



**CANADIAN FEDERATION  
OF INDEPENDENT BUSINESS**

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# **Presentation to the Commission on Tax Competitiveness**

*September 2016*

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# About CFIB

- ▶ Represents independent business
- ▶ 109,000 business members across Canada, *10,000 in BC*
- ▶ Non-partisan, not-for-profit organization
- ▶ Deals with federal, provincial and municipal issues
- ▶ Represents all sectors, all regions
- ▶ One member = one vote

# Facts About Small & Medium Sized Business in BC

- 79% of businesses employ fewer than five staff
- Small businesses represent 1/3 of BC's GDP
- Small businesses employ 54% of BC's private sector workforce
- Small business owners protect jobs – even during recession:
  - *Big business reduced employee levels by 8.8% during the 2008 recession, SMEs reduced employee levels by only 0.5%*
- 96% of SMEs contribute to charitable or community causes.

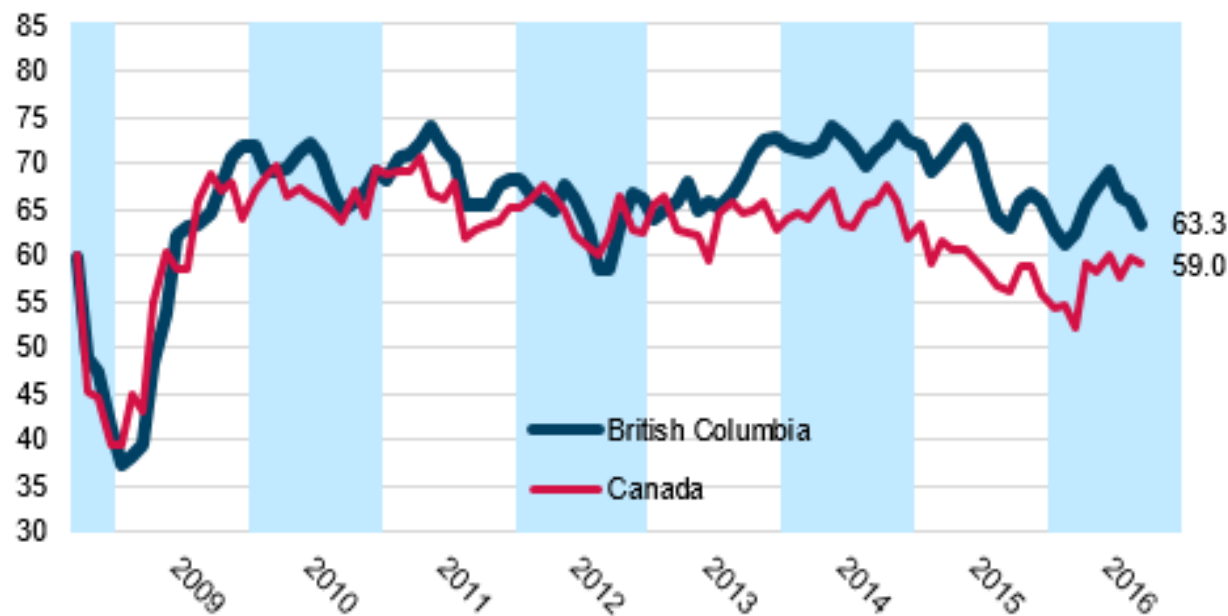
# BC Business Barometer - September 2016

*BC confidence third highest in Canada, but significantly lower than early 2015*

BC data presented as 3-mth moving averages Resp= 214

## 1. Business Barometer Index

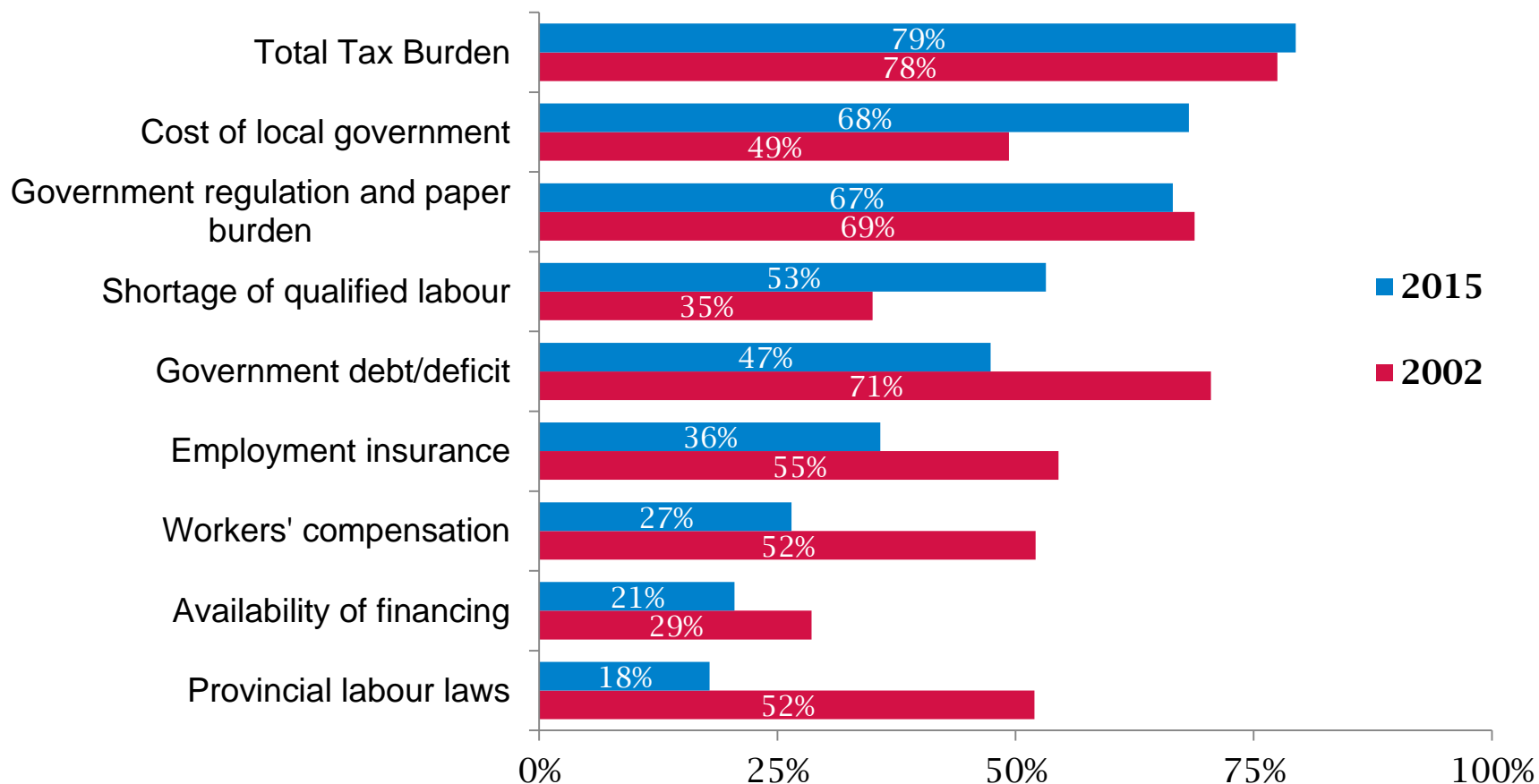
Index (0-100)



