

When politics trumps economics

Small Business Recommendations on Minimum Wage

Vaughn Hammond, Director of Provincial Affairs

Improving the economy in Newfoundland and Labrador requires a strong small business community – the backbone of the economy. Small businesses drive the local economy and as they grow, so will prosperity in the province. The provincial government is placing greater focus on the role it can play to encourage job creation as large development projects wind down in the coming months. As it concerns the minimum wage, small business owners are clear in what they think are the best ways to help them and their employees.

Introduction

In Newfoundland and Labrador, the provincial government is dealing with a significant structural deficit and is therefore unable to use its resources to stimulate the economy. Rather the government has increased or introduced a number of taxes and fees on individuals and businesses, putting great pressure on the ability of businesses to invest and grow. In 2017, minimum wage will increase twice to reach \$11 per hour by October 1. If the past is any guide, employers will adjust by increasing prices, reducing staff hours, or laying off employees, particularly those who are youth, inexperienced, or possess lower skills. This submission highlights the views of small business and suggests solutions to allow them to grow and prosper.

CFIB represents over 2,000 small- and medium-sized businesses in Newfoundland and Labrador, and almost 109,000 nationally, from all sectors of the economy. Policy positions are taken at the direction of the membership through surveys and discussions with members. This submission was completed using data gathered from members in Newfoundland and Labrador as well as secondary sources.

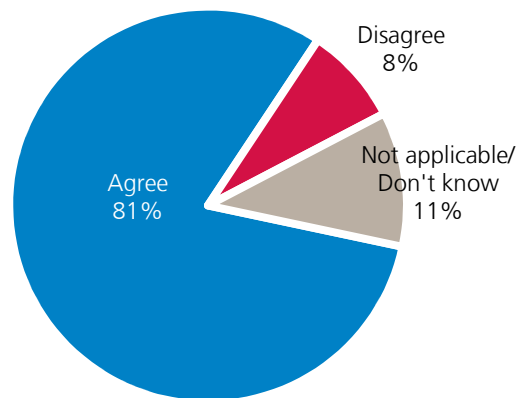
Implications of Minimum Wage Increases

For small business owners, the most important factor in the success of their business is their employees (see Appendix I, Chart A). Often times, innovation

adopted within a business starts with an idea from employees. They are an integral part of a business' reputation and ability to provide the goods and services customers want. Business owners do what they can to attract and retain employees, which includes providing a competitive pay. Many business owners provide flexibility to deal with personal issues, a wide range of responsibilities, and opportunities for learning and development (Appendix I, Chart B). Many offer wages above minimum wage and, in a recent survey, 81 per cent of respondents said they would increase their wages today if their business situation improved. Eight per cent would not increase wages, while 11 per cent did not know (see Figure 1). However, it should not be assumed that increases in the minimum wage (including tying it to an economic indicator) will not have an effect on them. In the past, approximately 40 per cent of business owners increased the wages of all employees in response to a minimum wage increase (see Figure 2).

Figure 1:

I would increase wages today if my business situation improved.



Source: CFIB, Employment and Wages Survey, June – August 2016, 108 responses for Newfoundland and Labrador.

Another effect of increases in minimum wage on businesses in the past were lost profits. Many businesses are unable to increase prices and have no choice but to absorb any increase in costs. Owners of convenience stores and gas stations, where many minimum wage jobs can be found, have much of their profits mandated by government. A convenience store owner is largely reliant upon revenues from lottery tickets, beer and tobacco for the viability of their businesses. For example, profits from the sale of beer (in bottles) is about \$1.65 per dozen. A gas station is allowed a government-mandated profit margin on gasoline of 8.73 cents per litre and for diesel, it is 12.48 cents per litre. If business owners have a licence to sell liquor through a Liquor Express, their profits are 10 per cent of the first \$250,000 of sales and five per cent on any sales thereafter. From their perspective, it is inherently unfair that the government can increase the costs of their business without providing them with the ability, if they choose, to generate the revenues necessary to cover those costs.

Many owners of licenced restaurants and convenience stores have noted effects of minors not being able to sell or serve alcohol. As a result, they have to ensure there is an employee on the premises who is legally able to sell or serve alcohol. As the

costs of labour increase, business owners may deal with these situations by hiring fewer youth under the age of 19. However, in rural parts of the province where challenges attracting and retaining labour exist, this may be difficult, so it is necessary to find a solution in collaboration with the Newfoundland and Labrador Liquor Corporation.

