

## A Vision for 2020

### *Manitoba small business pre-election priorities*

*Elliot Sims, Director of Provincial Affairs, Manitoba*

In advance of the April 19, 2016 provincial election, the Canadian Federation of Independent Business (CFIB) is putting forward constructive solutions that will help Manitoba businesses do what they do best – create jobs, grow the economy and create prosperity for all Manitobans.

### **Introduction**

Small businesses are the backbone of the Manitoba economy. Employing over 250,000 Manitobans, small- and medium-sized firms account for one quarter of Manitoba's provincial GDP and 98 per cent of all registered businesses. When entrepreneurs are confident in the provincial small business climate, businesses expand, jobs are created and all Manitobans prosper. Currently Manitoba's economy is not growing at its full potential. In order to make this happen, the provincial government needs to better understand the priorities of small business owners and takes decisive steps to address them.

The 2016 Manitoba election is an opportunity for political parties to present their vision for a strong Manitoba. As the voice for entrepreneurs that keep Manitoba growing, CFIB would like to see its members' priorities reflected in party platforms.

### **The Canadian Federation of Independent Business (CFIB)**

CFIB is a non-partisan, non-profit, political action organization with a membership comprised of over 109,000 small- and medium-sized enterprises (SMEs), with 4,800 members based in Manitoba. Our members are located in every region of the province, and with diversity in activity that closely parallels that of the province's economy.

CFIB was formed on the following philosophical foundations:

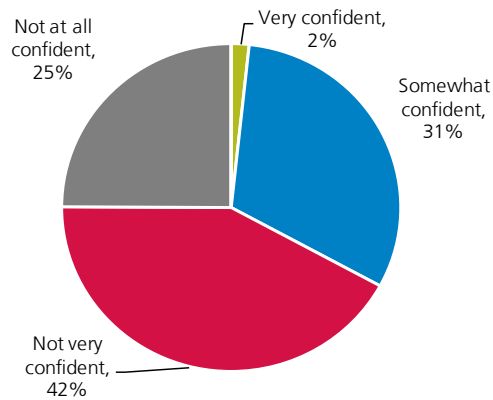
- ▶ To promote and protect a system of free competitive enterprise and to strengthen the entrepreneurial culture in Canada
- ▶ To give independent business a greater voice in determining laws that govern business and the nation
- ▶ To identify and eliminate obstacles by all levels of government that unnecessarily inhibit the viability and growth of independent business

## A look ahead to 2016

Manitoba's small business sector confidence in the economy is affected by many factors, such as global market forces, weather, federal government policies and the provincial tax climate. The current confluence of conditions has Manitoba entrepreneurs concerned about the health of Manitoba's economy. In fact, 67 per cent of small business owners are not confident about the current state of economy (see Figure 1).

Figure 1:

**How confident are you about the current state of Manitoba's economy?**



***67% of small business owners are not confident about the current state of Manitoba's economy***

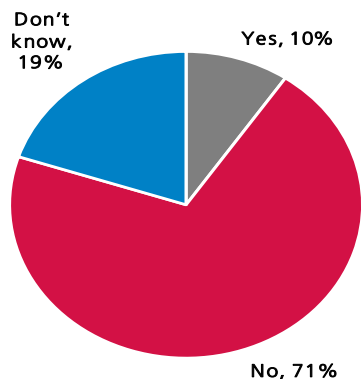
Source: CFIB Focus on Manitoba Survey, January 2016.

This concern mirrors the results of CFIB's Monthly Business Barometer®, which shows Manitoba's small business optimism below the levels needed for the provincial economy to grow at its potential. The Business Barometer® is measured on a scale between 0 and 100 with an index level above 50 indicating more entrepreneurs expect their businesses' performance to be stronger in the next year than those expecting weaker performance. Thus far in 2016, Manitoba small business optimism ranks at 61.5. Index levels normally range between 65-75 when the economy is growing at its potential.

## Small business concerned their priorities won't receive attention

Figure 2:

**Are you confident that small business concerns and priorities will receive attention during the provincial election? (per cent response)**



Source: CFIB Focus on Manitoba Survey, January 2016.

Despite concerns about economic growth, small business owners do not believe their priorities will receive attention during the Manitoba election. Only 10 per cent of respondents are confident their concerns will be addressed, while 71 per cent of believe their concerns will not receive attention (see Figure 2).