Canada	59.0
Newfoundland & Lab	41.1
Prince Edward Is.	63.9
Nova Scotia	61.6
New Brunswick	59.2
Quebec	67.1
Ontario	60.5
Manitoba	54.7
Saskatchewan	54.1
Alberta	47.1
British Columbia	63.3

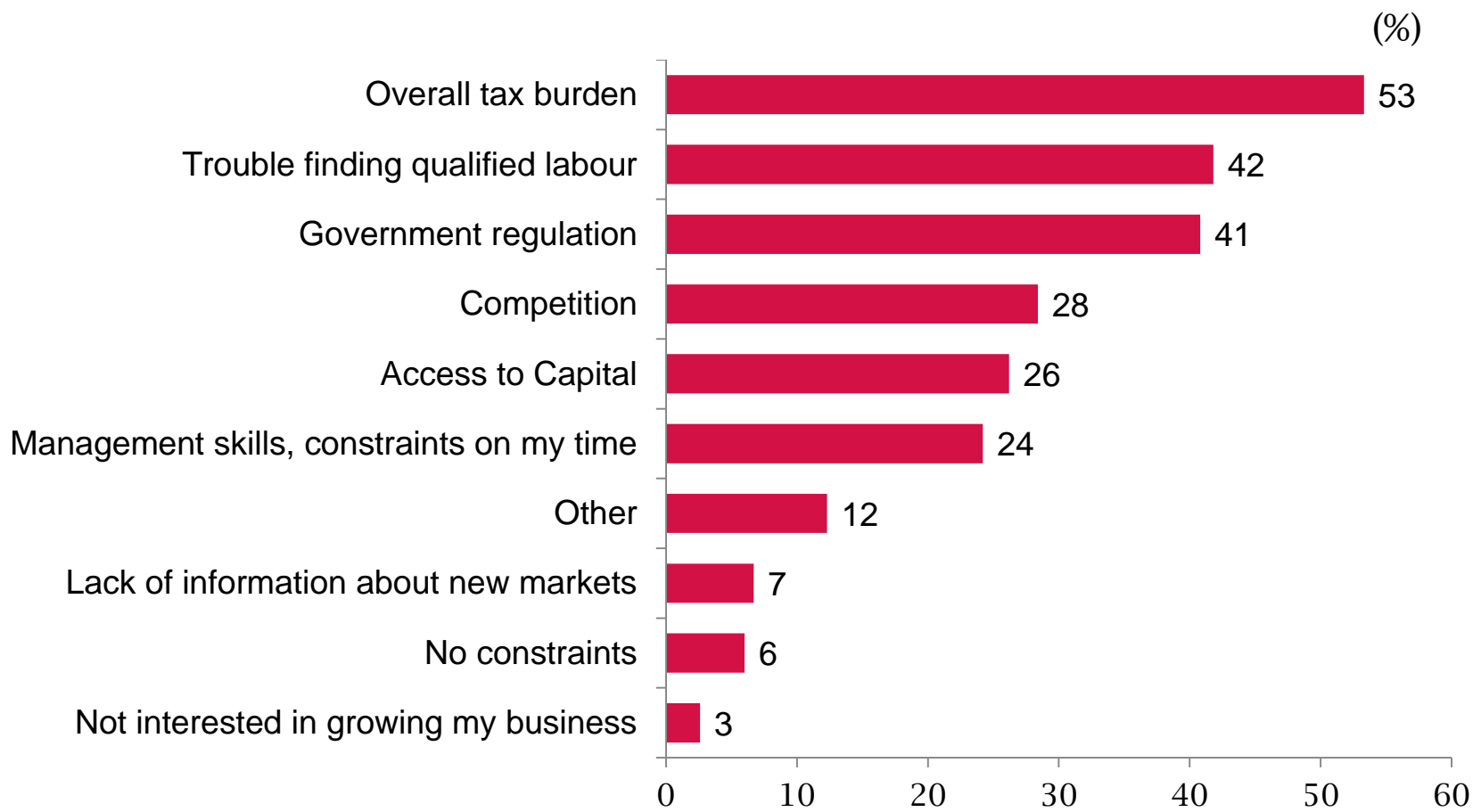
Source: CFIB, *Business Barometer*, September 2016

# “Which of the following issues are the most important to your business?”



Source: CFIB, *Our Members' Opinion*, 2002 (2,364 responses) and 2015 (1,835 responses) BC Data

