Payroll taxes—structure and statutory parameters

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Payroll taxes have grown substantially since the early 1980s, levelling off somewhat in the early to mid-1990s (Lin, forthcoming). They have also become an increasingly important source of government revenues. Total tax revenues collected from employers and employees yielded over $48 billion in 1997, amounting to 14% of total federal and provincial government revenues, up from 8.2% in 1980. Over the same period, total payroll tax revenues rose from 2.8% of GDP to 5.7%; the effective payroll tax rate more than doubled, from $5.61 per $100 of wages and salaries to $12.23; and average annual payroll taxes increased from $1,650 per employee to over $4,200 (in 1997 dollars).

Many important issues surround payroll taxes.[1] To provide some background on the subject, this article reviews the structure and statutory parameters of the Canadian payroll tax system; a subsequent article will report on national and provincial trends in the level, growth and role of each component in recent years, and compare Canadian payroll taxes to those of the other G-7[2] countries.

Canada's payroll tax system

A government levy is considered a payroll tax if and only if it satisfies three conditions: it is legislated, it is related to employment (that is, it refers to earnings or payrolls) *and* it varies with earnings.[3] Many "head-tax" type charges (for example, Ontario's health care premiums from 1959 to 1989, and Alberta's and British Columbia's health insurance premiums) are not payroll taxes because, although legislated, they are invariant to earnings or payrolls. Likewise, many fringe benefits (for example, employers' contributions to private employee pension plans, and group life insurance) are not payroll taxes because, although they are related to employment and vary with earnings in some cases, they are not legislated.[4]

At present, a total of nine payroll taxes are administered in Canada (Table 1): two by the federal government, one by all provincial/territorial governments, and six by five provincial/territorial governments. The two federal payroll taxes are Employment

Table 1: Payroll taxes in Canada, 1999

Tax	Authority	Contributors	Effective
Employment Insurance	Federal	Employers Employees	1940
Canada Pension Plan*	Federal	Employers Employees Self-employed	1966
Workers' Compensation	Workers' compensation boards	Employers	1910s
Health Services Fund**	Quebec	Employers	1970
Employer Contributions to Vocational Training	Quebec	Employers	1996
Health and Post Secondary Education Tax Levy	Manitoba	Employers	1982
Employer Health Tax†	Ontario	Employers	1990
Health and Post-Secondary Education Tax	Newfoundland	Employers	1990
Payroll Tax	Northwest Territories	Employees	1993

* *Workers in Quebec are covered by the parallel Quebec Pension Plan.*
** *Between 1970 and 1977, the levy was also charged on the net income of employees and the self-employed. These contributions were abolished at the end of 1977. In 1993, another form of individual contributions was introduced.*
† *The EHT was initially charged on employer payrolls only, but was expanded to cover net self-employment income in 1993. In 1999, the self-employed health tax was abolished.*

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Insurance (EI) premiums and Canada and Quebec Pension Plan (C/QPP) contributions. While EI premiums are levied on employees and employers, C/QPP contributions are also levied on the self-employed. The other nationwide tax is for workers' compensation; premiums are levied by all provinces and territories on employers only.[5] The six provincial/territorial payroll taxes are health services fund contributions levied mostly on employers by Quebec; employer contributions to vocational training also charged by Quebec; a health and postsecondary education tax imposed exclusively on employers by Manitoba; an employer health tax in Ontario; a health and postsecondary education tax levied on employers by Newfoundland; and a payroll tax levied on employees by the Northwest Territories.

Employment Insurance premiums

Since 1940, the federal government has levied a payroll tax on both employees and employers to finance the Employment Insurance (Unemployment Insurance until June 1996) program. The system covers employees only; self-employed workers are excluded unless they are fishermen, who can receive income support during the off season under separate regulatory rules.

