CANADIAN FEDERATION OF INDEPENDENT BUSINESS

January 19, 2018

Keeping Ontario's Small Businesses Competitive

2018 Pre-Budget Submission

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Introduction

On behalf of our 42,000 small- and medium-sized business members in Ontario, we welcome the opportunity to comment on the provincial government's upcoming budget.

Ontario's small- and medium-sized businesses are a key contributor to the strength and success of the provincial economy, employing 87.3 per cent of Ontarians in the private sector, and acting as an important cornerstone in local communities.

Last year marked an exceptionally difficult year for small business owners in the province. In addition to looming increases in Employment Insurance (EI) and Canada Pension Plan (CPP) payments at the federal level, out-of-control hydro costs were crippling businesses across the province.

Then, with no previous consultation or warning, the government introduced its $15 minimum wage plan and the most radical overhaul to employment standards and labour legislation in the past two decades.

Despite consistent warnings of job losses and severe, negative consequences from CFIB, business owners and business groups across the province, TD Bank, Financial Accountability Officer and Bank of Canada, the government plowed forward with the plan.

Small businesses are calling for the 2018 Budget to include measures to adequately mitigate the drastic cost increases they face as a result of the sharp and sudden hike in the minimum wage and sweeping changes to employment standards policies. Small businesses are also seeking measures to address their ongoing energy concerns, without putting even greater pressure on their financial bottom line.

Given the important role small businesses play in the economy, government policy decisions must better reflect the needs of our province's job creators, kindling a more business-friendly climate.

Summary of Recommendations

MINIMUM WAGE MITIGATION

- **Develop a plan to reduce the small business tax rate from 3.5 per cent to 0 per cent.** The government took a step in the right direction when they reduced the provincial small business tax rate from 4.5 per cent to 3.5 per cent in last year's fall economic update. We are calling on the Ontario government to continue down that path and reduce the small business tax rate to 0 per cent, as the provincial government has done in Manitoba.
- **Reduce the provincial general corporate income tax rate from 11.5 per cent to 10 per cent**, as promised in the government's 2013 campaign platform.
- **Increase the small business corporate income tax rate threshold from $500,000 to $750,000 and index it to inflation thereafter.**
- **Reduce the Employer Health Tax rate.**
- **Reduce the Business Education Tax rate.**

ENERGY COSTS

- **Eliminate Time-of-Use pricing for small businesses.** The vast majority of small businesses are unable to adjust the timing of their energy consumption and are penalized for operating during regular business hours. The Time-of-Use pricing model should be abandoned in favour of a model that addresses usage, instead of the time of day, such as a tiered-rate system, **<u>or</u>** a "**pick your peak**" model to provide flexibility and choice around business consumption needs.
- **Require the Global Adjustment fee to be visible and explained on all bills** to inform Ontarians of exactly what they are paying for in their hydro bills.
- **Reassess all planned new energy generation that has yet to be undertaken** to determine whether the energy is needed in an effort to keep system costs down.
- **Better manage the supply and demand of energy.** Given increased conservation, excess supply and rapidly aging infrastructure, the government must find a way to better manage supply and demand so that small businesses and Ontarians more broadly are not paying other jurisdictions to take excess electricity.
- **The Ministry of Energy should work with small businesses and local distribution companies to determine the average monthly costs of electric vehicle (EV) charging at businesses during on-peak hours.**
- **The Ministry of Energy should determine the cost of charging EVs at residences and businesses and provide an updated per household and per business cost estimate forecast to Ontarians by the end of 2018.**

GOVERNMENT SPENDING

- **Implement a clear plan and timelines to reduce Ontario's growing debt, and maintain future balanced budgets with restrained and prudent government spending.**

RED TAPE

- **In addition to calculating red tape savings, determine the overall cost of provincial regulations and place a hard cap on the cost of rules in the system.**
- **Create a common corporate registry, with provisions for information-sharing between provinces, to eliminate the need to register a business multiple times.**
- **Align regulations for wide-load transportation with other provinces to eliminate cases where inches of difference can cost thousands of dollars.**
- **Broaden mutual recognition of trade and professional certifications, so elevator technicians and dental hygienists, for example, are permitted to work in different provinces without having to get recertified.**
- **Work with the Ontario College of Trades to reduce the journeyperson-to-apprentice ratios to increase access to apprenticeship training.**

