

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

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

### Key Findings from CFIB Surveys on Taxation in British Columbia

#### Tax Burden is Affecting Business Growth

**90%**

of business owners say  
**tax burden is their top concern**

**84%**

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

#### Reducing Taxes Would Help Businesses Grow

**90%**

of business owners say  
**reducing taxes helps growth the most**

### The Problem with Payroll Taxes for Businesses Owners



#### Profit Insensitive

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



#### Administrative Burden

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



#### Regressive

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

### Employer Payroll Tax Burden in 2019 – Where does British Columbia Stack Up?

Payroll burden on employers is assessed using the effective payroll tax rate—i.e. payroll taxes as a percentage of salary—on a small business with 50 employees, each earning a typical salary of \$50,000 resulting in a total payroll of \$2.5 million.<sup>2,3</sup> Findings from this analysis show that employers in British Columbia (BC) face the second highest payroll burden in Canada, at \$5,256 or 10.51% effective payroll tax rate (see Figure 1). One reason for this, is the introduction of BC's Employer Health Tax (EHT) which, as of 2019, is levied on employers whose cumulative annual payroll exceeds \$500,000.<sup>4</sup> Not surprisingly, other provinces where such a tax exists also rank among those with the highest payroll tax burden—Manitoba, Ontario, Quebec, and Newfoundland and Labrador. For business owners in these provinces, this type of tax creates a competitive disadvantage compared to those provinces where no such tax exists.

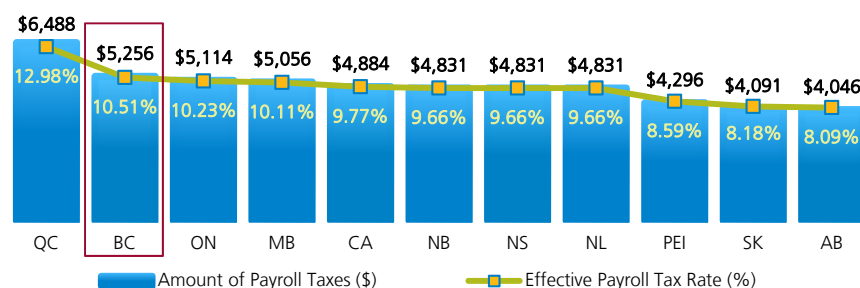
<sup>1</sup> This summary is based on CFIB's main report on payroll taxes in Canada — [Taxing Payroll: A Barrier to Business Growth and Competitiveness](#).

<sup>2</sup> A small business has 1 to 99 paid employees, as defined by Innovation, Science and Economic Development Canada (ISED). Source: Statistics Canada. *Key Small Business Statistics* - January 2019.

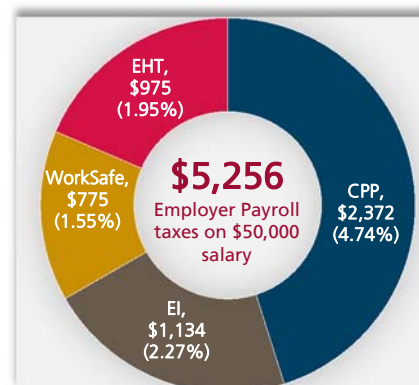
<sup>3</sup> Average national wage of \$50,760 was rounded to \$50,000 for simplification. Source: Statistics Canada, Table: 14-10-0204-01 (formerly CANSIM 281-0027), Annualized industrial aggregate excluding unclassified businesses (Canada) 2017.

<sup>4</sup> Payroll between \$500,000 and \$1.5 million is taxed at 2.925%. Payroll over \$1.5 million is taxed at 1.95% on the total payroll.

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



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



### Focus on BC's Employer Health Tax

- The EHT creates a disincentive for businesses to grow. For instance, for a business whose payroll is near the \$500,000 exemption, hiring an additional employee is taxed at 2.925% of the salary level.
- With the EHT, many employers will face new expenses in 2019, limiting funds available to grow their business. For example, in our study a business with a \$2.5 million payroll paid \$4,281 in payroll taxes in 2018 and \$5,256 in 2019 (all things being equal) on a \$50,000 salary. This represents a 23% (or \$975) increase in payroll taxes.
- The current EHT exemption level fails to shield small businesses. For instance, a small business with a 50 employees, each earning an average salary of \$50,000 has a payroll of \$2.5 million; far exceeding the \$500,000 threshold. A \$2.5 million payroll threshold would exempt most small businesses with fewer than 50 employees earning an average wage of \$50,000.<sup>5</sup> Further, the province ignores adjusting the exemption level for inflation annually. Failure to do so means the threshold does not reflect the changing dynamics of the economy, resulting in more businesses having to pay the tax every year.

### Employer Payroll Tax on a \$50,000 salary in BC, 2018 vs. 2019

Payroll	Salary Level \$50,000			
	2018		2019	
	Effective Tax Rate	Payroll Contribution	Effective Tax Rate	Payroll Contribution
\$2.5M	8.56%	\$4,281	10.51%	\$5,256

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

### Lowering the Payroll Burden in British Columbia

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

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|----------------------------|---|
| <b>WorkSafeBC</b>          | <ul style="list-style-type: none"> <li>✓ To avoid volatility in premium costs, workers' compensation boards must practice continued vigilance on administration costs and regularly review the rate-setting process.</li> <li>✓ Funding should be monitored closely and invested in the most prudent manner possible.</li> <li>✓ In 2018, WorkSafeBC was funded at 155% per cent on a smoothed basis, representing roughly \$3 billion in surplus funding above the current targeted funding ratio of 130% (total assets over total liabilities). WorkSafeBC should review its funding ratio to ensure the board's financial position is sound but not overly cautious and publicly release the findings. Further, when the board exceeds its targeted funding position, surplus funds should be rebated to employers in the year they are realized.</li> <li>✓ Regularly review of the board's efficiencies (e.g. every 5 years).</li> </ul> |
| <b>Employer Health Tax</b> | <ul style="list-style-type: none"> <li>✓ Eliminate provincial payroll taxes (e.g. commit to a 10-year plan to phase out provincial payroll taxes).</li> <li>✓ In the meantime, to help shield small business from the EHT raise the exemption to at least \$2.5 million and index it to inflation.</li> <li>✓ Exempt employees that are outside of the worker's normal life contributing period (e.g. under the age of 18 and over the age of 65) from payroll tax calculations, in order to encourage labour force participation and ensure intergenerational equity.</li> </ul>   |

Note, for a complete list of CFIB's recommendations pertaining to the general payroll tax system in Canada refer to the full report.<sup>6</sup>

<sup>5</sup> Statistics Canada defines a small business as having 1 to 99 paid employees. Further, BC Stats defines a small business as one with fewer than 50 employees.

<sup>6</sup> This summary is based on CFIB's main report on payroll taxes in Canada — [Taxing Payroll: A Barrier to Business Growth and Competitiveness](#).