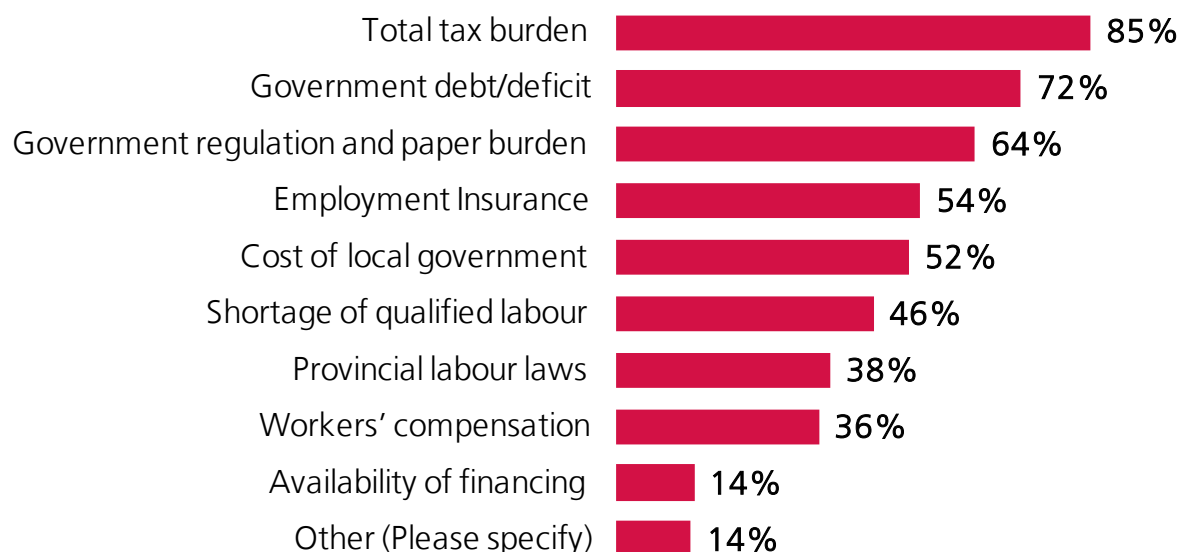
Over the coming weeks Manitobans will hear commitments from all parties about things like infrastructure, health care and education. But what about addressing small business priorities? The 2016 provincial election is an opportunity for political parties to present their vision for Manitoba's small business community, the economy and the province's future.

## Small business priorities to create a competitive 2020

When asked what are the most important issues affecting their business, 85 per cent of Manitoba small business owners indicate reducing the total tax burden as their top priority (see Figure 3).

Figure 3:

### Which of the following are a serious concern to your business?



Source: CFIB Our Members' Opinions Survey, No. 76 & 77, January to December 2015, n=1256.

Another 72 per cent indicate government deficits and the rising levels of government debt are a serious concern. Over two-thirds of small business owners, 64 per cent, indicate government regulations and the accompanying paperwork burden as a concern for their business.

## Priority #1: Fix the Fiscal Fundamentals

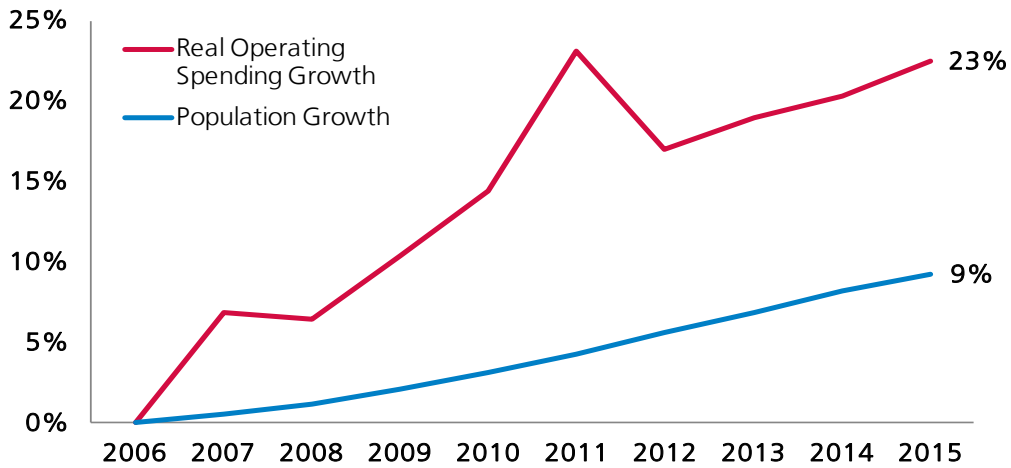
Over the last ten years Manitoba's fiscal framework has eroded. Driven by unaffordable spending increases, Manitoba has a structural deficit that is adding billions in unnecessary debt to Manitoban's tax bills. In order to create a competitive small business climate, the Manitoba government needs to restore the province's fiscal capacity without tax increases.

### Sustainable Spending Key to Fiscal Health

CFIB calculations reveal that over the last decade government expenditure growth outpaced what small business owners consider a reasonable spending growth benchmark: inflation and population growth. Since 2006, inflation adjusted government spending increased 23 per cent while population growth increased by only 9 per cent (see Figure 4). Simply put, spending grew 2.5 times faster than Manitobans' ability to pay for it.