WORKERS' COMPENSATION

- **Repeal or amend mandatory Workplace Safety and Insurance Board (WSIB) coverage for owners, directors and independent operators in the construction sector (Bill 119).** This measure has done nothing to target the underground economy or improve workplace safety. Bill 119 needs to be either repealed or amended to exclude businesses that already have 24/7 private insurance coverage.
- **Introduce legislation to eliminate the 72-month lock-in provision.** Amend the Workplace Safety and Insurance Act to allow the WSIB to reopen cases after the 72-month deadline where there is noted improvement in work-related injuries. This would reduce the financial pressure on the WSIB, while ensuring that those who really need the help get it.

CRAFT DISTILLERS

- **Broaden access by Ontario's craft distillers to LCBO stores**, so they may compete fairly for shelf space with other larger distillers. Let the consumer decide which distilled products they prefer, not the LCBO.

CAP AND TRADE

- **Create a clear communications plan** under which small- and medium-sized businesses will be made fully aware of and understand their obligations, if any, under the program.
- **Clearly and transparently communicate measurements on targets** (e.g. explain CO_2 emission amounts in simple terms).
- **Commit to annual, independent value-for-money audits of all cap and trade-related programs.**

AGRI-BUSINESS

- **Maintain Employment Standards Act (ESA) and Labour Relations Act (LRA) exemptions in agriculture:** Existing ESA and LRA exemptions for farmers should be kept to reflect the seasonal nature and fluctuating work demand in agriculture.
- **Take further action to eliminate stray voltage on Ontario farms.** Many of the province's farmers and their livestock are adversely affected by stray voltage, and the provincial government has yet to acknowledge the severity of this issue and adequately address it.
- **Assist Ontario agri-business owners with succession planning.** Address the competitive challenges in the agricultural sector by introducing policies and initiatives that encourage farmers to plan for succession and attract youth to the sector.

EDUCATION

- **Create a dedicated, mandatory, full-semester financial literacy course for the Ontario high school curriculum.**