Figure 2:

What impact have past increases in minimum wage had on your business? (%)



Source: CFIB, *Employment and Wages Survey, June – August 2016*, 108 responses for Newfoundland and Labrador.

In the current state of the economy, where youth unemployment hovers around 20 per cent, increasing the minimum wage is likely to do little to grow youth employment and ensure they get the basic skills needed to stay attached to the labour market. Nearly one-in-four employers reduced the hiring of youth and/or inexperienced workers in response to minimum wage increases in the past (see Figure 2).

One of the biggest determinants of an individual's earning potential is the level of his or her education and training. In fact, provincial data shows, in 2015, more than 55 per cent of those earning minimum wage had a high school diploma or less.¹ Small businesses in Newfoundland and Labrador provide the majority of highly valued on-the-job training, which requires significant investments of time and resources by the business owner. Smaller firms are typically the source of employment for those entering the workforce. Yet, they get very little support for their role in training a future workforce. This is unfortunate as minimum wage jobs are typically entry-level positions that allow people to develop the soft skills (eg.

¹ Government of Newfoundland and Labrador. NL Statistics Agency. *Profile of Minimum Wage Earners in Newfoundland and Labrador, Annual Average 2015*. http://www.stats.gov.nl.ca/Statistics/Labour/PDF/MinWageProfile_NL_2015.pdf.

communication) necessary to be successful in any chosen career. In addition, nearly half of minimum wage earners have been in their jobs for less than one year.²

Hiring and training in small businesses is expensive. According to a 2014 CFIB report on training, businesses in Newfoundland and Labrador paid over \$1,700 per employee for training, which translates to a total cost per business of over \$31,000.³ Despite this investment, small business owners often state the training system in Newfoundland and Labrador is unresponsive to their needs. The programs are often burdened in red tape (excessive paperwork) making them difficult for business owners to use. As well, some employers would like to establish a relationship with public post-secondary education institutions to develop the appropriate mechanisms to get Newfoundlanders and Labradorians working. Nonetheless, offering a training tax credit may be helpful to small business owners to encourage them to provide more training in the workplace (see Figure 3).

Figure 3:

Which of the following would encourage your business to provide more training? (%)



Source: CFIB, *Training in Your Business Survey*, September-October 2014, 80 responses in Newfoundland and Labrador.

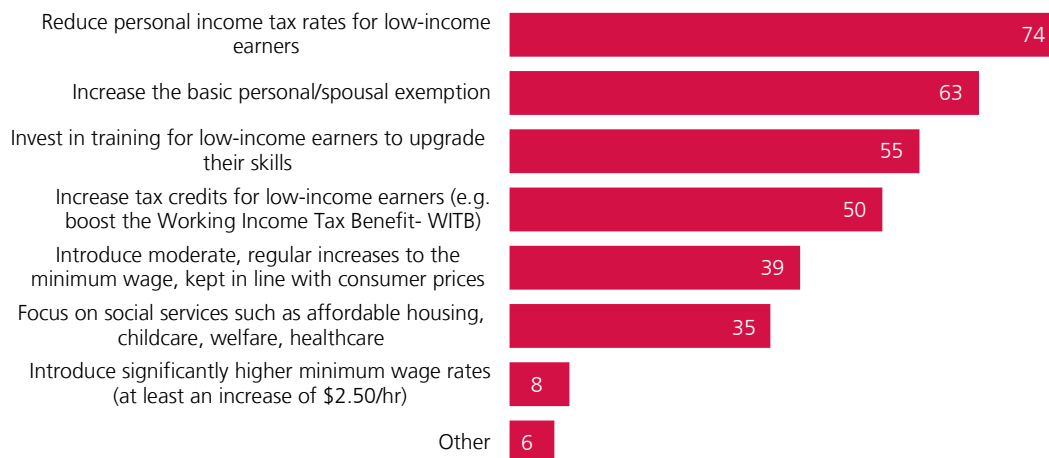
To benefit low-income earners, as Figure 4 shows, business owners think reducing personal income tax rates for low-income earners (74 per cent), increasing the basic personal/spousal exemption (63 per cent), and investing in training for low-income earners to upgrade their skills (55 per cent) should be considered before increasing the minimum wage, kept in line with consumer prices (39 per cent).

² Government of Newfoundland and Labrador. NL Statistics Agency. *Profile of Minimum Wage Earners in Newfoundland and Labrador, Annual Average 2015*. http://www.stats.gov.nl.ca/Statistics/Labour/PDF/MinWageProfile_NL_2015.pdf.

