

Building on balance

Small business priorities to support growth in 2019

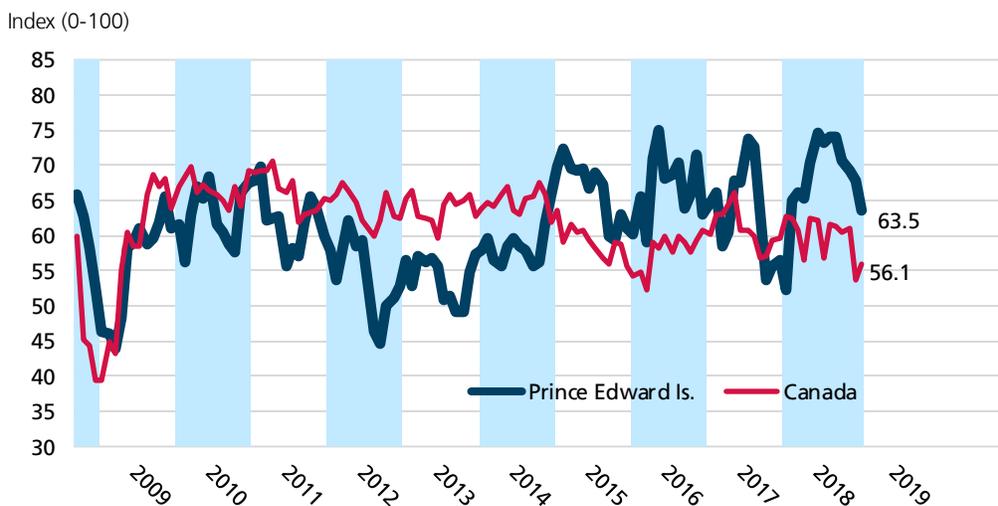
Erin McGrath-Gaudet, Director, PEI & Intergovernmental Policy

If there is one theme consistently heard of from small business owners on PEI, it is that they are feeling squeezed. Even with a strong economy, labour, regulatory and cost pressures are adding up for Island entrepreneurs. A balanced budget position provides the province with an opportunity to improve economic fundamentals and help set local businesses up for future success.

State of Island small business

Notably, the Island economy has been performing well by many indicators. While optimism has been cooling in recent months, which is not uncommon given the seasonal nature of many of our main industries, CFIB’s Business Barometer® continues to show PEI outperforming the national average (see Figure 1).

Figure 1:
Business Barometer®, January 2019



Source: CFIB’s Business Barometer Index, January 2019

This strong performance has been a major contributor to the provincial government's strong revenue returns and ability to post surpluses in the 2017-18 fiscal year and a projected surplus for 2018-19.

While the economy has been strong, that should not be taken as an indication that there are not challenges facing Island entrepreneurs.

Labour

Small business owners are having a harder time finding the labour they need. Looking at CFIB data, the shortage of skilled labour is now the most significant limitation on growth for Island businesses (34%) with an additional 19 percent indicating a shortage of unskilled or semi-skilled labour (see Figure 2). This comes in many forms such as seasonal businesses struggling to find a sufficient number of workers for their busy season or to remain open during the shoulder season, struggling to find workers with the right skill set or replacing the experience of a retiring worker or finding it a challenge to offer wages that can compete with other provinces while balancing the cost pressures that are also facing their clients and customers.

Figure 2:

Limitations on sales or production growth (% response)



Source: CFIB, Business Barometer, January 2019. PEI results.

Immigration has helped fill some of these gaps, however, it is not likely that immigration alone will completely offset the impact of retiring workers in the coming years.

