

OTTAWA — Employers and employees will be taking a hit in the pocketbook due to increases to employment insurance and Canada Pension Plan deductions starting Jan. 1, says a new report by the Canadian Taxpayers Federation.

Both groups would pay a total of \$306 extra in payroll taxes in 2012.

The report, which was released on Wednesday, singled out Nova Scotia, Prince Edward Island and Manitoba as "the taxation dinosaurs of Confederation" because these provinces do not index the tax rate to the inflation rate.

The EI rate will rise to 1.83 per cent from 1.78 per cent for employees, who will also see maximum insurable earnings rise from \$44,200 to \$45,900, the federation said.

Meanwhile, the maximum pensionable earnings will rise to \$50,100 from \$48,300, bringing the total increase in payroll taxes to \$142.

For employers, the EI rate will increase to 2.56 per cent from 2.46 per cent which, along with corresponding increases in maximum EI and CPP amounts, will bring their contributions up by \$164 per employee.

According to federation's calculations (which it notes may not add up due to rounding), employees will pay \$3,147 in combined payroll taxes in 2012, up from \$3,004 in 2001. Employers would pay more than \$3,483, up from \$3,319, for a total of \$6,630.

In 1994, the earliest year of data provided by the group, total payroll taxes were \$4,486.

"While payroll tax hikes will see every working Canadian pay more of their income towards government in 2012, different inflation rates will see those in provinces above the national average pay more in their effective tax bill," the federation said in a statement.

Conversely, provinces with inflation rates below the national average would pay less in payroll taxes.

Nova Scotia, P.E.I. and Manitoba are the only provinces that do not index their income tax rates to the inflation rate — which was 3.6 per cent, 2.6 per cent and 2.5 per cent respectively in those provinces.

"Taxpayers in those provinces who get a mere cost-of-living pay increase will see themselves pay a higher tax rate in 2012, even though they have the same real income," said CTF national research director Derek Fildebrandt.

Satinder Chera, vice-president of the Canadian Federation of Independent Business, said the new tax would negatively affect small businesses.

"Small businesses are having a tougher time making ends meet (in) this economy," he said.

A higher tax rate means "less money for current employees and less money to hire new employees," Chera said.

"The government is talking about job creation. If that's the top priority, why are we taking money out of people? We won't see a quick recovery. It could get worse," he said.

However, Chera noted that the new tax rate is half what the government had previously proposed, a move that CFIB applauds.

He added that the EI system is broken and needs to be revamped.

EI premiums have been going up for the past couple of years, he noted.

Increasing taxes every year is "not sustainable," he added.

Meanwhile, Queen's University business professor Robin Boadway notes that the tax increase in the EI fund reflects Canada's current economic situation.

"The payroll tax increase is because the EI payments have gone out because of the recession," he said.

There have been a lot of payouts from the EI fund, which needs to be balanced every year, Boadway explained.

He added that he agrees with the federation's claim that there should be a rethinking of the EI system.

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