

## **BBOT Policy Alert**

### **The Employer Health Tax**

In the recent provincial budget, the government proposed a new payroll tax—called the “employer health tax”—which will require all organizations, business and non-profits, with payrolls of over \$500,000 per year to pay a tax ranging from 0.98% to 1.95% of their total BC payroll.

The Burnaby Board of Trade has several concerns with this new payroll tax as outlined below and the Burnaby Board of Trade does not support imposing this tax on businesses and not-for-profits. Should the tax go ahead, the Burnaby Board of Trade is advocating for several changes to be included in the final regulations/legislation to minimize the undue negative impacts of this tax.

The new payroll tax will be effective January 1, 2019 and the tax rate will increase as the size of an organization’s payroll increases:

<b>Annual BC Payroll</b>	<b>Tax as a percent of Payroll</b>	<b>Annual Tax \$</b>
\$500,000 or less	0.00%	\$0
\$750,000	0.98%	\$7,313
\$1,000,000	1.46%	\$14,625
\$1,250,000	1.76%	\$21,938
\$1,500,000	1.95%	\$29,950
over \$1,500,000	1.95%	1.95% of payroll over \$1.5 million

### **Burnaby Board of Trade Concerns**

#### *Double Taxation in 2019*

This tax has been framed as a way to fund the removal of Medical Services Plan (MSP) premiums on individuals, however while the tax comes into effect in 2019, MSP premiums will not be eliminated until January 1, 2020. Therefore, an organization which currently pays MSP premiums on behalf of its employees may be faced with paying both expenses for the 2019 year.

*The Fix:* Postpone implementing the tax until 2020 so it coincides with the removal of MSP premiums; or establish a process to allow businesses and non-profit organizations which pay MSP premiums on behalf of their employees to apply for an exemption to the tax.

#### *Exemption Thresholds Are Low*

BC Budget 2018 says the employer health tax will not apply to “small business,” but provides exemptions for payrolls up to just \$500,000, or only eight or nine employees at the median salary. Few would define a company

with 10 or 11 employees as a 'big business' and this low threshold means thousands of true small businesses and small non-profit organizations will still have to pay this tax. In some provinces with similar health payroll taxes, the thresholds are set much higher (\$1.25 million in Manitoba and \$1.2 million in Newfoundland) to allow greater exemptions for small businesses.

*The Fix:* Increase the payroll exemption threshold to allow for more true small businesses and small non-profit organizations to be exempt from the tax.

### *Tax Appears to Not Be Marginal/Progressive*

Like income tax, the employer health tax rates should operate in a marginal or progressive fashion. The examples provided in Budget 2018 suggest that if a business's payroll crosses a threshold, the tax will be applicable to the full payroll, not just the incremental amount above the cut-off. This creates a disincentive for businesses to hire workers or raise wages as growing a payroll past a threshold may trigger higher taxation on the whole amount, not just the incremental increase.

*The Fix:* Ensure the employer health tax rates are applied incrementally, so that the first \$500,000 of payroll is exempt regardless of the total size of the overall payroll.

### *Thresholds Are Not Indexed*

The exemption thresholds for the employer health tax should be indexed to inflation based on the consumer price index. Indexing the thresholds will prevent a scenario where, over time, the exemptions become less meaningful as the amounts are no longer relevant. In addition, indexing the thresholds to inflation would allow businesses to offer at least "cost-of-living" increases to wages and salaries without the risk of inadvertently raising their payroll above an exemption cut-off.

*The Fix:* Index the payroll exemption thresholds to inflation by linking annual increases in the thresholds to the Consumer Price Index.

*The Burnaby Board of Trade looks forward to working with the provincial government to minimize the negative impact of this proposed tax on small business and not-for-profit organizations in Burnaby and across BC.*

*For more information on this or any of our advocacy efforts, visit [www.bbot.ca/advocacy](http://www.bbot.ca/advocacy)*

*For questions or to provide feedback on this or any other policy issue, please contact Cory Redekop, Manager of Policy & Stakeholder Relations at [cory@bbot.ca](mailto:cory@bbot.ca)*