

# ***Small business owners' views of "A Made-in-Manitoba Climate and Green Plan - Hearing from Manitobans"***

*Jonathan Alward, Director of Provincial Affairs, Manitoba*

Environmental issues are a concern for many Manitobans, small business owners included. CFIB survey results show that small business owners care about protecting the environment, and are working to implement environmentally-friendly measures in their business. However, small-and medium-sized enterprises (SMEs) want the Manitoba government to ensure policies aimed at reducing carbon emissions do not prevent entrepreneurs from being able to grow their businesses and create jobs.

Therefore, CFIB welcomes the opportunity to raise small business views regarding "*A Made-in-Manitoba Climate and Green Plan - Hearing from Manitobans.*" This submission is a follow-up to CFIB's submission: "*Small business views on Manitoba's Climate & Green Plan,*" from March, 2017, and outlines remaining concerns, outstanding questions, and areas for future collaboration.

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## **Introduction**

It is our hope the Manitoba government will pay close attention to the views of small business owners in this submission and the views outlined in CFIB's March 2017 submission, while finishing development of the 'Made-in-Manitoba Climate and Green Plan.' In doing so, the province can ensure the Plan reflects the needs to reduce future emissions, while ensuring the province's small businesses continue growing and creating jobs.

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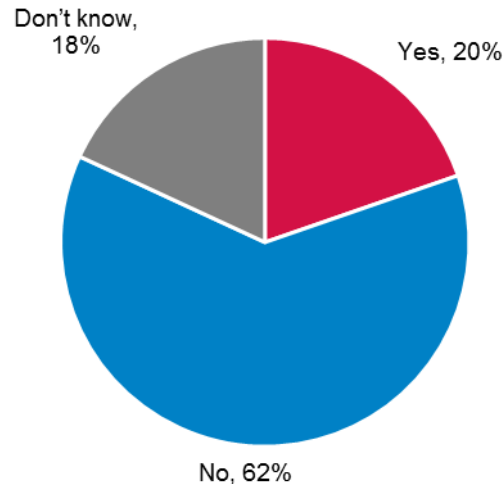
## **Manitoba small businesses remain opposed to a carbon tax**

As outlined in CFIB's submission from March 2017, Manitoba small business owners oppose the federal government's proposed carbon tax in the province. Shortly after the federal government released the basic framework for the Pan-Canadian Approach to Pricing Carbon Pollution in October 2016, CFIB surveyed Manitoba members to determine the level of support for this plan amongst small business owners. A majority (62%) opposed the federal government's carbon tax plan (see Figure 1). In

addition to this data, CFIB was contacted by many concerned members, especially by those operating in the transportation, construction, manufacturing, and farming sectors.

Figure 1:

### Do you support the federal government's proposed carbon price plan beginning in 2018 in Manitoba?



Source: CFIB, 2017-18 Manitoba Budget Survey, November 2016, n=285.

While CFIB recognizes that Manitoba's proposed carbon tax is slightly less costly over the first five year period (2018-2022), our research shows small business owners do not support the 'Made-in-Manitoba' carbon tax. Entrepreneurs have been concerned that carbon taxes would increase their costs and make them less competitive. They are also adamant there are better ways to help reduce emissions than imposing a costly carbon tax.

According to the *Business Barometer*<sup>®</sup>, Manitoba's small business optimism fell again in November to 55.3, which is below the national average and significantly below Manitoba's index of 66.9 in February, 2017, when our first submission was written. Concerns regarding the effectiveness and costs therefore remain at the forefront for Manitoba's job creators.

As outlined in CFIB's March 2017 submission, small business owners are concerned about the effectiveness of a carbon tax in Manitoba. According to CFIB research, the vast majority (89%) of small business owners were motivated to implement environmentally friendly measures in their business because of their personal views. Only 47 per cent of owners were motivated to do so for potential costs savings. Our report also found that punitive measures such as carbon taxes, additional fees or regulations, are the least effective mechanisms to encourage small businesses to implement environmentally friendly measures. Only 20 per cent of Manitoba business owners said the fear of additional government taxes and regulations would encourage them to do more for the environment.

