

# Providing a healthy business climate or piling on costs?

## CFIB 2018 Pre-Budget Submission

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In advance of the 2018 provincial budget, the Canadian Federation of Independent Business (CFIB) is putting forward its pre-budget priorities to help Alberta's small and medium-sized businesses continue to do what they do best—create jobs, grow the economy and support local communities across the province.

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### Introduction

On behalf of CFIB and our 10,000 independent business members across Alberta, we appreciate the opportunity to present our pre-budget recommendations for the 2018 provincial budget.

CFIB is a non-partisan, non-profit, political advocacy organization with a membership comprised of over 109,000 small and medium-sized businesses (SMEs) across Canada. Our members in Alberta are located in every region of the province, with diversity in activity that closely parallels that of the provincial economy. Our members are regularly surveyed in order to determine their positions and priorities. In addition, CFIB representatives meet with virtually every single member at least once a year, providing additional opportunities to take the pulse of Alberta's dynamic small business sector.

In order to provide the Alberta Government with our priorities for the upcoming budget, CFIB surveyed over 617 small business members in February, 2018. At the time of writing, the results are still preliminary; however, with over 617 responses the sample size remains representative of the views of business owners. The preliminary results from *CFIB's Alberta Pre-budget Survey* provides the government with top-of-mind, grassroots feedback from small business owners on their priorities for the future with a specific emphasis on minimum wage, as well as feedback on certain measures in previous budgets.

This submission is organized as follows:

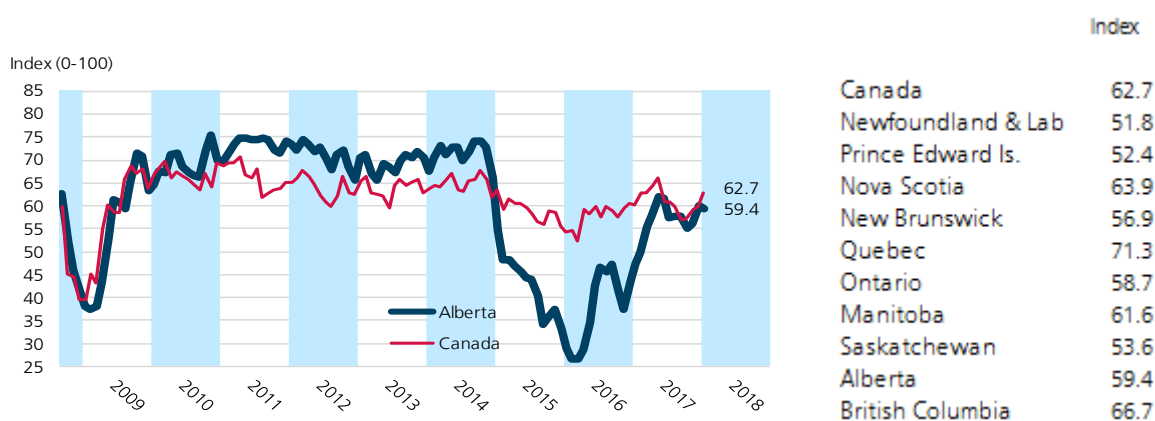
- ▶ Context on Alberta's economic status, including Alberta small businesses owners' confidence about the performance of their business and the economic climate going forward;
- ▶ Small Business priorities for Budget 2018;
- ▶ The impact of costly policies on Alberta's small businesses, and the potential harm to the economy;
- ▶ Promoting a small business friendly climate by offering valuable resources to the small business community;
- ▶ Recommendations for Budget 2018.

## CFIB Business Barometer®

CFIB's Monthly Business Barometer® is a reliable indicator of economic conditions that is regularly used by a number of financial institutions in Canada, including Bloomberg, the Bank of Canada and Scotiabank. Tracked against GDP, the Barometer index closely reflects what is currently happening more broadly in the economy. Measured on a scale between 0 and 100, an index level above 50 means owners expecting their businesses' performance to be stronger in the next year outnumber those expecting a weaker performance.

Figure 1:

### CFIB Monthly Business Barometer Index (% anticipating stronger performance)



Source: CFIB AB Business Barometer. January 2018.

Compared to last year, Alberta has improved significantly with a 12.2 lead over the January 2017 Barometer results (47.2). Despite this, small business confidence in Alberta still remains below the 65 to 75 threshold of where the economy grows at its full potential. The province places fifth in terms of optimism across the country.

#### Provincial highlights include:

- ▶ Thirteen per cent of business owners in January say they are planning to add full-time staff in the next three months, up two points over the past year. Eighteen per cent expect their workforce to shrink, down twenty-two points compared to January 2017.

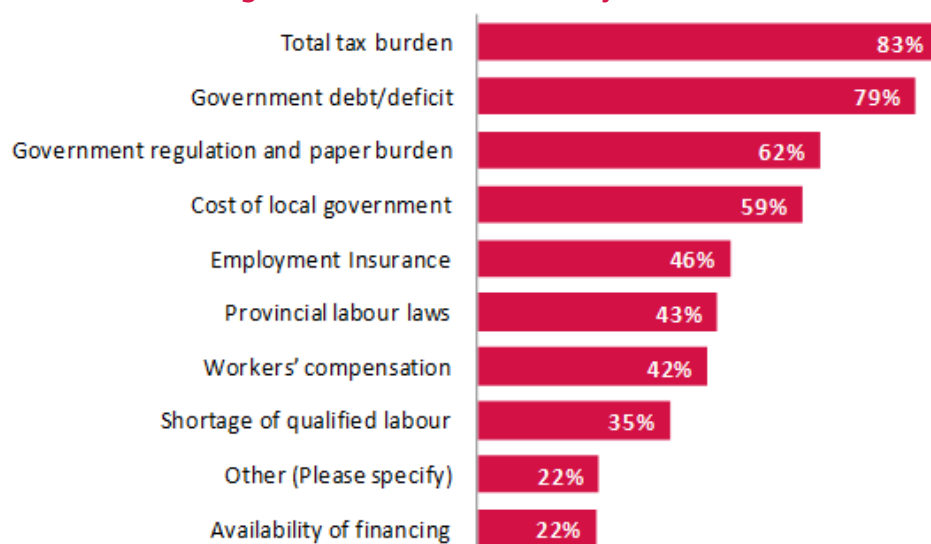
- ▶ Twenty-five of those surveyed in January described the general state of their business as 'good', up five points from January 2017. Nineteen per cent characterize it as 'bad', down thirteen points from the same month last year.
- ▶ Insufficient domestic demand continues to be the biggest challenge for small business in Alberta, with 57 per cent of business owners saying it was limiting their sales or production growth in January 2018. Shortage of skilled labour (27 per cent) was the second largest constraint.
- ▶ Taxes/regulations (73) and wages (60 per cent) were identified as the largest cost constraints facing AB small businesses.