³ Canadian Federation of Independent Business, *Small Business, Big Investment: Improving training for tomorrow's workforce*, 2015. <http://www.cfib-fcei.ca/cfib-documents/rr3361.pdf>.

Figure 4:

What is the best way for governments to improve the standard of living for low-income earners? (%)



Source: CFIB, Employment and Wages Survey, June – August 2016, 108 responses for Newfoundland and Labrador.

The increases in minimum wage in 2017 will cost business owners over \$1,000 per employee per year when fully implemented in October. This accounts for Canada Pension Plan (CPP), Employment Insurance (EI), and workers' compensation contributions (see Table 1). By way of an example, a business with 10 employees providing commensurate wage increases to all employees will see their labour costs rise \$10,224 a year. All things remaining equal, this figure will grow with future increases to CPP premiums and EI rates. While advanced notice is important to allow businesses to adjust, it will mean reduced hours for employees, fewer staff, or delayed investments, if prices of goods or services do not increase.

Table 1:

Effect of Minimum Wage Increases on Employers⁴

	2007	2010	2016	2017
Minimum wage	\$7.50	\$10.00	\$10.50	\$11.00
Wages	\$15,600	\$28,000	\$21,840	\$22,880
CPP contribution	\$599.04	\$856.44	\$907.92	\$959.40
EI contribution	\$393.12	\$503.78	\$574.76	\$521.98
WorkplaceNL contribution	\$414.96	\$517.92	\$329.78	\$313.46
Total contributions	\$1,407.12	\$1,878.14	\$1,812.46	\$1,794.83
Total cost to employers	\$17,007.12	\$22,678.14	\$23,652.46	\$24,674.83

⁴ The annual minimum wage is calculated for a 40-hour work week. Canada Pension Plan contribution is equal to the employee's contribution. The employer's Employment Insurance contribution is calculated as 1.4 times the employee's contribution. The workers' compensation contribution is based on the Newfoundland Industry Classification for Food and Beverage Services for the appropriate year.

While employees will benefit from an increase in minimum wage in 2017, there is another option that will allow them to benefit more. The approach the government should take is to increase the threshold in the Low Income Tax Reduction Program to the annualized minimum wage (as of October 2017, it would be \$22,880), with future increases of the threshold tied to provincial inflation. As Table 2 below shows, a minimum wage earner in Newfoundland and Labrador will net an extra \$700 per year from this year's increases. Alternatively, under small business owner's preferred approach, minimum wage and other low income earners could take home nearly \$1,100 more than they otherwise would.

Table 2:

Effect of Minimum Wage Increases on Employees⁵

	2007	2010	2016	2017
Minimum wage	\$7.50	\$10.00	\$10.50	\$11.00
Gross income	\$15,600	\$20,800	\$21,840	\$22,880
Federal tax deductions	\$742.56	\$1,222.52	\$1,183.00	\$1,310.14
Provincial tax deductions	\$772.72	\$904.80	\$902.46	\$1,093.56
CPP deductions	\$599.04	\$856.44	\$907.92	\$959.40
EI deductions	\$280.80	\$359.84	\$410.54	\$372.84
Total deductions	\$2,395.12	\$3,343.60	\$3,403.92	\$3,735.94
Net amount	\$13,204.88	\$17,456.40	\$18,436.08	\$19,144.06

CFIB analysis above shows the cost of this year's increases in minimum wage to small business. In December 2016, the House of Assembly approved the *Regulatory Accountability and Reporting Act*, which requires the government to apply a cost-for-cost policy concerning the adoption of regulations in Newfoundland and Labrador. As a result, it is incumbent on the government to introduce measures to offset the cost of any minimum wage increases and to mitigate against the effects on employment and business investment.

Conclusion

A strong small business sector is integral to supporting a strong middle class and growing the provincial economy so that Newfoundland and Labrador can thrive in the future. Small business owners know the future of the Newfoundland and Labrador economy will rely on their success. However, increasing the minimum wage has an inflationary effect as the added cost is passed onto the consumer where possible. Further, coupled with the effects of government's fiscal decisions, a higher minimum wage threatens job creation, certainly for youth. The small business community offers an opportunity for the government to provide economic stability and jobs. The views presented in this submission are meant to achieve that goal.

⁵ The annual minimum wage is calculated for a 40-hour work week. The appropriate federal and provincial tax rates are applied in a given year. Canada Pension Plan contribution is 9.9 per cent of pensionable earnings, split evenly between employee and employer. The Employment Insurance contribution is determined by the appropriate rate in a given year (eg. 1.63 per cent in 2017).