Figure 4:

### Provincial Spending is Unsustainable



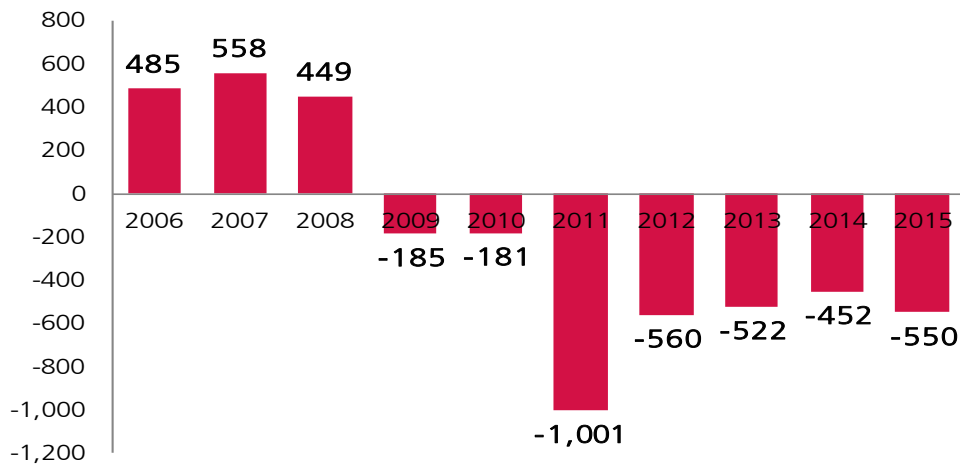
Source: CFIB calculations of Summary Expenditures, Province of Manitoba budget/annual reports, 2006-2015, CPI from Statistics Canada.

### Deficits Result of Spending Spree

The result of unaffordable spending increases is annual deficits (see Figure 5). These deficits are annually added to the Manitoba’s provincial debt, which grew 94 per cent in the last decade by dollar amount (see Figure 6). In turn, today’s deficits and debt turn into tomorrow taxes.

Figure 5:

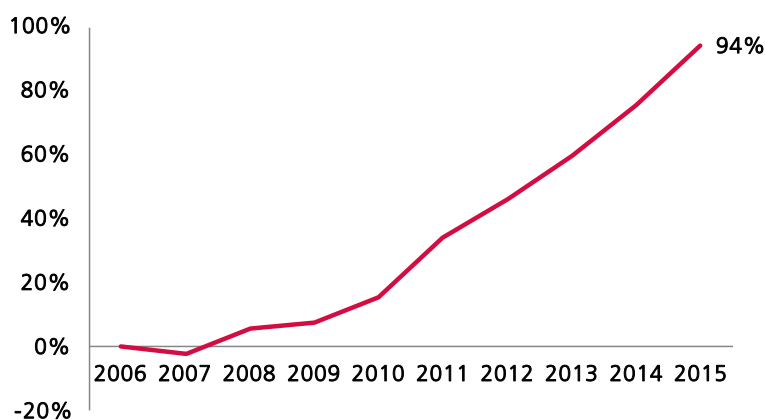
### Manitoba Government Surplus/Deficit (\$ millions)



Source: Manitoba Budgets, 2006 – 2015.

Figure 6:

### Manitoba Net Debt Growth, 2006 - 2015



Source: Province of Manitoba Public Accounts, 2006 – 2015

To return to fiscal sustainability, small business owners believe the following policies must be adopted by the Manitoba government:

- ▶ Limit spending increases to no more than the rate of inflation and population growth
- ▶ Balance the budget as soon as possible, without tax increases
- ▶ Put forth a credible plan to begin reducing the provincial debt

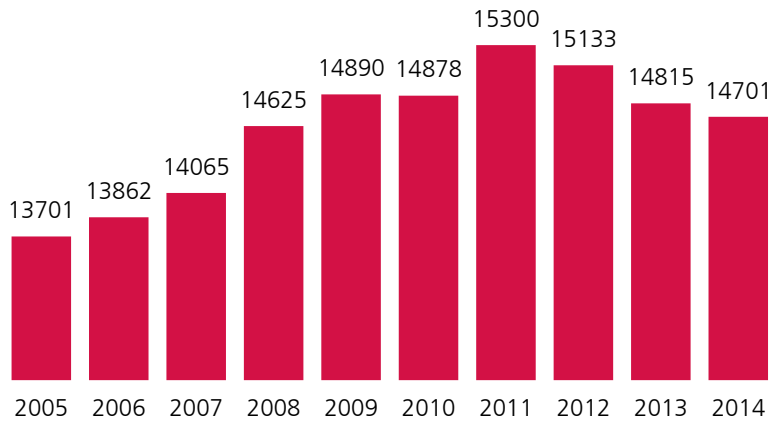
### Restoring Sustainable Spending

CFIB is often asked, “Where do you want us to cut?” Ultimately small business owners believe this is for government to decide – to set a limit for sustainable spending and then make the tough decisions to assign priority within that benchmark. However, with labour costs tied as the second largest provincial government expense after transfers to individuals and other organizations, scaling back the size and cost of the civil service is a prerequisite to return the Manitoba government to sustainable spending levels.

Over the last four years Manitoba eliminated 599 positions within the core government civil service. While a step in the right direction, 84 per cent of CFIB members believe a more rigorous goal for civil service reductions is needed given the still significant increase to the civil service over the last ten years (see Figure 7). It should be noted these figures do not include front line staff in non-core government agencies, such as nurses, teachers and social workers.