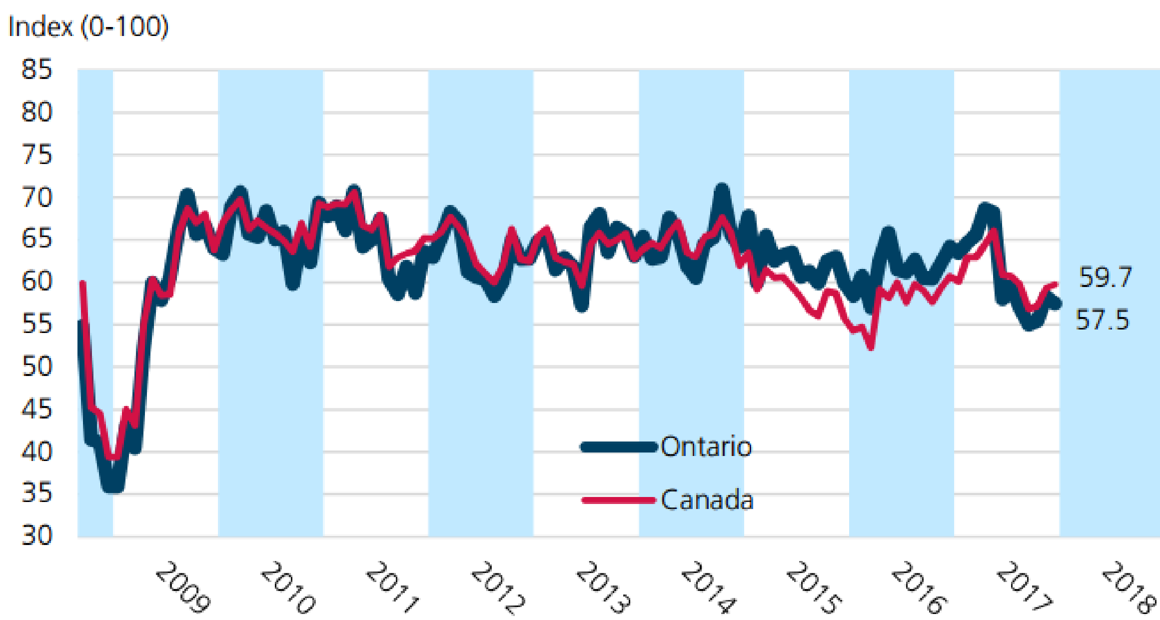
HIGH-SPEED RAIL

- **Hold public consultations with local land owners** who will be impacted by the construction and use of the proposed high-speed rail network in south-western Ontario.

Current State of Ontario SMEs (CFIB's Business Barometer®

CFIB has been tracking business confidence on a monthly basis for a number of years and our Business Barometer® Index has proven to be a very accurate predicter of SME business performance. Tracked against GDP, the Business Barometer® index closely reflects the state of the economy. Measured on a scale between 0 and 100, an index level above 50 means owners expecting their business performance to be stronger over the next year outnumber those expecting weaker performance. According to past results, index levels normally range between 65 and 75 when the economy is growing. Ontario's index was well below the healthy mark for the entire second half of 2017, and has dipped below the Canadian average.

Figure 1: CFIB Business Barometer® Index – December 2017



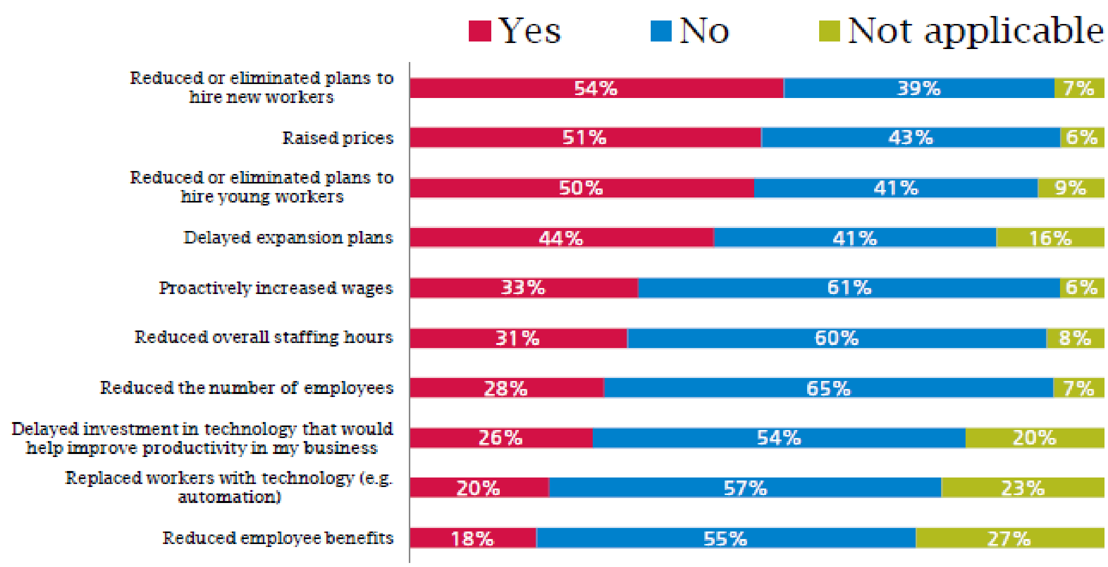
Source: CFIB, Business Barometer®, December 2017, based on 321 responses

The first half of 2017 was dominated by concerns over high energy costs and uncertainty around the pending final report of the *Changing Workplaces Review*. Those concerns took a backseat during the second half of the year after the government made their out-of-the-blue announcement to increase the minimum wage by an unprecedented 32 per cent over the following 18 months. The announcement is well marked in CFIB's 2017 Business Barometer®, as small business confidence dropped 10 points between May and June, from 68.2 to 58.0, and it never recovered (Figure 1).