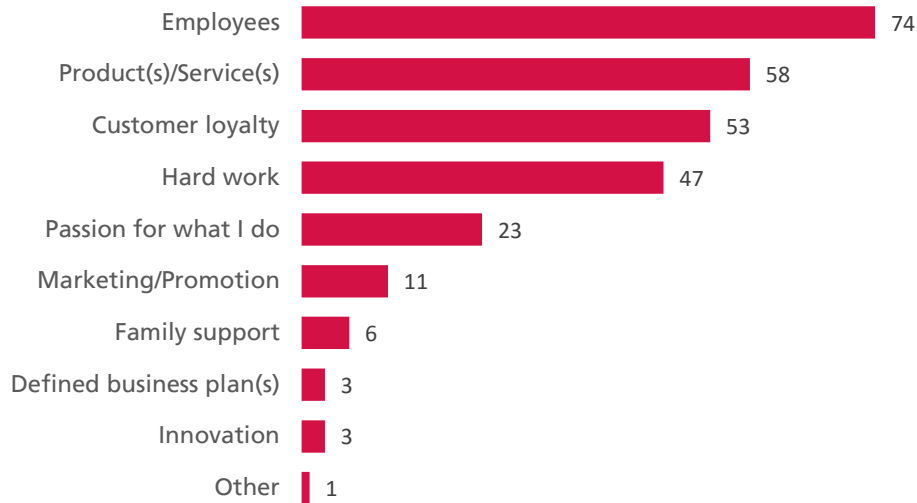
Recommendations

- The provincial government should increase the thresholds in the Low Income Tax Reduction program and tie future annual increases to provincial inflation, rather than tying minimum wage increases to an economic indicator.
- Establish a broad-based, well-designed training tax credit recognizing the strain on training imposed on small business.
- If the government chooses to tie minimum wages increases to an economic indicator, the following is recommended to offset the cost to business:
 - Reduce the provincial small business corporate income tax rate to zero by 2019;
 - Ensure WorkplaceNL adopts a policy to meaningfully lower the average annual workers' compensation assessment rate by the same percentage value as the economic indicator chosen;
 - Consider automatic increases for government-mandated margins equal to the percentage value of the economic indicator chosen;
 - Repeal section 30 of the *Labour Standards Act* and enshrine the minimum wage increase methodology in legislation to ensure predictability for business owners; and
 - Review the possibility of an enforcement mechanism that will allow minors to sell or serve alcohol in establishments like restaurants and convenience stores.

Appendix I

Chart A:

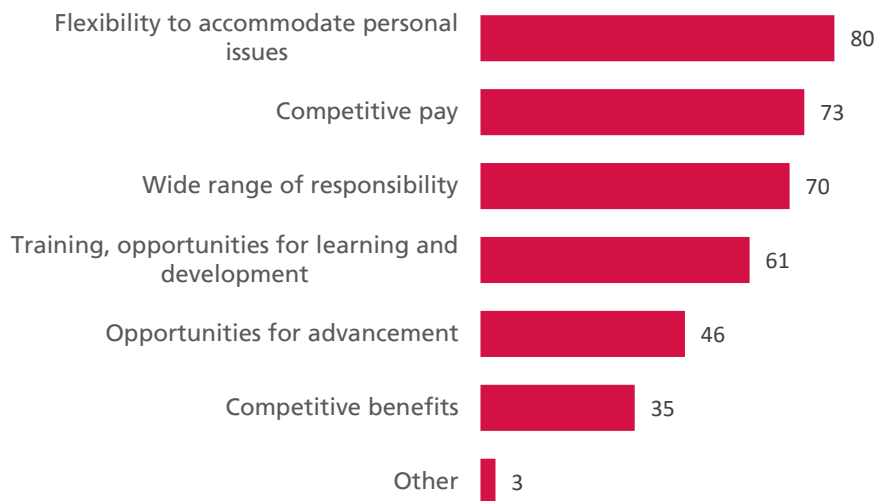
Which of the following have been most important to the success of your business? (%)



Source: CFIB, Small Business and Labour Survey, May 2015, 99 responses in Newfoundland and Labrador.

Chart B:

Which of the following does your business offer to employees? (%)



Source: CFIB, Small Business and Labour Survey, May 2015, 99 responses in Newfoundland and Labrador.

