

The Cost of Government Regulation on Canadian Businesses

Queenie Wong, Senior Research Analyst

Regulation from all levels of government cost Canadian businesses \$36 billion in 2017, with red tape accounting for \$10 billion of that total. The cost of regulation on businesses in 2017 is stable relative to previous years but remains high. Small businesses (with fewer than 5 employees) face the highest cost on a per employee basis – 5 times higher than larger businesses (with 100 employees or more).

Introduction

Since 2005, CFIB has estimated the cost of regulation from all three levels of government (federal, provincial, municipal) on Canadian businesses of all sizes.¹ This snapshot provides an update to the cost of regulation on Canadian businesses and highlights the effect on small business growth and productivity.

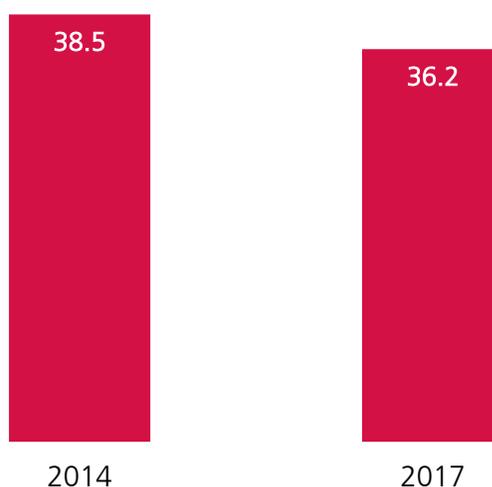
¹ Cost estimates were provided in 2005, 2008, 2012 and 2014, and the methodology has remained largely the same to allow for comparisons to previous years.

Cost of Government Regulation on Canadian Businesses

Government regulation and paperburden is the third most important issue for small businesses, after total tax burden and government debt/deficit.² Small business owners are highly concerned with this issue given the significant amount of time and money they spend to comply with government regulations. The overall government regulatory burden on Canadian businesses is estimated at \$36 billion in 2017.³ When compared to 2014, regulatory costs remain persistently high (see Figure 1). This remains true when compared to estimates from previous years.⁴

Figure 1:

**Total annual cost of regulation to Canadian businesses
(in billion 2017 dollars)**



Sources: Calculations based on CFIB's *Regulation and Paperburden Surveys* (conducted in 2017, n = 7,823; and 2014, n=8,867).

² CFIB, *Our Members' Opinions No. 80*, January to June 2017, n = 14,916.

³ For the total cost of regulation by province, see Appendix A, Table A1.

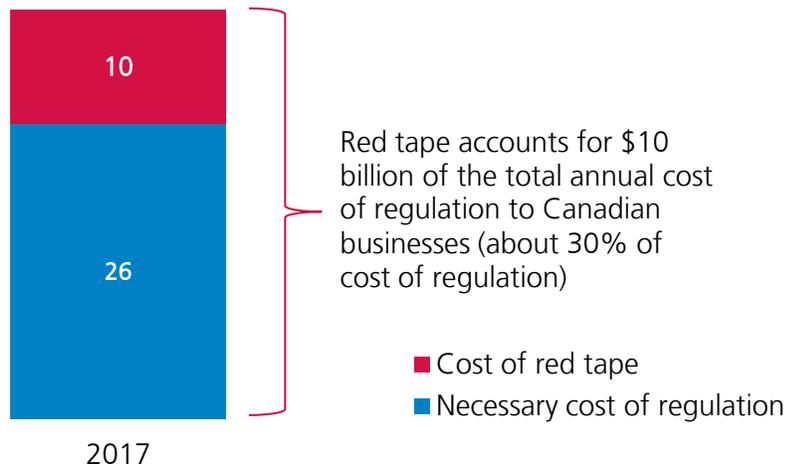
⁴ After adjusting for inflation, government regulation cost Canadian businesses \$35 billion in both 2005 and 2008, and \$33 billion in 2012.

Government Red Tape Costs on Canadian Businesses

Red tape includes excessive government regulation (i.e. unfair, overly costly, poorly designed, or contradictory rules and regulations) and poor government customer service. For instance, an excessively long government form or an unnecessary government permit would be considered red tape. According to business owners, red tape accounts for approximately 30 per cent of the total cost of regulation.⁵ Out of the \$36 billion in the total annual cost of regulation, red tape accounts for \$10 billion (see Figure 2).

