caledon
social statistics

November 2011 ISBN #1-55382-546-2

Trends in Canada's Payroll Taxes

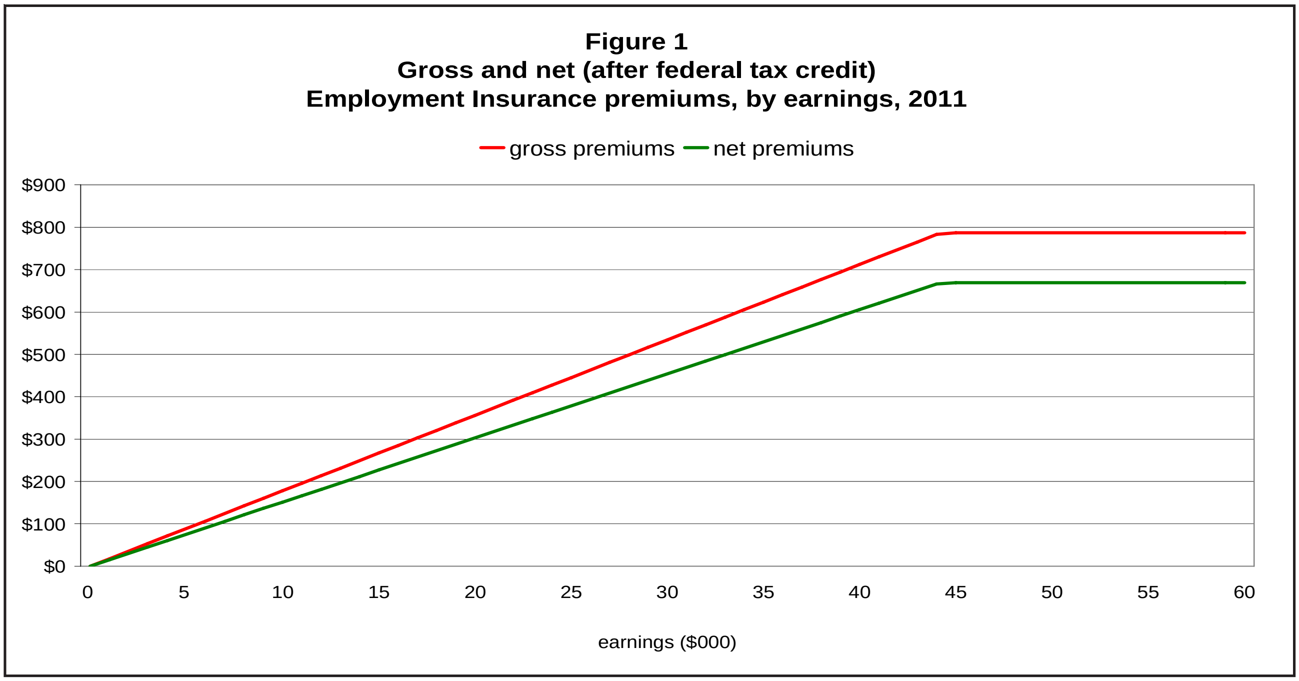
In addition to income taxes, Canadians pay employment-related taxes, known as payroll taxes. These payroll taxes finance our two main social insurance programs – Employment Insurance for the unemployed, and the Canada Pension Plan for the retired. (Quebec operates its own but very similar Quebec Pension Plan.)

Employment Insurance premiums

Employees pay Employment Insurance "premiums" to fund the federal Employment Insurance (EI) program; the self-employed are not eligible for EI and so do not pay EI premiums. In 2011, for all workers except those in Quebec, the maximum annual EI premium is $786.76, calculated at the rate of 1.78 percent of the maximum insurable earnings level of $44,200. Employers pay EI premiums on behalf of their employees at the rate of 2.49 percent of $44,200 for a maximum $1,101.46 in 2011.

Workers in Quebec have a separate parental benefit, the Provincial Parental Insurance Plan, which is also funded via a payroll tax. As a result, Quebec workers' EI premiums are lower than in the rest of Canada because they do not fund the parental benefits that EI provides outside Quebec. Quebec workers pay into Employment Insurance at the rate of 1.41 percent of insurable earnings to a maximum $623.22; Quebec employers pay a maximum $872.51 per employee.

Figure 1 illustrates Employment Insurance premiums for workers (outside Quebec) at different insurable earnings levels. Marked in red, premiums range from $17.80 for earnings of $1,000 to $786.76 at $45,000, above which they remain at $786.76.



Taxpayers receive a federal non-refundable tax credit that offsets in part the burden of their EI premiums, calculated at the rate of 15 percent of their EI premium. In 2011, the maximum EI premium for an individual is $786.76, but the non-refundable tax credit of a maximum $118.01 means that the net (after federal tax credit) amount of the EI premium is $668.75 (i.e., $786.76 minus $118.01). Net EI premiums range from $15.13 at earnings of $1,000 to $668.75 at $45,000 and above. (Employers also receive a non-refundable tax credit to reduce the EI premiums they must pay for each employee). Figure 1 shows both gross and net (after federal tax credit) EI premiums at different insurable earnings levels; the red line shows gross premiums and the green line indicates net premiums.