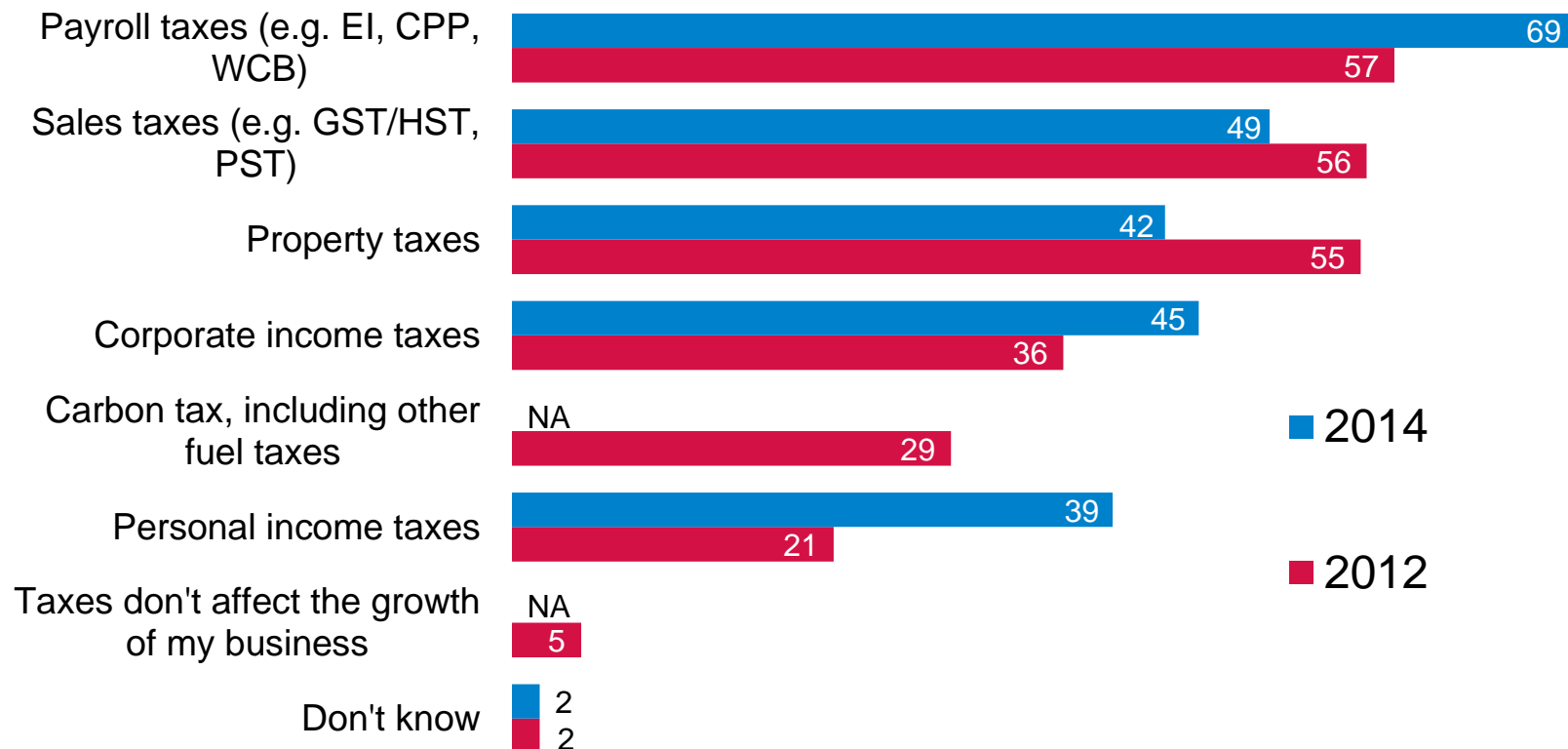
## 2012 Q1. “What are the main constraints that keep you from growing your business?”



Source: CFIB, BC Tax Competitiveness Survey, 2012, n=724

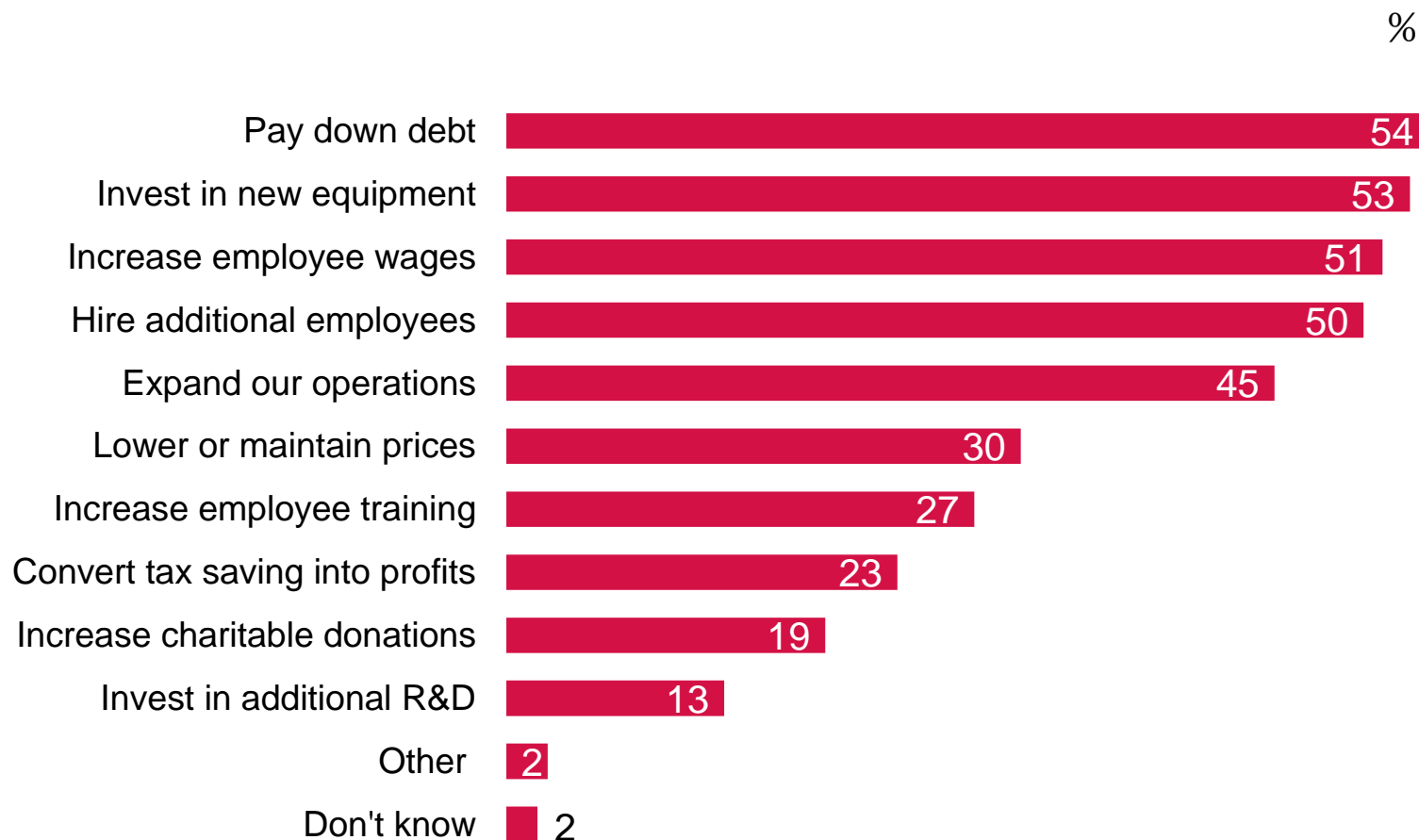
# “In general, which forms of taxation affect the growth of your business the most?” (select maximum of three)

