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THE NEED TO ELIMINATE THE HEALTH AND POST SECONDARY EDUCATION TAX

NEWFOUNDLAND & LABRADOR

employers'

COUNCIL

Introduction

The Newfoundland and Labrador Employers' Council (NLEC) is the lead employer advocacy group in the Province of Newfoundland and Labrador on matters that affect the employment relationship. Founded in 1982, the NLEC represents an employer membership that employs greater than 50% of all employees in the province excluding government. The Health and Post Secondary Education Tax (hereafter referred to as the "payroll tax") has significant negative impacts on our province's competitiveness and employment. The elimination of the payroll tax is a primary concern for our members.

Introduced in 1990, the payroll tax is a tax on employment and a significant disincentive for employers to increase the employment opportunities for residents of the province. Newfoundland and Labrador is the only province in Atlantic Canada that has this type of tax. The payroll tax in this province is the second highest in the country. When combined with workers' compensation rates that are the highest in the country there is a significant disincentive for employers to grow employment levels in Newfoundland and Labrador. The provincial government encourages employers to increase employment levels. The elimination of the payroll tax would send a message that Newfoundland and Labrador is a great place to grow your business and would remove one of the disincentives for businesses to grow. The NLEC believes that the provincial government should eliminate the payroll tax as part of the 2010 provincial budget.

History of payroll tax

The payroll tax was introduced on August 1, 1990 by the provincial government as a revenue generating measure. Under this legislation, all employers pay a 2% tax on the portion of their payroll that is in excess of a tax free exemption. The exemption level in 1990 was $300,000 and was reduced to $100,000 in 1992. Since 1992, the exemption level has been increased multiple times to the current level of $1,000,000. The successive increases in the exemption limit, together with public statements made by government with regard to this tax, indicate that provincial government understands the negative consequences of the payroll tax.

The historically unprecedented increases in minimum wage in this province (a 36% increase since 2007) together with the upward pressure minimum wage increases have on other wages, has moved many employers past the threshold for the payroll tax. This represent a double hit for employers – government legislates that they pay higher wages and then government benefits from that wage increase through payroll tax.

In 2009, the provincial government collected $63,600,000 from employers through the Payroll Tax. Despite the increase in the exemption level, revenue from this tax has increased almost every year since the tax's inception due to increases in employment and wages. The tightening of the labour market in recent years and its subsequent upward pressure on wage rates as well as the unprecedented increases in minimum wages in the province have amplified the cost of the payroll tax to employers. Taxing employment while employers in the province are working to recover from a global economic recession is intuitively wrong. For this reason, the NLEC believes that the provincial government should eliminate the payroll tax as part of the 2010 provincial budget.

Inter-jurisdictional comparison

Across the country, the term "payroll tax" generally refers to the combined impact of Employment Insurance (EI) premiums, Canada Pension Plan (CPP) remittances, workers' compensation costs and any additional taxes that governments may levy on an employer's wage bill. In this province, the term "payroll tax" is generally used to refer to the Health and Post Secondary Education Tax. As EI and CPP are standardized across the country, the level of workers' compensation premiums and other payroll taxes create either a competitive advantage or disadvantage for employers. The combined impact of these two levies on employment costs creates a significant disadvantage to our members.

Employers in this province currently pay an average of $2.75 per $100 of assessable payroll in Workers' Compensation premiums. This is 36% above the Canadian average and 21% above the Atlantic Canada average. Because this tax pays for an insurance system, improved management of the system must occur to achieve long-term reductions in assessments for employers and the removal of this competitive disadvantage. These are long term objectives that the NLEC is working with our government and labour partners to achieve.

Only three other provinces out of 13 jurisdictions (Quebec, Manitoba and Ontario) have a tax on employment similar to NL's payroll tax. Excluding the outlier of Quebec, the payroll tax on labour in this province is the second highest in the country. No other Atlantic province has a similar tax on labour.

Being the only province in Atlantic Canada with a payroll tax, compounded with a Workers' Compensation premium that is 21% higher than the Atlantic Canadian average reinforces the perception that Newfoundland and Labrador is a poor place to employ people and to do business.

In contrast to reducing workers' compensation premiums, the elimination of the payroll tax offers an immediate opportunity for the provincial government to reduce this gross competitive disadvantage faced by employers in this province. For this reason, the NLEC believes that the provincial government should eliminate the payroll tax as part of the 2010 provincial budget.

Payroll tax vs. Profit tax

The theory underlying payroll tax assumes that the higher the wage costs a business has, the more it can afford to pay in taxes. This assumption is incorrect for several reasons. Many industries in Newfoundland and Labrador are labour intensive and low profit margin. The Home Support industry, the Hospitality Sector and the Retail Industry are prime examples of such labour intensive, low profit margin industries. Employers who exceed the exemption threshold will have profit margins reduced by the payroll tax. The payroll tax is a significant disincentive for employers to grow payroll beyond the $1 million threshold.

There are other reasons, related to increases in wages earned by employees that may cause a business to exceed the exemption threshold of this tax regardless of the operation's profitability. The tightening of the labour market is one additional factor. Provincial demographics, particularly in the Northeast Avalon, have resulted in a reduction in the number of individuals available for employment relative to the availability of jobs. This has put pressure on wages in the province regardless of the employers' ability to pay those higher wages or the market's ability to bear increases in the price of goods and services. This market pressure on wages can cause low profit margin employers to cross the exemption threshold.

For this reason, the NLEC believes that the provincial government should eliminate the payroll tax as part of the 2010 provincial budget.

Conclusion:

Eliminating the payroll tax would demonstrate the government's commitment to creating jobs in this province and would be a step towards levelling the playing field for those Newfoundland and Labrador companies that bid on projects or compete against goods and services produced in other jurisdictions with no similar tax. The payroll tax is a direct disincentive for employers to increase wages and employ more people.

Most jurisdictions have recognized the negative consequences of taxing payroll and have chosen to remove or stay away from such a tax altogether. The successive increases in the exemption threshold since the 1992 and in particular the decision by the current provincial government in 2008 to push the threshold to the $1 million mark, demonstrates an understanding within government of the negative consequences of this tax.

The Newfoundland and Labrador Employers' Council recommends strongly that the Health and Post Secondary Education Tax, known within the province as the Payroll Tax, be eliminated in budget 2010.