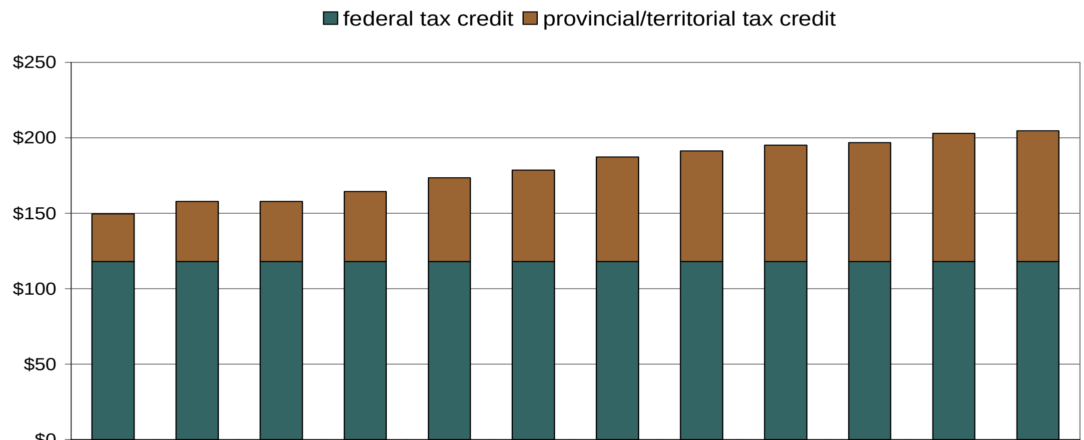
All provinces and territories except Quebec provide their own non-refundable tax credits for Employment Insurance premiums. Figure 2 illustrates these amounts, which range from a maximum $31.47 in Nunavut to $86.54 in Saskatchewan. Adding in the federal tax credit of $118.01 for every jurisdiction, the total federal and provincial/territorial tax credits for EI premiums vary from $149.48 in Nunavut to $204.55 in Saskatchewan.

Figure 3 looks at maximum annual Employment Insurance premiums net of both federal and provincial/territorial non-refundable tax credits. Workers in Nunavut pay the most net EI premiums – $637.28 a year – while those in Saskatchewan pay the least at $582.21.

Canada Pension Plan contributions

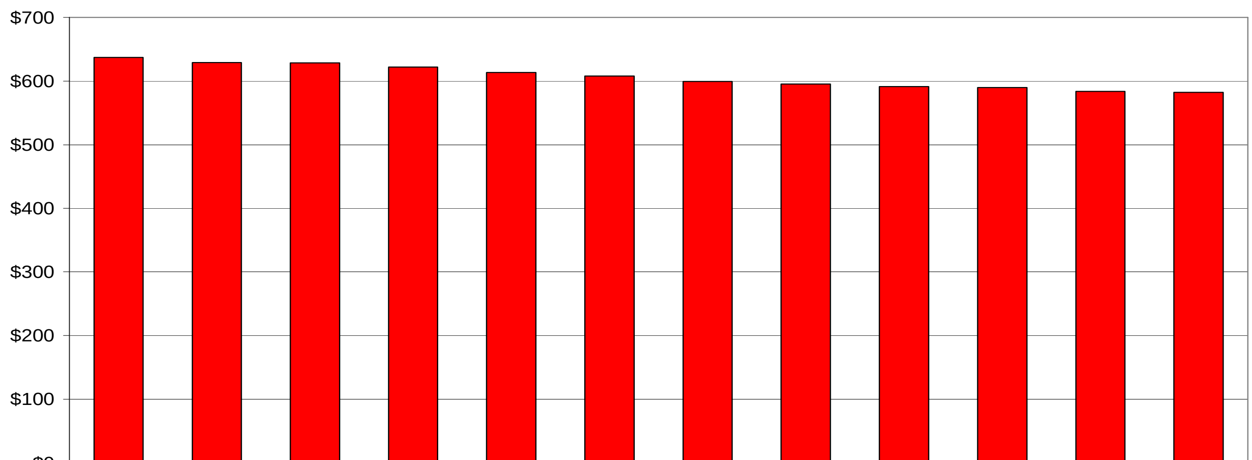
All working Canadians, both employees and the self-employed, pay “contributions” to fund the Canada Pension Plan; Quebec operates the parallel Quebec Pension Plan. In 2011,

Figure 2
Maximum non-refundable tax credits for
Employment Insurance premiums, by jurisdiction, 2011



	Nunavut	Ont	BC	NWT	Yukon	Nfld	NS	NB	PEI	AB	Man	Sask
provincial/territorial tax credit	31.47	39.73	39.81	46.42	55.39	60.58	69.16	73.17	77.10	78.68	84.97	86.54
federal tax credit	118.01	118.01	118.01	118.01	118.01	118.01	118.01	118.01	118.01	118.01	118.01	118.01

Figure 3
Maximum net (after federal and provincial/territorial tax credits)
Employment Insurance premiums, by jurisdiction, 2011



	Nunavut	Ont	BC	NWT	Yukon	Nfld	NS	NB	PEI	AB	Man	Sask
$	637.28	629.02	628.94	622.33	613.36	608.17	599.59	595.58	591.65	590.07	583.78	582.21

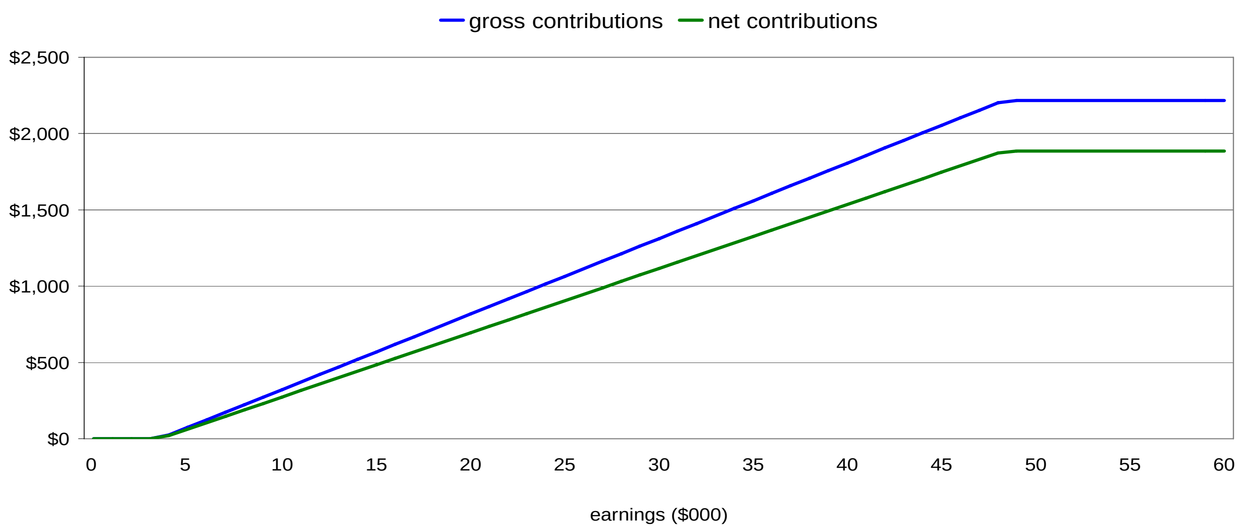
Canada Pension Plan and Quebec Pension Plan contributions for employees are a maximum $2,217.60 per year, calculated at the rate of 4.95 percent of pensionable earnings between the Year's Basic Exemption ($3,500) and the Years' Maximum Pensionable Earnings ($48,300). Employers contribute the same on behalf of their employees as do employees. Self-employed Canadians pay both the employee's and employer's share – at the rate of 9.90 percent – to a maximum $4,435.20 for 2011.