Figure 2:

Cost of red tape for Canadian businesses (in billion 2017 dollars)



Source: Calculations based on CFIB's *Regulation and Paperburden Survey, 2017*, n = 7,823

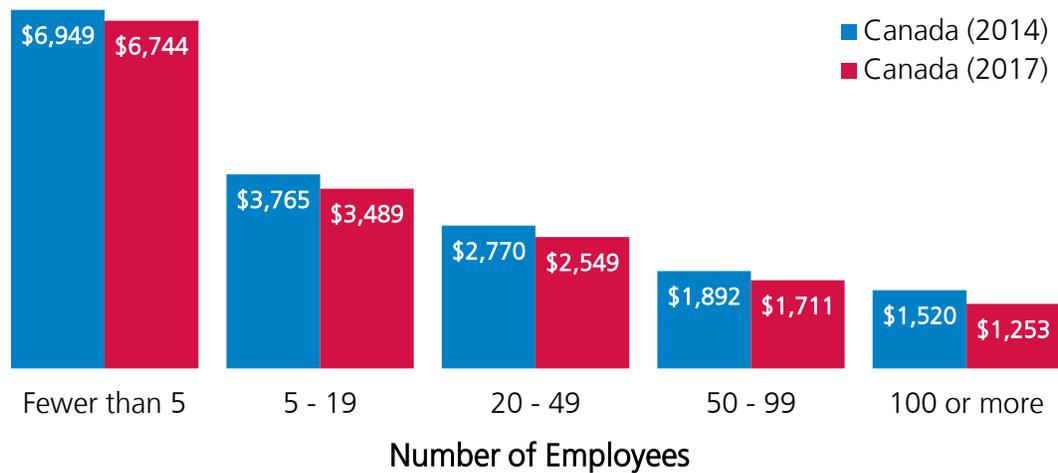
Regulation is More Burdensome for Small Businesses

Small businesses face significantly higher annual costs than large businesses on a per employee basis to comply with government regulations (see Figure 3). The cost of government regulation per employee for businesses with fewer than 5 employees is \$6,744 in 2017, which is over 5 times higher than the cost for businesses with 100 or more employees (\$1,253). Comparisons between 2014 and 2017 reveal little change in the cost of regulation per employee by size of business.

⁵ CFIB, *Regulation and Paperburden Survey, 2017*, n = 7,823.

Figure 3:

Average annual regulation cost per employee, by size of business (in 2017 dollars)



Note: The number of employees includes the business owner.

Sources: Calculations based on CFIB's *Regulation and Paperburden Surveys* (conducted in 2017, n = 7,823; and 2014, n=8,867).

Breakdown of Regulation Costs per Employee

The annual cost of regulation on businesses includes the cost in wages, professional fees (e.g. accountant fees), required spending on special equipment and renovations, and losses due to regulation delays.

Wage costs include time that business owners and employees take to comply with government regulations (e.g. filling out forms). On a per employee basis, wage costs represent the largest component of government regulation costs for small businesses (see Figure 4). For example, wage costs for businesses with fewer than 5 employees account for \$4,520 out of the total regulation cost per employee (i.e. \$6,744).