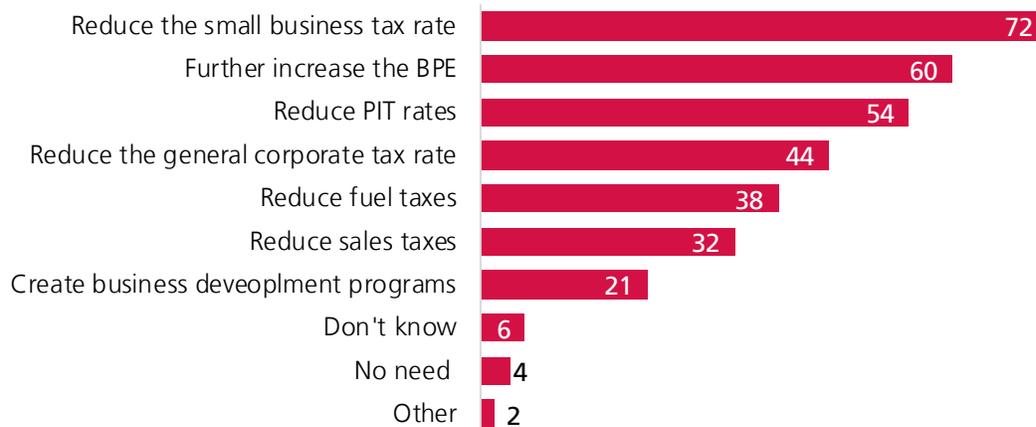
Taxes

There have been a host of tax changes that have either recently been introduced or are beginning to be phased-in. While some will have a positive impacts (like the provincial reduction to the small business corporate tax rate), others are adding to the burden like carbon pricing, CPP increases and federal tax changes that restrict access to the small business tax rate.

When asked about the best ways the provincial government can help offset the impact of CPP increases, the top responses were reducing the small business corporate tax rate (72 percent) or changes to the personal income tax system, either increasing the basic personal exemption (60 percent) or reducing rates (54 percent) (see Figure 3).

Figure 3

What are the best ways for the provincial government to help offset the impact of CPP increases? (% response)

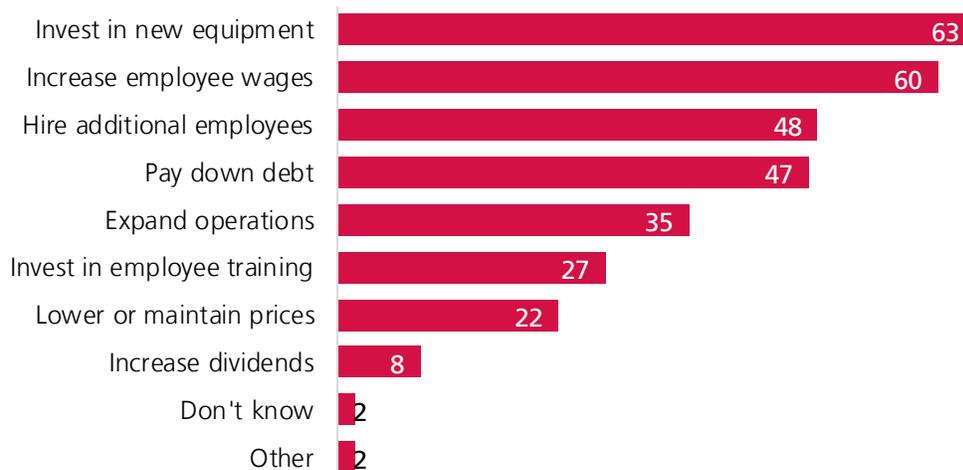


Source: CFIB, PEI Pre-budget Survey, October-November 2018. n=114

It should be noted that small business owners indicate tax savings are put to very productive uses in their businesses like investing in new equipment (63 percent) or increasing employee wages (60 percent) (see Figure 4).

Figure 4

If the provincial government were to reduce taxes, how would you use the savings in your business? (% response)



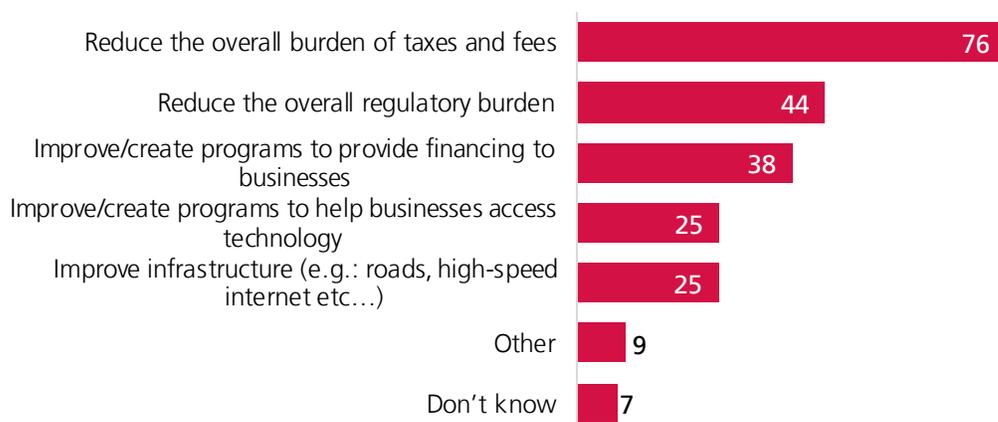
Source: CFIB, PEI Pre-budget Survey, October-November 2018. n=114

