

ENCOURAGE HIRING BY AMENDING THE EMPLOYER HEALTH TAX

Opening Statement

The Employer Health Tax taxes every BC employer on their payroll, creating a tax on hiring and job creation in our province. The threshold above which payroll is charged the tax is currently set at \$500,000, which is too low and should be raised to exempt more businesses from the tax and encourage hiring and wage growth as BC's economy emerges from the pandemic.

The Employer Health Tax came into effect in 2019 and is an annual tax which requires businesses to pay tax on their annual payroll over \$500,000. Businesses with payrolls under \$1.5 million are required to pay 2.925% on their total payroll over \$500,000, while businesses with total payroll over \$1.5 million are required to pay 1.95% on their total payroll. In its first full year in place, the Employer Health Tax taxed businesses \$1.897 billion dollars.¹

Background

The employer health tax is applied once an organization's annual payroll surpasses \$500,000 and the tax is levied only on that payroll which is over the \$500,000. When the Employer Health Tax was introduced in Budget 2018 the provincial government stated it chose the \$500,000 threshold level to "protect small businesses" and exempt them from the tax.

However, the threshold is so low that it only exempts organizations with up to nine employees (based on the median income in BC of \$54,028²), meaning businesses with as little as 10 employees must pay this tax on every dollar of payroll over the threshold. This is especially noticeable in labour-intensive industries which may have larger staff such as retail, hospitality, and food service, industries disproportionately impacted by the COVID-19 pandemic and related public health restrictions.

When the threshold was set in 2018, it was then already too low. Several provinces with similar health payroll taxes had exemption thresholds significantly larger in an effort to prevent undue negative impacts on small business. For example, in 2018 Manitoba provided a \$1.25 million payroll threshold for its Health and Post-Secondary Education Tax Levy, and Newfoundland has a threshold of \$1.2 million on its similar tax.

Since 2018, several provinces have increased their exemption thresholds, including both Newfoundland (to \$1.3 million) and Manitoba (to \$1.5 million). Notably, the Province of Ontario also increased its threshold, more than doubling the payroll exemption to its Employer Health Tax from \$490,000 to \$1 million. This increase was initially done as part of its COVID-19 emergency response, but it has since been made permanent, securing meaningful savings for that province's small businesses.³

A comparison of the Employer Health Tax by a comparable BC and Ontario small illustrates the contrast in tax competitiveness between BC and Canada's largest province and the need reform of BC's tax:

Figure 1 - Comparison of BC and Ontario Employer Health Taxes

Business Payroll	BC Tax	Ontario Tax	Cost Difference
\$500,000	\$0	\$0	-
\$750,000	\$7312.50	\$0	\$7312.50 more in BC
\$1,200,000	\$20,475	\$3,900	\$16,575 more in BC
\$4,000,000	\$78,000	\$58,500	\$19,500 more in BC

now owed
business
for

¹ <https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/government-finances/quarterly-reports/fall-2020-economic-fiscal-update.pdf>

² https://www2.gov.bc.ca/assets/gov/data/statistics/people-population-community/income/earnings_and_employment_trends_data_tables.pdf

³ [Employer Health Tax \(gov.on.ca\)](https://www2.gov.on.ca/assets/gov/employment/employer-health-tax.pdf)

One of the shortcomings of thresholds in general is that the amounts are often not adequately increased over time, or not indexed to inflation. BC's new employer health tax should avoid this by ensuring the payroll thresholds are indexed to inflation based on the consumer price index (CPI), with either automatic annual increases based on the Index, or through regularly-scheduled reviews and increases of the thresholds.

Indexing or increasing the thresholds will prevent a scenario where, over time, the exemptions become less meaningful as the amounts are no longer relevant. For example, a \$500,000 threshold implemented 10 years ago would now be approaching \$590,000 if indexed to the CPI. 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.

In general, payroll taxes are not an ideal way of raising revenue as they function as regressive taxes, with no regard for a business's profitability or ability to pay. For some small businesses with narrow margins, the additional thousands in costs this payroll tax impose presents a further challenge to their recovery and a long-term drag on hiring and on employee wage growth. In fact, a 2020 study of the impacts of the tax estimated that by increasing the cost of labour the Employer Health Tax would result in "a reduction in the province's average hourly wage by \$0.59 in the short term and \$1.64 and the long term"⁴

Given these negative impacts and the fact that BC's Employer Health Tax is now significantly more expensive than comparable taxes in other provinces, the exemption threshold should be increased as a way of supporting the recovery and growth of BC small businesses.

THE BURNABY BOARD OF TRADE RECOMMENDS

That the Provincial Government amend the Employer Health Tax to:

1. Increase the base payroll exemption threshold from \$500,000 to \$1.5 million to ensure BC's tax is more competitive with other provinces, to allow for more small businesses to be exempted from the tax, to reduce the cost of hiring for more businesses, and to encourage job creation and wage growth.
2. Ensure the payroll exemption thresholds increase over time to account for inflation, either through a regularly-scheduled review, or through annual increases indexed to the BC Consumer Price Index.

⁴ Ergete Ferede (2020). Who Bears the Burden of British Columbia's Employer Health Tax? Insights from the Literature and Some Empirical Evidence. Fraser Institute. Accessed from: <http://www.fraserinstitute.org>