## Small Business Priorities in Alberta

Insufficient demand for products and services has become a major concern for many Albertans (57 per cent). The difficult business cycle, coupled with the increased cost of doing business in Alberta due to policy changes makes a bad situation worse. The total tax burden on small business is the most problematic issue, with over 83 per cent flagging it as a serious concern. The other prominent concerns include government debt/deficit (79 per cent) and government regulation and paper burden (62 per cent).

Figure 2:

**Which of the following are a serious concern to your business? (Select as many as apply)**



Source: CFIB Our Members' Opinions survey. Survey period: January – June 2017, tabulated August 2017. n=1722.

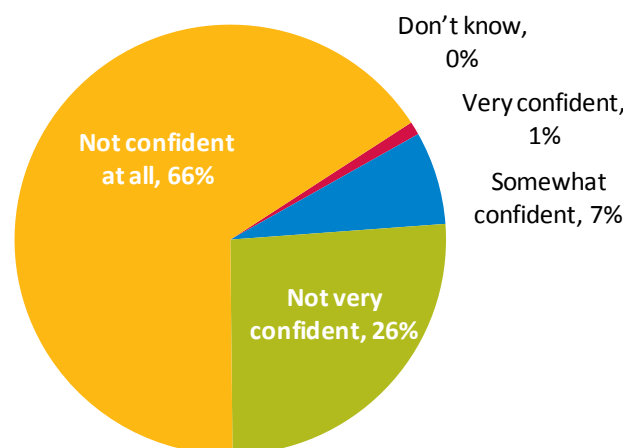
To reduce the growing concern in these high priority issues, it is crucial that the provincial government view all policy through a small business lens. As you know, small businesses account for 95 per cent of all Alberta businesses and they provide 35 per cent of all private sector employment. Small businesses also contribute 27 per cent of the province's GDP<sup>1</sup>. This sector is an integral part of the provincial economy and its importance cannot be

<sup>1</sup> Innovation, Science and Economic Development Canada, Small Business Branch. *Key small business statistics*, June 2016. [https://www.ic.gc.ca/eic/site/061.nsf/vwapj/ksbs-psrpe\\_june-juin\\_2016\\_eng.pdf/\\$file/ksbs-psrpe\\_june-juin\\_2016\\_eng.pdf](https://www.ic.gc.ca/eic/site/061.nsf/vwapj/ksbs-psrpe_june-juin_2016_eng.pdf/$file/ksbs-psrpe_june-juin_2016_eng.pdf)

overstated. Ensuring they are given an environment they can thrive in is essential for economic growth. Unfortunately, the majority of entrepreneurs do not feel the province is

Figure 3:

**How confident are you that the provincial government is committed to improving the climate for small business in Alberta?**



Source: CFIB Alberta Pre-Budget Survey, February 2018. n=617. Preliminary data.

committed to providing such an environment. Recent CFIB survey data indicates that 96 per cent of small business owners do not feel confident the provincial government is committed to improving small business climate in Alberta (see Figure 3).

In order to regain confidence from the small business community, it is important that the province addresses their concerns. The following section reviews action items that the provincial government should take in order to provide small businesses in Alberta with an environment they can thrive in.

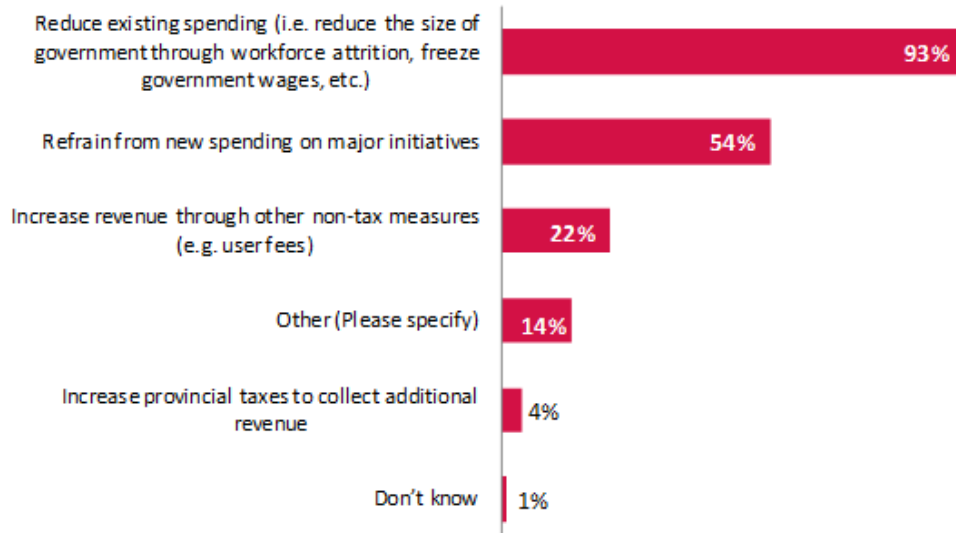
### **i. Total Tax Burden: Policy Priorities**

The purpose of policy creation is to increase the wellbeing of citizens. While there are many policies which benefit society, there are some which hamstring small business. Total tax burden is the largest concern for small businesses in Alberta. Piling of additional taxes and fees has serious consequences on small businesses, and can harm the already thin margins they operate on.

