Considering the Layered Costs of Government Policies

Issue

Government policies are making it harder for businesses in Alberta to succeed. In the Calgary Chamber's Fall 2017 Business Leader Market Perceptions survey, more businesses (31%) indicated government regulations and taxes as a challenge to their business than any other factor.

It isn't just one specific policy, from one specific level of government that is making it harder to run a business. Rather a myriad of policies, from all three levels of government, are layering costs on the business community. By making it harder to run a business, this "layered cost impact" is resulting in fewer job opportunities, higher prices, and is discouraging investment. It is reducing the ability of current businesses to expand and new businesses to start-up. And by making it harder to run a business during an economic downturn, these costs have contributed to the permanent closing of Alberta businesses.

Background

There are numerous policies that have been implemented by all levels of government that have been driving up business costs. As illustrated in the table below, when considering higher minimum wages, rising municipal property taxes, and Alberta's carbon levy, it's clear that businesses are facing significant cost increases. [1]

Layered cost impact for Calgary businesses by industry – Cost increase between 2016 and 2018[2]

Industry	Median Cost increase
Transport and Delivery	$856,727
Restaurant and Hospitality	$60,710
Retail	$7,643
Service Providers	$2,680

Analysis by the Edmonton Chamber also illustrates the large costs facing Alberta businesses from all levels of government. Using KPMG's 2014 Alternatives data, the Edmonton Chamber estimates Edmonton

[1] For full analysis and methodology see Calgary Chamber of Commerce, "The layered costs of government policies," December 2017, https://www.calgarychamber.com/wp-content/uploads/2018/02/Report-Layered-Cost-Impact.pdf.

[2] In some industries, the layered cost increase is less than the cost due to a specific policy. This is because certain businesses within the industry are impacted significantly by an individual policy, while other businesses in the industry were not impacted, or saw a reduced property tax bill. Thus, when all businesses and policies are compared in the layered cost figures, lower cost businesses and policies pull the median down in certain industries.

manufacturing and corporate services sector businesses will see their costs increase by $336,000 between 2014 and 2018 due to policies implemented at the federal and provincial level. [3]

The rest of this section will outline various policies, from all levels of government, that have been driving up business costs and reducing Alberta's competitiveness.

Increased business taxes

At the federal level, recent tax changes targeted at Canadian Controlled Private Corporations (CCPCs) could increase the overall tax burden facing family businesses, likely reduce the available funds that can be reinvested in the business community,[4] and increase the complexity of the Canadian tax system. These changes have been implemented in addition to other federal tax changes that have increased business tax obligations. For example, beginning in 2016 the tax rate on investment income earned within a CCPC increased by 4 percentage points.[5]

Alberta businesses are also facing greater tax burdens at the provincial level. While Alberta had the lowest corporate income tax rate in 2014, after increasing by 2 percentage points, Alberta's corporate income tax rate is now tied with Manitoba for fifth highest in Canada.[6]

Along with tax increases at the federal and provincial levels, many businesses in Alberta are facing greater tax burdens from their municipal governments. For example, in 2017, approximately 6,000 Calgary businesses outside the downtown core saw their property taxes increase significantly as the increasing downtown vacancy rate led to greater tax burdens for businesses in surrounding communities. Some businesses reported a tax increase as high as 200%. Although property tax relief helped mitigate these costs, businesses will likely face similar future increases if the underlying issues are not addressed.

While Canada's tax system continues to impose greater costs on business, other jurisdictions are taking significant strides to improve their tax competitiveness. Due to the recently enacted *Tax Cuts and Jobs Act*, the U.S. marginal effective tax rate on new investments – considering corporate income tax rates and deductions, sales taxes on capital purchases, and other capital-related taxes – will significantly decrease. In fact, the U.S. aggregate METR decreased from 34.6% to 18.8%, below Canada's METR of 20.3%.[7]

Rising labour costs

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[3] Edmonton Chamber of Commerce Calculations in "Considering the Cumulative Effect of Cost Increases from all Levels of Government," Alberta Chambers of Commerce Policy Book 2015-17 Policy Book, https://chambermaster.blob.core.windows.net/userfiles/UserFiles/chambers/2087/CMS/2017_Policies/2015-17-Policy-Book.pdf. Data retrieved from KPMG, "Competitive Alternatives," https://www.competitivealternatives.com/default.aspx.

[4] Legislation on passive investment tax planning strategy will be announced in the 2018 federal budget, released on February 27, 2018.

[5] "Corporate income tax rates," Deloitte (2017), https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/tax/ca-en-tax_2013-2017%20Corporate%20income%20tax%20rates_AODA.PDF.