Other provinces have proven more ambitious civil service reduction goals can be realized without impacting government service levels. For instance, Saskatchewan committed to reduce their civil service by 15 per cent over four years. This goal was achieved – over 1,900 positions were eliminated with cumulative annualized savings of \$198 million – primarily through attrition.

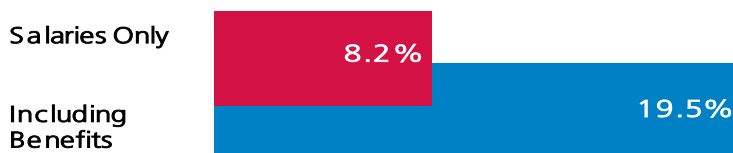
Figure 7:

**Size of Manitoba's civil service (number of public servants)**

Source: Manitoba Civil Service Commission Annual Reports.

Another part of sustainable spending is reducing the cost per worker of government personnel. In CFIB's report [Wage Watch: A Comparison of Public-sector and Private-sector Wages](#), a detailed analysis of the 2011 National Household Survey data on full-time earnings by occupation shows that Manitoba public sector employees are paid nearly 20 per cent more than similarly employed individuals in the private sector (see Figure 8).

Figure 8:

**Provincial personnel compensation advantages  
(per cent above comparable private sector levels)**

Source: CFIB Wage Watch Report 2015

More needs to be done to bring wages and benefits to levels comparable with private sector norms, such as eliminating the more than \$4,250 annual wage advantage of provincial employees and equalizing the length of work weeks (in hours) to increase the productivity of workers. Likewise, all new provincial hires should be provided a defined-contribution pension plan rather than the unaffordable defined-benefit pension plan in place for current provincial government workers.

The next government must return to sustainable spending levels by:

- ▶ Reducing the size of the civil service through attrition
- ▶ Narrowing the 19.5 per cent wage and benefit disparity between public and private sector workers

## Fiscal accountability key to improving Manitoba's finances

When facing fiscal stress, all levels of government too often look to raise taxes or run deficits rather than make tough decisions to control spending. Small business owners believe the provincial government must be held accountable for decisions that erode the province's fiscal sustainability.

Manitobans and small business owners believe one way to create accountability is to provide residents with a direct say on major tax increases. In fact, 72 per cent of Manitobans and 88 per cent of Manitoba entrepreneurs believe there should be a provincial referendum on any proposal that raises personal income tax rates or the Provincial Sales Tax (see Figures 9 and 10).

Figure 9: Small Business Owners

**A referendum should be held for any proposal aimed at raising major taxes (e.g. PST, income taxes)**

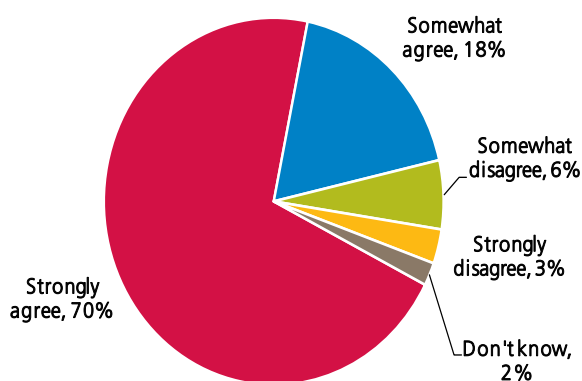
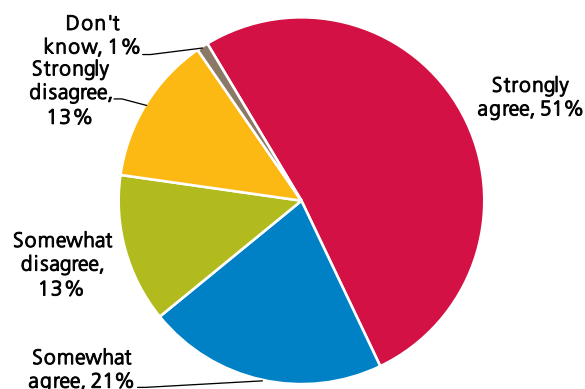


Figure 10: General Public

**Do you agree or disagree that a provincial referendum should be held for any proposal aimed at raising major taxes such as the PST or provincial income taxes?**



Source: NRG Research Group CFIB commissioned survey. The survey was conducted between January 18, 2016 and January 21, 2016. Results are based on 605 responses and are statistically accurate to +/- 4.00 percentage points 19 times in 20. Percentages may not add to 100 due to rounding. Focus on Manitoba Survey 2015. The survey was conducted between December 2, 2015 and January 7, 2016. Results are based on 350 responses and are statistically accurate to +/- 5.2 percentage points 19 times in 20. Percentages may not add to 100 due to rounding.

## No new municipal taxing powers needed

Just as provincial governments must be held accountable for their fiscal decisions, so must municipal governments.