Appendix II

NL Economic and Fiscal Profile

NL Economic and Fiscal Profile

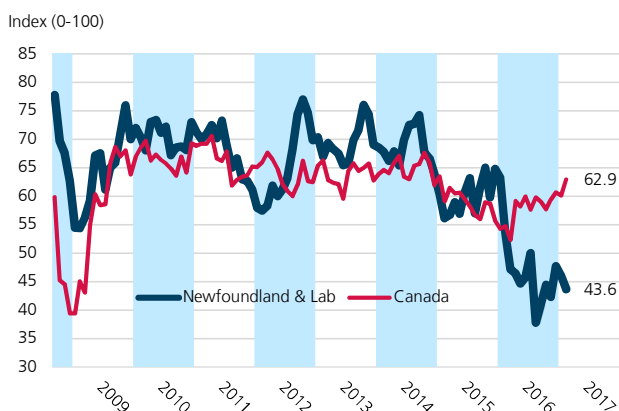
The Newfoundland and Labrador economy is heavily dependent upon the mining and oil and gas industries. In light of lower oil prices and mineral prices, particularly iron ore, there has been a decline in activity in those industries, which has resulted in a prolonged recession. Newfoundland and Labrador is a net importer and the economy is substantially driven by private consumption.

The mining and oil and gas industries accounted for 29 per cent of the provincial economy in 2015, though it represented less than five per cent of employment in the province. The top three industries employing the most people in 2015 were health care and social assistance, retail trade, and construction.

Unemployment in Newfoundland and Labrador increased in 2016, as businesses continue to adjust to a slower economy and the effects of the provincial government's fiscal policy. Vacancy rates are showing very slight declines, which indicates a disconnect in the labour market. The provincial labour market is broken down as follows: small- and medium-sized business (<500 employees) - 49 per cent, large business - 25 per cent, and public sector - 26 per cent.

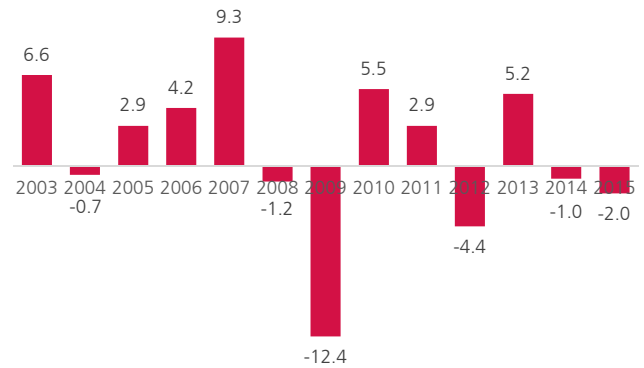
Newfoundland and Labrador's fiscal situation is the worse of any province in the country. The province's deficit in 2016 accounted for eight per cent of its GDP, which is nearly three-and-a-half times higher than Alberta's ratio. The province's per capita own source revenues, an indication of its fiscal capacity, was the third highest in the country in 2016 (one can expect this figure to increase as a result of the provincial government's fiscal decisions). Newfoundland and Labrador's per capita expenses (\$13,763) in 2016 were the highest in the country. Net debt per capita (\$23,896) in the province in 2016 was the highest in the country and is expected to grow significantly as the government projects multi-year deficits and borrowing to finance operations and infrastructure projects, like Muskrat Falls.

Figure 3: Business Barometer (March 2017)



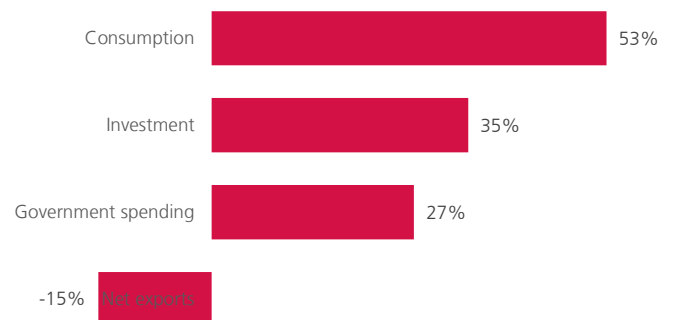
Source: CFIB Monthly Business Barometer

Figure 1: Gross Domestic Product (2003-2015)