Financing arrangements for the program have undergone several rounds of changes, the most significant of which took place in 1990. Earlier, the cost of funding the benefits had been shared by employees, employers and the federal government. Each party was responsible for different components of the total cost at different points under different legislation. Under Bill C-21, which took effect November 18, 1990, the federal government withdrew its share of contributions and the fund became "self-financing"; responsibility for funding benefits fell to employees and employers.[6]

Since 1972, employee premiums have been calculated as the product of the premium rate multiplied by insurable earnings, up to a maximum. Both the premium rate and the maximum insurable earnings are set by the Canada Employment Insurance Commission, with the approval of the Governor in Council on the recommendation of the Minister of Human Resources Development Canada and the Minister of Finance. As specified by the *Employment Insurance Act,*

> "The Commission shall . . . set the premium rate for each year at a rate that the Commission considers will, to the extent possible, (a) ensure that there will be enough revenue over a business cycle to pay the amounts authorized to be charged to the Employment Insurance Account; and (b) maintain relatively stable rate levels throughout the business cycle."[7]

Coverage was universal for employees up to 1978. The job-specific minimum requirement was introduced in 1979. It was set at 20 hours a week *or* 20% of the weekly maximum insurable earnings for 1979 and 1980; 15 hours a week *and* 20% of the weekly maximum insurable earnings between 1981 and 1986; and 15 hours a week *or* 20% of the weekly maximum insurable earnings between 1987 and 1996. Effective January 1, 1997, the Act abolished these minimum requirements and every hour of paid employment became insured. To calculate premiums, the Act also replaced the weekly maximum insurable earnings and premiums with an annual ceiling.

For 1999, the employee premium rate was set at $2.55 per $100 of insurable earnings to a yearly insurable maximum of $39,000. The maximum each employee contributed to the system that year was therefore $994.50; employers were assessed at 1.4 times the employee premium rate, for an annual maximum of $1,392.30 per employee (Table 2).

Canada and Quebec Pension Plan contributions

The federal and Quebec governments have also levied a payroll tax on employees, employers and the self-employed to finance the Canada and Quebec Pension Plans (C/QPP) since 1966. The plans are financed on a pay-as-you-go basis (that is, contributions by today's workers finance the benefits of today's recipients). All workers from age 18 to retirement (60 to 70 depending on the year) are covered. Major changes (for example, benefit levels, contribution rates, the contributory base, or the investment of the CPP fund) require the approval of the Parliament of Canada and the governments of at least two-thirds of the provinces with two-thirds of Canada's population.

In 1999, maximum pensionable earnings were set at $37,400, the basic exemption at $3,500, and maximum contributory earnings at $33,900 (Table 3). Employees and their employers each contributed $3.50 per $100 of contributory earnings up to a maximum $1,186.50. Self-employed workers paid both the employee and employer shares of contributions at a combined rate of $7.00 per $100 of contributory earnings, for a maximum contribution of $2,373.

Table 2: Employee* contributions to Employment Insurance, 1972 to 1999

	Premium rate	Minimum coverage requirement**			Weekly maximum		Annual maximum	
					Insurable earnings	Premium	Insurable earnings	Premium
	%	hours		$		$		$
1972	0.90	None			150	1.35	7,800	70.20
1973	1.00	None			160	1.60	8,320	83.20
1974	1.40	None			170	2.38	8,840	123.76
1975	1.40	None			185	2.59	9,620	134.68
1976	1.65	None			200	3.30	10,400	171.60
1977	1.50	None			220	3.30	11,440	171.60
1978	1.50	None			240	3.60	12,480	187.20
1979	1.35	20	or	79.50	265	3.58	13,780	186.03
1980	1.35	20	or	87.00	290	3.92	15,080	203.58
1981	1.80	15	and	83.00	315	5.67	16,380	294.84
1982	1.65	15	and	70.00	350	5.78	18,200	300.30
1983	2.30	15	and	77.00	385	8.86	20,020	460.46
1984	2.30	15	and	85.00	425	9.79	22,100	508.30
1985	2.35	15	and	92.00	460	10.81	23,920	562.12
1986	2.35	15	and	99.00	495	11.63	25,740	604.89
1987	2.35	15	or	106.00	530	12.46	27,560	647.66
1988	2.35	15	or	113.00	565	13.28	29,380	690.43
1989	1.95	15	or	121.00	605	11.80	31,460	613.47
1990	2.25	15	or	128.00	640	14.40	33,280	748.80
1991†	2.25/2.80	15	or	136.00	680	15.30/19.04	35,360	892.84
1992	3.00	15	or	142.00	710	21.30	36,920	1,107.60
1993	3.00	15	or	149.00	745	22.35	38,740	1,162.20
1994	3.07	15	or	156.00	780	23.95	40,560	1,245.19
1995	3.00	15	or	163.00	815	24.45	42,380	1,271.40
1996††	2.95	15	or	150.00	845/750	22.13	39,000	1,150.50
1997	2.90	None			None		39,000	1,131.00
1998	2.70	None			None		39,000	1,053.00
1999	2.55	None			None		39,000	994.50