While detrimental policies that impede on small business health do exist, actions can be taken to reduce the burden. With a majority support, entrepreneurs believe that balancing the budget can be achieved by reducing spending (93 per cent agree) and refraining from new spending on major initiatives (54 per cent agree). To cut spending, for example, the province could reduce the size of government through attrition or freeze government wages (see Figure 4). The province should consider these as viable options to reduce expenditures as they map a path to a balanced budget.

Figure 4:

What should the provincial government do to balance its budget? (Select as many as apply)



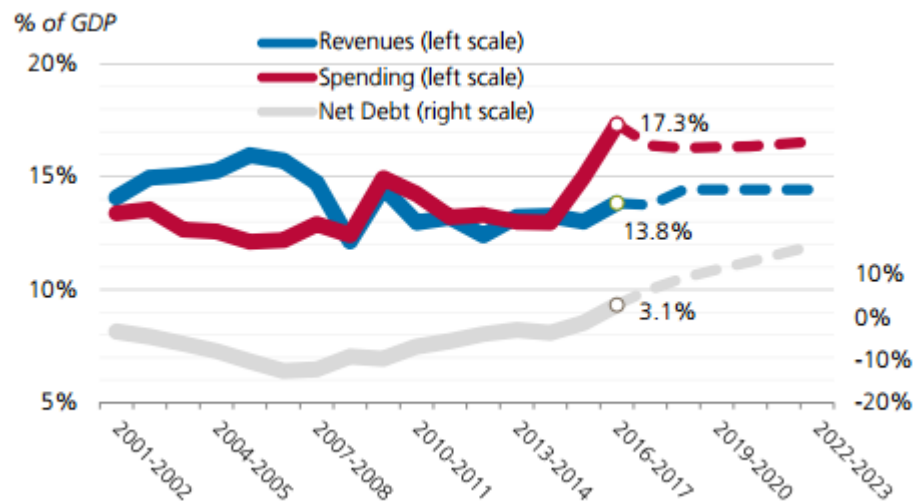
Source: CFIB Alberta Pre-Budget Survey, February 2018. n=617. Preliminary data.

## ii. Government Debt and Deficit: Balancing the Budget

Government debt and deficit is ranked as the second biggest concern for small business owners in Alberta (see Figure 2). In the past few years, Alberta has opened the spending taps wide open, with plans to run over a \$10 billion deficit for 2018. To close the spending gap, the province must commit to sustainable spending practices. The province has a responsibility to be fiscally fit, and to not pass excessive cost burdens onto tax payers.

Figure 5:

Alberta: Provincial Revenues, Spending, and Net Debt

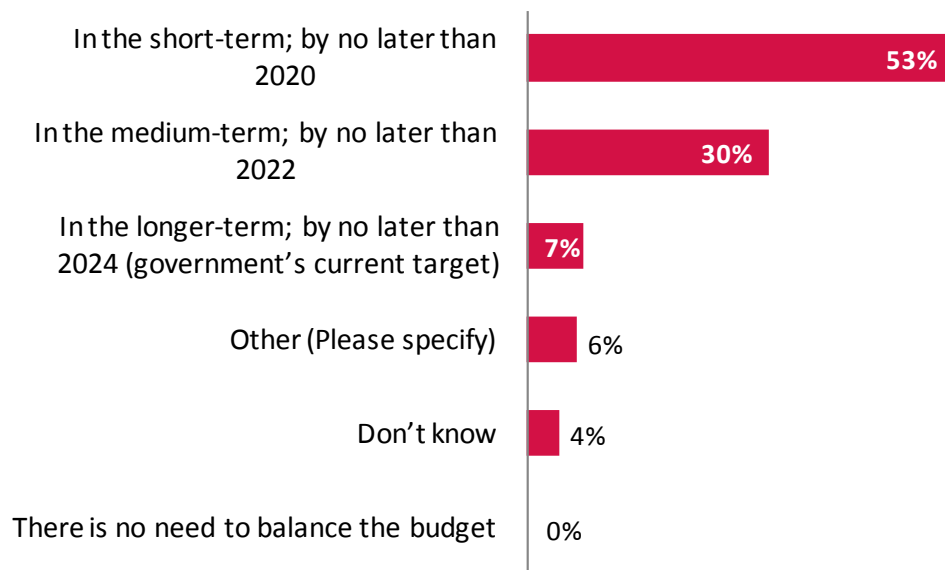


Source: CFIB Canada's Fiscal Fitness, February 2018. Alberta results.

While the province has now targeted 2023 to return to a balanced budget, a concrete plan has yet to be established. While we acknowledge some effort has been made to choose this target date, it is time to examine the urgency of reaching a balanced budget. The majority of small business owners believe that the province should balance its budget by 2020 (see Figure 6). While the opinions of our members vary between urgency of action, there is unanimous support for the province to reach a balanced budget. It is crucial that the province implements a sound plan outlining the necessary steps to reach a balanced budget, and execute those actions.