[6] This is before any provincial budgets have been announced in 2018. For full analysis on Alberta's relative tax advantage compared to other provinces see: Ben Eisen, Steve Lafleur, Milagros Palacios, "The End of the Alberta Tax Advantage," Fraser Institute (January 2017), https://www.fraserinstitute.org/studies/end-of-the-alberta-tax-advantage.

[7] Fred O'Riodran and Jack Mintz, "How US Tax Reform will Affect Canada's Competitiveness," EY (2018), http://www.ey.com/Publication/vwLUAssets/EY-US-tax-reform-Canada-competitiveness-final-en/$FILE/EY-US-tax-reform-Canada-competitiveness-final-en.pdf.

At the federal level, the expansion of Canada Pension Plan will require businesses to make greater contribution beginning in 2019. Changes to Canada's employment insurance system could also result in greater premium costs.

At the provincial level, Alberta businesses are facing many changes that will increase the cost of labour. Alberta's minimum wage, when fully implemented, will have gone up 47% in just three years. Compared to 2016, the median cost increase that an impacted Calgary restaurant and hospitality business surveyed in Chamber's layered cost assessment will face due to the minimum wage is $51,720.

However, by only considering the higher costs to pay minimum wage staff, this calculation does not illustrate the full cost to business due to minimum wage increases. When the minimum wage increases, employees that are higher-up the pay scale also look for a raise, including some managers that are not the intended target of the policy. During the Calgary Chamber's layered cost consultations, 52% of businesses indicated that they also increase wages to higher paid staff when the minimum wage increases.

The minimum wage increase represents a clear example of how greater costs on business is resulting in unintended consequences for the broader community. During the Calgary Chamber's layered cost consultations, 55% of businesses surveyed with minimum wage staff reported staff layoffs due to the minimum wage increase. 36% of all businesses surveyed indicating they would likely need to layoff staff when the minimum wage reaches $15 this fall.

Alberta businesses will also be impacted by the province's newly legislated Bill 17: The Fair and Family-friendly Workplaces Act. Bill 17 makes it possible to certify a union without an employee vote, allows employees to be automatically eligible for paid and unpaid holidays even if the holiday does not land on a regular work day, and mandates overtime be banked at 1.5 hours for every hour worked. In 2017, the Alberta Government also passed Bill 30: An Act to Protect the Health and Well-being of Working Albertans. Bill 30 will result in new costs and administrative burdens for businesses due to expanded employer obligations, the elimination of a maximum insurable earnings cap, and the expansion of worker compensation benefits.

Greater costs from energy regulations

Alberta businesses are also facing greater costs from Alberta's carbon levy, which is currently set at $30/tonne of C02. The median cost increase for impacted restaurants and hospitality businesses surveyed in the Calgary Chamber's layered cost assessment due to the carbon levy in 2018 is $36,408. The federal government has implemented a carbon pricing backstop, mandating Alberta's carbon levy to rise to $50/tonne of C02 by 2022.

While 73% of businesses surveyed in the Calgary Chamber's layered cost assessment indicated that their costs will increase due to the carbon levy, only 21% of those businesses plan on passing the carbon costs to their customers. With the recent economic downturn, many small and medium-sized businesses do not believe that their customers can, or are willing to pay higher prices. Therefore, they are reluctant, or unable, to pass the cost increases on to their customers. Many business owners – along with their workers and investors – have had no choice but to "eat" a large portion of the costs. In many circumstances, the higher costs paid by the business means there is less available funds to reinvest in wage, job, or business growth.

A price on carbon may be the most cost-effective way to reduce GHG emissions. However, Alberta's carbon levy has been put in during tough economic times, is creating market distortions, and is being layered on top of other regulations and interventions including a total limit on oil sands emissions, methane standards, and a mandated coal phase out.

The Alberta Chambers of Commerce recommends the Government of Alberta and the Government of Canada:

1. Consult businesses on policy changes, and undertake a “layered cost assessment” as part of the policy development process.
2. Look for business-centred solutions when attempting to achieve social policy objectives. The Alberta Government can achieve this by:
    a. Stopping minimum wage increases until an in-depth analysis can be completed on its impact on provincial economic activity and employment. The Alberta Government could, instead, consider targeted approaches to poverty alleviation including an expansion of the Alberta Family Employment Tax Credit to cover the full demographic of low-income working Albertans. And;
    b. Taking a more balanced approach to the Climate Leadership Plan by recycling a greater portion of the carbon levy’s revenue by offsetting corporate income taxes, limit market distortions created by subsidy programs, and use the carbon price to substitute, rather than add on to existing regulations.