Source: Human Resources Development Canada

* Employer premiums are equal to 1.4 times employee premiums.

** The weekly coverage requirement applied to each job separately. An employee's collective hours of work/earnings from several jobs could not be used to meet this minimum requirement. Effective January 1, 1997, the minimum was abolished and every hour of work was insured.

† The 2.80% rate took effect July 1.

†† For calculating EI benefits, the maximum weekly insurable earnings were $845 for the first six months, and then $750 until the year 2000.

Workers' compensation premiums

All provincial/territorial governments levy workers' compensation (WC) premiums on employers (note that the levy is on employers only, but not all employers are covered) to finance programs run by their respective workers' compensation boards.[8]

Premiums charged to fund WC programs are based on industry groupings and vary according to the hazard or risk of actual program use. This approach is used in all jurisdictions except Prince Edward Island, Nova Scotia and the Northwest Territories. An employer may have its operation classified into more than one industry with different assessment rates. The system further allows some degree of experience-rating within broad industrial categories, resulting in different assessment rates within the same industry.[9]

Quebec's Health Services Fund

In 1970, Quebec became the first province to levy a tax on employer payrolls as well as on net individual income to help finance its health care system. All employers contributed at the same tax rate until 1998, and the entire payroll of all employers was included in the coverage, with only minor exceptions.[10] The legislated employer tax rate has seen many increases since its inception. It was initially set at 0.80% of the employer's total payroll, then increased to 4.26% in May 1995 (Table 4).

Between 1970 and 1977, the levy was also charged to both employees and the self-employed. The legislated tax rate was flat (0.8% for 1970 to 1975, 1.2% for 1976 and 1.5% for 1977) and applied to the net income from all sources. The exemption level for married couples was twice that for single persons. And the maximum tax liability for employees differed from that of the self-employed. These non-employer contributions were abolished at the end of 1977.

Table 3: Employee* contributions to Canada and Quebec Pension Plans, 1966 to 1999**

	Contribution rate	Maximum pensionable earnings	Exemption	Maximum contributory earnings	Maximum contributions
	%			$	
1966	1.8	5,000	600	4,400	79.20
1967	1.8	5,000	600	4,400	79.20
1968	1.8	5,100	600	4,500	81.00
1969	1.8	5,200	600	4,600	82.80
1970	1.8	5,300	600	4,700	84.60
1971	1.8	5,400	600	4,800	86.40
1972	1.8	5,500	600	4,900	88.20
1973	1.8	5,600	600	5,000	90.00
1974	1.8	6,600	700	5,900	106.20
1975	1.8	7,400	700	6,700	120.60
1976	1.8	8,300	800	7,500	135.00
1977	1.8	9,300	900	8,400	151.20
1978	1.8	10,400	1,000	9,400	169.20
1979	1.8	11,700	1,100	10,600	190.80
1980	1.8	13,100	1,300	11,800	212.40
1981	1.8	14,700	1,400	13,300	239.40
1982	1.8	16,500	1,600	14,900	268.20
1983	1.8	18,500	1,800	16,700	300.60
1984	1.8	20,800	2,000	18,800	338.40
1985	1.8	23,400	2,300	21,100	379.80
1986	1.8	25,800	2,500	23,300	419.40
1987	1.9	25,900	2,500	23,400	444.60
1988	2.0	26,500	2,600	23,900	478.00
1989	2.1	27,700	2,700	25,000	525.00
1990	2.2	28,900	2,800	26,100	574.20
1991	2.3	30,500	3,000	27,500	632.50
1992	2.4	32,200	3,200	29,000	696.00
1993	2.5	33,400	3,300	30,100	752.50
1994	2.6	34,400	3,400	31,000	806.00
1995	2.7	34,900	3,400	31,500	850.50
1996	2.8	35,400	3,500	31,900	893.20
1997	3.0	35,800	3,500	32,300	969.00
1998	3.2	36,900	3,500	33,400	1,068.80
1999	3.5	37,400	3,500	33,900	1,186.50