Minimum Wage and Employment Standards Changes

The government's $15 minimum wage announcement in late May was by far the top concern for Ontario's small business owners in 2017. The first major increase to $14 marked a 23 per cent jump in the minimum wage in just three months – an impossible additional cost for small businesses to bear within such a short timeframe, without significant adjustments.

Have you already made any of the following changes to prepare for Ontario's increase in the minimum wage to $15 per hour?



Source: CFIB, Ontario Minimum Wage Survey, December 7-19, 2017, preliminary results, n=2,906.

To meet payroll, many small business owners have been forced to make difficult choices (see graphic above) and have taken a number of steps to find money elsewhere in their operations. For example, some have reduced or eliminated plans to fill new positions, raised prices, delayed expansion plans, and reduced positions and employee hours.

Small business owners are also deeply concerned about the government's education by enforcement approach to the sweeping labour changes beyond the minimum wage. The Ministry of Labour's customer service level has dropped significantly since the beginning of the year, which is when most of the numerous changes took effect. At the same time, the government has become increasingly vocal about ramping up enforcement and going after employers with an additional 175 employment standards officers.

Mitigation

While the government has taken some positive steps in reducing the small business tax rate to 3.5 per cent and introducing hiring incentives for young persons, small business owners are still waiting for a comprehensive mitigation package to help offset the significant costs of the government's "Fair Workplaces, Better Jobs Act", which also includes sweeping reforms to Ontario's Employment Standards and Labour Relations acts.

Recommendations

- **Develop a plan to reduce the small business tax rate from 3.5 per cent to 0 per cent.** The government took a step in the right direction when they reduced the provincial small business tax rate from 4.5 per cent to 3.5 per cent in last year's fall economic update. We are calling on the Ontario government to continue down that path and reduce the small business tax rate to 0 per cent, as the provincial government has done in Manitoba.

- **Reduce the provincial general corporate income tax rate from 11.5 per cent to 10 per cent**, as promised in the government's 2013 campaign platform.
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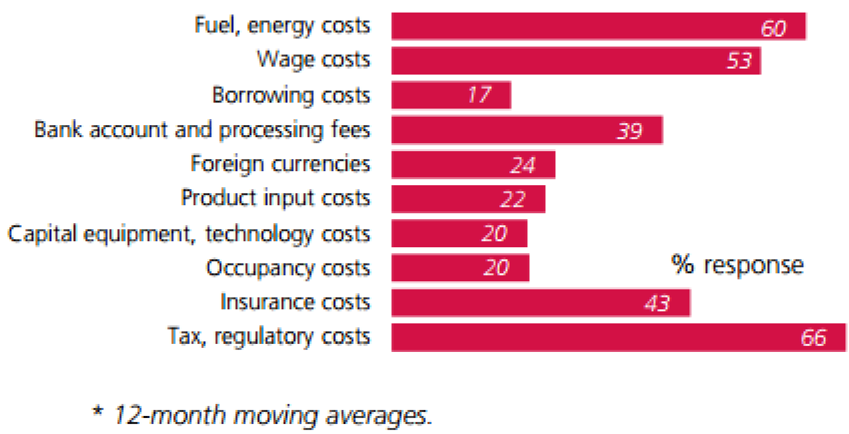
- **Reduce the Employer Health Tax rate.**
- **Reduce the Business Education Tax rate.**

Energy Costs

Despite government actions to reduce hydro costs in the short term, electricity costs remain a top issue for Ontario small business owners (Figure 3).

Figure 3: Major Cost Constraints for Ontario Small Businesses
What types of input costs are currently causing difficulties for your business? (select as many as apply) (% response)



Source: CFIB Business Barometer®, December 2017, based on 321 small business responses

Competitive electricity rates are a key component of small business success in a global economy. While the short-term relief under the government's hydro plan was necessary, the long-term energy outlook remains grim, with costs expected to increase rapidly in the next four years. It should be the priority of the provincial government to provide relief from rising energy costs that goes beyond electoral timelines.

Furthermore, businesses that are too big to qualify for the average 25 per cent reduction, and too small to qualify for the Industrial Conservation Initiative (ICI) were left with no relief. Many of these businesses are mid-sized manufacturers whose operations have continued to be crippled by high hydro costs.