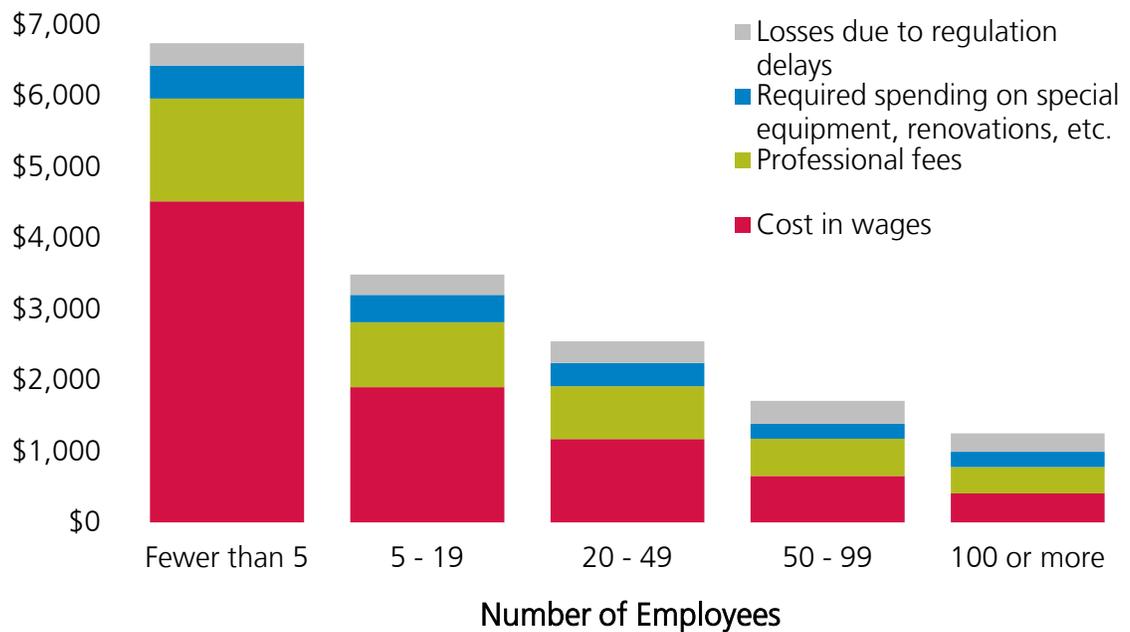
Wage costs incurred to deal with regulatory compliance vary by size of business. In particular, wage costs make up two thirds of the per employee costs for the smallest businesses (fewer than 5 employees), but only one third for larger businesses (100 or more employees).

The second largest component of per employee regulatory costs for small businesses is professional fees (e.g. accountant fees). Spending on professional fees per employee decreases as the size of business increases.

Losses due to regulation delays (e.g. late issuance of a government permit) as well as required spending to comply with government regulations (e.g. renovations required after a government inspection) were relatively stable across business sizes.

Figure 4:

Breakdown of regulation cost per employee, by size of business (in 2017 dollars)



Note: The number of employees includes the business owner.

Sources: Calculations based on CFIB's *Survey on Regulation and Paperburden* (conducted in 2017, n = 7,823) and data from Statistics Canada.

Time Spent on Government Regulation

Small businesses also spend more time complying with government regulation per employee than large businesses. In 2017, businesses with fewer than 5 employees spent 178 hours per employee complying with government regulation, while those with 100 or more employees only spent 20 hours per employee (see Figure 5). To illustrate, a business with 4 employees would spend 713 hours a year complying with government regulation.⁶ Given that wage costs represent the largest regulatory cost component for small businesses, government initiatives to reduce time spent on compliance (e.g. shorter, simpler forms) could go a long way in reducing the regulatory costs on small businesses.

The time spent per employee decreased slightly for businesses with fewer than 100 employees between 2014 and 2017 but remains high. Time spent to comply with government regulations is a major irritant for small businesses. Business owners work longer hours than the typical employee⁷ and have many responsibilities. When

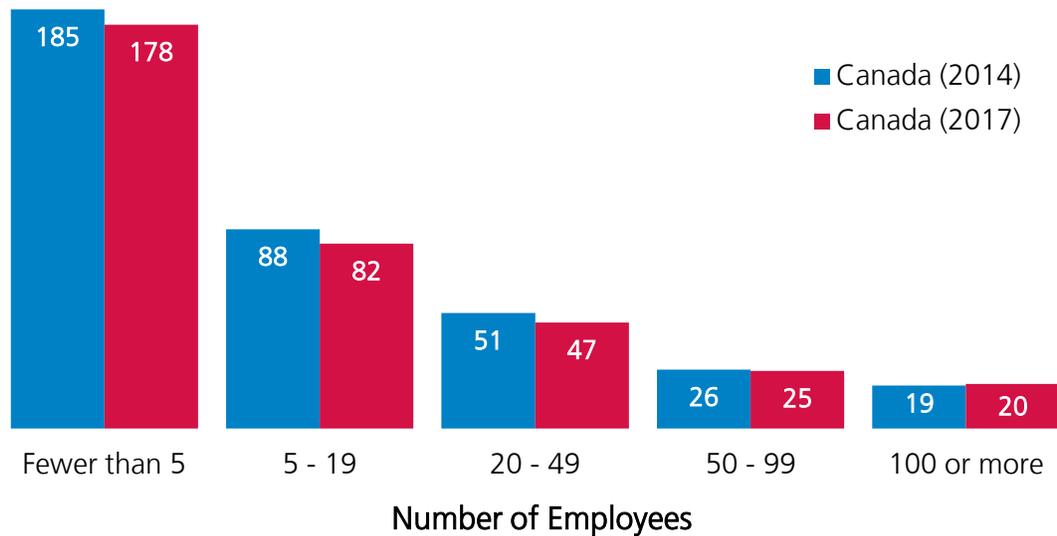
⁶ In 2017 a business with 4 employees spent 713 hours per employee complying with government regulation.