Many members have also expressed concerns with a lack of viable alternatives to help reduce emissions and costs (e.g. electric trucks available in the trucking industry). Although technology is constantly evolving, in many cases feasible alternatives are still years away from availability. This problem is further compounded as many small business owners also sight availability of information as a barrier to reducing emissions, and a strong majority (91%) of Manitoba small business owners surveyed supported government policies that would help raise awareness on existing energy efficiency measures they can implement in their business as an approach to dealing with environmental issues.

Our research also finds that small business owners' concerns regarding the impact of increased costs from a carbon tax are significant. Seventy-five per cent of owners said it would increase their operating or input costs, 50 per cent said they would be pressured to freeze/cut salaries. A further 44 per cent would delay investments, but only 15 per cent believed a carbon pricing mechanism would create an incentive to reduce their business' carbon emissions.

Many owners are also concerned with the impacts of increasing regulations under the Manitoba Plan, and the associated costs with red tape. Over the past year, the Manitoba government has quickly become a leader on regulatory reform, but we fear several recommendations made in the Plan will increase the regulatory burden facing small business owners. These increased costs, along with other significant costs increases facing Manitoba's small business owners (e.g. CPP, Manitoba Hydro rates, federal tax changes, Employment Insurance), will decrease competitiveness between Manitoba companies and those operating internationally.

As a result, CFIB remains opposed to both the provincial and federal government's proposed carbon tax plans in Manitoba. We urge the provincial government to work to reduce emissions without imposing a carbon tax. However, if the Manitoba government proceeds with such plans despite opposition, the proceeding submission outlines our ongoing concerns, recommendations, and outstanding questions for "A Made-in-Manitoba Climate and Green Plan – Hearing from Manitobans," and the need for measures to help mitigate the negative impacts to small businesses, while working to protect the environment.

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## Small businesses face different challenges under carbon tax

While pleased that farmers will be exempt from primary costs associated with a carbon tax, we remain concerned that a high flat tax will increase the immediate burden on other small business owners and further limit their ability to adapt by investing in new technologies to reduce emissions. Importantly, if proceeding with a carbon tax, the tax must be fully revenue neutral; all funding must be returned to taxpayers through tax reductions, and small businesses must be a pillar priority for this tax relief.

Small businesses struggle far more than large firms to access financing. We know small business owners face a disproportionately high red tape burden, and we also know they are often unable to obtain the financing required to make improvements to their buildings or processes in order to improve their energy efficiency. Actions such as purchasing clean technologies, retrofitting buildings, and purchasing new equipment are significant investments and therefore difficult for small businesses to implement compared to larger firms. Many small businesses are further limited to what actions they are able to undertake as many do not own the buildings in which they operate.

Consequently, the province must recognize the impacts that Manitoba's carbon tax plan will have on small business, and that successful steps to reduce emissions will be further limited as these costs increase. Although the Plan alludes to the financing concerns raised above, we are disappointed no specific commitments are made to address the problem. The Plan commits only to explore programming and financing ideas to support households and businesses, which is further limited to only green heating options. For example, according to the Plan, currently provincial programs offering incentives or financing are limited to 'the environmental industries sector.' Furthermore, the Plan states that Efficiency Manitoba will offer new expanded home energy efficiency programs for retrofits and upgrading, but makes no such commitment to help small businesses.

CFIB agrees with the Manitoba government that capital cost allowance rules can be effective tools to help small businesses invest in technology to help reduce emissions. This past summer, CFIB recommended to the federal government that they should reintroduce a 100% Capital Cost Allowance (CCA) rate for technology purchases to help SMEs access new "clean" technologies by allowing businesses to immediately deduct up to \$100,000 in new equipment or technology in the year of purchase.