The Time-of-Use (TOU) pricing structure remains one of the most detrimental energy policies to small businesses. Eighty-six per cent of small businesses have been unable to change their consumption patterns from on-peak to either mid- or off-peak hours to manage their electricity costs. They have to keep the lights on when customers demand, which is during business hours – the most expensive time of day. Small business owners view TOU pricing as simply a penalty for being open for business.

The government has committed to removing the Debt Retirement Charge (DRC) from commercial energy bills effective March 31, 2018. For some businesses, retiring the DRC would result in hundreds of dollars of savings per month. However, we remain concerned that, given the cost of the "*Fair Hydro Plan*", a similar charge under a new name could take its place.

Ontarians have paid a steep price for bad planning and poor political decision-making in the energy sector. During the *Long–Term Energy Plan* consultations, stakeholders overwhelmingly called for taking politics out of the equation and removing political decision-makers from the energy process. Such a move would help to ensure that energy decisions, including supply mix, are based on facts and made by industry experts, instead of elected officials with political agendas.

Small businesses continue to report difficulty in understanding the charges on their hydro bills. Transparency in billing is still lacking, especially when it comes to "hidden" fees like the Global Adjustment. We encourage government to mandate that all charges be included and explained on all hydro bills.

Government halted most planned new energy generation and is moving towards a competitive market for future generation – a positive step towards a "consumer first" approach. We are hopeful that this move will help the government better manage its supply and demand issues to prevent the practice of paying other jurisdictions to take on our excess power, or selling our excess power at a loss.

Electric Vehicles

Ontario's *Long–Term Energy Plan* (LTEP) forecasts little change in the energy supply, largely thanks to the belief that the electrification of the economy will increase. The LTEP outlook projects 2.4 million electric vehicles (EVs) on the road by 2035 – up from 7,000 as of June, 2016 – representing less than one per cent of all vehicles in the province.

While there is continuing debate within government, the public and the auto industry about the reality of meeting such an ambitious target, of more immediate concern to the small business community is that the LTEP supply projections account for 2.4 million EVs on the road, but its cost projections do not account for the cost to residents or businesses for charging those vehicles. This likely means that the LTEP cost projections are misleadingly low.

It is highly likely that a shift towards EV usage would also come with a behavioural shift in transportation and driving as a whole. While many government and industry officials are focused on creating a "gas station style" network for EV charging, it is possible that EV drivers will regard charging their cars the same way they charge their cell phones – a task to be done at home overnight and at the workplace. Because of this, it's likely that as EV usage grows, the demand for access to electricity for charging EVs at the workplace will also increase (both for employees and customers), rapidly driving up business electricity costs.

We remain concerned that the government has not taken these costs into account when forecasting provincial energy plans.

Furthermore, a substantial amount of money is transferred from the province to municipalities through gas tax revenue; government must plan for this revenue shortfall now.

Recommendations

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Government Spending

Small business owners remain concerned about government debt, which currently stands as the province's third largest expenditure behind health care and education.

At a time when Canadian household debt is among the highest in the world, it is incumbent upon the government to lead by example and take swift and concrete steps towards reducing the debt load. This is especially important, as interest rates have already risen in 2018 and are expected to increase by another 0.5 points, according to most experts.

Now that the budget has been balanced, CFIB is calling on the government to turn its focus to reining in Ontario's debt.

Recommendation

- **Implement a clear plan and timelines to reduce Ontario's growing debt, and maintain future balanced budgets with restrained and prudent government spending.**

Red Tape

Government regulation/paper burden continues to be a major concern for small businesses. In fact, close to 40 per cent of small business owners might not have gone into business if they had known about the burden of government regulation. This "hidden" tax is estimated to cost Ontario businesses billions annually. Every minute devoted to filling out excessive paperwork is a minute not spent on growing the economy and creating employment opportunities for Ontarians.

Furthermore, regulation disproportionately impacts smaller businesses, both in time and in money. On average, Ontario businesses with fewer than five employees spend $6,776 per employee in regulatory costs, taking an average of 177 hours per employee. In contrast, Ontario businesses with more than 100 employees spend $1,552 and 25 hours per employee.