⁷ Statistics Canada Labour Force Survey data (CANSIM 282-0028) from 2017 shows that business owners work more hours per week than employees.

they are taken away from their work to deal with government regulations, they have less time to grow their business, serve customers and train employees.

Figure 5:

Average annual hours spent on regulation per employee, by size of business



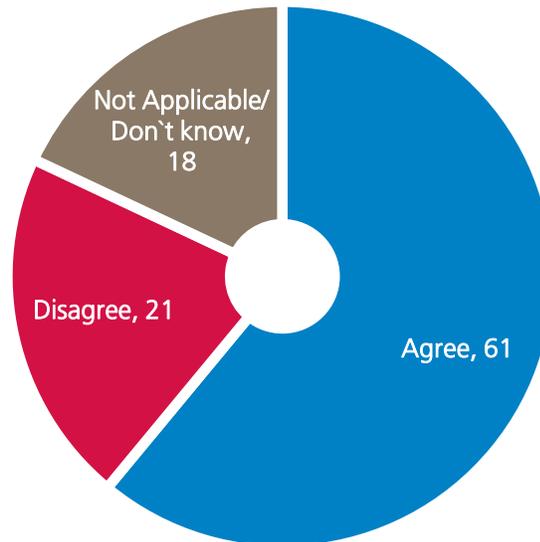
Sources: Calculations based on CFIB's *Regulation and Paperburden Surveys* (conducted in 2017, n = 7,823; and 2014, n=8,867).

Note: The number of employees includes the business owner.

Red Tape Hurts Small Business Growth and Productivity

Having to spend time and money to comply with government regulations and deal with government red tape impedes small business growth. About 3 in 5 small business owners felt that excessive government regulations discouraged them from growing their business (see Figure 6).

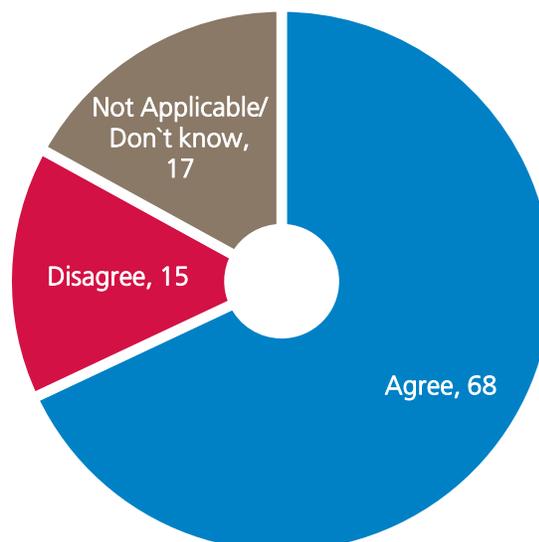
Figure 6:

Excessive government regulations discourage me from growing my business (% response)

Source: CFIB, *Regulation and Paperburden Survey*, 2017, n = 7,823

Over two thirds of small business owners feel that excessive government regulations significantly reduce productivity in their business (see Figure 7). Red tape limits productivity as business owners have less money to invest in their business (e.g. new equipment, software) and less time to manage their business. Also, employees could be spending their time in the operations of the business instead of spending time complying with excessive government regulations.

Figure 7:

Excessive government regulations significantly reduce productivity in my business (% response)

Source: CFIB, *Regulation and Paperburden Survey*, 2017, n = 7,823

Conclusion and Recommendations

The cost of government regulation on Canadian businesses stands at \$36 billion in 2017, an amount that has remained relatively stable when compared to previous years. This demonstrates that government regulation and paperburden is still a large concern for small businesses. Red tape reduction is an effective measure that can stimulate business growth, support job creation, and spur productivity in today's economy. Steps taken to reduce the overall government regulatory burden can give small businesses more time and money that can be reinvested back in to the business.

