



Payroll Tax Increases: Less – and More – Than Meet the Eye

The Canadian Taxpayers Federation has usefully reminded us that federal payroll taxes – Employment Insurance premiums and Canada Pension Plan contributions – are going up in 2012 [CTF 2011]. This made for a good start-of-the-new-year story during the slow holiday time, and was covered extensively by both the print and electronic media.

But the amount of the payroll tax hike is less than people realize. It's got to do with the interaction of payroll taxes and the income tax system. The tables that follow explain.

The maximum amount of Employment Insurance premiums in 2012 is \$840 per

**Table 1
Employment Insurance premiums, 2012**

	gross amount	federal tax credit	provincial/territorial tax credit	net amount
	\$	\$	\$	\$
Nunavut	840	126	34	680
Ontario	840	126	42	672
BC	840	126	43	671
NWT	840	126	50	664
Yukon	840	126	59	655
Nfld	840	126	65	649
NS	840	126	74	640
NB	840	126	76	638
PEI	840	126	82	632
AB	840	126	84	630
Man	840	126	91	623
Sask	840	126	92	622

worker, up from \$787 in 2011 for a year-over-year increase of \$53. This amount is paid by workers with \$45,900 and higher in insurable earnings.

But governments provide non-refundable tax credits to ease the burden of Employment Insurance premiums. The maximum federal tax credit is the lowest tax rate (15 percent) times the gross premium (\$840), which works out to \$126.

The provinces and territories also provide non-refundable tax credits for EI premiums, the amount varying from one jurisdiction to another. They range from a low of \$34 annually in Nunavut to \$42 in Ontario, \$43 in British Columbia, \$50 in the Northwest Territories, \$59 in Yukon, \$65 in Newfoundland and Labrador, \$74 in Nova Scotia, \$76 in New Brunswick, \$82 in Prince Edward Island, \$84 in Alberta, \$91 in Mani-

toba and \$92 in Saskatchewan. Net Employment Insurance premiums – the gross amount less federal and provincial/territorial tax credits – from largest to lowest are \$680 in Nunavut, \$672 in Ontario, \$671 in British Columbia, \$664 in the Northwest Territories, \$655 in Yukon, \$649 in Newfoundland and Labrador, \$640 in Nova Scotia, \$638 in New Brunswick, \$632 in Prince Edward Island, \$630 in Alberta, \$623 in Manitoba and \$622 in Saskatchewan.

The maximum amount of Canada Pension Plan contributions in 2012 is \$2,307 per worker, up by \$89 from \$2,218 in 2011. This amount is paid by contributors with \$50,100 and above in the year’s maximum pensionable earnings.

Governments provide non-refundable tax credits to lighten the burden of Canada Pension Plan contributions. The maximum

Table 2
Canada Pension Plan contributions, 2012

	gross amount	federal tax credit	provincial/territorial tax credit	net amount
	\$	\$	\$	\$
Nunavut	2,307	346	92	1,869
Ontario	2,307	346	116	1,845
BC	2,307	346	117	1,844
NWT	2,307	346	136	1,825
Yukon	2,307	346	162	1,799
Nfld	2,307	346	178	1,783
NS	2,307	346	203	1,758
NB	2,307	346	210	1,751
PEI	2,307	346	226	1,735
AB	2,307	346	231	1,730
Man	2,307	346	249	1,712
Sask	2,307	346	254	1,707

federal tax credit is the lowest tax rate (15 percent) times the gross contribution (\$2,307), which amounts to \$346.

The provinces and territories also provide non-refundable tax credits for Canada Pension Plan contributions, the amount varying from one jurisdiction to another. These tax credits range from \$92 per year in Nunavut to \$116 in Ontario, \$117 in British Columbia, \$136 in the Northwest Territories, \$162 in Yukon, \$178 in Newfoundland and Labrador, \$203 in Nova Scotia, \$210 in New Brunswick, \$226 in Prince Edward Island, \$231 in Alberta, \$249 in Manitoba and \$254 in Saskatchewan. Net Canada Pension Plan contributions – the gross amount minus federal and provincial/territorial tax credits – from largest to lowest come to \$1,869 in Nunavut, \$1,845 in Ontario, \$1,844 in British Columbia, \$1,825 in the Northwest Territories, \$1,799 in Yukon,

\$1,783 in Newfoundland and Labrador, \$1,758 in Nova Scotia, \$1,751 in New Brunswick, \$1,735 in Prince Edward Island, \$1,730 in Alberta, \$1,712 in Manitoba and \$1,707 in Saskatchewan.

Table 3 shows combined gross and net federal payroll taxes. The gross amount totals \$3,147 – \$840 in Employment Insurance (EI) premiums and \$2,307 in Canada Pension Plan (CPP) contributions. Federal tax credits total \$472 – \$126 for EI premiums and \$346 for CPP contributions. Provincial/territorial tax credits range from a low of \$126 in Nunavut (\$34 for EI premiums and \$92 from CPP contributions) to a high of \$346 in Saskatchewan (\$92 for EI premiums and \$254 for CPP contributions). Net payroll taxes (gross amounts less federal and provincial/territorial tax credits) run from a high of \$2,549 in Nunavut to a low of \$2,329 in Saskatchewan.

Table 3
Combined Employment Insurance premiums
and Canada Pension Plan contributions, 2012

	gross amount	federal tax credit	provincial/territorial tax credit	net amount
	\$	\$	\$	\$
Nunavut	3,147	472	126	2,549
Ontario	3,147	472	158	2,517
BC	3,147	472	160	2,515
NWT	3,147	472	186	2,489
Yukon	3,147	472	221	2,454
Nfld	3,147	472	243	2,432
NS	3,147	472	277	2,398
NB	3,147	472	286	2,389
PEI	3,147	472	308	2,367
AB	3,147	472	315	2,360
Man	3,147	472	340	2,335
Sask	3,147	472	346	2,329

The 2012 payroll tax hikes are smaller than they appear in yet another way. Maximum Employment Insurance premiums are rising from \$787 in 2011 to \$840 – an increase of \$53 or 6.76 percent. But when tracking values over time, it is necessary to convert them all to constant (inflation-adjusted) dollars to permit an accurate analysis. Expressed in constant 2012 dollars, Employment Insurance premiums in 2011 were \$802.50 and rose in 2012 by \$37 or 4.67 percent.

Canada Pension Plan contributions in current dollars went from \$2,218 in 2011 to \$2,307 in 2012, for an increase of \$89 or 4.02 percent. Expressed in constant 2012 dollars, CPP contributions went from \$2,262 in 2011 to \$2,307 in 2012, a real increase of \$45 or 1.98 percent. The numbers would differ but the difference between current and constant dollars is the same if we plot trends in net (after tax credit) payroll taxes.

So Canada's income tax system, with its federal and provincial/territorial regimes, provides non-refundable tax credits that lessen the burden of federal payroll taxes by a significant degree – ranging from one-fifth (19 percent in Nunavut) to one-quarter (26 percent in Saskatchewan).

Reference

Canadian Taxpayers Federation. (2011). *CTF Releases Nation-Wide Tax Changes for New Year*. <http://taxpayer.com/federal/ctf-releases-nation-wide-tax-changes-new-year>

Further reading

Battle, K. (2011). *Trends in Canada's Payroll Taxes*. Ottawa: Caledon Institute of Social Policy, December.

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