The government has made some positive moves on reducing the regulatory burden in the province, most recently announcing its "$1.25 for $1.00" rule to help reduce the cost of red tape. To build on this momentum, the province should enhance the regulatory burden measurement and reporting to include the total impact of all regulatory requirements on businesses. British Columbia uses an annual Count Overview Report to summarize the change in the regulatory burden by Ministry. This report is circulated to all Cabinet Ministers and helps government understand its full regulatory impact on businesses.

Internal Trade

CFIB was pleased that the provincial and federal governments reached a deal on internal trade last year. We are now closely watching the Regulatory Reconciliation and Cooperation Table to determine how provinces will address the outstanding red tape issues on internal trade.

As a North American Free Trade Agreement deal remains uncertain, internal trade has taken on even greater importance. This year, CFIB is challenging governments to eliminate persistent cross-provincial red tape frustrations. Failure to make meaningful progress on the issues by the end of 2018 would send a clear signal to Canada's small business community that the new Canadian Free Trade Agreement is not truly an improvement over the old interprovincial trade deal.

Apprenticeship Ratios

Aside from further red tape accountability, stringent journeyperson-to-apprentice ratios in several high demand trades remain significant barriers to apprentices and small employers undertaking apprenticeship training. In fact, Ontario's ratios are currently out of touch with the rest of Canada, with some of the western provinces having eliminated ratios altogether. Moreover, the ongoing argument in support of the status quo simply does not hold, particularly when most provinces have demonstrated that it is possible to reduce ratios without compromising workplace safety. This positive measure should be even more appealing to government, since it would cost nothing to implement. It would also have widespread economic benefits, including making Ontario's businesses more competitive with those in other parts of the country.

Recommendations:

- **In addition to calculating red tape savings, determine the overall cost of provincial regulations and place a hard cap on the cost of rules in the system.**
- **Create a common corporate registry, with provisions for information sharing between provinces, to eliminate the need to register a business multiple times.**
- **Align regulations for wide-load transportation with other provinces to eliminate cases where inches of difference can cost thousands of dollars.**

- **Broaden mutual recognition of trade and professional certifications, so elevator technicians and dental hygienists, for example, are permitted to work in different provinces without having to get recertified.**
- **Work with the Ontario College of Trades to reduce the journeyperson-to-apprentice ratios to increase access to apprenticeship training.**

Workers' Compensation

The Workplace Safety and Insurance Board (WSIB) has continued to make significant progress in reducing its unfunded liability. In addition, many premium rates were reduced for a second year in a row, which is welcome news to small business owners. However, many employers are concerned about the impending WSIB rate reclassification and its potential impact on their premiums. The WSIB has committed to undergo reclassification only after the current unfunded liability is paid off. Once that happens, the WSIB should reduce rates by about 30 per cent, which is the current portion of the premium that goes into paying down the unfunded liability.

Independent operators, owners and directors of construction firms remain the odd man out, forced to carry mandatory WSIB coverage not just on their employees, but also on their own earnings. This is an additional average cost of **$6,000** per year, per firm. Contrary to its objectives, Bill 119 has not increased workplace safety and has not curbed the underground economy. Furthermore, business owners and independent operators in the sector already carry superior private insurance at a fraction of the cost – another good reason to repeal or amend this ill-advised tax increase.

Another measure to reduce WSIB system costs would be for the Ministry of Labour to eliminate the 72-month lock-in provision under the Workplace Safety and Insurance Act (WSIA). Currently, the WSIA guarantees the level of benefits paid to injured workers 72 months post-injury until the worker turns 65. If the injured worker's condition deteriorates after the 72-month mark, the WSIB can reopen the case to assess the adequacy of benefits. The same cannot be said in the case of an improvement in the worker's condition. This results in additional financial pressure on the WSIB system. Reforms to this provision were announced in 2012, but no further action has yet been taken.