Figure 4 illustrates annual Canada Pension Plan contributions for individuals at different earnings levels. Marked in blue, contributions range from $24.75 for earnings of $4,000 to a peak of $2,217.60 at $49,000, above which they stay at $2,271.60.

Taxpayers receive a federal non-refundable tax credit that helps reduce the burden of their Canada Pension Plan contributions, calculated at the rate of 15 percent of their contribution. In 2011, the maximum Canada Pension Plan (CPP) contributions for an employee is $2,217.60, but the non-refundable tax credit of a maximum $332.64 means that the maximum net (after federal tax credit) amount of the CPP contribution is $1,884.96.

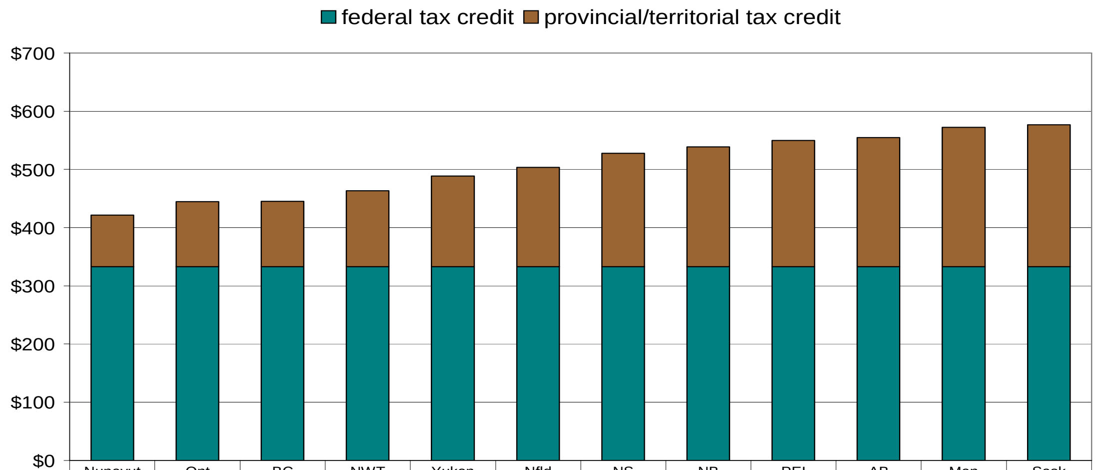
Net CPP contributions range from $21.04 at earnings of $4,000 to $1,884.96 at $49,000 and above. (Employers also receive a non-refundable tax credit to reduce the CPP contributions they must pay for each employee.) Figure 4 shows both gross and net (after federal tax credit) Canada Pension Plan contributions at different earnings levels; the blue line shows gross contributions and the green line indicates net contributions.

Figure 4
Gross and net (after federal tax credit)
Canada Pension Plan contributions, by earnings, 2011



All provinces and territories except Quebec provide their own non-refundable tax credits for Canada Pension Plan contributions that ease the burden of contributions by reducing provincial/territorial income tax. Figure 5 illustrates these amounts, which range from a maximum $88.70 in Nunavut to $243.94 in Saskatchewan. Adding in the federal tax credit of $332.64 for every jurisdiction, the total federal and provincial/territorial tax credits for Canada Pension Plan contributions go from $421.34 in Nunavut to $576.58 in Saskatchewan.

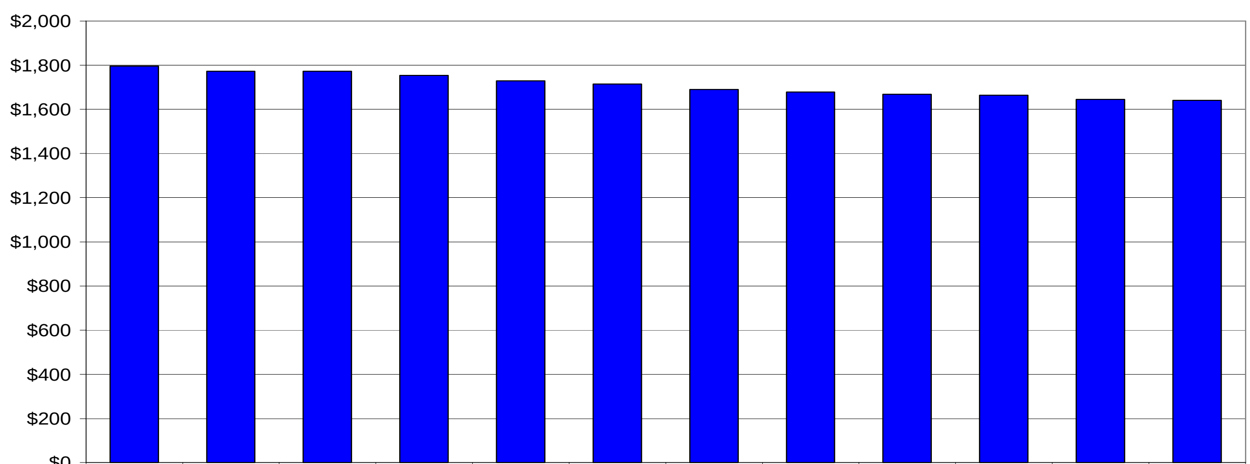
Figure 5
Non-refundable tax credits for Canada Pension Plan contributions, by jurisdiction, 2011



