PRESS RELEASE **For immediate publication**

BOOSTING BUSINESS TAXES WOULD PENALIZE WORKERS

Montreal, October 14, 2015 – Increasing the tax burden on Quebec firms would not only penalize workers, but it is those who can least afford it who would pay the price, reveals a recent analysis by the HEC Montréal Centre for Productivity and Prosperity (CPP). "Given that the Quebec government is currently reviewing its tax structure, we thought it was important to understand the true consequences of raising business taxes," explains CPP Director Robert Gagné. "Especially since the report on the study by the Québec Taxation Review Committee shows that this possible impact on workers was ignored in its analyses and recommendations."

To shed more light on this issue, the CPP's researchers analyzed the results of nearly 25 studies on the impact of corporate income tax and payroll taxes on wages. They found that from 20% to 100% of the business tax burden is passed along to workers in the end, mainly in the form of lower wages. Moreover, this transfer is felt more by those employees with less education, seniority and experience – meaning that the lowest-paid employees are often the ones who are most penalized.

In other words, even if a payroll, income or other tax targets businesses, and even if it is businesses that pay this legal obligation, in the end they are not the ones who shoulder the cost. Extensive transfer mechanisms mean that in the long run this cost is passed down the line.

For instance, a firm could offset its tax burden through changes in its installed capital (buildings, machinery, tools, equipment, computers, etc.) or in its employees' working conditions (wages, hours, schedules, fringe benefits, etc.). In both cases, workers are the ones who will eventually be stuck with the bill, through lower wages, fewer jobs or poorer working conditions.

"So when people call for higher business taxes to finance public spending, not only are they mistakenly assuming that the income and other taxes paid by businesses affect only the profits paid to shareholders, but they are unknowingly advocating a more regressive tax system for the most-vulnerable employees," points out Gagné.

Some recommendations

"It must also be remembered that businesses' tax burden is already heavier in Quebec than elsewhere in Canada," notes Gagné. "When we add up all the payroll, income and other taxes imposed on businesses by the different levels of government, the tax burden on firms in Quebec is 1.2 to 1.7 times higher than in the other Canadian provinces. And if we dig a bit deeper, we find that payroll taxes have much to do with this situation."

In view of these findings, the conclusion is clear: modernizing Quebec's tax system should start with reforming business taxation, in particular by reducing payroll taxes. Our businesses' burden should be comparable to that in the other provinces – this would not only improve Quebec's tax competitiveness, but also have a positive impact on workers' wages, especially those of the least well-paid Quebeckers.

"In addition, if the government is worried about losing the huge revenue generated by the payroll taxes collected from businesses, estimated at close to $4 billion in 2013, it could rethink the assistance it simultaneously offers these same businesses," suggests Gagné. "Remember that this assistance doesn't always have the intended impact and can even have negative effects on the economy, according to some other studies that have been done."

For more information:

- Consult the report (in French), entitled *Fiscalité des entreprises : L'incidence de la fiscalité sur les salaires*;
- Download the press release in French.

About the Centre for Productivity and Prosperity

The HEC Montréal Centre for Productivity and Prosperity, 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, visit www.hec.ca/cpp**.**

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