Figure 6:

**In 2018, the province's deficit is estimated to be \$10.3 billion. The government is targeting 2024 to return to a balanced budget, but has not yet provided a concrete plan. In what timeframe should the provincial government balance its budget? (Select one answer only)**

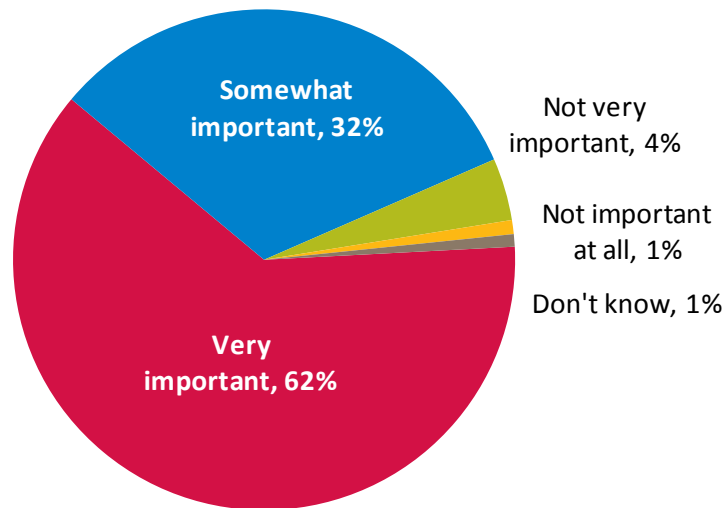


Source: CFIB Alberta Pre-Budget Survey, February 2018. n=617. Preliminary data.

It is important that action be taken, as eliminating net debt is a high priority for small business owners. 94 per cent of entrepreneurs believe eliminating the net debt is important; with 62 per cent of those individuals indicating it is very important (see Figure 7). With this in mind, we hope the province is able to strategise a thoughtful plan on balancing the budget and eliminating the net debt.

Figure 7:

The Alberta government's net debt is currently about \$21 billion. How important is it to you that the Alberta government eliminates the net debt?



Source: CFIB Alberta Pre-Budget Survey, February 2017. n=1077.

## Costly New Policies

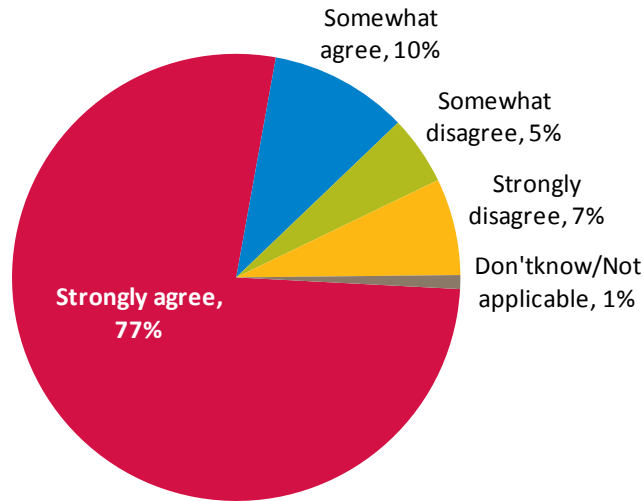
Small businesses are an integral part of Alberta's economy; they also struggle to absorb additional costs. We must ensure that new costs do not have serious financial implications on small businesses. However, several highly discussed policies have the potential to harm their livelihood. The following section outlines several policies that have, or have had, negative consequences on the small business community in Alberta.

### i. Carbon Tax

As of January 1, 2018, the carbon tax in Alberta increased 50 per cent; originally \$20 per tonne, now \$30 per tonne. Despite this decision, small business communities adamantly oppose a carbon tax. In a recent CFIB survey, 87 per cent of small business owners believe the carbon tax should be repealed (see Figure 8).

Figure 8:

**The provincial government should repeal the carbon tax**

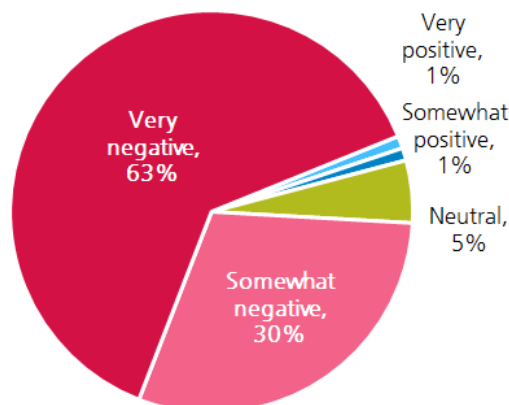


Source: CFIB Alberta Pre-Budget Survey, February 2018. Preliminary data. n=617

These results come with no surprise. The carbon tax has a negative impact on nearly all small businesses in Alberta. In a survey conducted 2017, 93 per cent of small business owners said they expect the carbon tax will have a negative impact on their business (see Figure 9). Going forward, it is essential that the Alberta government fully consider the impacts a carbon tax will have on the economy. Furthermore, increases to the carbon tax will have the same negative implications. While protecting the environment is important, there are other methods to do so which do not impose serious threat on the economy and livelihood of small businesses.

Figure 9:

**What type of impact do you expect the carbon tax will have on your business?**



Source: CFIB Alberta 2017 Pre-Budget Survey, January 30 – February 10, 2017, n = 1,077.

