

by Yanick Labrie | November 2014

In June, the Quebec government set up an expert committee whose mandate is to prepare a report on the tax system in Quebec and propose reforms designed to improve its efficiency, its fairness and its competitiveness. This Taxation Review Committee also plans to look into the possibility of revising the balance between different methods of taxation, based on the experiences of other countries.¹

Of all the components of taxation in Quebec, payroll taxes are without a doubt the least well-known among the general public. While employees may indeed notice a discrepancy between what they receive and what their employers pay out, it is difficult to fully understand the reasons for this. Nor do employees know the magnitude of the sums that their employers must pay to the taxman in addition to the salaries they are paid. This *Viewpoint* aims to clarify the issue of payroll taxes in order to better grasp their impact on the remuneration of workers.

A Heavier Tax Burden in Quebec

In Quebec, there are seven taxes and social security contributions that vary as a function of payroll. Aside from premiums for employment insurance, a federal program, the six others are collected at the provincial level. Among the taxes levied by the Quebec government, it is Quebec Pension Plan premiums that generate the largest sums, around \$12 billion a year² (see Table 1).

Most of these taxes and contributions were created with the goal of financing various programs, like the public

Table 1
Rates of the different payroll taxes in Quebec and total employer and employee contributions

Payroll tax	Level of government (date created)	Employer rate (2014)	Employee rate (2014)	Total contributions
Employment Insurance	Federal (1940)	2.142%	1.53%	\$3,765M (2012)
Quebec Pension Plan	Provincial (1966)	5.175%	5.175%	\$12,136M (2013)
Health Services Fund	Provincial (1970)	3.69%*	—	\$6,765M (2013)
Quebec Parental Insurance Plan	Provincial (2006)	0.782%	0.559%	\$1,976M** (2013)
Workers' Compensation Board (CSST)	Provincial (1980)	2.02%*	—	\$2,687M (2013)
Workforce training	Provincial (1995)	1%	—	\$930M (2012)
Labour Relations Board	Provincial (1979)	0.08%	—	\$66M (2013)
Total	—	14.889%	7.264%	\$28,325M

Sources: See the Technical Annex on the MEI website for a complete list. *This is the average rate in Quebec. **This includes the amount paid by self-employed workers, which totals \$99 million at a rate of 0.993%.

pension plan or the parental insurance plan. Some of them, however, are collected without really being dedicated to the financing of any particular program. This is the case for contributions to the Health Services Fund, which are allocated directly into the Quebec government's consolidated budget, contrary to what its name implies. Quebec companies paid \$6.8 billion due to this

1. See the precise mandate on the website of the Taxation Review Committee (French only) at <http://www.examenfiscalite.gouv.qc.ca/mandat/>.

2. In the other provinces, the Canada Pension Plan is administered by the federal government.

tax in 2013-2014, which is more than they pay in corporate income taxes. For that matter, all companies are required to pay this tax, at a rate varying between 2.7% and 4.26% of payroll, whether or not they make any profits.³

Of all the Canadian provinces, it is in Quebec that total payroll taxes are the highest. They are around 21% higher in Quebec than in Ontario.⁴ Employers and employees in Quebec contributed a total of over \$28.3 billion in 2013, which is the equivalent of more than \$7,000 per salaried worker.⁵ For every \$100 in salaries, Quebec employees and employers had to pay \$22.15 in payroll taxes and contributions to the different levels of government over the past year.

Who Bears the Burden of Payroll Taxes?

Payroll taxes are collected either solely from employers or from both employers and employees. The economic impact of a tax, however, is not necessarily felt by the party that is designated by law to pay it.

Indeed, a common misconception is the belief that if a tax must be paid by the employer, it is the employer who ultimately bears the burden of paying it. Obviously, this perception does not take into account the possibility

that the employer could pass along the tax to someone else. The tax could, for instance, be transmitted to workers in the form of lower salaries, or passed on to consumers in the form of higher prices for products. Finally, those who hold shares in the company might have to bear the burden of the tax through lower rates of return on their investments.

Since the Quebec economy is closely integrated with the rest of the world, investment decisions and product prices are generally influenced by market conditions observed in other provinces and other countries. It is therefore unlikely that a payroll tax increase will result in higher prices for products or in lower rates of return on investments.

Workers being generally more tied to local market conditions, they are the ones most likely to have to bear the burden of such taxes.⁶ Indeed, empirical studies carried out in Canada confirm this hypothesis: Between 87% and 100% of payroll taxes are ultimately paid by employees.⁷ Their remuneration falls accordingly or increases less rapidly. These taxes are all the more troubling when one considers the wage gap that already exists between Quebec workers and those of other provinces. Employees would therefore be the first to benefit from a payroll tax reduction.

3. Quebec Finance Department, *2014-2015 Budget: Budget Plan*, Government of Quebec, June 2014, pp. B. 16 and D. 13.

4. See the Technical Annex on the MEI website for a comparison of payroll taxes between Quebec and the other provinces.

5. During the year 2013, there were an average of 4,032,200 jobs. Institut de la statistique du Québec, *Résultat de l'Enquête sur la population active au Québec*, Données désaisonnalisées de juillet 2014, August 2014, p. 4

6. Robin W. Boadway and Harry M. Kitchen, *Canadian Tax Policy, Third Edition*, Canadian Tax Foundation, 1999, pp. 322-330.

7. Marcel Bédard, *A Primer on Payroll Taxes in Canada*, Human Resources and Skill Development Canada, January 1998. For a recent review of the literature on the impacts of payroll taxes on salaries, see Angel Melguizo and José Manuel Gonzalez-Paramo, "Who Bears Labour Taxes and Social Contributions? A Meta-Analysis Approach," *Journal of the Spanish Economic Association (SERIEs)*, Vol. 4, 2013, pp. 247-271.



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