	Nunavut	Ont	BC	NWT	Yukon	Nfld	NS	NB	PEI	AB	Man	Sask
provincial/territorial tax credit	88.70	111.99	112.21	130.84	156.12	170.76	194.93	206.24	217.32	221.76	239.50	243.94
federal tax credit	332.64	332.64	332.64	332.64	332.64	332.64	332.64	332.64	332.64	332.64	332.64	332.64

Figure 6 shows maximum Canada Pension Plan contributions net of both federal and provincial/territorial non-refundable tax credits. Workers in Nunavut pay the most – up to $1,796.26 a year – in net CPP contributions, while those in Saskatchewan pay the least at $1,641.02.

Figure 6
Maximum net (after federal and provincial/territorial tax credits) Canada Pension Plan contributions, by jurisdiction, 2011



	Nunavut	Ont	BC	NWT	Yukon	Nfld	NS	NB	PEI	AB	Man	Sask
$	1796.26	1772.97	1772.75	1754.12	1728.84	1714.20	1690.03	1678.72	1667.64	1663.20	1645.46	1641.02

Trends in payroll taxes

The trends in Employment Insurance premiums and Canada Pension Plan contributions differ considerably, as does their combined impact.

Figure 7 shows from 1990 to 2011 both gross and net (after federal non-refundable tax credit) maximum EI premiums for workers, expressed in inflation-adjusted 2011 constant dollars. Gross EI premiums rose from $1,133.69 in 1990 to a peak of $1,726.06 in 1994, declined steadily to $740.52 in 2008 and then crept up to $759.86 in 2009, $762.31 in 2010 and $787.76 in 2011. Net (after federal tax credit) EI premiums increased from $940.97 in 1990 to $1,432.63 in 1994, slid to $629.44 by 2008 and then increased to $645.88 in 2009, $647.96 in 2010 and $668.75 in 2011.

Two factors help explain the trend in Employment Insurance premiums between 1990 and 2011. The first has to do with the economy. The sharp rise in Employment Insurance premiums from 1990 to 1994 reflected the increase required to fund rising EI expenditures during the recession of the early 1990s: The unemployment rate ballooned from 8.0 percent in 1990 to 11.4 percent in 1993, and the number of regular EI beneficiaries went from 1,033,740 in 1990 to 1,148,290 in 1992. As the economy improved, EI premiums were lowered for 13 straight years from 1996 to 2008. Premiums then were raised yet again in 2009, 2010 and 2011 to deal with the advent of another recession in the late 2000s, when the jobless rate jumped from 6.1 percent in 2008 to 8.3 percent in 2009 and 8.0 percent in 2010. Premiums rose from $711.03 in current dollars in 2008 to $731.79 in 2009, $747.36 in 2010 and $786.76 in 2011. Expressed in constant 2011 dollars, they went from $740.52 in 2008 to $759.86 in 2009, $762.31 in 2010 and $786.76 in 2011.

Another factor behind the substantial decline in Employment Insurance premiums from 1995 to 2008 has to do with belt-tightening changes in the eligibility rules for the program, which reduced caseloads – and thus attendant costs for expenditures and premiums – considerably. The percentage of unemployed Canadians receiving Employment Insurance regular benefits fell from 82.9 percent in 1990 to 43.0 percent in 2008.

The trend in Canada Pension Plan contributions is much different. Figure 8 illustrates gross and net (after federal non-refundable tax credit) maximum CPP contributions from 1990 to 2011, expressed in inflation-adjusted 2011 constant dollars. Gross CPP contributions increased from a maximum $869.35 in 1990 to $1,273.23 in 1997, rose more steeply to $2,082.00 in 2003 and then crept up slightly each year to reach $2,217.60 in 2011. The numbers are lower but the pattern is the same for net (after federal tax credit) CPP contributions. Maximum net Canada Pension Plan contributions rose from $721.56 in 1990 to $1,056.78 in 1997, $1,748.88 in 2003 and then $1,884.96 in 2011.

The quicker pace of annual increases from 1997 to 2003 was the result of a major reform of Canada Pension Plan (and Quebec Pension Plan) financing undertaken by Ottawa, the provinces and the territories in 1997. CPP contributions were increased substantially over seven years

Figure 7
Maximum gross and net (after federal tax credit)
Employment Insurance premiums,
in constant 2011 dollars, 1990-2011