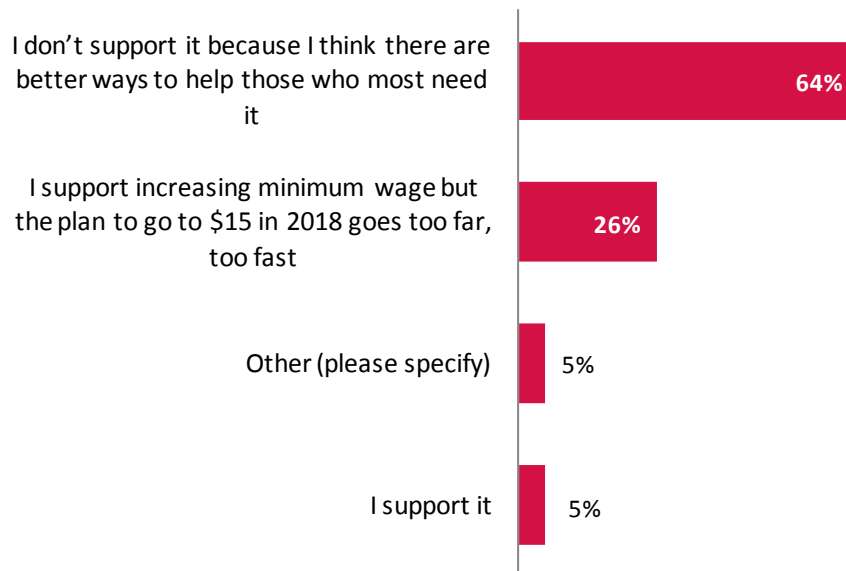


## ii. Minimum Wage

On October 1, 2017, the minimum wage in Alberta increased from \$12.20 to \$13.50. An additional increase is scheduled to take place October 2018, bringing the minimum wage up to \$15 an hour. Increasing the minimum wage to an arbitrary dollar figure does not address the underlying issues at hand. In fact, the majority of small business owners do not support the minimum wage because there are better ways to help those who most need it (64 per cent).

Figure 10:

Which of the following best captures your feelings about Alberta's minimum wage increase to \$15 per hour on Oct 1, 2018? (Select one answer only)



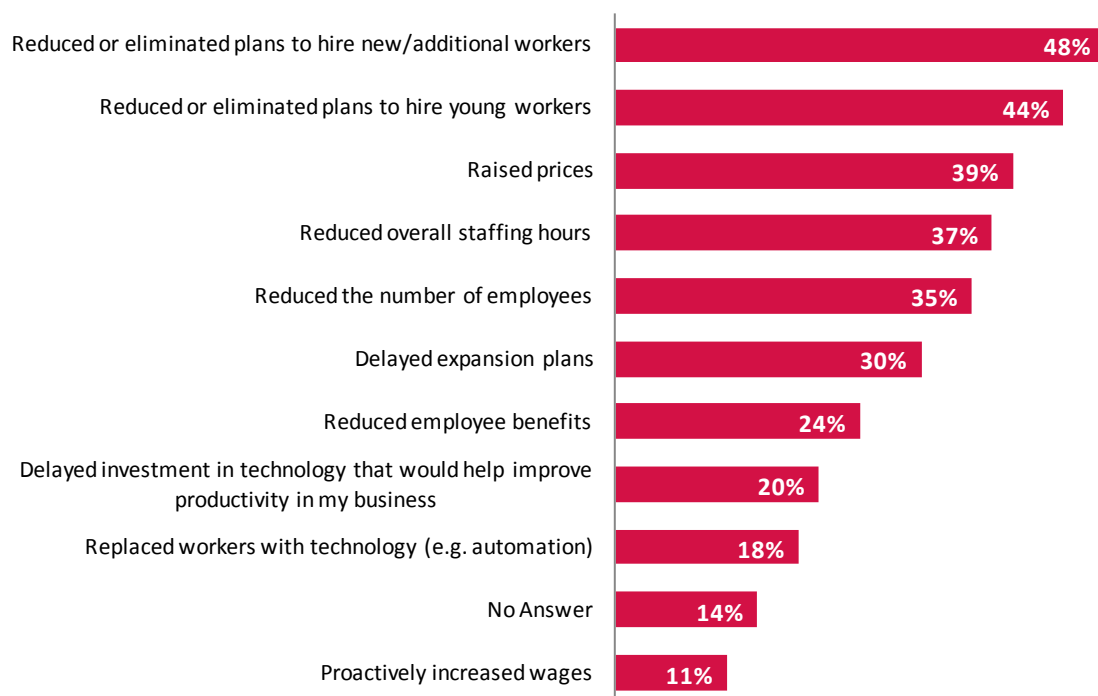
Source: CFIB Alberta Pre-Budget Survey, February 2018. Preliminary data. n=617

There are better ways to target those who need help than simply raising the minimum wage. Additionally, minimum wage increases have unintended consequences. It is not easy for small businesses to absorb new costs.

In preparation for minimum wage hikes, some small businesses have already made changes. As Alberta moves to a \$15 minimum wage 48 per cent of small businesses have reduced or eliminated plans to hire new or additional workers, 44 per cent have reduced or eliminated plans to hire young workers, and 36 per cent have reduced overall staffing hours (see Figure 11). While these consequences may be unintended, they should come as no surprise.

Figure 11:

**Which of the following changes has your business already made as Alberta moves to a \$15 an hour minimum wage?** (Select as many as apply)



Source: CFIB Alberta Pre-Budget Survey, February 2018. Preliminary data. n=617

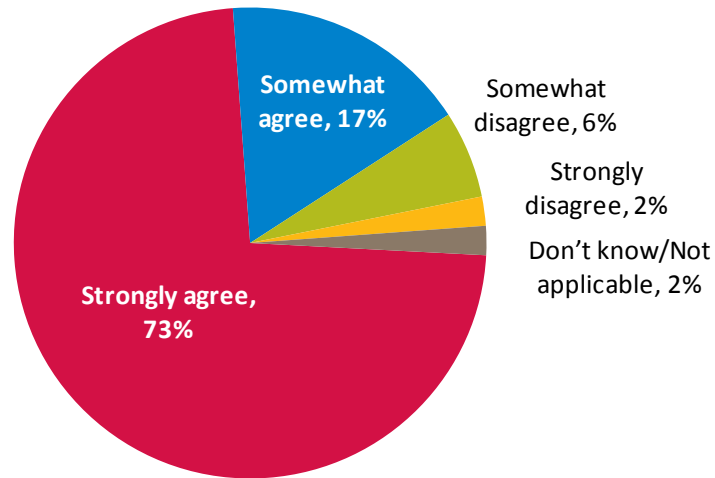
While the intention of minimum wage is to support low income earners, raising it clearly has negative implications. Businesses are reducing plans to hire workers, especially young workers, in response to the minimum wage hike to \$15 an hour. This takes away valuable opportunities for workers in the labour force. Equipping small businesses with the right resources to absorb new costs is vital to ensure a smooth transition to a \$15 minimum wage, and is a step which cannot be ignored.