CFIB recommends the following measures for all levels of government in reducing red tape for small businesses.

1. Measure the regulatory burden
2. Institutionalize the measure by reporting it regularly to the public
3. Impose constraints on regulators
4. Make regulatory accountability a political priority and appoint a minister responsible
5. Ensure adequate communication of existing and proposed regulation
6. Focus on areas that will be most economically productive
7. Carefully consider the need for all new regulation and the impact on small business
8. Keep compliance flexible and provide basic examples and guidelines for what constitutes compliance and non-compliance
9. Improve government customer service
10. Improve accountability for regulators by instituting such measures as reverse onus guidelines for timeliness and communication

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Appendix A – Total Cost of Regulation by Province

Table A1 – Total cost of regulation by province, 2014 to 2017 (in million 2017 dollars)

	2014		2017	
<i>British Columbia</i>	\$	5,369	\$	5,327
<i>Alberta</i>	\$	4,793	\$	4,464
<i>Saskatchewan</i>	\$	1,158	\$	1,136
<i>Manitoba</i>	\$	1,266	\$	1,186
<i>Ontario</i>	\$	15,322	\$	15,084
<i>Quebec</i>	\$	8,411	\$	6,894
<i>New Brunswick</i>	\$	660	\$	661
<i>Nova Scotia</i>	\$	865	\$	808
<i>Prince Edward Island</i>	\$	139	\$	142
<i>Newfoundland and Labrador</i>	\$	517	\$	451
Canada	\$	38,500	\$	36,153

Sources: Calculations based on CFIB's *Regulation and Paperburden Surveys* (conducted in 2017, n = 7,823; and 2014, n=8,867).

Note: Prince Edward Island figures use national averages for cost components due to small sample size. Provincial figures represent the cost of regulation from all levels of government.

Appendix B – Methodology and Other Notes

The CFIB survey on regulation was conducted from June to September 2017. A total of 7,823 small- and medium-sized business owners across Canada participated, corresponding to a margin of error of 1.1 percentage points, 19 times out of 20.

In estimating Canadian regulation costs, answers from 5,838 survey responses were used after filtering and excluding outliers. The following data was captured:

- ▶ Hours spent weekly doing paperwork related to regulatory compliance and on other activities related to regulatory compliance (reading, training, verification, time spent with accountants and lawyers). These costs will be referred to as (h).
- ▶ Dollars spent annually on professional fees to ensure regulatory compliance (accountants, lawyers, consultants) and on special equipment and renovations solely to comply with regulations. These costs will be referred to as (f).
- ▶ Cost of lost sales as a result of regulatory delays or restrictions. These costs will be referred to as (s).

The Canadian regulatory cost estimate was calculated based on data from Statistics Canada's 2016 Survey of Employment, Payrolls and Hours (SEPH) which focuses on payroll administrative records (T4's). In estimating the total number of individuals employed in Canada, SEPH data was used in conjunction with the 2016 Labour Force Survey (LFS). SEPH only includes businesses with employees and incorporated self-employed individuals. To capture the unincorporated self-employed portion of the labour force (with and without paid help), data was extracted from the LFS. Although employee data is also available from the LFS, SEPH data was used over LFS data since more reliable income and employment data was available. It was also assumed that all unincorporated self-employed belonged to the first employment size category (fewer than 5 employees) as most unincorporated businesses are either sole proprietorships or partnerships.

Canadian employee hourly wage rates (w) were calculated using SEPH and LFS data. Hourly wage rates for employees in the private sector were derived based on average weekly earnings from SEPH by size of business and average actual hours worked weekly (for all jobs) from the LFS by province. SEPH data for industry sectors deemed mainly as public sector (utilities, education, health, public administration) were excluded.

The basic equation used to calculate the total annual cost of regulation for businesses in our sample is:

Hours (h) x weekly wages (w) x 52 + professional fees and required spending (f) + net cost of lost sales (s).

Total weekly hours spent on paperwork by employees and employers were assumed to be at least 1 hour a week. Weekly hours spent on paperwork per employee were assumed to be less than 30 hours a week.