Recommendations

- **Repeal or amend mandatory WSIB coverage for owners, directors and independent operators in the construction sector (Bill 119).** This measure has done nothing to target the underground economy or improve workplace safety. Bill 119 needs to be either repealed or amended to exclude businesses that already have 24/7 private insurance coverage.
- **Introduce legislation to eliminate the 72-month lock-in provision.** Amend the WSIA to allow the WSIB to reopen cases after the 72-month deadline where there is noted improvement in work-related injuries. This would reduce the financial pressure on the WSIB, while ensuring that those who really need the help get it.

Craft Distillers

The Liquor Control Board of Ontario's (LCBO) current system clearly favours the big brands. For example, the LCBO's Small Distiller Program limits the products of Ontario craft distilleries to the shelves of only 25 stores, and puts the onus on the distillery to market, sell and deliver to each store manager independently. In its "Spirits Brand Domination 2017 Package", the LCBO offered craft distilleries an opportunity to "make a splash" for only one month in 100 LCBO stores, provided that they generate $20 million in annual sales and pay a $250,000 fee.

Recommendation

- Broaden access by Ontario's craft distillers to LCBO stores, so they may compete fairly for shelf space with other larger distillers. Let the consumer decide which distilled products they prefer, not the LCBO.

Cap and Trade

While it's still too early to assess the full impact of the cap and trade program on small businesses beyond increases to heating and fuel costs, Ontario's small business community remains concerned about the potential longer-term cost impacts of the program.

When asked about the impacts of a hypothetical "carbon pricing mechanism", small business owners reported likely increases in operating costs, delayed investments, and increased pressure to freeze or cut salaries.

Furthermore, a pattern of concern has emerged in CFIB's membership. Many small business owners do not understand their obligations – or know if they have any – under the program. As CFIB continues to monitor other impacts of the program, we encourage the government to do more to reach out to the small business community to ensure that obligations are fully understood.

Recommendations:

- Create a clear communications plan under which small- and medium-sized businesses will be made fully aware of and understand their obligations, if any, under the program.
- Clearly and transparently communicate measurements on targets (e.g. explain CO_2 emission amounts in simple terms).
- Commit to annual, independent value-for-money audits of all cap and trade-related programs.

Agri-business

In 2013, the Premier challenged agri-businesses to double their annual growth rate by creating 120,000 new jobs by 2020, but little has been done by the province to help this important sector achieve this goal. In particular, CFIB agri-members identify four main priority areas for the government to address:

Employment standards and labour relations exemptions for agriculture: Ontario currently provides farmers with certain exemptions under the Employment Standards Act (ESA) and Labour Relations Act (LRA) to better reflect the realities of farming. Agriculture is seasonal, has periods of peak production (e.g. harvest, calving season), and is often limited by weather restrictions. It is not a 9-to-5 operation. For all of those reasons, agri-businesses should continue to benefit from the exemptions currently in place. Removing ESA and LRA exemptions would have a devastating effect on farmers in Ontario by deterring investment and growth.

Stray voltage: Ontario farmers continue to report incidents of their livestock developing a variety of health problems and even dying due to prolonged exposure to the electrical current in the ground, also known as stray voltage. The province recognized the problem in 2009 by making changes that required local distribution companies to conduct an investigation, but no other significant measures have since been taken by the government to address this issue. Given that other jurisdictions like California have put measures in place to mitigate the effects of stray voltage (General Order 95, Rule 33.2), Ontario should follow suit in addressing this serious, but preventable problem.

Succession planning: The provincial government has an opportunity to provide leadership in helping agri-business owners with succession planning, especially by encouraging farmers to plan early for retirement and by focusing on attracting youth to the sector. Ag-education in the high school curriculum would help younger generations better understand the employment and business ownership opportunities available to them.

Recommendations

- **Maintain ESA and LRA exemptions in agriculture:** Existing ESA and LRA exemptions for farmers should be kept to reflect the seasonal nature and fluctuating work demand in agriculture.
- **Take further action to eliminate stray voltage on Ontario farms.** Many of the province's farmers and their livestock are adversely affected by stray voltage, and the provincial government has yet to acknowledge the severity of this issue and adequately address it.
- **Assist Ontario agri-business owners with succession planning.** Address the competitive challenges in the agricultural sector by introducing policies and initiatives that encourage farmers to plan for succession and attract youth to the sector.