Source: Human Resources Development Canada

* *Employer contributions are equal to employee contributions; self-employed workers pay both the employee and employer contributions.*

** *Workers in Quebec are covered by the Quebec Pension Plan (QPP). The QPP's contribution parameters are identical to those of the CPP.*

In 1993, another form of non-employer contributions to the Health Services Fund (HSF) was introduced. This renewed tax differs from the earlier levy in a number of ways. First, the tax base excludes employees' wages and salaries already subject to the employer tax, in addition to a number of items specified in the 1993-94 budget. Second, an exemption of $5,000 is allowed, but applies to individual taxable income regardless of marital status. Third, although a maximum tax liability still exists, it applies equally to employees and the self-employed. Finally, and more significantly, the tax structure is no longer flat-rated, but now depends upon levels of taxable income: for persons whose taxable income is up to $40,000, the tax rate is 1.0%, with a maximum contribution of $150; for those whose taxable income is over $40,000, the tax liability is equal to $150 plus 1.0% of the taxable income, up to a maximum contribution of $1,000.

The 1998 budget introduced a series of graduated contribution rate reductions to small private-sector employers based on their total payrolls. The first round of reductions was introduced in January 1999, the second in January 2000, and the third is set for January 2001 (Table 5). The contribution rate for employers with payrolls $1 million or less was reduced to 4.00% for 1999, further to 3.22% for 2000 and to 2.70% for 2001—for a total reduction of more than one-third. The extent of HSF contribution relief gradually declines as total payrolls rise; no reduction is granted once total payrolls reach $5 million.[11]

Table 4: Quebec's Health Services Fund, 1970 to 1998

Employer contributions		Non-employer contributions			
				Maximum	
Effective	Rate	Effective	Rate*	Employee**	Self-employed
	%		%	$	
Nov. 1, 1970	0.80	1970 to 1975***	0.8	125	125
June 1, 1976	1.50	1976	1.2	188	300
April 1, 1981	3.00	1977	1.5	235	375
May 2, 1986	3.22				
May 17, 1989	3.36	Effective	Taxable income †	Tax††	Maximum
April 26, 1990	3.45				
Sept. 1, 1991	3.75				
May 10, 1995	4.26 †††		$		$
		1993‡	Up to 40,000	1.0%	150
			Over 40,000	$150+1.0%	1,000

Source: Ministère des Finances, Québec
* *This is applied to net income from all sources.*
** *This is applied to employees whose employment income accounted for at least 75% of net income, and to those over 65.*
*** *Special rules are applied to workers with low income.*
† *This excludes wages and salaries and, as of 1994, Old Age Security benefits. It includes income from other sources, as specified in the 1993-94 budget (such as alimony payments and 20% of taxable dividends).*
†† *The tax liability is calculated by applying the rate to taxable income.*
††† *Contribution rate reductions to small employers with payrolls under $5 million were announced in the 1998 budget.*
‡ *An exemption of $5,000 is allowed.*

Quebec's Employer Contribution to Vocational Training

Effective in 1996, Quebec also levies a payroll tax on employers to help finance its training costs. The flat tax rate of 1% applies to payrolls in excess of the exemption level ($1 million for 1996, $500,000 for 1997, and $200,000 from 1998 onward). Employers' tax liability is reduced by the amount of investment made in government-approved training.

Manitoba's Health and Post Secondary Education Tax Levy

In 1982, Manitoba became the second province to levy a payroll tax to help finance health care and postsecondary education. The levy is charged to employers only and covers all industrial sectors, with one minor exception.[12]

In the first two years, no relief to small businesses was provided and the full tax rate of 1.5% was applied to the entire payroll. Since 1984, however, a "notch-rated" system has evolved to lighten the tax burden for small and medium-sized employers. The exemption was initially set at $50,000, and has gradually increased to the present $1 million (Table 6). At the same time, the "notch maximum" has risen from the initial $75,000 to the present $2 million. The "notch rate" (4.5% from 1989 to 1998 and 4.3% in 1999) is applied to the "notch range" (payroll minus exemption) when total payroll is under the "notch maximum." The full tax rate (2.25% between 1987 and 1998, and 2.15% in 1999) is applied to the entire payroll once it exceeds the "notch maximum."