Required spending amounts in the past three years were then divided by 3 to obtain annual required spending costs. Professional fees and spending on equipment were restricted to be equal to or less than \$5,000 per employee per year. Based on the CFIB survey results, 41.7% of respondents reported a minor impact (5% or less lost in weekly sales) on sales due to delays caused by regulations, while 14.3% of respondents reported a major impact on sales (6% or more lost in weekly sales), resulting in a lost sales margin of 1.9%. The net cost of lost sales due to regulatory delays was then calculated by multiplying the lost sales margin obtained from the survey results by the annual wages paid to employees of the businesses surveyed and by the 2015 “national total net profits to total wages” ratio for business enterprises obtained from *Statistics Canada’s Financial and Taxation Statistics for Enterprises* publication.

The survey sample was divided into five categories. The number of employees includes the business owner.

n_1 = Fewer than 5 employees

n_2 = 5-19 employees

n_3 = 20-49 employees

n_4 = 50-99 employees

n_5 = 100 or more employees

This allows us to estimate the cost of regulation per employee (CE) for each of the different business sizes using the following general equation:

$$CE = \sum [(h_{ij} \times w_{ij}) \times 52 + f_{ij} + s_{ij}] / \sum e_{ij}$$

where:

i = the i^{th} business from a total 5,838 cases

j = the j^{th} size category from a total of 5 categories

h_{ij} = hours spent weekly performing regulatory paperwork in business i and residing in size category j

w_{ij} = average hourly wage rate in business i and residing in size category j

f_{ij} = annual amount spent on professional fees and required spending related to compliance in business i and residing in size category j

s_{ij} = annual net cost of lost sales in business i and residing in size category j

e_{ij} = number of employees in business i and residing in size category j

To determine the total cost for all Canadian businesses, the national cost per employee for each business size (CE) was multiplied by the total number of

employed individuals in Canada belonging to that business size. Regulatory costs were aggregated across the five size categories to obtain an estimate of the total cost (TC).

$$TC = \sum (CE_j \times N_j)$$

where:

j = The j^{th} size category from a total of 5 categories

CE_j = cost of regulation per employee for size category j

N_j = total number of employees in Canada working for businesses in size category j

Provincial total regulatory costs were calculated in a similar fashion using provincial cost per employee for each business size. However, for cases where there was insufficient data (less than 20 respondents) for a business size category, the national regulatory cost per employee was used in place of the provincial cost per employee. Provincial employment figures for particular sectors were estimated due to data suppression in SEPH.

Treatment of Inflation

The total regulation cost for 2014 was converted to 2017 dollars using annual Consumer Price Index (CPI) data from Statistics Canada (CANSIM Table 326-0020). The provincial and national CPI data for 2017 was estimated using the year-to-date monthly average of CPI data available for January through June (CANSIM Table 326-0020).

Other Notes

Because provincial costs per employee and provincial employment were applied for provincial cost estimations, the provincial costs do not add up to the national cost estimate. Provincial estimates were adjusted proportionally to add up to the national cost estimate. Although the territories are not presented separately, the Northwest Territories, Nunavut, and Yukon are included in the national cost estimate.

Certainly, there exist additional costs related to complying with regulation that are difficult to quantify. Since this snapshot excludes such additional costs, the national cost estimate presented is conservative. Additional costs that are excluded in the calculation would, if included, inflate the current estimates even more. For example, costs linked to lost innovation, productivity, and economic activity as a consequence of excess and inefficient regulations are unaccounted for in this report but would contribute significantly to the burden of regulation.

RESULTS: Regulation and Paperburden

Survey method: Mail & Web Mandate 267
 Survey period: June 1 – September 19, 2017
 Tabulation date: September 22, 2017
 Total responses 7,823
 Results are statistically accurate within +/- 1.11 percentage points, 19 times out of 20.

% Response

1. Which MUNICIPAL government regulations are most burdensome to your business in terms of time and money spent on compliance? (Select as many as apply)

- 25.2 Business Licensing
- 42.4 Building and renovation permits
- 11.5 Parking by-laws
- 19.2 Garbage and recycling
- 7.7 Sewage and air emissions
- 24.9 Property assessment (can also be provincial)
- 20.9 Land use and development
- 20.9 Sign by-laws
- 53.0 Property tax & business tax (where applicable)
- 9.6 Selling to government (procurement)
- 6.4 Other (Please specify)

2. Which PROVINCIAL government regulations are most burdensome to your business in terms of time and money spent on compliance? (Select as many as apply)

