$6,000 respectively, earning these provinces the lowest scores.

E2.2 Probate Taxes/Fees (\$ of tax paid on \$1 million estate)

Heirs of real estate property can experience a tax shock in some provinces when they inherit the family farm or business as a result of high probate taxes/fees. Most jurisdictions charge a fee to recover the administrative cost of processing the transfer of an estate, while some levy a tax to generate additional revenue. This indicator compares the total tax paid on a \$1 million³⁰ estate—the lower the total tax paid the higher the score.

On a \$1 million estate, Quebec and Alberta score the best with flat fees of \$102 and \$400 respectively. Nova Scotia scores the poorest with a tax of \$15,778 on a \$1 million estate, followed closely by Ontario (\$14,500) and British Columbia (\$13,658)

E2.3 Municipal Real Estate Transfer Tax Per Capita

Several provinces granted municipalities the authority to levy property transfer taxes on the purchase of all properties within the municipality. Transfer taxes can reduce a property owner's likelihood to move or relocate. Provinces whose municipalities do not collect this tax receive a perfect score.

Only Ontario, Quebec and Nova Scotia allow municipalities to levy property transfer taxes. Ontario receives the lowest score as more real estate taxes per person are collected than in any other province—\$106.

²⁹ To compare between jurisdictions, the ranking considers how much tax would be paid on the selling price of a \$400,000 commercial property in each province. This captures most of the tax levels charged in each province.

³⁰ CFIB has been advocating for a \$1 million lifetime capital gains exemption on the sale of a business, and this amount was the benchmark used to calculate the probate taxes to be paid by an heir on a similar size estate.

Conclusion

The purpose of this report is to aid government policymakers in creating an investment climate for small- and medium-sized business that promotes startup, expansion and diversification of SMEs.

The overall tax burden is consistently identified by business owners as a major factor that affects their business. This is because SMEs not only face a heavy load of taxes levied by federal, provincial and local levels of government, but also because they bear a large compliance burden to collect and remit more than 30 different types of taxes.

Provinces should strive to create a tax system that is attractive to SMEs cognisant that they are not only competing with jurisdictions within Canada, but also at an international level. A competitive tax system should have relatively few exemptions and credits, and opt for broad-based tax changes that benefit as many firms as possible, rather than sector-specific breaks that deliver concentrated benefits to a very few.

The report identifies that the provinces with the best tax climates for smaller businesses are Alberta, Saskatchewan and New Brunswick; while the worst climates overall being that of Quebec, Nova Scotia and Ontario. All provinces, however, have room for improvement and they can use the subindexes and list of indicators outlined in this report to identify specific measures which can be taken to improve the competitiveness of their tax systems.

Ensuring a growing and vibrant small- and medium-sized business sector helps communities to grow and thrive. Smaller businesses provide employment, local investment and add to the tax base to provide government programs. They also tend to keep and invest their profits in their local communities, including lending support to community events and local charities. It is in everyone's interest to ensure a tax climate that supports and nurtures these enterprises.

Appendix A: Territories

The Yukon (YT), Northwest Territories (NT) and Nunavut (NU) have a unique financing arrangement with the federal government as a result of the higher costs associated with delivering services in the north to a large number of small, remote communities. The Territorial Formula Financing (TFF) was \$3.1 billion in 2012–13. It is an annual unconditional transfer from the federal government to the three territorial governments to enable them to provide their residents a range of public services comparable to those offered by provincial governments, at comparable levels of taxation. As a result, the Territories tend to score quite well on several measures because they are not as reliant on own-source revenues as the provinces. They are therefore treated separately and do not affect the provincial rankings.

Table 10

2013 Scores, Territorial Tax Systems

Best (10) ↑ ↓ Worst (0)	Overall Index Scores	Premiums and Payroll Tax Subindex	Sales and Excise Tax Subindex	Corporate Income Tax Subindex	Personal Income Tax Subindex	Property Tax Subindex
Yukon	6.64	7.2	10.0	4.8	3.5	6.9
Nunavut	6.01	4.9	4.7	6.5	8.7	6.3
Northwest Territories	5.89	5.6	4.7	8.1	5.8	5.3