%



Source: CFIB, *BC Tax Competitiveness Survey*, 2012, n=724; *Federal Budget Survey*, 2014, BC results, n = 731

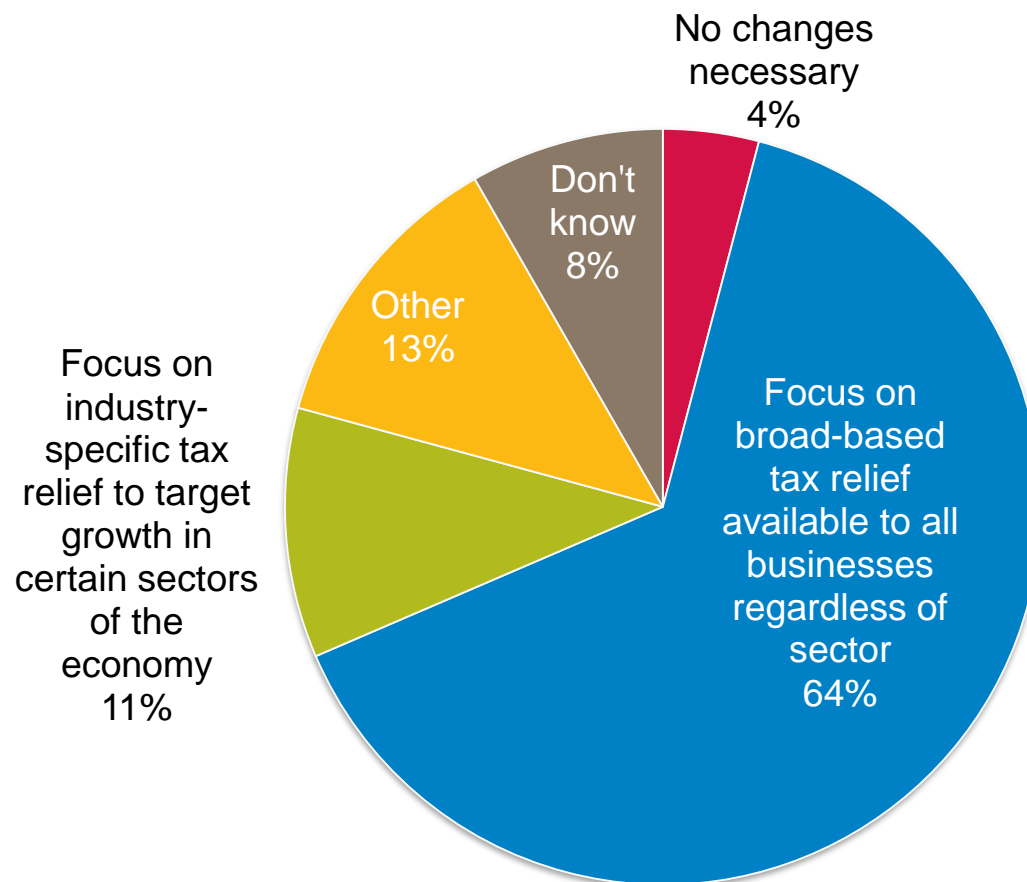
## 2012 Q7: “If the provincial government reduced taxes on businesses, how would you use the savings?”



Source: CFIB, *BC Tax Competitiveness Survey*, 2012, n=724



## 2012 Q4 “Once the government has balanced the budget, what general approach should the government take to improve its tax competitiveness?”