Ontario's health taxes

From 1959 to 1989, Ontario levied health insurance (OHIP) premiums on program participants.[13] Beginning in 1990, these premiums were abolished and a payroll tax was introduced to help finance health care spending. The Employer Health Tax (EHT) was initially levied on employer payrolls only, but in 1993 coverage was

Table 5: Quebec's Health Services Fund relief to small businesses, 1999 to 2001

Payroll maximum	Tax rate 1999	2000	2001	Reduction
$	%			
1 million or less	4.00	3.22	2.70	36.6
2 million	4.07	3.48	3.09	27.5
3 million	4.13	3.74	3.48	18.3
4 million	4.19	4.00	3.87	9.2
5 million or more	4.26	4.26	4.26	None

Source: Ministère des Finances, Québec

Table 6: Manitoba's Health and Post Secondary Education Tax Levy, 1982 to 1999

Effective	Exemption	Notch maximum	Notch rate	Full rate
	$		%	
July 1, 1982	None	None	None	1.50
January 1, 1984	50,000	75,000	4.50	1.50
January 1, 1987	100,000	150,000	6.75	1.50
April 1, 1987	100,000	150,000	6.75	2.25
January 1, 1989	300,000	600,000	4.50	2.25
January 1, 1990	600,000	1,200,000	4.50	2.25
January 1, 1994	750,000	1,500,000	4.50	2.25
January 1, 1998	1,000,000	2,000,000	4.50	2.25
January 1, 1999	1,000,000	2,000,000	4.30	2.15

Source: Manitoba Department of Finance

expanded to include net self-employed income (Self-Employed Health Tax [S-EHT]) (Table 7).

The EHT did not allow exemptions and applied to the entire payroll of all employers, with a few exceptions.[14] Relief to smaller businesses was provided through a series of nine graduated tax rates. The bottom rate of 0.98% (about half of the top rate) applied to employers with payrolls up to $200,000; subsequent rates gradually increased as payrolls rose; and the top rate of 1.95% applied to employers with payrolls over $400,000.

To stimulate job creation in the private sector, the 1994 budget announced an EHT "holiday." Since May 1, 1994, all private-sector employers who expand employment have been exempted from EHT payments on the increased portion of the payroll for a full year. In other words, the EHT is calculated on the previous year's payroll.[15]

The S-EHT was based on total net self-employment income (TNSEI), with an exemption of $40,000 and a different rate structure. The bottom rate of 0.98% applied to self-employed workers with TNSEI up to $200,000; for those whose TNSEI fell between $200,001 and $400,000, a marginal rate of 2.726% applied to the portion above $200,000; and for those whose TNSEI exceeded $400,000, the top rate of 1.95% applied. The tax liability of all self-employed workers was reduced by 22% of the calculated amount to compensate for the non-deductibility of S-EHT payments for income tax purposes.

A series of changes to the EHT and S-EHT was announced in the 1996 budget. Among them were the introduction of the $400,000

Table 7: Ontario's health taxes, 1990 to 1996

Employer Health Tax (EHT)			Self-employed Health Tax (S-EHT)		
Effective	Payroll range	Rate*	Effective	Net self-employment income	Tax**
	$	%			$
1990	Up to 200,000	0.980	1993	Up to 40,000	0
	200,001 to 230,000	1.101		40,001 to 200,000	(income – 40,000) x 0.98%
	230,001 to 260,000	1.223		200,001 to 400,000	1,568 + (income – 200,000) x 2.726%
	260,001 to 290,000	1.344		Over 400,000	(income – 40,000) x 1.95%
	290,001 to 320,000	1.465			
	320,001 to 350,000	1.586			
	350,001 to 380,000	1.708			
	380,001 to 400,000	1.829			
	Over 400,000	1.950			