Data for the Yukon, Northwest Territories and Nunavut

Table 11

Premiums and Payroll Tax Subindex

WCB Indicators	YT	NT	NU
Rate: Restaurants—\$ per \$100 insurable earnings	\$1.55	\$1.97	\$1.97
Rate: Machine Shop General—\$ per \$100 insurable earnings	\$3.34	\$1.24	\$1.24
Rate: Landscaping—\$ per \$100 insurable earnings	\$1.55	\$3.88	\$3.88
Rate: General Trucking—\$ per \$100 insurable earnings	\$5.40	\$5.85	\$5.85
Difference between maximum insurable earnings and average yearly earnings—%	18%	11%	20%
Total % change of the average assessment rate, 2004-2013	50.8%	15.5%	15.5%
Payroll Tax Indicators	YT	NT	NU
Employer-paid payroll tax, no threshold—\$ per average employee	\$0	\$0	\$0
Employer-paid payroll tax, with threshold—\$ per average employee	\$0	\$0	\$0
Threshold for employer-paid payroll taxes—\$	na	na	na
Employee-paid premium/payroll tax—\$ per average employee	\$0	\$937	\$937
Overall Score	7.2	5.6	4.9

Highest Score—Yukon

- ▶ No employee or employer payroll tax.
- ▶ Low workers' compensation premiums.

Lowest Score—Nunavut

- ▶ Levies employee-paid payroll tax.
- ▶ Greatest difference between maximum insurable earnings and average yearly earnings.

Table 12

Sales and Excise Tax Subindex

Primary Indicators	YT	NT	NU
PST Rate—%	0.0%	0.0%	0.0%
Tax on business inputs—Yes/No	No	No	No
Fuel tax: clear gasoline—cents per litre	6.20¢	6.40¢	6.40¢
Fuel tax: clear diesel—cents per litre	7.20¢	9.10¢	9.10¢
Secondary Indicators	YT	NT	NU
Insurance tax: life, accident, sickness—%	2.0%	3.0%	3.0%
Insurance tax: automobile—%	2.0%	3.0%	3.0%
Insurance tax: property plus fire—%	3.0%	4.0%	4.0%
Insurance tax: all other premiums—%	2.0%	3.0%	3.0%
Tobacco tax—cents per cigarette	21.0¢	28.60¢	25.00¢
Single tax administration—Yes/No	Yes	Yes	Yes
Overall Score	10.0	4.7	4.7

Highest Score—Yukon

- ▶ Low fuel taxes on gas and diesel.
- ▶ Low insurance premium taxes.

Lowest Score—Northwest Territories

- ▶ High fuel taxes on gas and diesel.

Table 13

Corporate Income Tax Subindex

Primary Indicators	YT	NT	NU
Small business rate—%	4.00%	4.00%	4.00%
General rate—%	15.00%	11.50%	12.00%
Small business threshold—\$	\$500,000	\$500,000	\$500,000
Tax payable on \$300,000 in 2012 (federal and territorial)—\$	\$45,000	\$45,000	\$45,000
Tax payable on \$600,000 in 2012 (federal and territorial)—\$	\$105,000	\$101,500	\$102,000
Tax payable on \$1.5M in 2012 (federal and territorial)—\$	\$375,000	\$340,000	\$345,000
Secondary Indicators	YT	NT	NU
Difference between the general rate and the manufacturing and processing rate—%	12.5%	0%	0%
Education and training tax credit—Yes/No	No	No	Yes
Manufacturing and processing credit tax credit—Yes/No	Yes	No	No
Research and development tax credit—Yes/No	Yes	No	No
Other regional tax credits—Yes/No	No	No	No
Total number of tax credits	4	3	4
Corporate minimum tax—Yes/No	No	No	No
Single tax administration—Yes/No	Yes	Yes	Yes
Overall Score	4.8	8.1	6.5

Highest Score—Northwest Territories

- ▶ Low general corporate tax rate.
- ▶ Lowest number of corporate income tax credits.

Lowest Score—Yukon

- ▶ High general corporate tax rate.