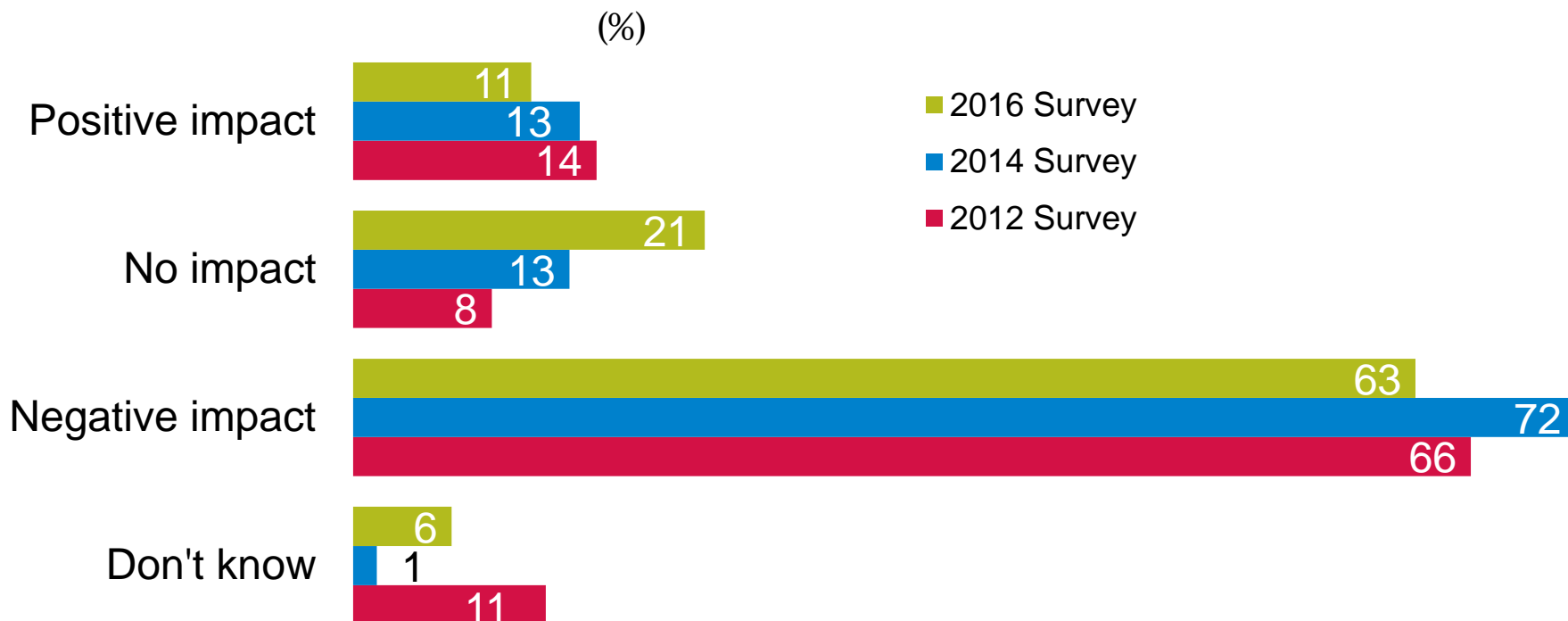


Source: CFIB, *BC Tax Competitiveness Survey*, 2012, n=724

2012: Q2 “What type of impact will the return to the PST have on your business?”

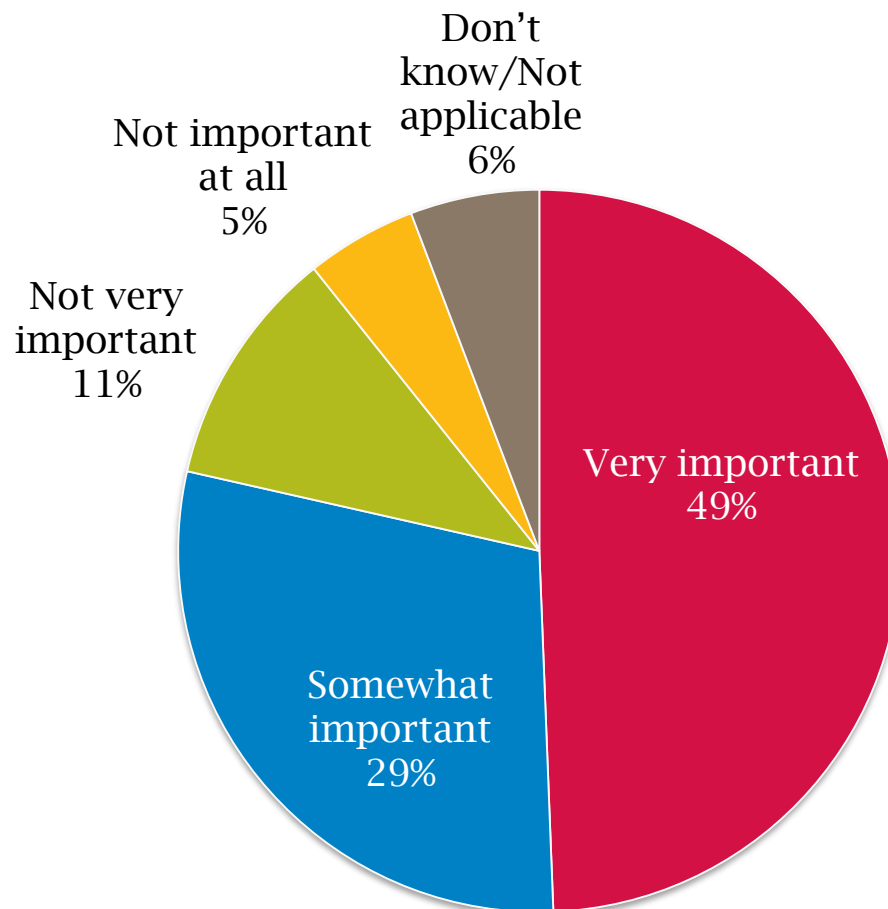
2014: “What type of impact did the transition from the HST back to the PST/GST system have on your business?”

2016: “...What type of impact has the return to the PST/GST system had on your business?”



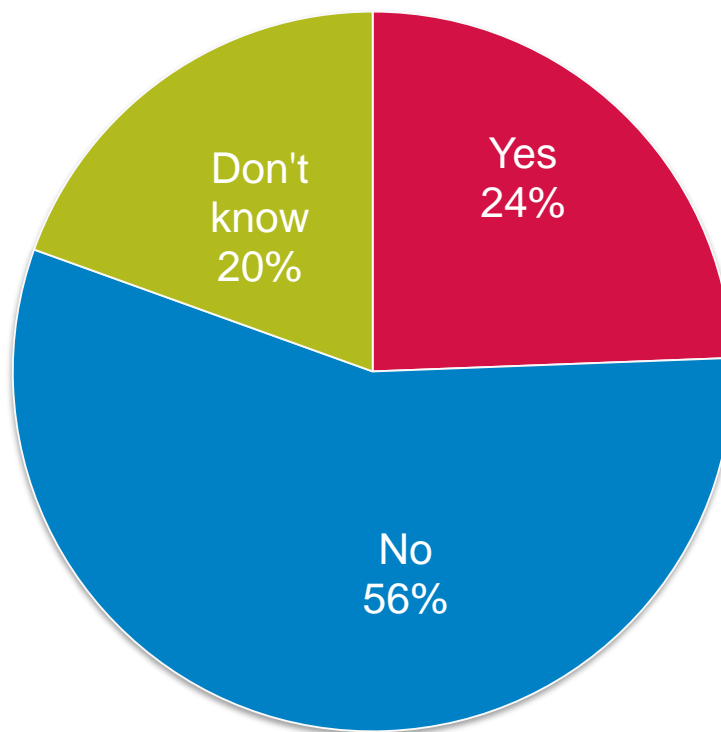
Source: CFIB, *BC Tax Competitiveness Survey*, 2012, n=724; BC Pre-Budget Survey, 2014, n=1,285; BC 2017 Election Survey, September 2016, n=785