Between 2008 and 2013, Manitoba's 26 largest municipalities increased their operating spending nearly 3 times faster than the sustainable benchmark of inflation and population growth. While their populations grew by 6 per cent, inflation adjusted operating spending grew by 20 per cent according to CFIB's [Manitoba Municipal Spending Watch](#) report. There have been few focused attempts to control this trend.

Because of this fiscal reality, Manitoba's municipalities have asked for new taxing powers, either through new direct municipal taxes or higher provincial taxes designated to municipalities (eg. 1 per cent of the PST). Both small business owners and Manitoba residents do not agree with this approach. In fact, 62 per cent of residents and 81 per cent of entrepreneurs don't support providing municipalities with additional taxation powers (see Figures 11 and 12).

Figure 11: Small Business Owners

**Municipalities should not have the authority to levy new taxes (e.g. fuel, income, land transfer or sales taxes)**

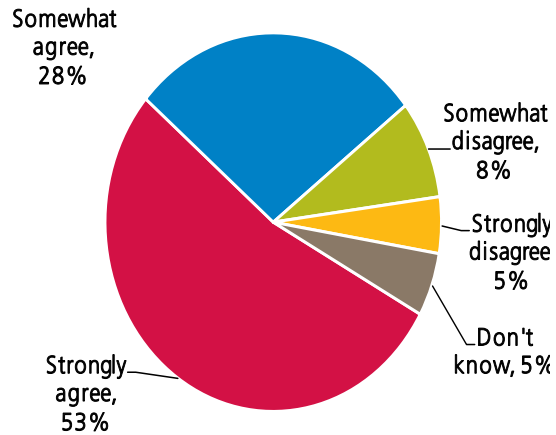
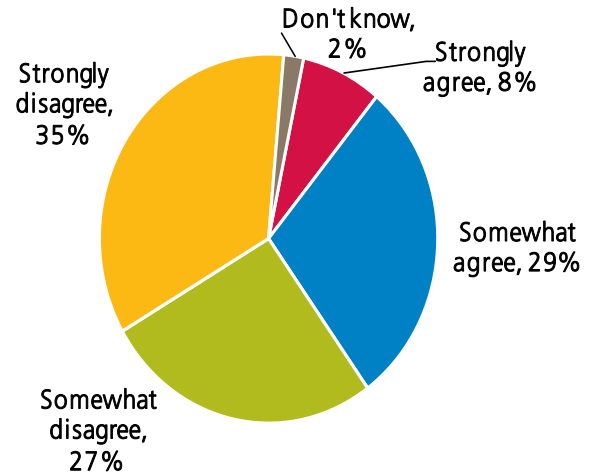


Figure 12: General Public

**Do you agree or disagree that municipalities should have the authority to levy new taxes?**



Source: NRG Research Group CFIB commissioned survey. The survey was conducted between January 18, 2016 and January 21, 2016. Results are based on 605 responses and are statistically accurate to +/- 4.00 percentage points 19 times in 20. Percentages may not add to 100 due to rounding. Focus on Manitoba Survey 2015. The survey was conducted between December 2, 2015 and January 7, 2016. Results are based on 350 responses and are statistically accurate to +/- 5.2 percentage points 19 times in 20. Percentages may not add to 100 due to rounding.

CFIB's small business platform recommends the following policies to ensure fiscal accountability:

- ▶ Publicly commit to holding a referendum before raising personal income tax rates or the PST
- ▶ Restore the Balanced Budget, Fiscal Management & Taxpayer Accountability Act
- ▶ Reject calls for additional taxing powers for municipalities

## Priority #2: Create a Competitive Tax Environment

By creating a sustainable fiscal framework, Manitoba can provide needed tax relief to its businesses and residents. Manitoba currently ranks 6<sup>th</sup> amongst Canadian provinces for maintaining a small business friendly tax climate. Because of the current level of provincial taxation, half of small businesses have deferred plans to invest in their business and 47 per cent have forgone creating jobs (see Figure 13). Equally concerning, 1 in 5 small businesses has considered relocating to another province due to Manitoba's tax climate. To ensure a growing economy that attracts business investment and creates jobs in Manitoba, the next government must reform its tax system.



Figure 13:

