Anthony P. Curatola, Editor

The Burden of Being Employed: U.S. vs. Canada

BY MITCH McGHEE

Whether working for a domestic or international company, managers face resource allocation problems everyday. One resource that always causes management concern is finding and retaining competent employees to meet its staffing needs.

One factor impacting an individual's decision to accept employment is the cost of being an employee. A person's perceptions about these costs can be based on fact or what they believe to be true. In Gerard Berube's "Heading for Greener Pastures?" (*CA Magazine*, August 1999, p. 7), the author states that Canada was suffering a brain drain to the United States because of the tax burden imposed on the Canadian worker. While the tax rates in Canada may appear to be a bigger burden than those in the U.S., this isn't the complete picture. In Canada, workers have medical coverage under the law. In the U.S., however, medical coverage isn't guaranteed, and, when it is provided, it's at an additional cost to the employee/employer. Understanding this additional cost can be critical to attracting and retaining staff.

In *A Comparison of the Cost Environment for Employment between the United States and Canada* (April 2003), author Jenny Beth McCullough compared the financial burden placed on an employed individual—including the cost of medical coverage—working in the U.S. to working in Canada. The tax laws in effect for 2002 in both countries were used as the basis for the comparison. Insurance costs for the U.S., current at the time of the study, were also used. The states used for comparisons were Alaska, Arizona, California, Florida, Georgia, Illinois, Nevada, New York, Pennsylvania, and Texas, and the provinces used were Alberta, British Columbia, Ontario, and Quebec. The states were selected in part due to where they ranked in the percentage change in population and in part due to their taxing methods. Quebec and Ontario were selected because of the size of their population and opportunity for employment. Alberta and British Columbia were included to add some diversity to the comparison from the Canadian side.

Contrary to the public perception that Canada placed a larger burden on an individual who chose to work there as opposed to the U.S., McCullough found that this perception wasn't accurate for every income level. The burden on workers was lower in Alberta for all but the top income grouping. In Quebec, the burden was higher for all but the top income groups. And in British Columbia and Ontario, the financial burden was lower for workers with

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income of US$60,000 or less when compared to the U.S.

When adding the cost of medical coverage to the tax burden of U.S. workers, the average burden was higher on an individual whose income was $60,000 or less. This is an important piece of information for management to consider when trying to recruit new staff or relocate existing staff. It's also necessary to understand what other factors play a role when someone is deciding where he or she is willing to work. Climate, exchange rates, and pay levels can all play a role in the decision. Climate may be the decisive motive to move from Canada to the U.S. In that instance, educating your employees to the effect of the burden placed on them by the two countries won't help keep employees in Canada or induce potential employees to relocate there.

If the level of pay available is greater in one country than the other, then the difference in burden on equal Canadian and U.S. salaries may be offset by the increase in pay available in the other country. Assuming that one Canadian dollar was equal to one U.S. dollar, if a person could make C$40,000 in Canada and US$50,000 in the United States, then the higher tax burden incurred in the U.S. would be offset by the increased income. The reverse would occur if someone moved from the U.S. to Canada and had a reduction in salary. The reduction in tax burden, with its associated increase in take-home pay, would be more than offset by the reduction in salary. Consequently, someone moving from the lower burden/lower pay location to the higher burden/higher pay location should end up with more after-burden income and be satisfied with the trade-off. In the reverse situation, a reduction of after-burden income wouldn't be acceptable. This is a condition that's difficult to offset by management. Pay rates for a particular job skill are normally market driven, as seen in academia. This can create a barrier to moving employees from one location to another. McCullough didn't discuss any differences in pay levels, but she did compare the burden based on the same amount of income adjusted for exchange rate differences. In other words, US$20,000 was converted into Canadian dollars, and then the tax liability was calculated. After the tax liability was determined in Canadian dollars, it was then converted back into U.S. dollars for comparison.

While the previous example assumed that one Canadian dollar was equal to one U.S. dollar, that wasn't the case when the analysis was done. On January 28, 2004, one Canadian dollar was worth only US$0.7536 (an improvement over recent history for Canadians). A decline of the Canadian dollar against the U.S. dollar would increase the pay disparity and increase the migration southward. A person making C$40,000 would only have to make US$30,144 to have the same income. McCullough did take this into consideration.

As this discussion indicates, managers need to be aware of the many factors that influence the decisions of potential employees as well as what influences current employees to stay or seek other employment. A manager who can increase the retention rate of their employees or induce potential employees to accept employment can save substantial resources for the firm through the reduced cost of searching for new employees and the subsequent training cost for those new employees. There's also the potential for increased productivity because employees feel that they are in better economic circumstances than what they would have believed if they thought the burden was greater in Canada than in the United States.

In today's competitive environment, any savings can increase the bottom line and make a company more competitive and in a stronger position to adapt. It can also give it the advantage to acquire the best workforce possible when in competition with other firms for the limited number of persons available to meet the company's needs. ■

Mitch McGhee, Ph.D., is assistant professor of accounting at the University of Texas at Tyler in Tyler, Texas. You can contact Mitch at (903) 530-4733 or mitchmcghee@cox-internet.com.