**“How important is it that the BC government reduces the burden the Provincial Sales Tax (PST) has on your business (e.g. collecting and remitting the tax, paying PST on business inputs)?”**



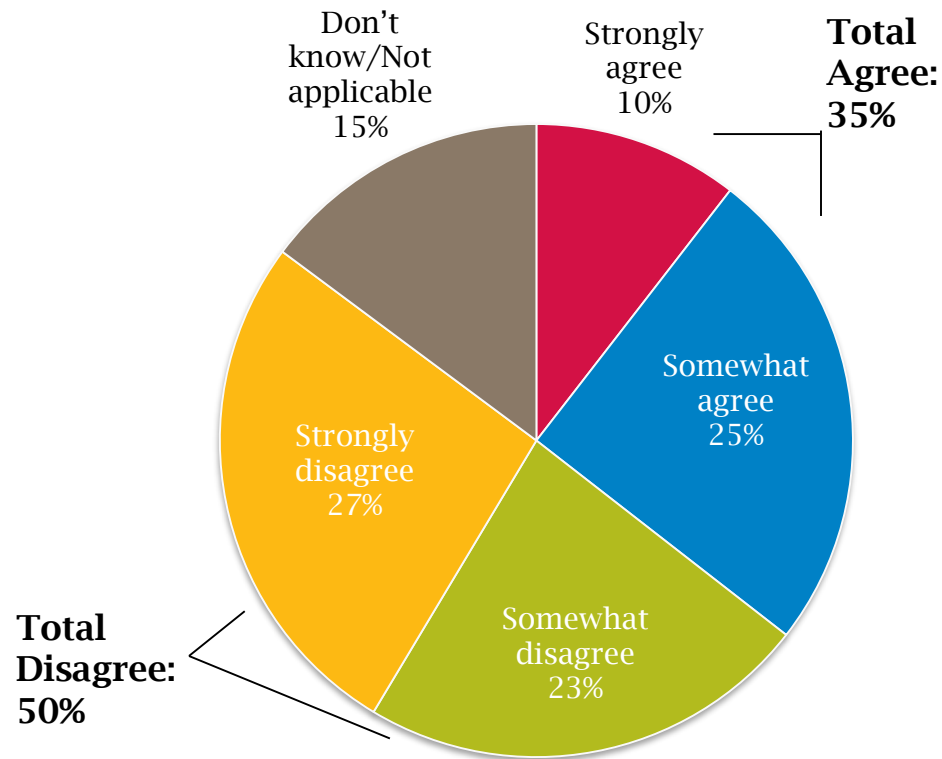
CFIB, BC 2017 Election Survey, September 2016, n=785

## 2012 Q3: “Do you support raising other taxes (e.g. corporate taxes) to eliminate the PST on business inputs?”



Source: CFIB, *BC Tax Competitiveness Survey*, 2012, n=724

**2016: “I support raising other taxes (e.g. corporate taxes, carbon taxes), if the revenue collected was used to eliminate the PST on business inputs”**