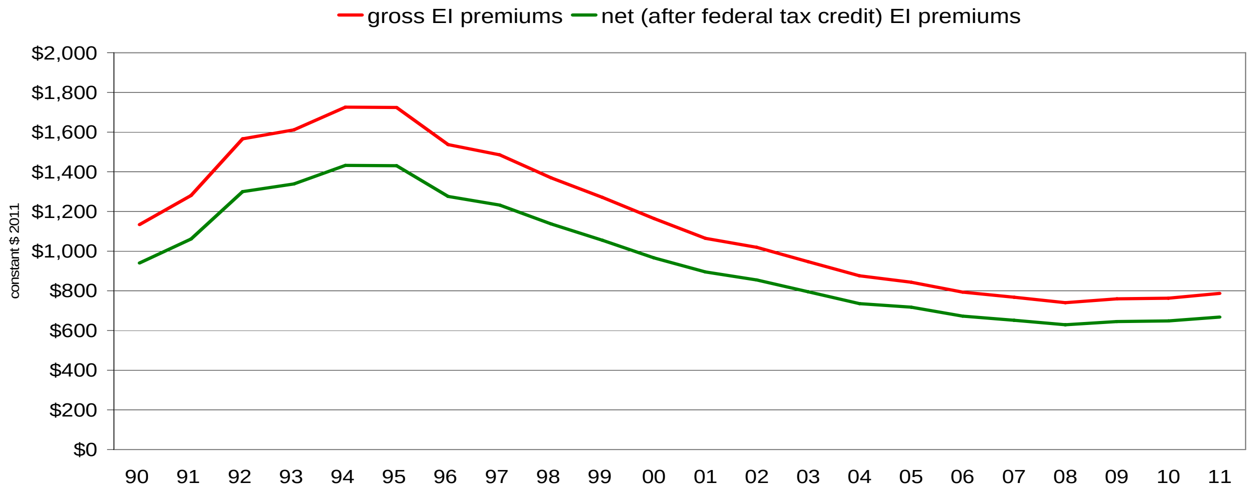
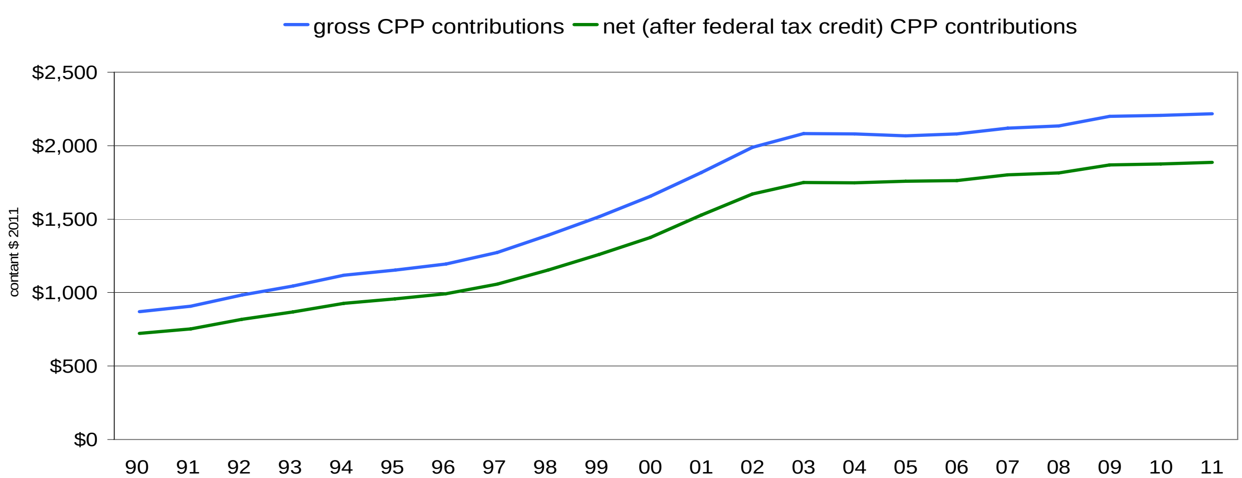


Figure 8
Maximum gross and net (after federal tax credit)
Canada Pension Plan contributions,
in constant 2011 dollars, 1990-2011

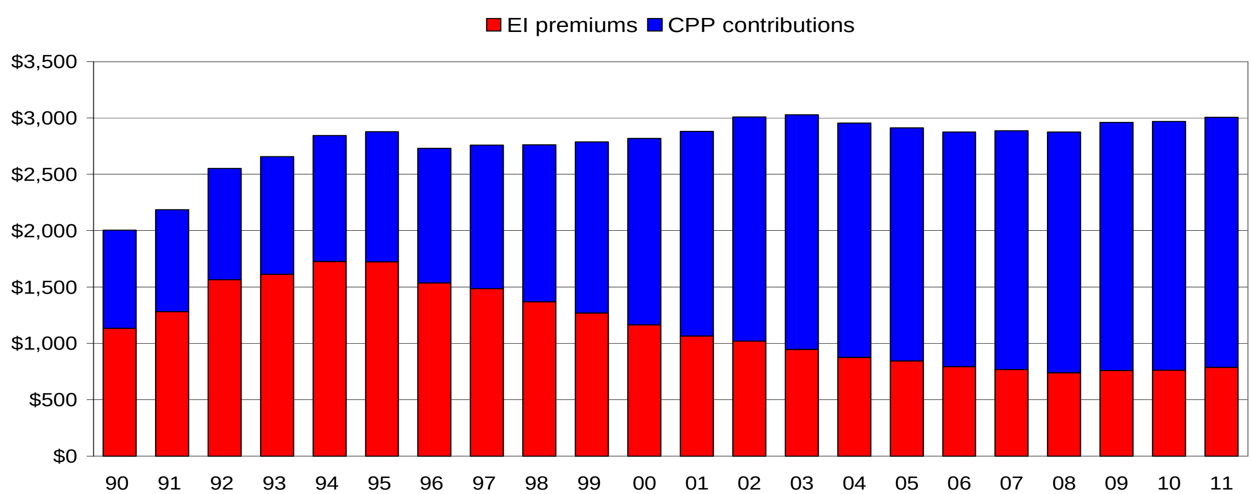


(from 1997 through 2003), but then levelled off once they achieved the so-called 'steady-state' rate of 9.9 percent of contributory earnings (split equally between employees and employers) with no further increases deemed necessary thereafter. Contributions exceeded expenditures, thus building up a fund that is invested broadly around the world by the Canada Pension Plan Investment Board.

As noted, since 2003, CPP contributions have been calculated at a fixed rate (9.9 percent combined employee and employer) but the Year's Maximum Pensionable Earnings level on which contributions are based has been indexed to the change in employment earnings: The latter have outpaced the change in the cost of living, which means that CPP contributions rise slightly each year when expressed in constant dollars.