Table 14

Personal Income Tax Subindex

Primary Indicators	YT	NT	NU
Bottom tax rate—%	7.04%	5.90%	4.00%
Top tax Rate—%	12.76%	14.05%	11.50%
Basic Personal Exemption—\$	\$11,038	\$13,546	\$12,455
Level of Income for top rate—\$	\$135,054	\$128,286	\$135,054
Tax payable on \$25,000 in 2012 (federal and territorial)—\$	\$4,752	\$4,041	\$3,394
Tax payable on \$50,000 in 2012 (federal and territorial)—\$	\$12,705	\$11,519	\$10,722
Tax payable on \$100,000 in 2012 (federal and territorial)—\$	\$29,341	\$27,867	\$25,800
Tax payable on \$150,000 in 2012 (federal and territorial)—\$	\$49,017	\$47,831	\$44,141
Secondary indicators	YT	NT	NU
Indexation of the personal income tax system	All	All	All
Total number of tax credits	32	27	33
Difference between basic personal and spousal exemption—\$	\$0	\$0	\$0
Single tax administration—Yes/No	Yes	Yes	Yes
Overall Score	3.5	5.8	8.7

Highest Score—Nunavut

- ▶ Low top and bottom personal income tax rates.
- ▶ Relatively high basic personal exemption.

Lowest Score—Yukon

- ▶ Relatively high top and bottom personal income tax rates.
- ▶ Low basic personal exemption.

Table 15

Property Tax Subindex

Primary Indicators	YT	NT	NU
School board / provincial / municipal property tax —\$ per capita	\$895	\$1,058	\$422
School board / provincial / municipal property tax—% of GDP	1.19%	0.98%	0.72%
Commercial to residential property tax ratio	1.54	1.54	1.68
Municipal business occupancy tax—\$ per capita	\$0	\$0	\$0
Secondary Indicators	YT	NT	NU
Territorial real estate transfer tax/fee—\$ of tax paid on \$400,000 property	\$123	\$600	\$600
Probate taxes/fees—\$ of tax paid on \$1 million estate	\$140	\$400	\$400
Municipal real estate transfer tax—\$ per capita	\$0	\$0	\$0
Overall Score	6.9	5.3	6.3

Highest Score—Yukon

- ▶ Low territorial real estate transfer and probate taxes/fees.

Lowest Score—Northwest Territories

- ▶ High per capita property tax burden.
- ▶ High territorial real estate transfer and probate taxes/fees.

*In Nunavut a lease transfer fee is charged on land that is owned by the Inuit.

Appendix B: Methodology

CFIB's 2013 *Small Business Provincial Tax Index* was developed as a comprehensive ranking based on the five main components (subindex) of the tax structure, and 53 indicators within those subindexes.

Subindex A. Premiums and Payroll Tax Subindex (10 indicators)

- Rate: Restaurants—\$ per \$100 insurable earnings
- Rate: Machine Shop General—\$ per \$100 insurable earnings
- Rate: Landscaping—\$ per \$100 insurable earnings
- Rate: General Trucking—\$ per \$100 insurable earnings
- Gap between maximum insurable earnings and average yearly earnings—%
- Total % change of the average assessment rate, 2004-2013
- Employer-paid payroll tax, no threshold—\$ per average employee
- Employer-paid payroll tax, with threshold—\$ per average employee
- Threshold for employer-paid payroll taxes—\$
- Employee-paid premium/payroll tax—\$ per average employee

Subindex B. Sales and Excise Tax Subindex (10 indicators)

- PST rate—%
- Tax on business inputs—Yes/No
- Fuel tax: clear gasoline—cents per litre
- Fuel tax: clear diesel—cents per litre
- Insurance tax: life, accident, sickness—%
- Insurance tax: automobile—%
- Insurance tax: property plus fire—%
- Insurance tax: all other premiums—%
- Tobacco tax—cents per cigarette
- Single sales tax administration—Yes/No

Subindex C. Corporate Income Tax Subindex (14 indicators)

- Small business rate—%
- General rate—%
- Small business threshold—\$
- Tax payable on \$300,000 in 2012 (federal and provincial)—\$
- Tax payable on \$600,000 in 2012 (federal and provincial)—\$
- Tax payable on \$1.5M in 2012 (federal and provincial)—\$
- Difference between general rate and manufacturing and processing rate—%
- Education and training tax credit—Yes/No
- Manufacturing and processing tax credit—Yes/No
- Research and development tax credit—Yes/No
- Other regional tax credits—Yes/No
- Total number of tax credits
- Corporate minimum tax
- Single corporate income tax administration—Yes/No

Subindex D. Personal Income Tax Subindex (12 indicators)