Small businesses will need significant help to address additional costs from the introduction of Manitoba's carbon tax. If the government proceeds with a carbon tax, it is essential that this need for support is addressed. CFIB agrees that reducing red tape can help improve participation rates of current programs used to help reduce emissions. Furthermore, with 4,800 small business members across Manitoba, CFIB is well positioned to help encourage program participation among small businesses.

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## **Small businesses outline spending priorities for revenue neutral model**

To limit the negative impact of a carbon tax, the Manitoba government must ensure that any carbon tax plans are fully revenue neutral. CFIB is extremely concerned that the Plan outlines no specific allocation of the \$260 million in annual revenues to help reduce the tax burden facing thousands of hard-working small business owners. CFIB has commended the Manitoba government for making several small business-friendly policy decisions during their first year-and-a-half. However, the exclusion of small business support as a pillar priority for carbon tax revenue spending seems out of step with the government's current mandate. Furthermore, the Plan highlights help for low and middle income earners as a priority; small business owners are the middle class.

Seventy-two per cent of the province's small business owners agree that all revenues generated from carbon pricing should be revenue neutral. In order to provide the government with specific feedback on this issue, CFIB surveyed its 4,800 small business members to determine how the provincial government should spend any revenues generated by a carbon tax plan. According to survey results, the majority (58%) of small business owners supported reducing the Provincial Sales Tax (PST) and reducing personal income taxes (57%). Forty-seven per cent of members supported reducing payroll taxes (The Health and Post Secondary Education Tax Levy), and 37 per cent supported increasing the small business corporate income tax threshold to \$500,000. Only 21 per cent of small business owners supported using a carbon price to increase spending on provincial programs to reduce green house gas emissions, and just 16 per cent supported using the funding to increase spending on provincial programs (e.g. healthcare, education, social programs). We therefore urge the Manitoba government to include tax relief for small businesses as a pillar priority under the proposed Plan.

Lastly, CFIB is pleased to learn that the provincial government will introduce legislation to annually release a carbon pricing and revenue report to ensure that any revenues collected from a carbon tax will be separate from general revenues and remain transparent. CFIB will hold the Manitoba government accountable to ensure that all revenues generated by a carbon tax are reinvested back in the provincial economy, unlike what has happened in British Columbia.

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## **Concerns with proposed spending priorities**

The Plan outlines several spending priorities for carbon tax revenues that would ensure the carbon tax is not revenue neutral; with all revenue collected returned to Manitoba residents and businesses through tax reductions. CFIB does not typically advocate for the government to offer subsidies to specific industries or individual companies. Instead, help should be offered to improve the overall business climate. The Plan refers to possible subsidies for energy in environmental industries, early-stage 'cleantech' technology research, development and commercialization, among others. The provincial government should focus instead on lowering the tax burden for all small businesses and provide the information and tools necessary to help all small businesses adapt and reduce emissions.

The Plan further outlines possible infrastructure investments to help the province become 'climate resilient,' invest in ecotourism, and species at risk, among others. While these goals can be justifiable investments, a carbon tax should not be used to pay for them. For example, riparian vegetation buffers to address erosion can be prudent long-term investments, but they should not be paid for through additional taxation measures. Similarly, investments to provincial parks, walking trails, and

conservation should also not be paid for through carbon tax revenues or other new tax measures. The provincial government should instead focus on finding efficiencies within government and make sound infrastructure investments that will prepare Manitoba for climate change with existing revenues only.

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## Limiting red “green” tape

The Manitoba government has placed regulatory accountability as a priority throughout government. CFIB is encouraged to see that this mindset continues throughout the Plan by committing to limit ‘green tape.’ However, several components cause concerns as they could add significant regulatory burden including: new environmental regulations; a new watershed management program (GROW Model); water quality trading; a carbon offset program; and mandatory recycling efforts to reduce the amount of organic material going into landfills. CFIB encourages the province to forgo expanding mandatory programs that will increase the regulatory burden facing entrepreneurs, and instead focus on improving information and engagement as small business owners are already motivated to reduce emissions for personal reasons.