Survey results from last year which we presented in our 2017 pre-budget recommendations reveal that 72 per cent of small businesses expect raising the minimum wage to \$15 an hour by 2018 will have a negative impact on their business. With minimum wage scheduled to reach this target, it is clear that small businesses need the province's support.

While the minimum wage is scheduled to increase to \$15 by October 1, 2018, it is important to note that 90 per cent of small business owners believe it should be frozen at the current level of \$13.50 an hour to preserve jobs (see Figure 12). Although there are ways to compensate businesses for the financial burden they bear from minimum wage increases, the best way to help them on this issue is to freeze the minimum wage.

Figure 12:

Minimum wage should be frozen at current levels (\$13.60/hr) to preserve jobs



Source: CFIB Alberta Pre-Budget Survey, February 2018. Preliminary data. n=617

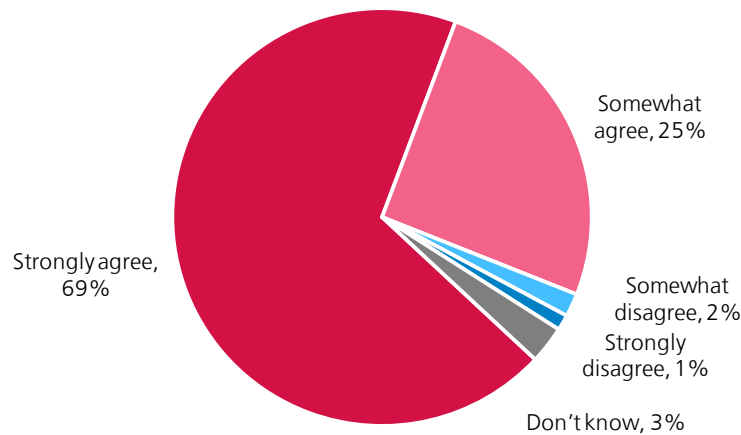
### iii. Employment Standards Changes

Recent changes to labour laws have made huge impact on Alberta's small business community. When we look at areas of provincial regulations, employment standards are burdensome for 42 per cent of Alberta small businesses to comply with (see Figure 13).

In response to the government's changes to Employment Standards and the Labour Code, CFIB surveyed our members to get their perspectives on the changing nature of the workplace. The results are staggering. 94 per cent of business owners believe employment laws should be more flexible for small employers to better support small businesses (see Figure 13).

Figure 13:

### Employment laws should be more flexible for small employers to better support small businesses

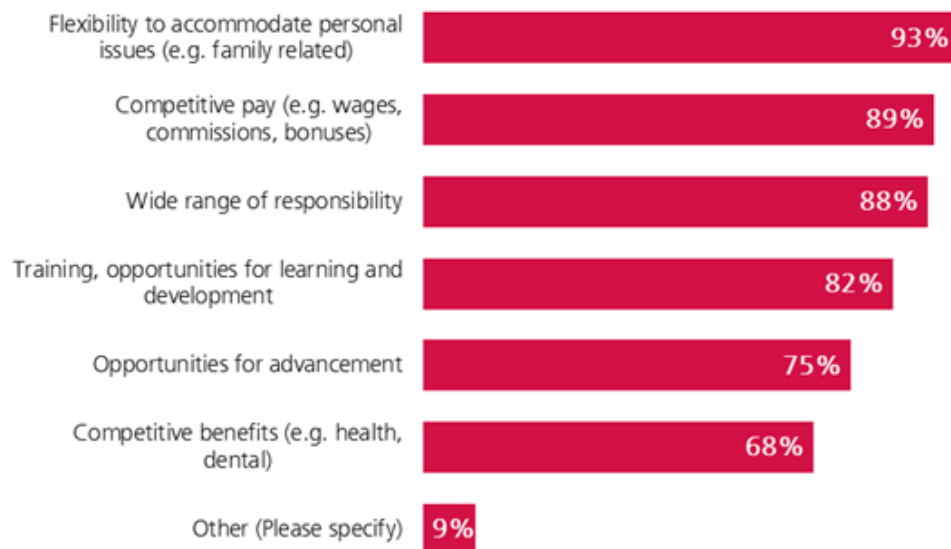


Source: CFIB Alberta Workplace Review Survey, April 2017, n=800.

The realities of working relationships in small and medium-sized businesses are very different than in large businesses. Generally, in small businesses, business owners often work alongside their employees, and consequently, the nature of working relationships tends to be more flexible, both for the employer and for the employee.

Figure 14:

### Which of the following does your business offer to employees?



Source: CFIB Alberta Workplace Review Survey, April 2017, n=800.

For example, when we surveyed business owners, 93 per cent indicated that they offer their employees flexibility to accommodate personal issues as a benefit of employment in a

small business (Figure 14). Nine-in-ten (89 per cent) also indicated that they offer their employees competitive pay, including wages, commissions, and bonuses (see Figure 14). Most small businesses must provide competitive benefits in order to retain workers, especially since their larger competitors are able to provide other perks that small businesses can simply not afford to provide.

From a small business perspective, the modern workplace is one that is subject to increased pressures from globalization, increased costs of doing business due to changes to government policies, changing employee expectations and attitudes about employment, a mounting gap in the skills available in the marketplace compared to those that small employers need most, and government regulations which are becoming further misaligned from the needs of employers to name a few. In this regard, the government's role should be to facilitate employment relationships instead of creating barriers for the very firms which contribute most to the provincial economy overall.