**Given current provincial taxation levels in Manitoba, which of the following have you considered?**

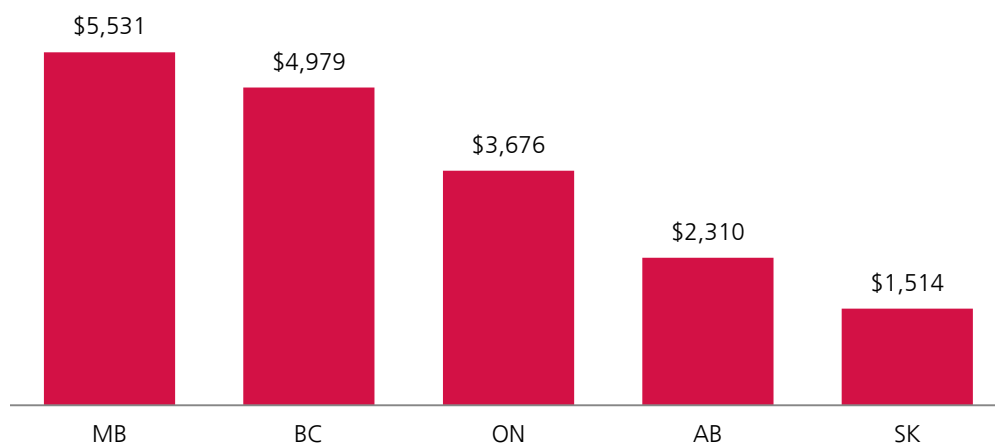


Source: Focus on Manitoba Survey 2015. The survey was conducted between December 2, 2015 and January 7, 2016. Results are based on 350 responses and are statistically accurate to +/- 5.2 percentage points 19 times in 20. Percentages may not add to 100 due to rounding.

Manitoba’s uncompetitive tax climate also affects families. Compared to families living in Western Canada and Ontario - Manitoba’s main competitors for workers – middle income families face the highest tax burden (see Figure 14). Given this reality, it is difficult for small businesses to retain and attract workers to fill positions when a similar salary can lead to significantly higher after-tax income in other provinces.

Figure 14:

**2015 Total Provincial Tax Burden – Dual income family of five earning \$75,000**



Source: 2015 Manitoba Budget, includes personal income taxes, gas taxes, sales taxes and health premiums (where applicable)

When asked what are the highest priorities to fix Manitoba’s tax climate, small business owners indicate reducing the PST to 7% and providing personal income tax relief are their top priorities (70 per cent and 64 per cent, respectively).

## Reduce the PST to 7%

Manitoba now has the highest consumption tax amongst the Western provinces and the bordering US states. Ontario maintains a similar 8 per cent PST rate. SMEs understand that higher PST rates drive up the cost of doing business and lowers customers' purchasing power. To encourage renewed business investment and consumer spending in the province, small business owners recommend:

- ▶ Lowering the PST to 7 per cent far sooner than the legislated 2023

## Personal Income Tax

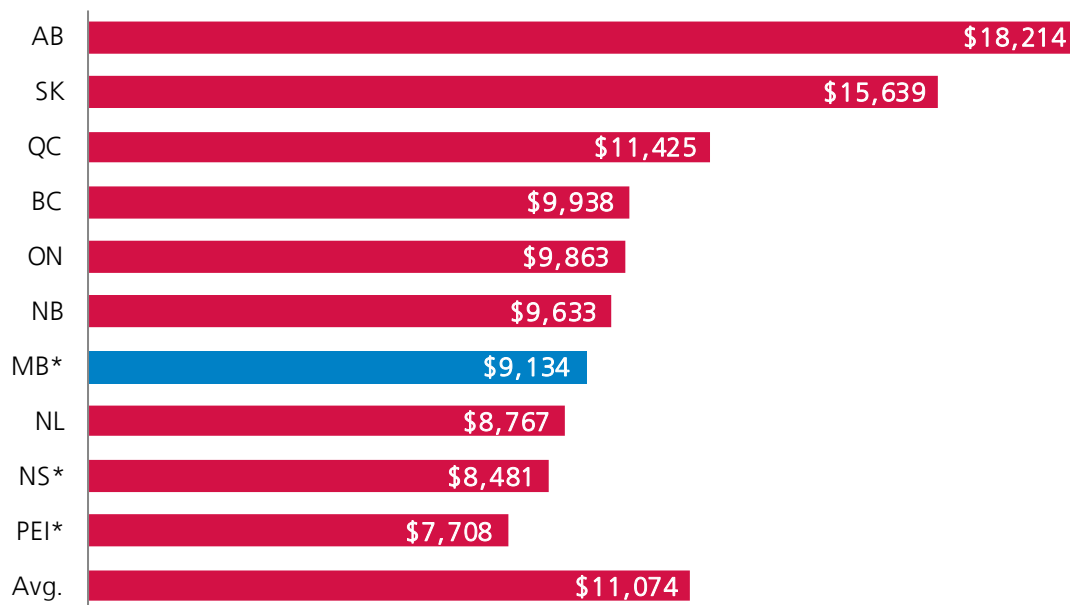
There are several policies the Manitoba government must undertake to create a competitive tax climate for Manitoba families: increase the basic personal exemption and tax bracket thresholds, index the entire personal tax system to inflation and reduce tax rates.

### *Increase Basic Personal Income Tax Exemption by \$2,000*

Manitoba's basic personal tax exemption (BPE) is the fourth lowest in Canada and \$1,940 below the provincial average BPE. (see Figure 15).