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## Additional areas for discussion

We recognize that the Manitoba government has committed it will: “resist as detrimental and unnecessary any efforts by the federal government to impose a higher carbon price and additional carbon taxes on Manitobans before this (2022) review.” However, CFIB remains concerned that Manitoba small businesses will become less competitive relative to small businesses in several other provinces.

The Manitoba Plan states that Manitoba will have the second-lowest carbon price in Canada (presumably more costly than in Ontario and Quebec). The Plan further implies that Saskatchewan and New Brunswick, among others, will face a higher carbon price than Manitoba. However, Saskatchewan and New Brunswick have both introduced plans that will see no increases to the tax burden for small businesses (low emitters).

In Saskatchewan’s proposed plan: *Prairie Resilience: A Made-in-Saskatchewan Climate Change Strategy*, released on December 4<sup>th</sup>, 2017, the province’s strategy focuses on the principles of readiness and resilience, while reducing emissions and adapting to the effects of climate change – without imposing a costly carbon tax on small business owners and residents. In response to Saskatchewan’s climate change strategy, CFIB Saskatchewan commended the Saskatchewan government’s common-sense approach to reducing emissions, without introducing a costly carbon tax. CFIB’s Vice-President, Prairie & Agri-business said: “*This decision will provide Saskatchewan entrepreneurs with much needed certainty in this uncertain economic climate, and will help businesses stay competitive.*”

Under New Brunswick’s proposed Bill 39, the *Climate Change Act*, the province will introduce no new tax on residents or small businesses; instead redirecting existing taxes on gasoline and diesel to meet the federal government’s carbon price targets.

Given these recent developments, CFIB urges the Manitoba government to ensure that Manitoba’s small businesses do not face an increased tax burden, and instead focus on reducing emissions through targeted investments using existing revenues. In this way, the province can help mitigate the negative impacts which put Manitoba entrepreneurs at a competitive disadvantage. As New Brunswick’s Minister of Environment and Local Government stated: “*The goal is not to ask more from taxpayers; it is to ensure we are using taxation derived from fuel and industrial emissions to invest back into addressing climate change.*”

While encouraged the province is committed to reviewing any plans that proceed in 2022, our concerns remain regarding how Manitoba will proceed depending on the results of the Carbon Savings

Accounts. For example, if punitive emission reduction measures are found to be exceedingly effective in 2022, the province should reduce these punitive measures going forward. In contrast, if punitive emission reduction measures are implemented in 2018, but reduction targets have not been met by 2022, the province should not “double-down” on these policies and instead look at other, more cost effective reduction policies.

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## Remaining questions and future work

CFIB has several outstanding questions regarding: Manitoba Hydro capacity and reducing standing emissions; municipal emission reduction priorities; Efficiency Manitoba's efforts; priority projects accessible under the Low Carbon Fund; targeted training programs; and, how to improve access to technological information for the province's small business owners. CFIB would welcome an opportunity to meet with provincial government officials to discuss these important questions and any respective impacts on Manitoba's small business owners.

As we've mentioned before, it is essential that governments not only include small businesses in the conversation around issues such as emissions reductions and climate change, but also recognize the work that they are already doing to help the environment. The best way for governments to help small businesses 'go green' is to provide them with the information, tools, and the resources necessary to ensure they can continue investing in both their business and the environment.

Lastly, the Manitoba government should work with CFIB to improve access to information, available programs and new requirements to improve participation and program uptake. CFIB can play an important role to improve the effectiveness of voluntary programs in favour of imposing costly new taxation measures. To reiterate, Manitoba's small business owners are already strongly motivated to continue implementing environmentally friendly measures because of their personal views. They believe that it is possible to grow the economy and protect the environment at the same time.