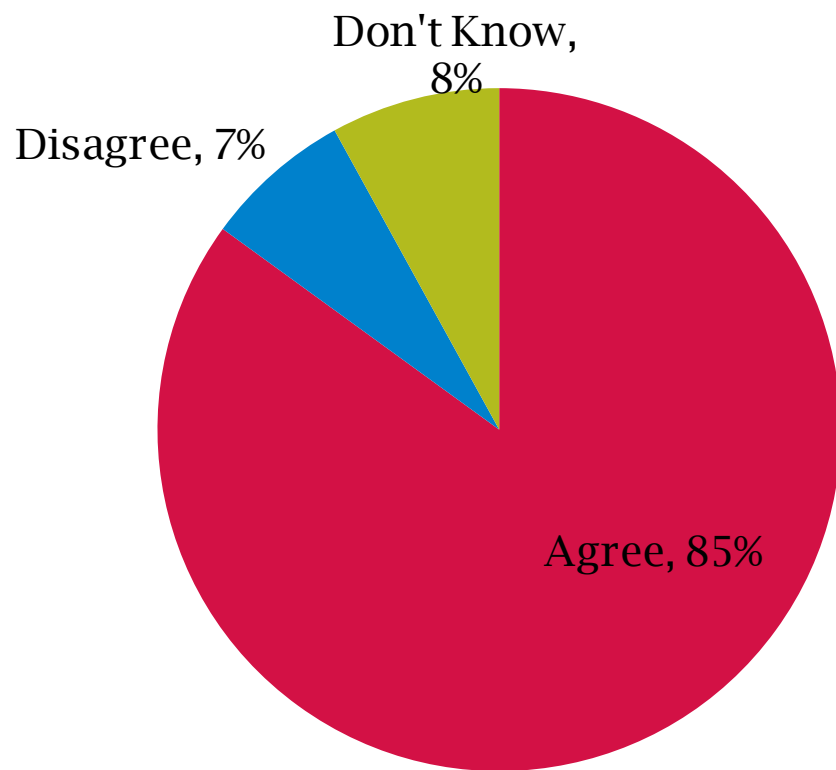


CFIB, BC 2017 Election Survey, September 2016, n=785

# How to “fix” the PST

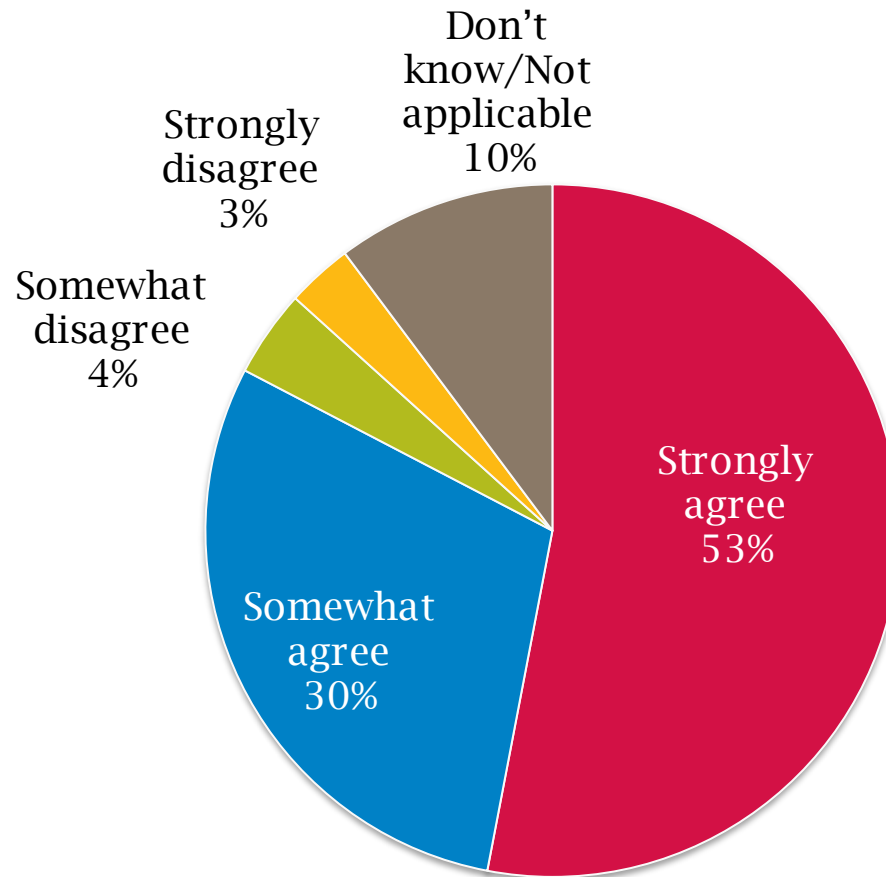
- ▶ Broad based support by small businesses for getting the PST off of business inputs
- ▶ Small business not married to a specific method to accomplish this
- ▶ However, do not support increasing other taxes to remove PST on business inputs
- ▶ Two specific options endorsed by BC small business:
  1. Expert Tax Panel recommendation: Remove PST from investments in machinery and equipment
  2. New CFIB recommendation: gradually phase in a PST tax credit for all business inputs (as budget allows)
- ▶ A made in BC VAT could be supported with an accompanied rate cut

**“Removing the PST from investments in machinery and equipment, including computers and software, should be a high priority for the government?”**



Source: CFIB, *BC Pre-budget Survey*, Sept 2014, 1092 responses

**“The BC government should introduce a PST tax credit for business inputs, as it becomes affordable (i.e. without government going into deficit)”**



CFIB, BC 2017 Election Survey, September 2016, n=785



# PST Tax Credit on Business Inputs

- Gradually phasing in the PST tax credit on ***all*** business inputs as the budget allows. Based on the estimates in the tax panel report, for 2016/17 this would cost:

Per cent refund for PST on business inputs	Cost (Millions)
10%	\$ 326
20%	\$ 652
30%	\$ 977
40%	\$ 1,303
50%	\$ 1,629

## Advantages

Simple and easy to communicate

Broad-based

Good signal to businesses

Ability to gradually phase in as budget allows

Could eventually reach 100% tax credit

## Disadvantages

Does not address distortions between goods and services

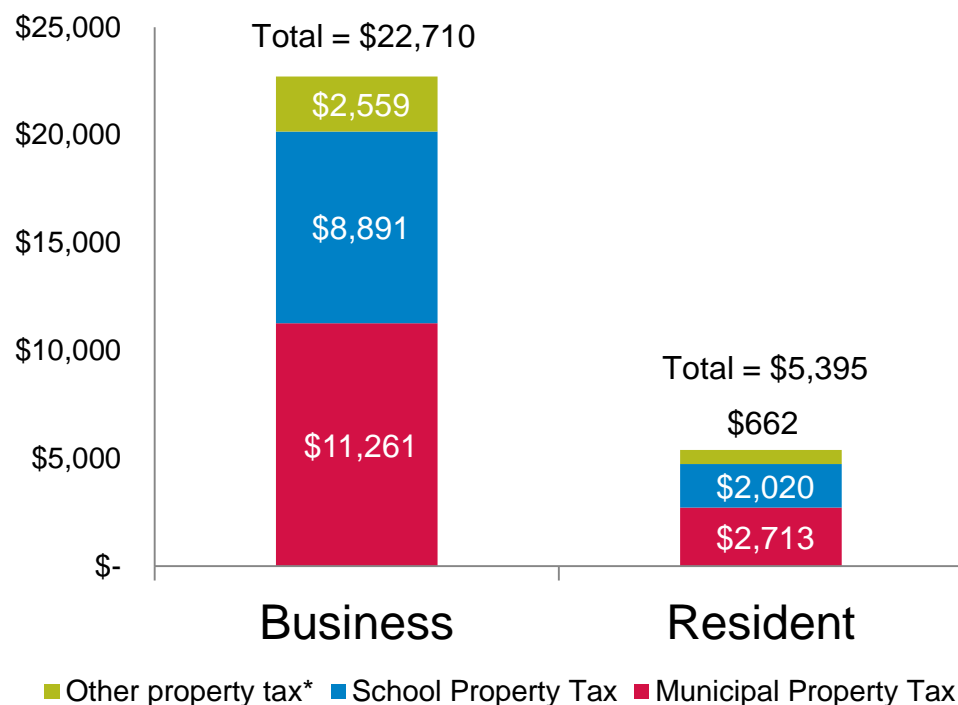
Administration complexity?