Red Tape

Obviously some level of regulation is beneficial to create a fair business environment and safe, healthy communities, but it is also vital that regulations and paperwork don't cost businesses more time and money than they are worth. When asked about the best ways for government to help small business owners invest in their operations, the top response was to reduce taxes (76 percent) followed by reducing the regulatory burden so that entrepreneurs can spend that time and money on their own operations (44 percent) (see Figure 5). While PEI has a number of strong examples of efforts to cut red tape, it has lacked a strategic focus and important accountability and evaluation criteria as has become best practice in other jurisdictions.

Figure 5

What are the best ways for governments to help you make investments in your business? (% Response)



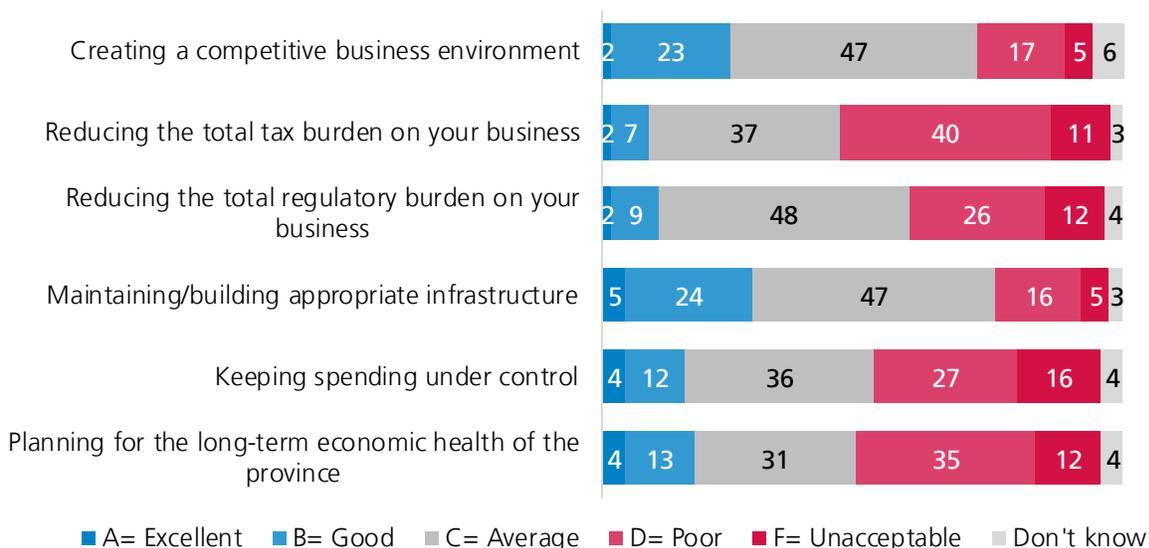
Source: CFIB. *More with Less*, 2018.

Grading Government's Performance

In late 2018, CFIB asked its members to grade government's performance on a number of different small business priorities (see Figure 6). The results show that small business owners see significant room for improvement.

Figure 6

How would you grade the provincial government's performance when it comes to the following? (% response)



Source: CFIB, PEI Pre-budget Survey, October-November 2018. n=114

In most categories, the province's overall scores rate as average with slightly better scores in areas such as "maintaining and building appropriate infrastructure" and "creating a competitive business environment." At the lower end approximately half of business owners surveyed gave poor or unacceptable marks for "planning for the long-term economic health of the province" and "reducing the total tax burden on my business" and there were more negative ratings than positive ones for "keeping spending under control" and "reducing the total regulatory burden."

Member comments:

"Overall, we believe the current government would prefer private businesses conform to cookie-cutter/pre-built programs and supports they designed for private business, rather than actually asking about or adapting to the actual, real-world day-to-day needs of private business. Slow pace combined with bureaucratic processes are inconvenient, cumbersome, and downright inefficient."