- Basic personal exemption—\$
- Bottom tax rate—%
- Top tax rate—%
- Level of income for top rate—\$
- Tax payable on \$25,000 in 2012 (federal and provincial)—\$
- Tax payable on \$50,000 in 2012 (federal and provincial)—\$
- Tax payable on \$100,000 in 2012 (federal and provincial)—\$
- Tax payable on \$150,000 in 2012 (federal and provincial)—\$
- Indexation of the personal income tax system
- Total number of tax credits
- Difference between basic personal and spousal exemption—\$
- Single personal income tax administration—Yes/No

Subindex E. Property Tax Subindex (7 indicators)

- School board / provincial / municipal property tax —\$ per capita
- School board / provincial / municipal property tax—% of GDP
- Commercial to residential property tax ratio
- Municipal business occupancy tax—\$ per capita
- Provincial real estate transfer tax/fee (\$ of tax paid on \$400,000 property)
- Probate taxes/fees—\$ of tax paid on \$1 million estate
- Municipal real estate transfer tax—\$ per capita

Each subindex was designed to score each province's tax system on a scale of zero (worst) to 10 (best). Various indicators are incorporated into each subindex and each one is categorized as either a primary or secondary indicator.

The five subindexes are not weighted equally. Rather, each subindex is weighted based on results from CFIB's Federal Budget Survey, where business owners were asked to identify the taxes that are most harmful to the growth of their business (Figure 11). From these results, we determined the order of importance for different types of taxes and assigned the following weights³¹:

29 per cent—Premiums and Payroll Tax Subindex

20 per cent—Sales and Excise Tax Subindex

19 per cent—Corporate Income Tax Subindex

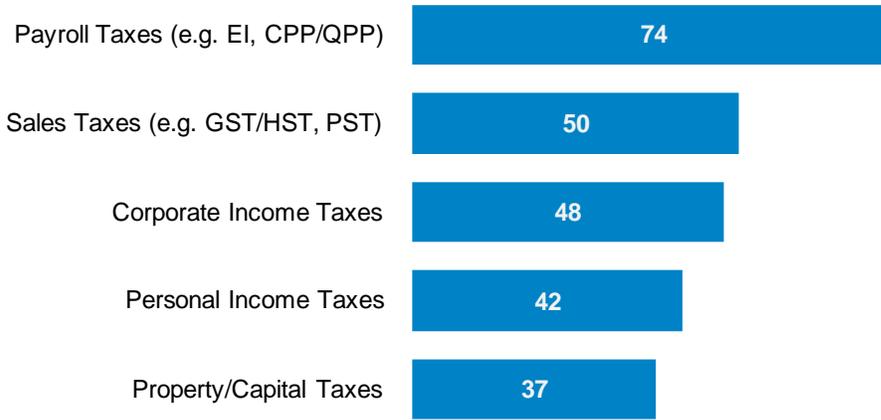
17 per cent—Personal Income Tax Subindex

15 per cent—Property Tax Subindex

³¹ Formula used is: $(100 * x) / 251$, where x is the individual survey score and 251 is the sum of all survey scores.

Figure 11

Which forms of taxation affect the growth of your business the most? (% response)



Source: Canadian Federation of Independent Business, *Point of View: 2013 Federal Budget*, based on 7,599 responses, September 2012.

Within each subindex, primary indicators are given 70 per cent weights each and secondary indicators are weighted 30 per cent each. The exception is the Premiums and Payroll Tax Subindex, which is equally weighted between workers' compensation board indicators and payroll tax indicators. Primary indicators are those which have the most harmful impact on smaller business owners because they represent a significant tax burden, are levied on all businesses, and are levied on a more frequent basis. Secondary indicators are those which have a lesser impact on businesses, or are levied on only some businesses, or are levied on a less frequent basis.

In each subindex there are two types of indicators: scalar indicators and binary indicators. A scalar indicator has a value on a scale between 0 and 10. A binary indicator has a value of 0 and 10, or 0 and 1. For example, a province either exempts business inputs from sales tax or it does not. Mixing scalar and binary indicators within a subindex is problematic because the extreme valuation of a binary indicator can overly influence the results. To counter this effect, many of the binary indicators are categorized as secondary and receive a lower weighting. In some cases, the binary indicators are assigned a value of 0 or 1 to lessen their impact on the results. Binary and scalar indicators are weighted equally when the binary indicator is important enough to smaller firms that it warrants the extreme valuation.