- 50.6 Employment standards
- 61.7 Workers' compensation, occupational health and safety
- 32.3 Business registration, reporting requirements
- 56.9 Provincial Sales Tax, Harmonized Sales Tax
- 22.3 Other tax compliance
- 6.1 Consumer protection
- 12.0 Health permits and inspections
- 15.3 Environment (e.g. agriculture and farming, energy, waste and recycling)
- 26.2 Financial (e.g. insurance, securities, banking)
- 4.0 Liquor & tobacco
- 4.9 Food inspection and restaurant inspections (can also be municipal)
- 7.7 Selling to government (procurement)
- 4.8 Other (Please specify)

3. Which FEDERAL government regulations are most burdensome to your business in terms of time and money spent on compliance? (Select as many as apply)

- 65.9 Payroll taxes (CPP/QPP, EI)
- 41.9 Record of employment (ROE)
- 65.1 Goods and Services Tax, Harmonized Sales Tax (GST/HST)
- 63.0 Income taxes (personal and corporate)
- 17.7 Border and trade rules (e.g. exporting, importing, paperwork)
- 0.7 Fisheries
- 4.6 Agriculture
- 4.4 Immigration and citizenship (e.g. applicant processing time)
- 10.2 Environment (e.g. pollution and waste, nature, science and technology)
- 9.8 Transport
- 22.4 Business registration, reporting requirements
- 29.9 Statistics Canada (e.g. surveys)
- 6.8 Selling to government (procurement)
- 2.1 Other (Please specify)

4. How confident are you that the following levels of government are committed to reducing red tape? (Select one for each line)

	Very confident	Somewhat confident	Not very confident	Not confident at all	Don't know
Federal government	0.7	9.9	34.0	51.3	4.1
Your provincial government	0.8	9.1	30.9	55.0	4.2
Your municipal government	1.4	14.4	31.1	46.4	6.7

5. Considering all of the regulations pertaining to your business - labour, tax, health and safety, sector rules, etc. how many hours per week do you and your staff spend:

	Hours/week
a. Filling out forms and doing government-related paperwork?	
b. Ensuring that your business complies with all existing regulations: reading, training, verification, administration, time spent with accountants and lawyers?	

6. How much does your business spend annually in professional fees (accountants, lawyers, consultants) to ensure your compliance with existing regulations? (Enter \$ amount per year)

7. During the **past three years**, how much money did your business spend on special equipment, renovations, etc. solely to comply with regulations? (Enter \$ spent in past three years)

[Empty input field for question 7]

8. During the **past three years**, what impact have delays caused by regulations (e.g. permits, etc.) had on your business? (Select one answer only)

- 44.0 No impact or have not experienced any delays
- 41.7 Minor impact (5% or less lost in weekly sales)
- 14.3 Major impact (6% or more lost in weekly sales)

Question 9a. Please describe any positive and/or negative experience with regulation or regulators (inspectors, auditors, etc.). These examples are extremely helpful when meeting with government.

Note: Your experience will be considered for CFIB's annual Golden Scissors Award¹ and Paperweight Awards².

1. The *Golden Scissors Award* recognizes individuals or teams of people for their leadership in producing meaningful positive results in cutting red tape for small business.
2. The *Paperweight Awards* recognize those in government who are holding businesses back with misguided rules, hard-to-follow processes or bad customer service.

9b. Can CFIB contact you for more information on your experience with regulation or regulators? (Select one answer only)

- 39.2 Yes
- 60.8 No

10. Do you agree or disagree with the following statements? (Select one for each line)

	Agree	Disagree	Not Applicable/Don't know
Excessive government regulations discourage me from growing my business	61.0	20.9	18.1
Excessive government regulations significantly reduce productivity in my business	67.6	15.5	16.9
Excessive government regulations add significant stress to my life	77.9	12.3	9.8
The burden of government regulation is growing	85.5	5.1	9.4
Given the current burden of regulation, I would not advise my children to start a business	48.0	34.2	17.8
Too often, government has big business in mind more than small business when creating regulations	87.0	5.0	8.0
Excessive government regulations reduce investment in big projects that help the economy (e.g. natural resource projects)	68.5	6.6	24.9
Fewer and clearer rules would help my business achieve the goals of regulation (e.g. protecting the safety of workers and the environment)	85.1	3.6	11.3

11. Approximately, what percentage of your business' regulatory burden could governments reduce without sacrificing the public interest for these regulations? (Please insert approximate percentage)

Mean: 28.7%