"The personnel working with Innovation PEI are responsive and helpful. Despite a difference in political perspective, I think the current government has done reasonably well in fostering a business environment."

"I continue to be very concerned with PEI's debt, now the third largest expense after medical and education! There seems to be no concerted effort to reduce our debt, other than hope to continue to grow GDP."

Recommendations

Looking at areas small business owners see need for improvement, CFIB would recommend government take actions to improve the long-term fiscal picture for PEI, the competitiveness of our tax system, modernize our regulatory environment, and adjusting to a tighter labour market.

Long-term fiscal health

Recent years have shown improvement in the fiscal health of the province. Notably, net debt figures improved last year both in per capita terms and as a percentage of GDP. The return to a surplus position is also encouraging as the province has long struggled with balancing budgets even in reasonably good economic conditions. But when one takes a longer view of our current fiscal position, there are more indicators that show the province struggling with fiscal sustainability. Over the past 10 years, low interest rates have allowed the province to significantly increase net debt without seeing much impact in debt service costs, government revenues are taking a larger chunk of the province's GDP, and per capita spending has shown average annual increases in excess of inflation. While continuing to balance the budget is important, these are also areas where the province needs to focus in order to improve the future sustainability of the province's finances.

1. Look beyond achieving a balanced budget and continue to focus on spending restraint to ensure that debt is contained and that overall spending is sustainable over the long-term;
2. Look to increased regional cooperation as a means of finding spending efficiencies as is currently seen in areas of health care and joint procurement initiatives;
3. Conduct a future-looking analysis of the province's finances to ensure challenges such as the aging population are factored into today's spending and program decisions.

A tax system that encourages growth

To give credit where it is due, CFIB has been pleased to see positive tax announcements at the provincial level on PEI. This is not something that many jurisdictions can boast. But while there have been steps in the right direction, PEI continues to be a higher-tax jurisdiction. The implications of this hit businesses, individuals, and the economy. Also, it must be noted that while the province may have improved the tax picture in some areas, increases to Canada Pension Plan (CPP) premiums and carbon pricing are having an opposite impact.

1. Set a multi-year plan to make our small business tax rate the lowest in Atlantic Canada.¹

¹ Small business corporate tax rates in Atlantic Canada: New Brunswick=2.5%, Nova Scotia= 3%, Newfoundland & Labrador= 3%, PEI (as of January 1, 2019)=3.5%

2. Examine and adjust personal income tax exemptions and brackets and introduce automatic indexation to inflation so that their value doesn't continue to erode over time.
3. Conduct a thorough tax review with competitiveness in mind. In particular, attention should be paid to having corporate and personal income tax systems to allow Island businesses funds to invest back in their operations and individuals more take-home pay.

A modern regulatory environment

While there are some encouraging examples of work happening in PEI and with our regional partners to modernize government's relationship with businesses, overall progress has fallen short of modern day best practices and the efforts being seen in other jurisdictions.

1. Implement the measures set out in the *Regulatory Accountability and Reporting Act*, including guidelines for developing and assessing regulations (e.g. considering non-regulatory options, measuring the costs and impacts of the regulation, and cost-for-cost model where the introduction of new regulations includes an offset)
2. Introduce a broad-based measure to evaluate the current regulatory burden on the Island and ensure that regulatory reduction efforts are contributing to an overall reduction for Island businesses.
3. Explore launching a Business Navigator service in PEI based on the current Nova Scotia model which helps business, particularly new businesses, navigate the demands of governments.

Adjusting to a tight labour market

While increased immigration is easing some of pressure of an aging and retiring population, challenges remain. A recent CFIB report found that one-in-five Atlantic Canadian small business owners are considering cancelling growth plans because they struggle to get the workers they need.² Considering PEI's historic challenges with economic growth, it is vital we create an environment where small businesses can adapt to the reality of a tighter labour market.

1. Continue a strong focus on immigration, including provincial nominee streams that target the workers that small businesses need. This includes workers at lower-skill levels.
2. Support private sector efforts to adapt to a reality where labour is increasingly scarce. Small business owners say the best way government can support their productivity is by reducing the tax burden so they can invest in more efficient technology and equipment and reducing the overall regulatory burden so they can devote that time and energy on their business.

² Ntwali, Raoul. [More with Less: Economic Growth with an Aging Population](#). CFIB, 2018.