CFIB's *Small Business Provincial Tax Index* is designed as a relative index rather than an absolute index. Each indicator is ranked relative to the indicator's range in other provinces. The relative scoring scale is from 0 to 10, with zero meaning the worst among the 10 provinces, and 10 meaning the best among the 10 provinces.

Assessing provinces relative to the best performer allows for fractional scores that are sensitive to the range of difference between tax rates, and allows for a more accurate assessment of relative performance.

In cases where a province does not have a particular tax at all, such as payroll or health taxes, we acknowledge that provinces that do not have a particular tax have created the most favourable climate for businesses and receive a perfect score of 10. The *Index* then measures all the other provinces relative to the best score and to each other, with the worst performer receiving a zero.

How to Read the Tables

The tables in each section indicate the data used for calculating each of the subindexes. Each table presents first the primary indicators, followed by the secondary indicators. On each scalar indicator, the province with the best indicator (lowest or highest, depending on the indicator) receives the maximum score of 10, while the worst province receives a score of 0. All other scores are based on the scale formed by these two values. The value of each indicator is shown in the cell with the ranking underneath in brackets (score).

When an indicator receives a lower score for a higher value or a higher score for a lower value (for instance, in the case of the small business tax rate) the formula used is:

$$10 - ((x - \text{min}) / (\text{max} - \text{min})) * 10$$

When an indicator receives a lower score for a lower value or a higher score for a higher value (for instance, the small business threshold) the formula used is:

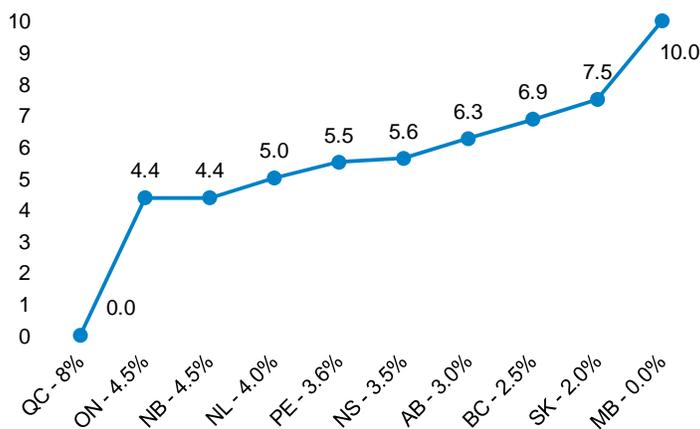
$$(x - \text{min}) / (\text{max} - \text{min}) * 10$$

Where x = the score to be calculated

Min and max are the minimum and maximum of the range of indicators.

Example: Small Business Rate Indicator

Manitoba obtains a score of 10 with its small business rate of 0 per cent, while Quebec obtains a score of 0 with a rate of 8 per cent. The next best province is Saskatchewan with a rate of 2.0 per cent and it is given the score of 7.5, while the next worst province is Ontario and New Brunswick small business rates of 4.5 per cent, which means a score of 4.4.



2013 Changes to Methodology

The 2009 edition of the *Index* included the average rate and maximum rate for workers' compensation premiums as indicators in the premiums and payroll tax subindex. These indicators have been removed, and the total percentage change of the average assessment rate, 2004-2013 indicator was added as an indicator to the 2013 edition.

In terms of the sales and excise tax subindex, excise taxes on spirits, wine and beer have been removed in the latest edition—primarily due to the lack of comparable data for all the provinces.

Phasing out of small business threshold on level of income has been removed as an indicator of the corporate income tax subindex in 2013. All provinces now mirror the federal approach which begins to phase out the small business threshold when a business has \$10 million in taxable capital and phases it out fully with \$15 million in taxable capital. In general, a corporation's taxable capital is the total of its shareholder's equity, surpluses and reserves, and loans and advances to the corporation, less certain types of investments in other corporations.

Neither the small business non-eligible dividend tax credit, nor the general business eligible dividend tax credits are included in the 2013 personal income tax subindex. The analysis of such indicators was not conducive to the timing of the report.

The 2013 property tax subindex combines the school board/provincial revenues with the municipal property tax revenues and measures them on a per capita basis, and as a percentage of GDP. Further, in assessing the commercial and residential property tax ratio, the education, municipal, and other applicable tax rates for businesses have been combined. In addition, indicators which capture the impact of the provincial capital tax rate has been removed—all provinces have eliminated their capital taxes.