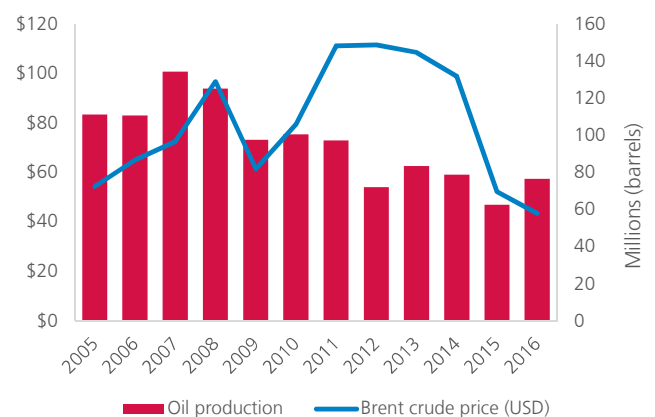
Source: Statistics Canada, CANSIM 384-0038, NL data, CFIB analysis

Figure 2: GDP by component (2015)



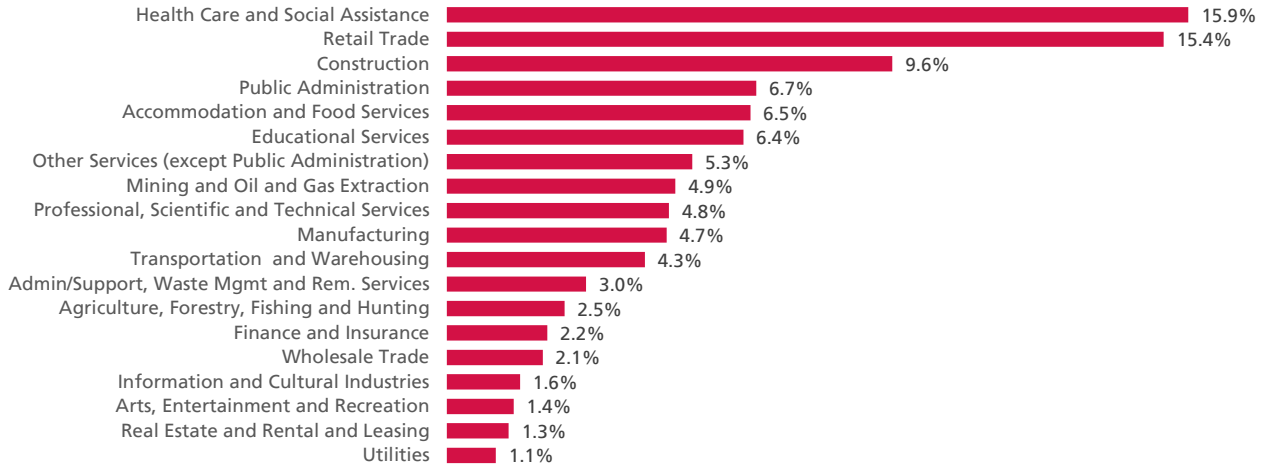
Source: Statistics Canada, CANSIM 384-0038, NL data, CFIB analysis

Figure 4: Oil price and production (2001-2015)



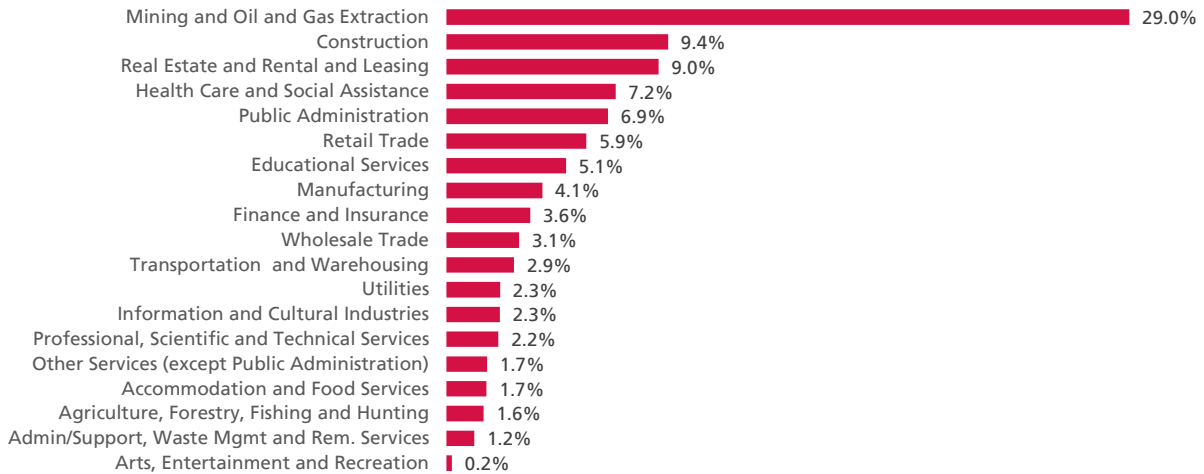
Source: NL Statistics Agency, Total Oil Production, Barrels, NL data
CFIB analysis of US Energy Information Administration data,
(www.eia.gov/dnav/pet/hist/rbrtem.htm)