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## Mitigating Options

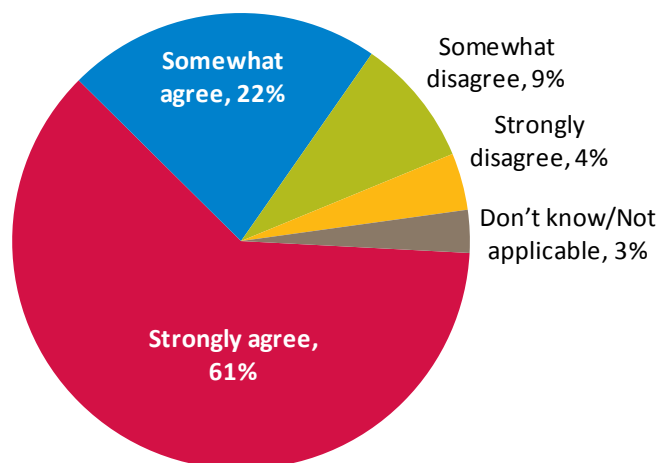
New policy should always be considered through a small business lens. However, many policies do more harm than good to small businesses. When this happens, it is necessary to consider mitigating options which could offset the negative consequences of harmful policy.

### i. Small business corporate income tax

Increasing carbon taxes are a concern for many small businesses who see the looming negative implications of this policy. While eliminating or freezing the carbon tax would have the most support from small businesses, there are also ways to ease the burden of the tax. One way to do so is to lower the small business corporate income tax from 2 per cent to 1 per cent then down to 0 per cent as the carbon tax increase; an action supported by the majority of small business owners (83 per cent support, see Figure 15). A revenue neutral carbon tax would be more palatable to entrepreneurs.

Figure 15:

**The provincial small business corporate income tax rate should be lowered from 2% to zero to offset increasing carbon tax**



Source: CFIB Alberta Pre-Budget Survey, February 2018. Preliminary data. n=617

## ii. Workers' Compensation Board premiums

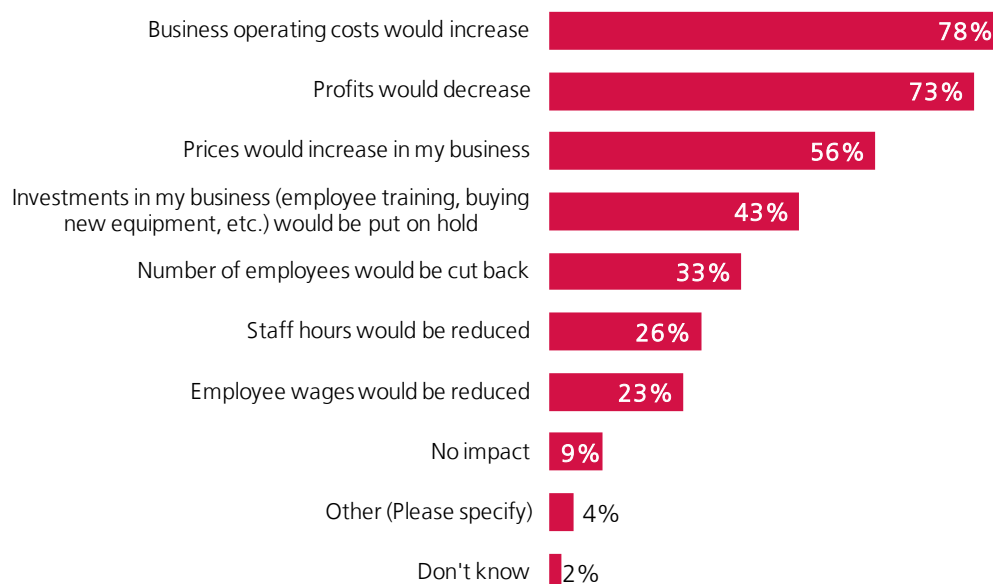
Increases to WCB premiums have substantial negative impacts on small businesses. The workers' compensation system is entirely funded by employers. When premiums change, so does the financial ability of small businesses. If a potential increase were to happen, 78 per cent of entrepreneurs would have increased business operating expenses, 73 per cent would see decreased profits, and 56 per cent would increase their prices (see Figure 13). While it is essential that premiums are not increased, it is also important that WCB continues to rebate excess funds.

WCB has a funded position target of between 114 per cent and 128 per cent of assets to liabilities, often referred to as the 'green zone'. According to board policy, refunds are triggered if the funded position goes over the 128 per cent threshold. This year Alberta's WCB reached a funded position of close to 134 per cent.

After much delay a refund of \$355 million of employer's money was issued back to them. While we are grateful for the refund, this is just the beginning to a much larger issue. CFIB has long advocated for WCB to move to a targeted funded position of 110 per cent. This would put an additional \$1.5 billion dollars into the hands of employers to invest in jobs, as well as new and safer equipment, while maintaining strong rehabilitation and workplace protection for employees. Moving the funding position to 110 per cent would benefit employers in numerous ways. With many new costs looming over the horizon, this would help give employers the support they need to thrive.

Figure 16:

### What impact would potential increases in Workers' Compensation Board (WCB) premiums have on your business?



Source: CFIB Alberta 2017 Pre-Budget Survey, January 30 – February 10, 2017, n = 1,077.

## Reduce Red Tape

Businesses and consumers alike are affected by red tape. Government rules, permits and paperwork are involved in everything from renovating a home, to applying for a business license. Red tape hurts productivity by forcing businesses to spend a substantial percentage of their time dealing with paper work, taking them away from what they should be doing, which is building their business, creating jobs, and growing the economy.

In fact, it costs Alberta businesses close to \$4.6 billion annually to comply with regulations at all levels of government and every minute devoted to filling out excessive paperwork is a minute not spent on growing the economy and creating employment opportunities for Albertans<sup>2</sup>.

