Considering the Cumulative Effect of Cost Increases from all Levels of Government

Issue

Policy shifts from the federal, provincial and municipal governments are increasing the cost of doing business in Alberta. Without strong consideration of the negative impacts caused by layering-on multiple cost increases, these policies may lead to dire unintended consequences for Alberta's business community.

Background

There are numerous policies that have been enacted or proposed by all levels of government. Each have a compounding effect and should be considered together when looking at Alberta's economic environment. The following is a list of policies that will have an impact to our business community.

PROVINCIAL:

Since the May 2015 election, the Government of Alberta has swiftly enacted several key platform policies and announced medium-term policy shifts:

- The *Specified Gas Emitters Regulation* (SGER) sets out the price on greenhouse gas emissions (GHGs) for large emitters and the percentage of emissions that need to be decreased or paid for. Announced increases will more than double the cost of SGER compliance for large emitters like oil & gas operations, refineries, cement facilities, power plants, and fertilizer producers;
- Alberta will be introducing a carbon tax that will see a tax increase of 7 cents per litre of gasoline by 2018, along with similar increases for other transport and home heating fuels. Some businesses and individuals will receive rebates to lessen the burden of the tax, although it is not yet clear which will qualify; and,
- By 2030, Alberta will retire all coal-fired power plants and increase the province's renewable electricity generation to 30% of the overall supply, which has the potential to increase electricity prices significantly.
- Corporate tax rates increased from the long-standing rate of 10% to the new rate of 12%;
- Personal income tax rates increased for all individuals with incomes over $125,000;
- The province is negotiating city charters with Edmonton and Calgary, these charters may include new tax powers for both cities;
- Locomotive fuel tax increased by 4₵ per litre;
- Insurance premiums tax increased by 1%;
  and,

- Minimum wage increased by $1/hour in October 2015 to $11.20/hour, and will increase to $15/hour by 2018, a 47% increase from the 2014 rate of $10.20.

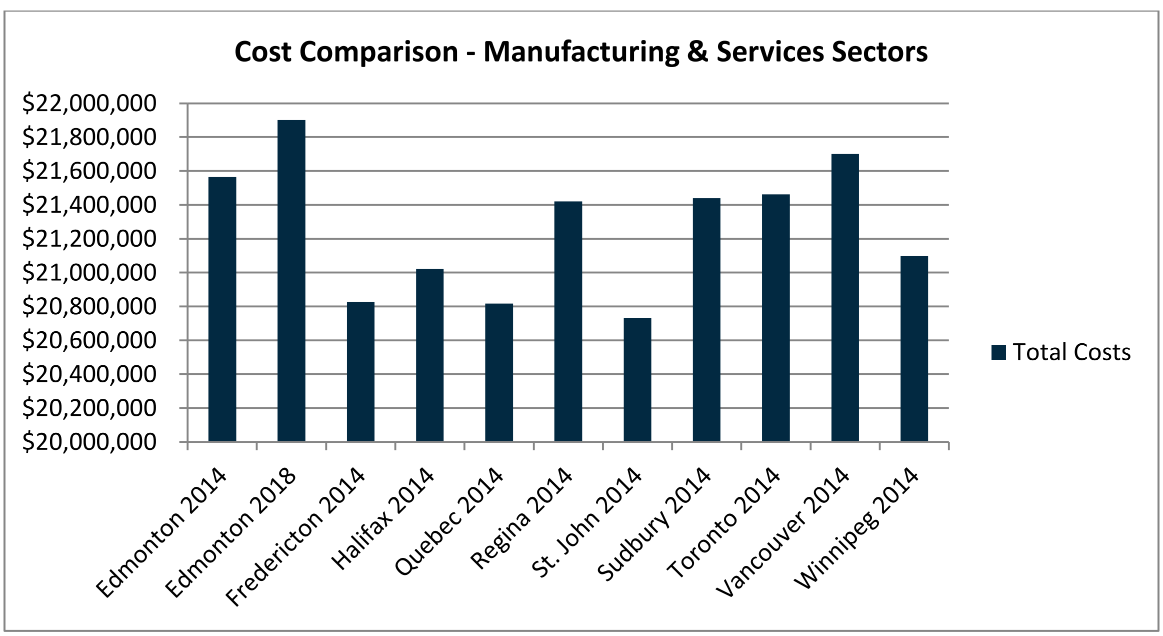
FEDERAL:

