Ottawa to Lower Employment Insurance Rate for Small Businesses

written by vickyp | September 11, 2014

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The Employment Insurance premium rate for small business will effectively drop from $1.88 to $1.60 of Jan. 1, a move that kicks off a pre-election year of tax cuts from a Conservative government that is planning to run on its job creation record.

The change in rate will be delivered as a “Small Business Job Credit” in 2015 and 2016, meaning it is different from the usual practice of simply adjusting the premium rate for all businesses and workers. The government says almost 90 per cent of all E.I. premium-paying businesses in Canada will receive the credit. However workers will continue paying the $1.88 rate.

The E.I. program is based on an annual rate and maximum insurable earnings. For 2014, the rate is $1.88 per $100 of earnings up to a maximum of $48,600. That means the maximum annual premium paid by an employee is $913.68 and employers pay no more than $1,279.15 for each employee.

Employers are required to pay 1.4 times the legislated rate. Because of this, the government says this 28 cent reduction in the legislated rate is equivalent to a reduction of 39 cents per $100 of insurable earnings. The credit will apply to any firm that pays employer E.I. premiums equal to or less than $15,000 in 2015 and 2016.

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The government estimates the credit will save small businesses more than $550-million over the next two years.

Finance Minister Joe Oliver made the announcement Thursday at a hardwood flooring business in Toronto.

Mr. Oliver rejected the suggesting that the government’s actions are a sign of concern about the state of the Canadian labour market.

“It’s not a sign of worry,” he said. “It’s a sign of confidence we’re heading in the right path.”

The government’s news release suggests the two-year credit is a temporary measure to bridge the gap until a new E.I. rate-setting process kicks in in 2017 that will aim to ensure all E.I. revenue and expenses balance over a seven year cycle.

“All employers and employees will benefit from a substantial reduction in the EI premium rate in 2017 when the new seven-year break-even rate-setting mechanism takes effect,” states a Department of Finance news release.

The credit will be automatically administered by the Canada Revenue Agency, meaning businesses will not have to apply.

“It is a big, big deal for small business,” said Dan Kelly, the President of the Canadian Federation of Independent Business, who was part of the announcement with Mr. Oliver and praised the decision.

Business groups have been calling for a cut, arguing that higher premiums are payroll taxes that serve as a disincentive to hiring new workers. A survey this week from Manpower Canada, a staffing firm, found the hiring outlook fell to its lowest level in four years, an indication that employers are reluctant to add permanent new staff.

The survey results were in line with the latest jobs report from Statistics Canada, which reported a decline of 11,000 jobs in August. A major increase in self-employment masked Statscan’s finding that private companies shed a record 111,800 jobs that month.

The government’s decision to cut premiums for small business appears to be a response to these increasing signs of a weak labour market. And with just over a year to go until the next federal election, the Conservative Party is making clear that job creation will be part of its re-election strategy, releasing a new ad this week that focuses on the government’s job creation record under Prime Minister Stephen Harper.

Mr. Oliver signalled over the summer that the Conservative government is also considering personal income-tax cuts for the 2015 budget, although he didn’t elaborate on what such tax breaks might look like.