Figure 5: Employment by industry (2015)



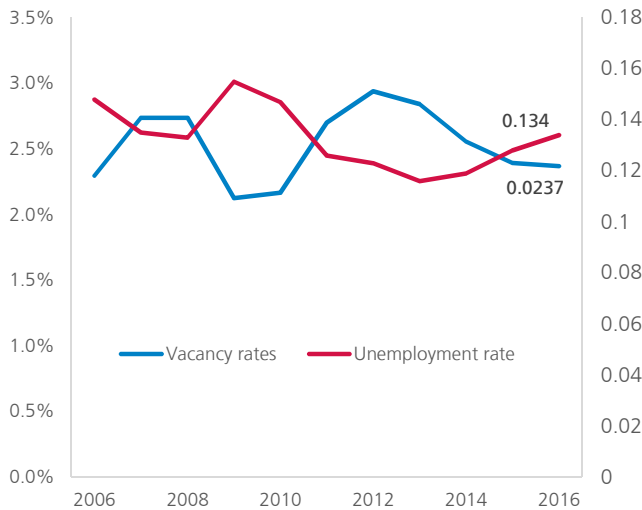
Source: Statistics Canada, Labour Force Survey, analysis of custom tabulation for CFIB, NL data

Figure 6: GDP by industry (2015)



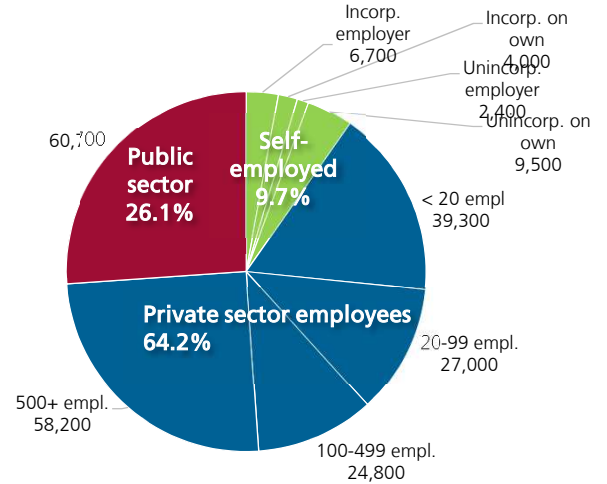
Source: Statistics Canada, Labour Force Survey, analysis of custom tabulation for CFIB, NL data

Figure 6: Vacancy and unemployment rates (2016)



Source: CFIB, Help Wanted; NL Statistics Agency, Annual Average Unemployment Rate, Canada and Provinces, 1976-2016

Figure 7: Type of employment (2016)



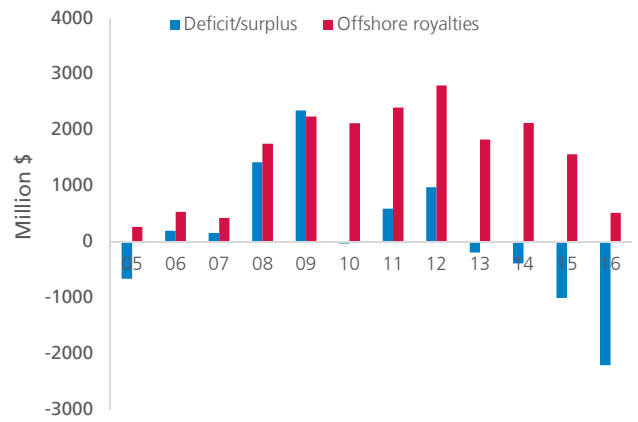
Source: Statistics Canada, Labour Force Survey, analysis of custom tabulation for CFIB, NL data

Figure 8: Revenue and Expenses per GDP (2005-2015)