Figure 15:

### 2015 Basic personal exemptions, by province



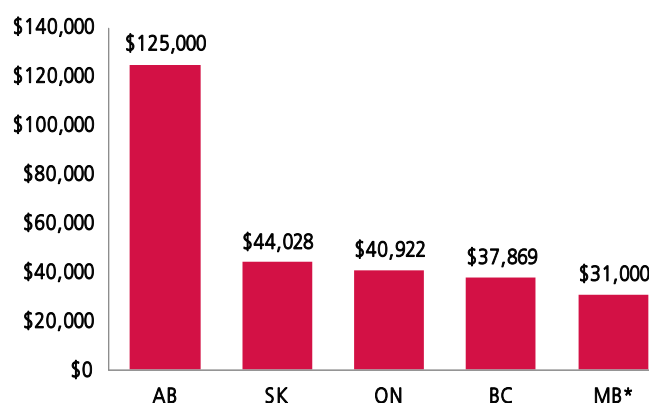
Source: Canada Revenue Agency, TD1 2015 Personal Tax Credits Return, Revenu Quebec; \* not automatically indexed to inflation. Avg. calculation does not include Manitoba.

### Increase tax brackets

Manitoba's lowest and highest tax brackets begin sooner than those in other Western provinces and Ontario (see Figures 16 and 17). Combined with relatively high rates of taxation, Manitobans pay significantly more in personal income tax.

Figure 16:

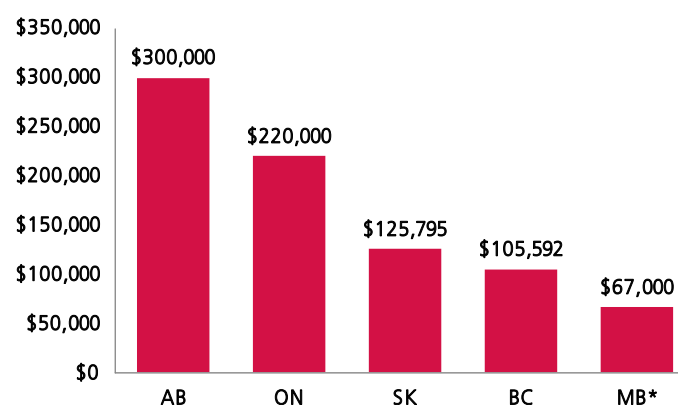
#### Lowest Tax Threshold 2015



Source: Canada Revenue Agency TD1 Forms, 2015. \* Indicates tax thresholds not indexed to inflation.

Figure 17:

#### Highest Tax Threshold 2015



Source: Canada Revenue Agency TD1 Forms, 2015. \* Indicates tax thresholds not indexed to inflation. Excludes BC's top temporary tax bracket.

### Income Tax System Indexation

As one of only three provinces (Nova Scotia and PEI being the others) that do not index tax brackets, Manitobans face a bigger tax gap every year as other provinces raise their tax brackets and the amount of their basic personal exemption by the rate of inflation. The tax burden gap will continue to widen and make Manitoba's income tax system less competitive until Manitoba's tax system becomes indexed.

In order to create a competitive personal income tax system, Manitoba must:

- ▶ Raise Manitoba's basic personal exemption by \$2,000 by 2020
- ▶ Index the personal income tax system annually to inflation
- ▶ Review all tax brackets and rates and create a long term plan to make them competitive

### Small business corporate income tax

Currently at \$450,000, Manitoba is one of only two provinces that have not set their small business corporate income tax threshold at \$500,000 (Nova Scotia is currently at \$380,000). While Manitoba has the lowest small business corporate tax rate in Canada, currently set at zero, fewer small businesses can access this rate than in other provinces given the lower threshold.

To maintain a competitive corporate income tax system Manitoba must:

- ▶ Raise the small business corporate income tax threshold to \$500,000 in 2017

## Oppose mandatory pension payroll tax increases

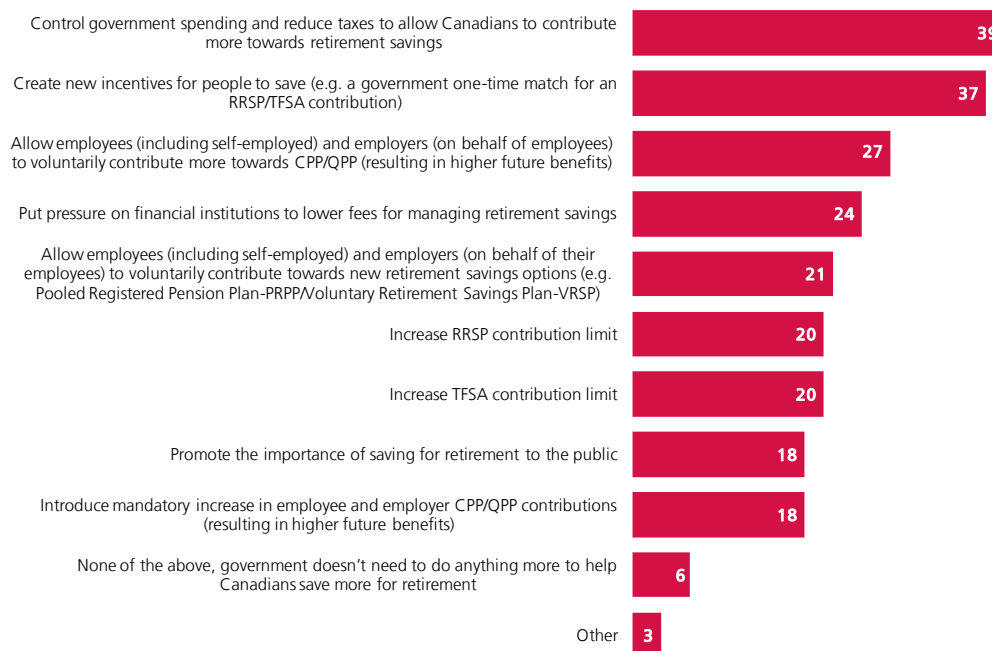
The goal of encouraging retirement saving is a laudable one for government, but it has to be done in a way that doesn't lead to less work and lower pay for Manitobans. Currently provincial governments across Canada are considering the expansion of Canada Pension Plan (CPP) benefits funded by a significant increase to mandatory CPP payroll taxes for both employees and employers.

