

Ten Policies to Better Support Small Business

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The next Alberta Government, whatever the political stripe, must find better ways to support small and medium-sized independent businesses. This document outlines 10 policies that would accomplish that goal.

1. Apply a “Small Business Lens”

Too often governments create new taxes, rules, regulations, and policies without even so much as a basic understanding of the impact on small and medium-sized businesses and the economy. They take a one-size-fits-all approach for all businesses and then let the chips fall where they may.

Yet, 88 per cent of business owners say they want the government to consult with them before implementing policies that affect their businesses.¹

That’s why there needs to be a requirement in place for the Alberta Government to apply a Small Business Lens to all decisions affecting the business community. It would ensure a complete analysis is conducted on whether a particular change is needed, what the additional cost will be for business, how difficult it will be for small business to comply with, which alternatives were explored, and what the ultimate impact will be on key aspects such as employment, investment, and growth.

2. Cut red tape

Alberta’s business owners confront government red tape at every turn. And if entrepreneurs are busy filling out forms, ticking boxes, and surfing websites, that means they are not doing what they love to do: running their business, creating jobs, and supporting the local community.

Red tape not only wastes precious time, but costs business owners a lot of money too. That is why cutting red tape in a meaningful way is one of the top priorities for our province’s entrepreneurs, and should be for the government too.

¹ The survey results in this document are from a pre-election survey of 1,058 business owners across Alberta from October 23 to November 15, 2018. The margin of error is plus/minus 3.1 per cent 19 times out of 20.

It is critical the next Alberta Government commit to leadership and accountability in tackling the burden of red tape. **As an important starting point, there should be constraints on regulators and policy-makers for the overall burden of provincial rules and regulations through a legislated “one-for-one” requirement.** That means for every new regulation created, the Alberta government must eliminate at least one other of equal impact.

This law would also require government departments to publicly measure and report on the burden of regulation, and to publish regulatory impact statements that detail cost increases to businesses as a result of every change.

3. Reduce the Small Business Tax

The one-point reduction in the Small Business Income Tax rate by the Alberta Government in its 2015 Budget was a welcome move, although it only keeps us on pace with similar tax reductions by other governments in Western Canada, it only has a modest impact on the Alberta tax advantage.

Unfortunately, over the past four years the Alberta Government has trumpeted that one-point reduction as the offset to a long list of other aggressive and impactful policy changes, including the rapid hikes to a \$15 minimum wage, the introduction (and increases) to the Carbon Tax, and changes to employment standards rules, to name just a few.

To truly bolster Alberta’s tax advantage, the Government should reduce the Small Business Income Tax rate to zero in the next provincial budget. The tax reduction would inject resources back into small and medium-sized firms so they can hire more people, expand operations, and help grow the economy.

Also, the \$500,000 threshold on business income to access the small business rate has remained frozen for more than a decade. **To better reflect the current business reality, and to allow more small and medium-sized businesses to be eligible, the next Government should implement a phased five-year increase in that threshold to \$750,000 of business income.**

Providing expanded tax relief will help more small and medium-sized firms invest in growth.

4. Balance the budget, control spending

The size and cost of the Alberta Government has grown by more than 50 per cent over the past 12 years, from approximately \$40 billion in total spending in 2008 to projected expenditures of almost \$60 billion by 2020.

Entrepreneurs understand the need for financial prudence inside their own businesses, and they expect the same from their government. Eighty-four per cent of business owners agree that balancing the provincial budget before 2023 is important to their businesses. Furthermore, 95 per cent of business owners surveyed in late 2018 said it was either important or very important to their business that the next government has a legislated plan to reduce debt.

Clearly, entrepreneurs believe the Alberta Government should balance the budget within the next three years, and begin paying down the province's debt.

Rapidly rising spending and debt levels means higher taxes for Alberta's residents and businesses. Too often, the politicians simply look for new revenue, rather than focus on the billions of existing spending to find savings, better value-for-money, and more sensible and less costly approaches.

To help better control spending, Alberta needs an expenditure control law, to ensure elected officials are prioritizing existing spending, and are focused on better use of existing budgetary allocations.

CFIB's research shows there is a significant advantage in salary, hours, and benefits for employees in the provincial government compared to comparable private sector jobs. Since employee compensation is the largest budgetary item for virtually every provincial department, **one of the keys to better control of operating spending is to align compensation in the provincial government with private sector norms over time.**

Due largely to higher spending, the provincial government has experienced ongoing budget deficits and introduced a lot of new borrowing. As a result, Alberta has gone from having \$31 billion in net financial assets in 2008 to \$47 billion in net debt by 2020. Better control in the growth of the Alberta Government's overall operating budget is key to reducing the deficit and bringing those debt levels down.

5. Refund the WCB surplus

The Workers' Compensation Board (WCB) exists to support and rehabilitate injured workers, and is entirely funded by employers. The system needs adequate and stable funding, but should not be allowed to become over-funded. Historically, according to the board policy, refunds to employers are triggered when the funded position of the board (assets vs liabilities) exceeds the upper limit of the "green zone" at 128 per cent.

Recent policy changes by the Alberta Government are jeopardizing this safety valve which ensures the Board is not unnecessarily holding onto employer's money. The most recent proposals would see the refund policy altered to allow the Government to divert some of this surplus money to spend in areas in which it was not originally intended.