Through the Government of Canada's 2016-17 budget, along with other announcements, we can see policy initiatives that that may increase costs for businesses:

- **Small business tax rates were set to drop by 2%, this has now been changed to a 0.5% decrease;**
- Expanding the Canada Pension Plan could increase employer contributions;
- Increasing the Canadian-controlled private corporation investment income surtax by 4%;
- Changes to the Employment Insurance system could result in further increases to the costs of premiums for employers;
- Personal income tax rates have increased by 4% for those earning more than $200,000 annually;
- Changing focus to family unification in immigration policy, which may limit employers' ability to attract qualified workers through the immigration system; and,
- Recent changes to the National Energy Board's approval process, which may significantly increase the time needed to review and approve energy projects.

Comparative Analysis

Using KPMG's 2014 Competitive Alternatives data[1] on the manufacturing and corporate services, research & development services and digital services sectors, we can project the impact these new costs will have on typical businesses across Canada and the world.
This case study will use aggregated KPMG data on Edmonton-based manufacturing & corporate service firms, compared with KPMG's data from other major Canadian cities (Fredericton, Halifax, Quebec City, Regina, St. John, Sudbury, Toronto Vancouver and Winnipeg). Using Edmonton as an example, we can get a clear picture of how attractive Alberta jurisdictions are for capital investment.



[1] http://www.competitivealternatives.com/

Edmonton is not starting in a strong competitive position. Only Vancouver was more expensive in 2014. Once all the announced policy shifts are taken into account (which translates to a $336,000 cost increase by 2018), Edmonton ranks dead last. Of the major Canadian cities included in KPMG's data, Edmonton would become the most expensive jurisdiction in which to open a manufacturing or corporate services operation.

These impacts are not limited to the business community. Not-for-profits and community service organizations are exposed to these same cost increases. Albertans-at-large will also feel the squeeze. The new carbon tax, increased personal tax rates and higher property taxes all mean new costs on Albertans at a time when unemployment is at its highest since 2010[2]. This impact will also be felt in other areas of the country. As the 3rd largest economy in Canada, poor performance in Alberta will continue to impact jobs in other provinces.

With persisting low oil prices and the subsequent downturn in our energy sector, the ripple effect is being felt throughout the province and country. Simply put, tens of thousands of layoffs mean that less income is available to spend on groceries, restaurants, vehicles, housing, entertainment, tourism and consumer goods. Many businesses are closing their doors and laying-off their employees. Many other businesses are increasing prices to offset new costs, which increases the financial burden on consumers. This has taken a toll – **both personal and business insolvencies have increased by over 30% in Alberta since 2014[3].**

All three levels of government must think long and hard about the economic consequences of future policy decisions. While any single initiative may seem to have a negligible impact, the layering-on of multiple cost increases can lead to businesses closing up shop or relocating – especially at a time when layoffs number in the tens of thousands and capital investment is in decline.

In both good times and bad, governments should foster a strong climate for diverse economic activity. At a time when Alberta's communities need capital investment from many sectors to create new jobs and offset the economic downturn in oil and gas, our competitive advantage is more important than ever. Policymakers across all levels of government should be focused on making us more competitive, not less.

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

1. Publish an economic impact assessment for proposed major policy shifts, which takes into account other cost increases from all levels of government and shows the impact these decisions will have on businesses in the region;
2. Analyse what actions other jurisdictions are taking to maintain competitive advantages;
3. Review current government expenditures to find efficiencies from within before putting more on the shoulders of the business community; and,
4. Examine existing policies to determine the impact they have on the business environment and ascertain what changes need to be made in order to mitigate harmful unintended consequences for business and investment.
5. Work in consultation with the Alberta Chambers of Commerce when publishing details that impact business as referred to in the previous recommendation.

[2] http://www5.statcan.gc.ca/cansim/a47

[3] https://www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br03467.html