Source: Ontario Ministry of Finance

* *These rates apply to the full payroll for an employer with a payroll within the stated range.*

** *The tax liability is reduced by 22% of the calculated amount because the S-EHT is not deductible for income tax purposes but EHT payments are.*

EHT exemption by 1999, to be available to all private-sector employers and phased in over a three-year period;[16] the setting of an applicable EHT rate according to the pre-exemption payroll level; the abolition of the one-year EHT "holiday," effective 1997; the increase of the existing S-EHT exemption of $40,000 to $200,000 for 1997 and $300,000 for 1998; the replacement of the old S-EHT rate structure with a flat rate of 1.95% for both 1997 and 1998; the abolition of S-EHT by 1999; and the introduction of the Fair Share Health Care Levy on persons with high income, effective 1996.

The 1998 budget announced two additional changes to the EHT and S-EHT: the advancement of the effective date of the $400,000 exemption to July 1, 1998, making the exemption for 1998 effectively $350,000; and the matching of EHT and S-EHT exemptions for 1998.

With 1997 and 1998 as the transition period, the original graduated tax evolved to a completely flat-rated (at 1.95% of total payrolls) system with an exemption of $400,000, effective January 1, 1999.

Newfoundland's Health and Post-Secondary Education Tax

Newfoundland introduced its payroll tax to help finance health care and postsecondary education in 1990. The tax is levied on employers only. Initially, an exemption of $300,000 was allowed to all employers,[17] the tax rate was set at 1.5%, and payrolls of all employers except those in the renewable resources sector (fishing, farming and forestry) were covered. Effective July 1992, the exemption level was lowered to $100,000, the tax rate was raised to 2%, and the previously exempted payrolls of employers in fishing, farming and forestry became taxable at a preferential rate of 1%. The exemption threshold was raised to $120,000, effective January 1, 1998, and further to $150,000, effective January 1, 1999.

Northwest Territories' Employee Payroll Tax

The last jurisdiction to enact a payroll tax, the Northwest Territories, did so in 1993. The tax, levied on employees only, is a flat 1% applied to all wages and salaries. Concurrent with the payroll tax, a refundable cost-of-living income tax credit was initiated for year-end residents and paid through personal income tax returns. As a consequence, the payroll tax burden essentially falls on workers who are not year-end residents of the Territories. The objective is to recover personal income taxes from workers who do not pay the territorial personal income tax.

Conclusion

The payroll tax system in Canada varies considerably among provinces and territories—some jurisdictions levy such taxes while others do not. Also, the number of applicable taxes differs (five in Quebec; four in Manitoba, Ontario, Newfoundland and the Northwest Territories; and three in the rest); and the rates vary from one tax to another and across the country.

The Employment Insurance and Canada and Quebec Pension Plan taxes are based on, but are not proportional to, employees' earnings. The EI tax had a minimum earnings coverage requirement (tax floor) and a tax ceiling prior to 1997; the floor was removed in 1997, but the ceiling is still in force. The C/QPP tax has in place both a floor and a ceiling. For both federal taxes, the statutory rates apply only to the taxable range; earnings below the floor or above the ceiling are not taxed. From the point of view of employers, amounts of EI and C/QPP taxes can be affected not only by individual employees' earnings but also by the overall earnings mix; thus, it is possible for tax liability to vary significantly across different businesses with the same gross payrolls.

The workers' compensation tax is based on total payrolls of the employer, but the applicable rate (for the same level of payroll) can differ from one workers' compensation board to another, and from one industry to another, because of experience rating. The tax liability thus depends upon not only the payroll size of the business, but also its past use of the system, its location, and the industrial mix of its activities.

Quebec's Health Services Fund was a flat-rated levy charged to the entire payroll without exemptions until 1999, when a series of rate reductions was introduced to provide tax relief to small and medium-sized businesses (total payrolls under $5 million). Its Employer Contributions to Vocational Training levy is also flat-rated, and provides relief to small and medium-sized businesses: employers with total payrolls below the threshold are exempted from the tax. As well, investment in approved training reduces the tax liability.