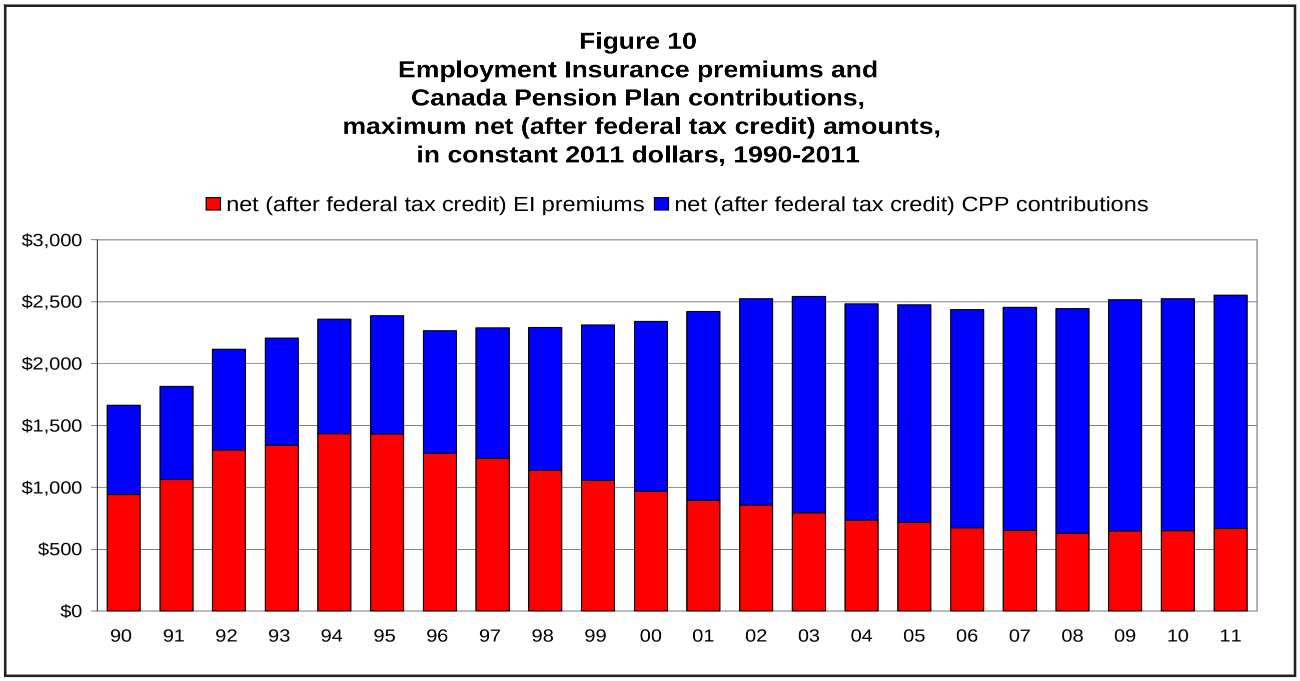
The overall picture, combining Employment Insurance premiums and Canada Pension Plan contributions, is illustrated in Figure 9, which looks at gross amounts, and Figure 10, which shows net (after federal tax credit) amounts. Overall, EI premiums have declined while CPP contributions have gone up. As a result, over the years the share of Employment Insurance premiums has declined while that of Canada Pension Plan contributions has increased. However, the combined amount of payroll taxes has risen only modestly overall, mainly in the first half of the 1990s. Since 2002, total payroll taxes have remained around $2,900 in gross terms and around $2,500 in net (after federal tax credit) terms.

Figure 9
Employment Insurance premiums and Canada Pension Plan contributions, maximum gross amounts, in constant 2011 dollars, 1990-2011



Payroll taxes are commonly characterized as regressive, in the sense that they impose a declining burden as incomes increase. The reality for Canada's payroll taxes is a bit more complex: They are regressive in their impact on workers with average earnings and above, but not for those who earn low and modest incomes. And the distributional impact of Employment Insurance on lower-income Canadians differs from that of the Canada Pension Plan.

Figure 11 shows the trend in net (after federal tax credit) payroll taxes for an employee making $50,000. Net Employment Insurance premiums and Canada Pension Plan contributions rose from a combined 3.3 percent in 1990 to 5.05 percent in 2002 and have hovered around 5 percent ever since.



