Centre for Productivity and Prosperity
Walter J. Somers Foundation
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PAYROLL TAX: AN ADDITIONAL BURDEN FOR QUEBEC WORKERS

Montréal, September 20, 2017 – Every year, the Quebec government collects large amounts of revenue from businesses through their contributions to the Health Services Fund (HSF). Better known as payroll tax, this fiscal tool is often seen as an effective means of ensuring that businesses contribute to the province's tax system.

"Unlike corporate income tax, which can be reduced through tax avoidance strategies or the many different government credits available, businesses have no way of escaping HSF contributions," explains Robert Gagné, Director of the Centre for Productivity and Prosperity – Walter J. Somers Foundation (CPP). "Regardless of the state of their finances, businesses are taxed every year at rates that can be as high as 4.26% of the value of their payroll. As a result, the Quebec government collects more revenue by taxing businesses' payrolls than by taxing their profits."

Based on tax data from millions of Canadian businesses and workers over a ten-year period, CPP researchers found, in fact, that a non-negligible proportion of the bill was actually passed on to workers. "In measuring the impact of HSF contributions on Canadian workers' wage growth, we found that levying such a tax based on a company's payroll had a direct impact on wage growth," says Gagné. "On average, each additional percentage point of payroll tax reduces wage growth by 0.47 percentage points per year."

At first glance this effect may seem marginal, but over the long term it leads to significant losses for Quebec workers, according to the authors of the study released today. Small-business wages that would normally rise by 3% per year will increase only 1.73% because of the HSF levy. "In the end, the HSF contribution conceals an addition tax on individuals' income," laments Gagné.

While this finding is troubling, given the already hefty tax burden on Quebec workers, this transfer could have especially negative consequences. Unlike personal income tax, where rates rise in line with income growth, there is no mechanism to ensure that HSF contributions respect the principle of progressive taxation. Thus the least mobile workers, those who lack qualifications or experience, may be harder hit.

A perfect opportunity

For Gagné, the solution is obvious: the Quebec government should immediately begin the process of eliminating HSF contributions. "Thanks to the efforts made to reduce the recurring deficits of previous administrations, the current government now has an opportunity to stimulate Quebec's economic growth and ensure that businesses and workers can both benefit," says the CPP Director. "In addition to considerably improving Quebec's tax competitiveness, the government would reduce the tax burden on workers, who already bear a heavy burden through personal income tax and consumption taxes."

For more information:

- Consult the report (in French), entitled *Réforme de la taxe sur la masse salariale : Preuves empiriques*.
- Téléchargez le communiqué en français.

About the Centre for Productivity and Prosperity – Walter J. Somers Foundation

The HEC Montréal Centre for Productivity and Prosperity – Walter J. Somers Foundation, created in 2009, has a twofold mission. First of all, it is devoted to research on productivity and prosperity, mainly in Quebec and in Canada as a whole. The Centre then shares its research findings, making them widely accessible and, in the end, educating people about productivity and prosperity. For more information on the Centre, see www.hec.ca/cpp/en**.**

- 30 -

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