The principle of returning excess WCB refunds to employers must be restored. The upper threshold should also be re-examined to ensure it doesn't allow the Board to unfairly hoard employers' money.

Business owners agree. In fact, 82 per cent of business owners say the Alberta Government should legislate a new WCB refund policy to ensure the Board is not unnecessarily holding on to employer funding.

6. Scrap the Carbon Tax

During the 2015 election campaign, none of the parties had a proposal to introduce a tax on carbon. Following the election, however, the Alberta Government appointed a committee that, among other things, recommended a carbon tax and a system of rebates for low-income households. The result was a \$25 per tonne Carbon Tax introduced on January 1, 2017, rising to \$35 one year later, on the way to \$50 per tonne by 2022.

Unfortunately, the Alberta Government's plan, other than reducing the Small Business Tax rate by one point in 2016, has no ongoing offsets for the rising Carbon Tax costs on small and medium-sized businesses. Worse still, the \$3 billion tax was introduced right in the middle of a major recession. The timing could not have been worse.

According to CFIB survey data, 87 per cent of Alberta's business owners want the carbon tax repealed. **It's time to lift the burden off the shoulders of Alberta's independent business owners by scrapping the Carbon Tax.** In its place, the provincial government should focus on expanding incentive programs for businesses that promote smarter energy use and better energy efficiency.

7. Re-balance labour laws

The rules that govern workplaces in Alberta need to be fair and must strike a reasonable balance between employers and employees.

Over the past two years, however, the provincial government has been making a sweeping series of changes to occupational health and safety rules, the workers' compensation system, employments standards, and the Labour Relations Code about how unions can form. As a result, the balance has been broken, and business owners have been left clamoring to understand all the new rules and requirements.

All of the changes to the province's labour laws must be reviewed by the next Government to ensure they reflect the reality of smaller businesses and achieve a balance between employers and employees, and the Government must then revise and revoke these laws accordingly.

8. Freeze minimum wage, create a training wage

The Alberta Government increased the minimum wage by 47 per cent between 2015 and 2018, leaving many employers across the province with entry-level jobs scrambling to keep up. According to CFIB survey data, small business reacted by increasing prices, reducing hiring, and cutting employee training and pay. Worst of all, like the carbon tax, the hikes in the minimum wage happened in the midst of a serious economic recession in Alberta.

Yet, the government didn't pause their aggressive march to a \$15 an hour minimum wage even though, according to documents obtained by CFIB through Freedom of Information, their own policy advisors warned in a briefing note "it is reasonable to assume there would be significant job losses".

In order to allow small businesses an opportunity to catch up, the minimum wage should be frozen at \$15 for at least the next three years. After that, it should only be adjusted to increases in inflation. Instead, the focus should be on boosting the take-home pay of people working in entry-level jobs through more effective skills training, educational support, and guidance about career paths toward higher paying jobs.

For the past three years, the Alberta Government has blocked the release of any additional information about the economic impact of the rapid rise to a \$15/hour minimum wage. **The next provincial government must commit to releasing all of the research and analysis that has been conducted on the minimum wage increases, including the effects on employment and the economy.**

Another way to provide more flexibility for employers, and incent hiring of inexperienced job-seekers, would be to allow a different minimum wage for entry-level positions over the initial three month employment period. **A slightly lower wage (i.e. \$14/hour) would recognize the huge investment that small and medium-sized businesses make in hiring, training, and mentoring people trying to get their first work experience.**

9. Push back on CPP payroll tax hikes, federal tax changes

Over the past few years, the Alberta Government has supported the federal plan to increase Canada Pension Plan (CPP) payroll taxes. Starting in January 2019, CPP premiums will increase over seven years and will be applied to more income than they currently are, adding even more to the tax burden for small and medium-sized businesses.

With CPP rates going up, everyone will have less disposable income to put into more flexible types of retirement savings. In our surveys, business owners also say these hikes may mean they need to freeze or cut wages. **The Alberta Government should heed these warnings and work with other provinces to freeze further expansion of CPP.**

In addition, the federal government's new rules on passive investment income mean some business owners who have passive investments will lose access to the 9 per cent federal small business income tax rate and be taxed at the same 15 per cent rate as big businesses.

If Alberta walks in the federal government's footsteps, small businesses will also lose access to the lower provincial tax rate. Many small business owners use their income from investments to keep their doors open and pay their staff during economic downturns, as well as for retirement savings.

Alberta should follow the lead of other provinces, including Saskatchewan, Ontario, and New Brunswick, to keep access to the provincial small business tax rate open for businesses affected by new federal tax rules on passive investment income.

10. Just say no to a PST!

Our province has been sales tax free for generations, something that historically has been a big part of the Alberta advantage as a great place to own and operate a small business. Unfortunately, thanks to tax increases in the past few years for individuals and businesses, that advantage has been eroding.

Some commentators and politicians believe the provincial government has a revenue problem that has caused budgetary deficits. And in order to fill the gap, a new Provincial Sales Tax (PST) is needed.

Alberta's business owners disagree: 95 per cent oppose the introduction of a PST. They believe it would simply give more revenue to the government and ignore the fundamental issue of better control of spending, and point to the fact that Alberta already has a higher program spending per capita than almost every other province.

Alberta should remain PST free.