Does not expand base

Source: estimates based on data in the Report of the Expert Panel on BC's Business Tax Competitiveness, 2012

# Property Tax Unfairly Hits Small Business

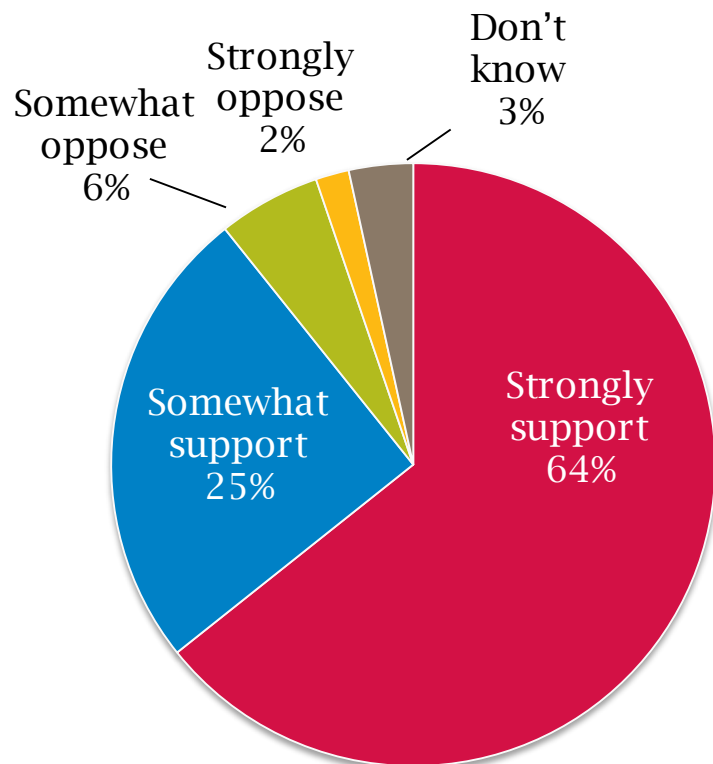
## Property Tax Bills: Vancouver, 2015



- Significant gap between what a business and a resident pays on the same assessed property value
- Gap exists both in provincial and municipal property taxes
- Total Property Tax Gap across BC: **2.56**
- Municipal Property Tax Gap across BC: **2.60**
- School Property Tax Gap across BC: **2.47**

Source: Analysis of 2015 BC Government data on published property tax rates; Vancouver's 2015 average assessed property value of \$1,532,937

**“To what extent do you support reducing the school property tax rate on businesses to be more in line with the residential rate (e.g. Vancouver businesses pay 4.4 times the rate residents pay)”**



In 2016, almost 90 per cent of small businesses support the government addressing the disparity in school property tax

# Ways to reduce the administrative burden of PST on BC small business

1. Remove administrative burden of PST exemptions by replacing with tax credits for residents
  - ▶ Income based
  - ▶ For example, provide low income family a children clothing credit, remove cumbersome child clothing PST exemption
2. Recommit and refresh the Taxpayer Fairness and Service Code
  - ▶ Inexpensive and extremely helpful method to increase PST competitiveness

# Concluding Thoughts & Recommendations

- Small businesses are very sensitive to the total tax burden
- The return to the PST continues to have negative effect on small business
- Significant support for any method to remove PST on business inputs, *except* from increasing other taxes
- Other important considerations include property tax and tax administration
- Any changes to the tax system should involve adequate consultation and clear communication

# Small Business Comments on BC's Tax System

## 2012:

"I plan to buy Capital Items like equipment prior to the PST coming back. If we could continue to get tax credits for those types of purchases. The suppliers of that equipment would not have a bump in sales then a void in the wake of the GBT, Going Backward Tax."

"PST should be treated as a input/output tax same as we do the GST"

"The former PST was a nightmare for manufacturers- even the PST auditors couldn't figure out what it applied to and what was exempt. If you bought a rag for one purpose then used it for another you had to fill out some forms and send the government 8 cents. It made the HST seem like a dream come true. The new PST has to be designed like the GST."

"Kill specialty tax credits and loopholes. Make it easy to follow and administer and save staff costs for businesses and government this way."

"It's critical for the tax panel to talk about the "Total Tax Burden" for small business (and large). When you look at all the taxes in aggregate form that small business pays (corp, PST, property, payroll, etc.), how competitive are we vs Alberta & Washington and other jurisdictions?"

"Simplifying the application and collection process for PST would be a huge benefit to those collecting and reporting PST."

"Municipalities are a huge problem. The residential-business differential in property taxation is a huge disincentive to invest locally."

# Small Business Comments on BC's Tax System

## 2016:

“PST should have an input credit system. Payroll regulations are so complex I have to hire a payroll firm to issue employee payments. This is a tremendous burden. The province is partly to blame, shares with Federal.”

“PST exemptions for children's clothing. The exemption is appreciated by parents and I support it. But it is complicated by rules about what size of shoe qualifies, etc. I say, if the child is under 15 anything they purchase should be PST exempt.”

“Being able to get a straight and definitive answer to PST application questions from the PST. They are cagey or refuse to supply a binding opinion. If they don't know who should or does.”

“Lower property tax burden on commercial properties.”

“Provincial parties should encourage municipalities to employ a "fair" business property tax regime. Just because surrounding residential prices may be on the rise (maybe in a bubble?), should not cause business property taxes to rise lock-step.”

“Corporate tax rates should be reduced, and incentives for capital investments should be given to businesses so that they can expand with less risk.”

“Inputs now cost more money, it reduced the efficiency in the system where the end user ends up paying. Increased record keeping and administration.”

“Input credit with hst enhanced ability to purchase supplies and equipment to run business”

# Small Business Comments on BC's Tax System

## 2015:

"Return of the PST has been devastating. It needs to be eliminated."

"PST is way too complicated and costly as an add on to production inputs. Being a refundable input for businesses could possibly be more effective than the old HST (which we should have kept)."

"Some things are PST exempt and some things are not. We translate rules one way and customers translate them another way which creates friction between us and them. Either PST is charged on everything (and for everyone including first nations) or on nothing. We are tired of carrying the burden of tax collection. If you want to give some industries and/or races a break then find another way to do it."

"Transparency and inefficiencies should be top priority for government in order to reduce tax burden"

"E-commerce and cross border shopping have made sales tax an ineffective method of taxation. An Ontario online retailer can ship to BC without charging sales tax, giving them a 7% advantage over us. Whereas when we ship to Ontario, we need to charge HST = no advantage for us. US online retailers outside of the state of Washington charge no sales tax to sales shipped to Blaine or Point Roberts. That gives them a full 12% advantage over us and in both cases, the province loses out on 7% sales tax revenue."



# Questions?



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