

## MINIMIZING UNDUE NEGATIVE IMPACTS OF THE EMPLOYER HEALTH TAX

In BC Budget 2018 presented on February 20th, the provincial government announced the introduction of an “employer health tax” which will require organizations with payrolls of over \$500,000 per year to pay a new payroll tax ranging from 0.98% to 1.95% to fund the removal of Medical Services Plan (MSP) premiums. Once fully implemented in 2019, this tax will cost businesses across BC \$1.85 billion dollars.

This new payroll tax will be an undue burden on many small businesses and not-for-profit organizations who will be faced with a significant new labour cost for which they were not prepared and had not planned. 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 or small non-profit organizations with narrow margins, the additional thousands in costs this payroll tax will impose will cause undue hardship and negative impacts which should be avoided.

In addition, the proposed employer health tax deviates from current payroll tax practice, as it places the full tax obligation on the employer. Current payroll taxes in BC, such as Canada Pension Plan and Employment Insurance, see employees contribute a portion of the tax through payroll deductions while the employer makes an additional contribution. This fairly distributes the responsibility of paying for these social programs between both parties. Uniquely, the proposed employer health tax removes the employee from the process, putting the entire burden of paying for the employee’s health care tax obligations on the employer.

### The 2019 Double Dip

In imposing the employer health tax, the provincial government went against the preliminary advice of the MSP Task Force it struck in 2017. That task force suggested, in its February 1, 2018 interim report, that the “MSP be eliminated as at a specific date and that the new revenue measures take effect fully *at the same time.*” (emphasis added).

Budget 2018 states that the new employer health tax will take effect on January 1, 2019 but the MSP will not be eliminated until January 1, 2020. This overlap creates the potential for some businesses and non-profits to be hit with double taxation as many organizations pay MSP premiums on behalf of their employees. A business or non-profit organization paying MSP premiums on behalf of their employees and which has a payroll of \$500,000 will also be charged the employer health tax in 2019 --- paying twice to fund the same health program.

The employer health tax should therefore either be changed to apply in 2020 when MSP premiums are removed, or there should be a process established to allow employers which pay the premium on behalf of their employees to apply for an exemption from or reduction in their employer health tax obligation.

### Exemption Thresholds

The new employer health tax is applied once an organization’s annual payroll surpasses \$500,000 and the tax rate increases in steps from 0.98% up to a maximum of 1.95% on payrolls of \$1.5 million or more.

While Budget 2018 says the \$500,000 threshold is meant to “protect small businesses,” the level is so low it only covers organizations with up to nine employees (based on the median income in BC of \$53,000). Few would define a company with 10 or 11 employees as a ‘big business’ and this low threshold means tens of thousands of small businesses and small non-profit organizations will have to pay this new tax.

**Table 2.2 Employer Health Tax Effective January 1, 2019**

Annual BC Payroll	Annual Tax	Tax as a Per Cent of Payroll
\$500,000 or less .....	\$0	0.00%
\$750,000 .....	\$7,313	0.98%
\$1,000,000 .....	\$14,625	1.46%
\$1,250,000 .....	\$21,938	1.76%
\$1,500,000 .....	\$29,250	1.95%
	\$29,250 plus	
	1.95% of payroll	
Over \$1,500,000 .....	over \$1.5 million	1.95%

1. Province of British Columbia, “Budget 2018 - Working For You”

In some provinces with similar health payroll taxes, the thresholds and exemptions have been made large enough to prevent undue negative impacts on small organizations. For example, Manitoba provides a \$1.25 million payroll threshold before its Health and Post-Secondary Education Tax Levy is levied, and Newfoundland has a threshold of \$1.2 million dollars before its similar payroll tax is applied. BC's new employer health tax will apply to thousands of small businesses and small non-profit organizations, many of which may not have the capacity to pay this unforeseen expense. The payroll threshold should be therefore increased to allow for more true small businesses and small non-profit organizations to be protected.

In addition, the tax rates should be made to operate in a progressive or marginal fashion, like income tax. The examples provided in Budget 2018 (see table above) 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 amount of the base payroll exemption—currently \$500,000—should be tax exempt regardless of how large the overall payroll actually is, and the higher tax rates should only be applicable to the marginal amounts of payroll above a threshold, not the entire sum.

### **Indexing to Maintain Relevance**

One of the shortcomings of thresholds in general in public policy 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). Indexing 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.

### **THE CHAMBER RECOMMENDS**

That the Provincial Government adjust the Employer Health Tax to avoid undue negative impacts by:

1. Postponing the date of implementation of the Employer Health Tax to 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 or reduction in their employer health tax obligations.
2. Increasing the base payroll exemption threshold from \$500,000 to at least \$1 million to allow for more true small businesses and small non-profit organizations to be exempted from the tax.
3. Ensuring the Employer Health Tax rates are applied marginally, so that the amount of the base payroll exemption (at least \$1 million is proposed) is exempt regardless of the total size of the overall payroll, and that as each threshold is passed the higher tax rate is applied only to the incremental amount above the cut-off.
4. Indexing the payroll exemption thresholds to inflation by linking annual increases in the thresholds to the Consumer Price Index.

**Submitted by the Burnaby Board of Trade**

**Supported by the Abbotsford Chamber of Commerce, Greater Langley Chamber of Commerce, Richmond Chamber of Commerce, and Tri-Cities Chamber of Commerce**