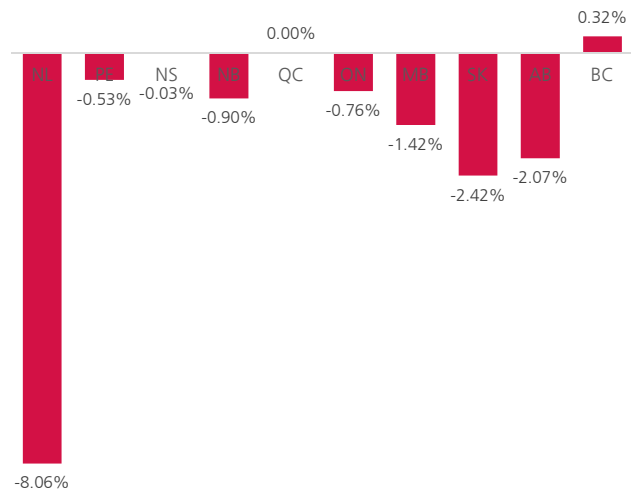
Source: CFIB analysis of Government of Newfoundland and Labrador Public Accounts (Volume I) 2005-2016

Figure 9: Deficits and oil royalties (2005-2016)



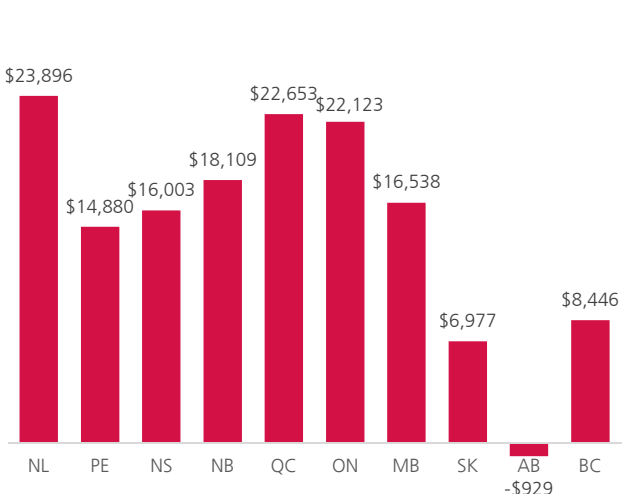
Source: CFIB analysis of Government of Newfoundland and Labrador Public Accounts (Volume I) 2005-2016

Figure 10: Deficit / GDP (2015, by province)



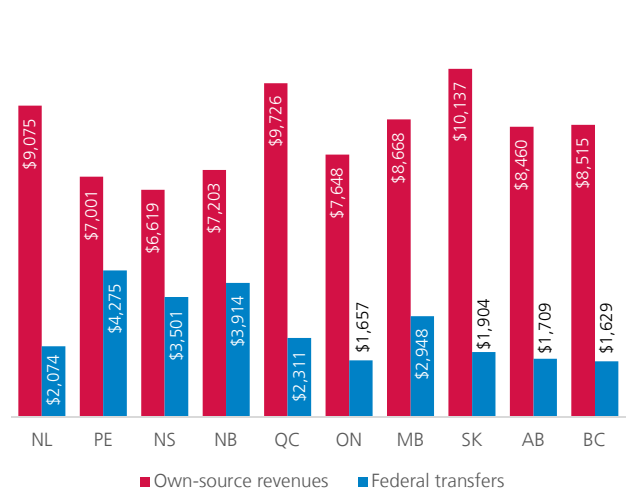
Source: CFIB analysis of Provincial Government Public Accounts; Statistics Canada, CANSIM 384-0038, NL data

Figure 11: Net debt per capita (2016, by province)



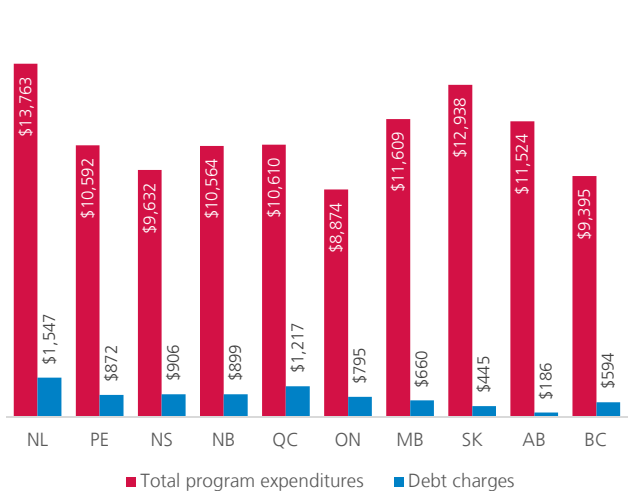
Source: CFIB analysis of Provincial Government Public Accounts

Figure 12: Per capita revenues (2016, by province)



Source: CFIB analysis of Provincial Government Public Accounts

Figure 13: Per capita expenses (2016, by province)



Source: CFIB analysis of Provincial Government Public Accounts