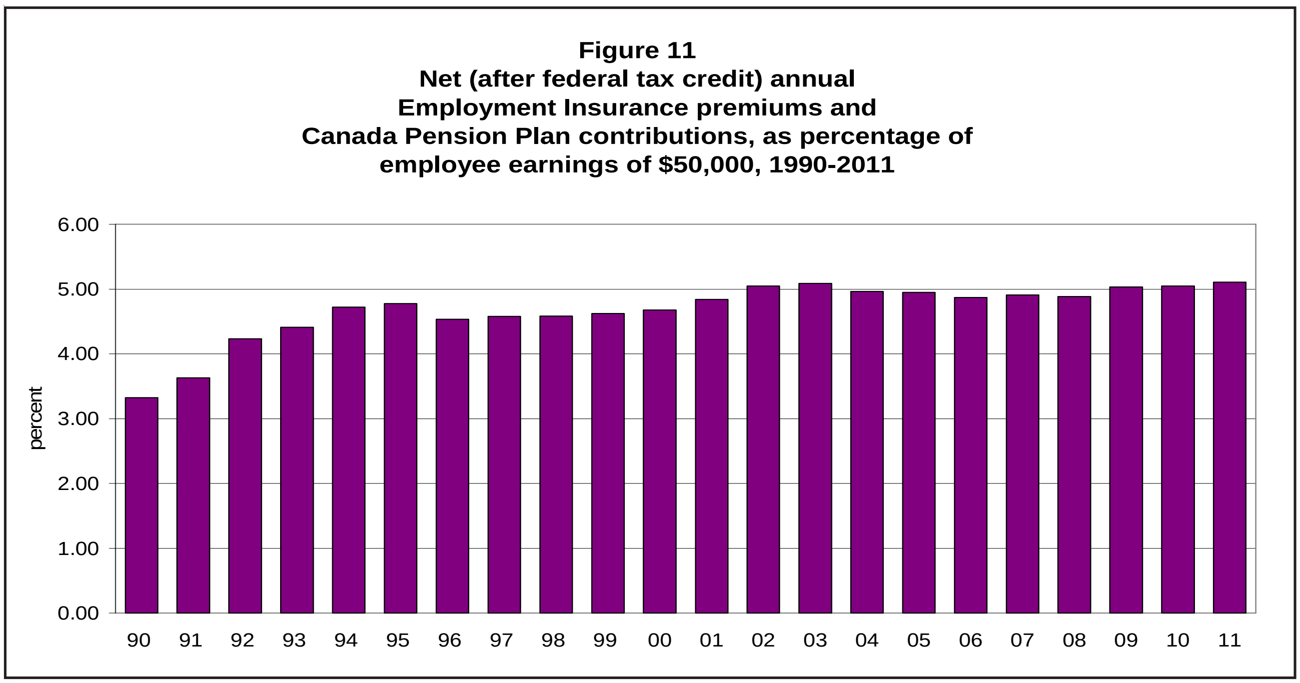


Figure 12 shows that net (after federal tax credit) Employment Insurance premiums as a percentage of earnings are flat (1.51 percent) up to $44,000 and then decline, as premiums remain the same amount and earnings increase (e.g., 0.67 percent at $100,000). So EI premiums are flat up to roughly average earnings and regressive above that level.

Figure 12
Net (after federal tax credit) Employment Insurance premiums, as percentage of earnings, 2011

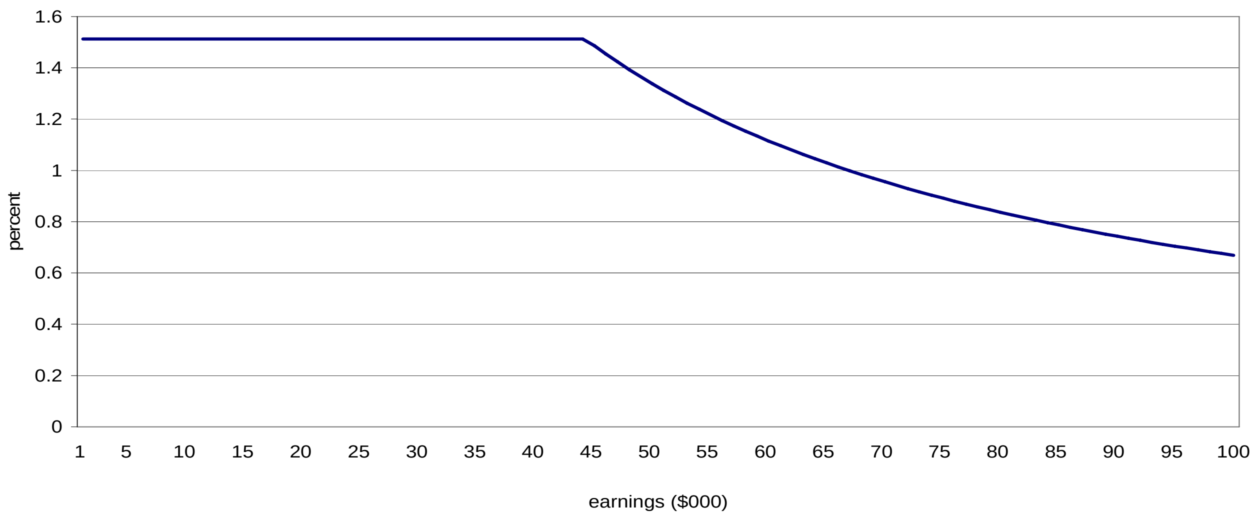
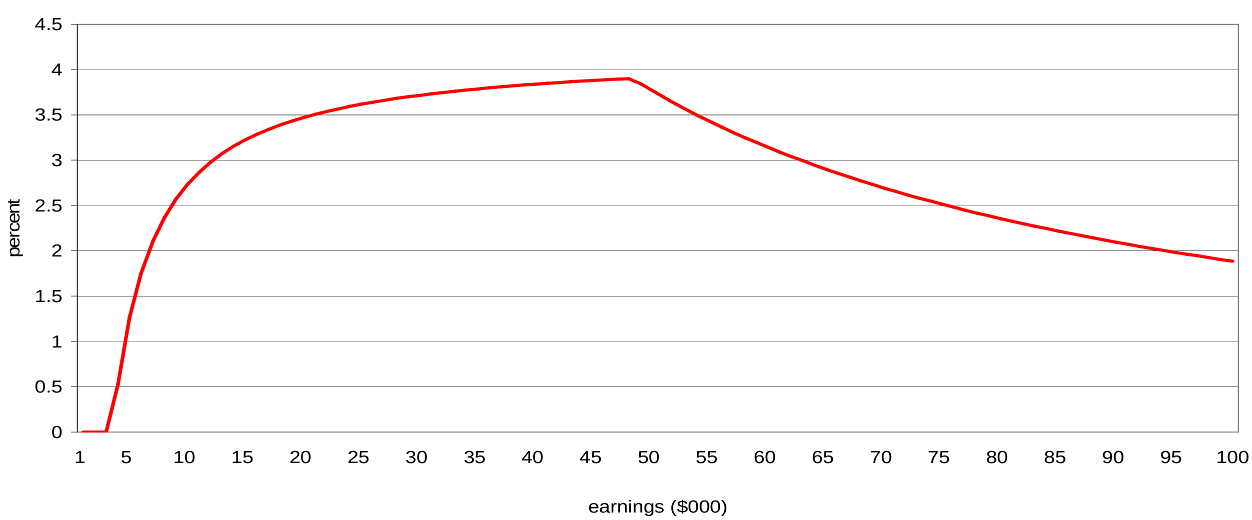


Figure 13 looks at net (after federal tax credit) Canada Pension Plan contributions, which as a percentage of earnings rise to a peak of 3.90 percent at earnings of $48,000 and then decline steadily above that point (as contributions remain the same but earnings increase), down to 1.88 percent at $100,000 in earnings (and keep declining as incomes keep increasing). Thus Canada Pension Plan contributions are progressive at low and modest incomes and regressive above average income.