Depending on the model chosen, workers could see their CPP payroll taxes increase by up to \$1,000 annually. An employer would see a matching increase of this amount for each employee.

Employed Canadians are clear: increasing mandatory pension payroll taxes is the least preferred method to save more for retirement (see Figure 18). The best way for government to encourage retirement savings, according to employed Canadians, is for governments to control their spending and reduce taxes. One in five employed Canadians also support provincial governments allowing small businesses to voluntarily access Pooled Registered Pension Plans.

Figure 18:

### What are the best ways for government to help Canadians save for retirement? (Select a maximum of three answers, per cent response of employed Canadians)



Source: Ipsos-Reid poll for CFIB, July 2015, n=1,150, +/-3.3% 19 times out of 20

To protect Manitoba's job creation, small business owners request the Manitoba government to:

- ▶ State a clear position on implementation of a mandatory CPP payroll tax increase
- ▶ Oppose any plans to increase pension payroll taxes
- ▶ Encourage additional retirement savings by introducing Pooled Registered Pension Plan legislation

## Priority #3: Create Regulatory Accountability

CFIB's latest [Canada Red Tape Report](#) reveals Manitoba small- and medium-sized businesses spend \$1.2 billion complying with regulations from all levels of government. This is a 20 per cent increase from 2012 when the CFIB last calculated the cost of regulatory compliance. Of this total regulatory burden, Manitoba entrepreneurs indicate nearly 30 per cent, or \$400 million, is red tape that could be eliminated with no negative effect on health and safety or environmental standards.

In Manitoba, CFIB members cite PST regulations and WCB concerns as the most frustrating regulations (see Figure 19).

Figure 19:

### Most Burdensome Provincial Regulations (per cent response)



Source: CFIB Survey on Regulation and Paper Burden, July 2014. Manitoba respondents (n=308)

Many provinces, municipalities and the federal government are addressing red tape. In this regard, Manitoba currently has a grade of “F” in CFIB's [Provincial Red Tape Report Card](#).

To improve regulatory accountability and reduce the cost of red tape on small businesses and consumers, entrepreneurs ask all political parties to:

- ▶ Legislate red tape accountability which requires annual measurement and public reporting of the regulatory burden affecting small businesses
- ▶ Set a red tape reduction target, ideally 30 per cent

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## Recommendations

While far from an exhaustive list of the policy changes needed to create a competitive small business climate, the following recommendations highlight the immediate actions required to ensure Manitoba does not become more uncompetitive in the coming years.

### Fix the Fiscal Fundamentals:

- ▶ Limit spending increases to no more than the rate of inflation and population growth
- ▶ Balance the budget as soon as possible, without tax increases
- ▶ Put forth a credible plan to begin reducing the provincial debt
- ▶ Reduce the size of the civil service, through attrition
- ▶ Narrow the 19.5 per cent wage and benefit disparity between public and private sector workers
- ▶ Publically commit to holding a referendum before raising personal income tax rates or the PST
- ▶ Restore the Balanced Budget, Fiscal Management & Taxpayer Accountability Act
- ▶ Reject calls for additional taxing powers for municipalities

### Create a Competitive Tax Environment:

- ▶ Lower the PST to 7 per cent far sooner than the legislated 2023
- ▶ Raise Manitoba's basic personal exemption by \$2,000 by 2020
- ▶ Index the personal income tax system annually to inflation
- ▶ Review all tax brackets and rates and create a long term plan to make them competitive
- ▶ Raise the small business corporate income tax threshold to \$500,000 in 2017
- ▶ State a clear position on implementation of a mandatory CPP payroll tax increase
- ▶ Oppose any plans to increase pension payroll taxes
- ▶ Encourage additional retirement savings by introducing Pooled Registered Pension Plan legislation

### Cut Red Tape:

- ▶ Legislate red tape accountability, which requires annual measurement and public reporting of the regulatory burden affecting small businesses
- ▶ Set a red tape reduction target, ideally 30 per cent