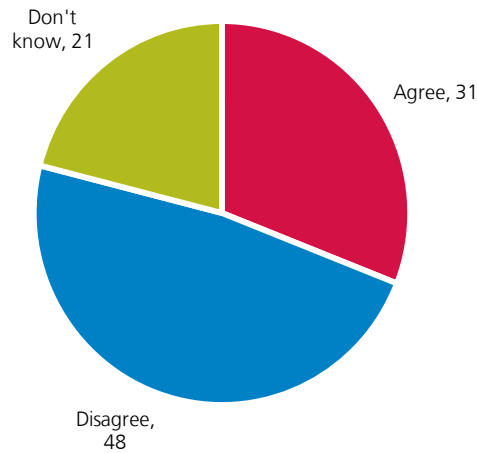
Red tape is so onerous, that 31 per cent of our members indicated that they would not have started their business had they known the burden of regulation (see Figure 17).

To take the lead on the fight against burdensome red tape, the provincial government would be well-served to enshrine the one-for-one rule into law. By legislating that for each new regulation another regulation of equal weight must be eliminated, the province will ensure the burden of red tape burden will not increase over time. Putting the “net zero” policy into legislation will safeguard the critical end-goal for overall red tape reduction to endure.

<sup>2</sup> CFIB Red Tape Research Snapshot. *The Cost of Government regulation on Canadian Businesses*. January 2018. [https://www.cfib-fcei.ca/sites/default/files/2018-01/Cost-Red-Tape-Snapshot-2018\\_0.pdf](https://www.cfib-fcei.ca/sites/default/files/2018-01/Cost-Red-Tape-Snapshot-2018_0.pdf)

Figure 17:

**If I had known the burden of regulation, I may not have gone into business**

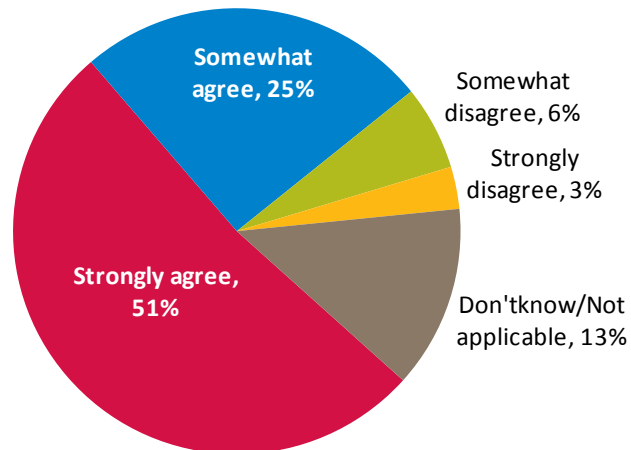


Source: CFIB, Survey on Regulation and Paper Burden, 2012, n=8,562

While many measures can be done to help ease the regulatory burden that is put onto entrepreneurs, there are several action items that are of high importance. Regulatory delays to current pipeline projects are hurting 76 per cent of small businesses in Alberta (see Figure 18). It is essential that going forward, Alberta works hard to develop a plan to put these projects into place and ensure no more delays occur.

Figure 18:

**Unnecessary regulatory delays on major pipeline projects hurt my business**



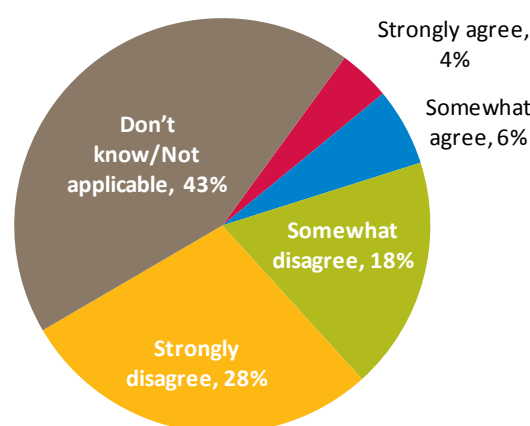
: CFIB Alberta Pre-Budget Survey, February 2018. Preliminary data. n=617



Many other inefficiencies also hinder the abilities of small businesses. While tax credits and grant programs exist to assist small businesses, they are widely inaccessible. Recent survey suggests that 46 per cent of small business owners have difficulty accessing these programs. Additionally, 43 per cent don't know how easily accessible these programs are, which suggests that there is a lack of communication to business communities (see Figure 19). While some may not be aware because they are not interested in such programs, some may not be aware simply because they are not well advertised and small businesses are being kept in the dark.

Figure 19:

The new tax credits and grant programs for small businesses (i.e. Alberta Export Support Fund, Alberta Investor Tax Credit etc.) are easy to access



Source: CFIB Alberta Pre-Budget Survey, February 2018. Preliminary data. n=617

## Recommendations

Small businesses are facing a challenging economic climate. With many costly new policies either in place or on the horizon, it has become even more difficult to make ends meet.

We would like to thank you for the opportunity to share the views of our members, and for listening to our recommendations on how to strengthen Alberta's competitive position. Implementing these recommendations will help the small business community in our province.

To summarize, our recommendations are:

1. Consider and mitigate the negative implications of new costly policies on the small business community;
2. Practice fiscal responsibility by balancing the budget no later than 2020;
3. Repeal the carbon tax, or at minimum offset sudden cost increases from the tax;
4. Freeze the minimum wage at \$13.60, and explore more effective ways to help low-income earners;

5. Decrease the small business tax rate from 2 per cent to 0 per cent as the carbon tax rises;
6. Continue to encourage Alberta's Workers' Compensation Board to refund excess surplus fund to employers, while discouraging premium increases; and
7. Look at policies through a small business lens and become a leader on constraining excessive regulation by legislating the one-for-one rule.