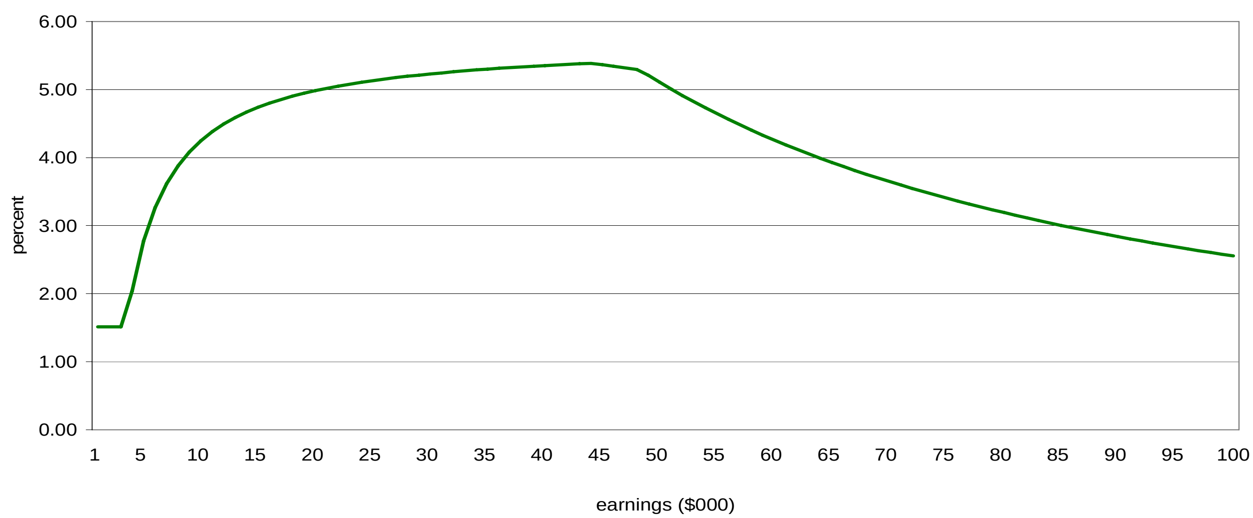
Figure 13
Net (after federal tax credit) CPP contributions, as percentage of earnings, 2011



The Canada Pension Plan was designed to reduce the contributory burden on low- and modest-income Canadians. It does so by means of an earnings level – called the Year's Basic Exemption (frozen at $3,500) – below which contributions are not levied. For example, an individual who earns $20,000 pays an annual contribution of $20,000-$3,500=$16,500*.0495= $816.75. Without the Year's Basic Exemption, that person's contribution would amount to $20,000*.0495=$900.00.

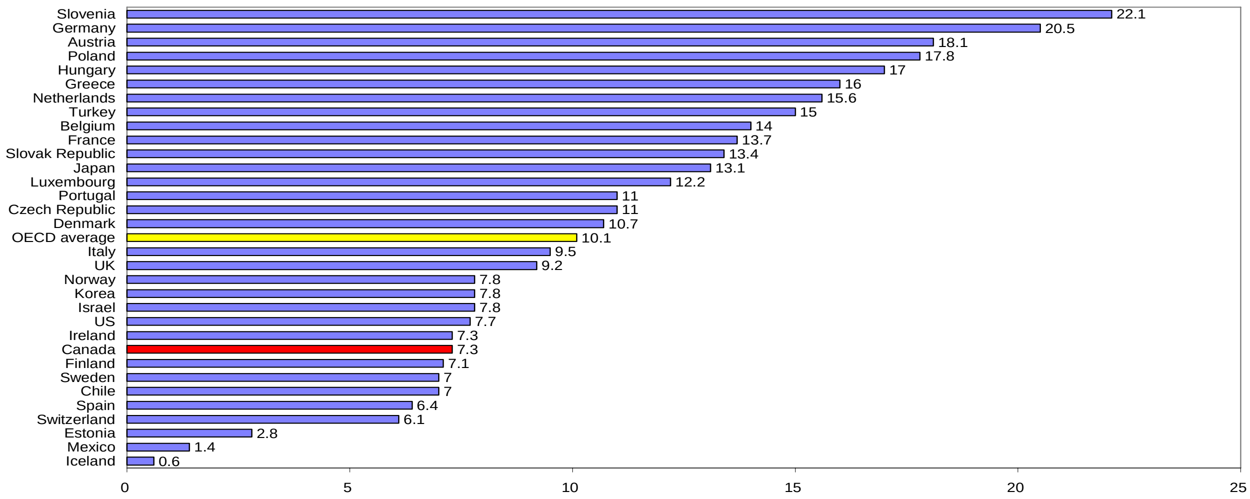
The pattern for EI premiums and CPP contributions added together – illustrated in Figure 14 – is the same as for CPP contributions alone because the latter are much larger than EI premiums. Net (after federal tax credit) payroll taxes as a percentage of earnings climb to 5.39 percent at earnings of $44,000 and fall above that level to reach 2.55 percent at earnings of $100,000. So Canada's two major payroll taxes taken together are progressive over low and modest incomes and regressive for average incomes and above.

Figure 14
Net (after federal tax credit) EI premiums and CPP contributions, as percentage of earnings, 2011



Canada's payroll taxes are modest compared to most other countries. Using data from the OECD (Organisation for Economic Co-operation and Development), we compared OECD countries according to their social security contributions (i.e., what we call payroll taxes) paid by a single worker with average income, measured as a percentage of each country's average gross wage. Figure 15 shows that Canada's 7.3 percent result ranks it (with Ireland) 9th lowest out of 32 nations.

Figure 15
Social security contributions as percentage of average gross earnings, single worker with average income, 2010



data: OECD

Reference

OECD. (2011). "Income tax and social security contributions." *Taxation: Key Tables from OECD, No. 1*.

Further reading

Mendelson, M., K. Battle and S. Torjman. (2010). *EI Financing: Reset Required*. Ottawa: Caledon Institute of Social Policy, September.

Ken Battle