Manitoba's Health and Post Secondary Education Tax Levy has been "notch-rated" with an exemption to relieve small and medium-sized employers from the tax burden since 1984. Payrolls under the exemption are not taxed; payrolls under the "notch maximum" are assessed for only the "notch range" (the portion of payrolls in excess of the exemption) at the "notch rate"; and only when payrolls exceed the "notch maximum" is the full payroll assessed at the full rate.

Ontario's Employer Health Tax used to cover all payrolls with a series of graduated tax rates—employers with different levels of payrolls were assessed at different contribution rates. Since 1999, the health tax has been fully flat-rated with an exemption.

Newfoundland's Health and Post-Secondary Education Tax not only allows an exemption but also assesses employers in the renewable resource sector (fishing, farming and forestry) at a reduced rate.

Because different bases or different rate structures are used to calculate the amount to be paid across different taxes, analysis of the statutory tax rates is not very meaningful, either across provinces or over time. To overcome the difficulty associated with these differences, a follow-up article in the next issue of *Perspectives* will calculate and compare effective payroll tax rates—total payroll tax revenues collected in each jurisdiction expressed as a proportion of total wages and salaries. In that article, the same base will be used for the calculation of the tax rate across all components, in all provinces/territories and for all years.

Perspectives

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Notes

1 See more detailed discussion in Lin (forthcoming).

2 The G-7 countries are Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

3 For more detailed discussions on the characteristics of payroll taxes, see Kesselman (1997, chapters 2 and 5).

4 Although the public service superannuation plans may be legislated, they are equivalent to private sector pension plans, so their contributions are not considered a payroll tax.

5 WC levies by all provincial/territorial governments are counted here as one national payroll tax, primarily because the objective is the same across all jurisdictions—to fund WC programs. However, unlike EI and C/QPP taxes, WC taxes are independently levied by each jurisdiction; premium rates and methods of operation vary considerably. Wide variations also exist among assessment rates and methods of operation within some jurisdictions.

6 Details on financing arrangements are documented in Lin (1998), and in Kesselman (1983) for earlier years.

7 See Human Resources Development Canada's website at www.hrdc-drhc.gc.ca/ei/legis/ei3.shtml.

8 The Ontario body was recently renamed the Workplace Safety & Insurance Board.

9 For further details on the financing of the Canadian WC system, see Vaillancourt (1994).

10 Aboriginal employers operating on Indian reserves are exempt from the tax coverage, regardless of whether their employees are Native persons. Since 1986, all employers have been exempt from the tax levy on employees working in international financial and trade businesses.

11 If T denotes the contribution rate and M the quotient obtained by dividing an employer's total payroll by $1 million, the contribution rate for 1999 to 2001 applicable to employers with total payrolls under $5 million is calculated as the following:

$T^{1999} = (0.063\% \times M^{1999}) + 3.941\%$;
$T^{2000} = (0.258\% \times M^{2000}) + 2.966\%$; and
$T^{2001} = (0.390\% \times M^{2001}) + 2.310\%$.

The calculated rates are rounded to the second decimal place. For more details see Quebec (1998).

12 Payrolls of commercial truckers associated with out-of-province activities have been exempted from the tax since 1988. This exemption was extended to all remuneration directly related to interprovincial and international transportation in 1991.

13 An estimated 65% of OHIP premiums were paid by employers on behalf of their employees as fringe benefits (Dahlby, 1993).

14 Exempted are payrolls of foreign embassies and consulates, and Native employers operating on Indian reserves.

15 To ensure that employers do not take advantage of this policy for tax planning, a number of measures have been applied: only new employers do not have to pay EHT in their first year of operation; employers that have purchased, sold or reorganized a business or part of a business must factor in the payroll of the old entity in the comparison of both years' payrolls; and associated employers and employers with more than one account must aggregate their payrolls before doing year-over-year comparisons.

16 Associated employers must agree to share only one exemption among them. The exemption is $200,000 for 1997; $300,000 for 1998; and $400,000 for 1999 onwards. The exemption for part-year employers is prorated by the number of days in which the business is in operation. Public-sector employers currently excluded from the one-year EHT holiday on increases in payroll are not eligible for the exemption.

17 Associated employers were entitled to only one exemption among them.

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