CANADIAN FEDERATION OF INDEPENDENT BUSINESS
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The Long Road to Recovery

2022 Pre-Budget Submission

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On behalf of our 38,000 small- and medium-sized business members in all sectors across Ontario, we welcome the opportunity to share CFIB member feedback and recommendations leading up to the provincial government's 2022 budget.

Government-mandated lockdowns and restrictions related to the ongoing COVID-19 pandemic continue to hit Ontario's small- and medium-sized businesses hard. To begin 2022, many businesses have once again been forced to close their doors and put their operations on hold.

Confidence heading into the new year is low. More than a third of small businesses say they are discouraged about the future of their business heading into the new year. Only 28 per cent are making normal revenues for this time of year, and 19 per cent report they are actively considering bankruptcy or winding down their business as a result of the COVID-19 pandemic.

Many small businesses are still in survival mode, not yet in a position to embark on the road to recovery, which will be a long one. The fourth lockdown has caused economic gridlock, so it is crucial for the provincial government to ensure that this lockdown is the last one. Reopening businesses is only the first step. We continue to encourage the government to maintain the existing supports available to businesses, and to expand eligibility criteria to allow access by significantly impacted sectors and the firms that supply products and services to them. Providing adequate provincial supports would place as many businesses as possible in position for a strong recovery.

Current State of Ontario SMEs: CFIB's Business Barometer® and Small Business Recovery Dashboard

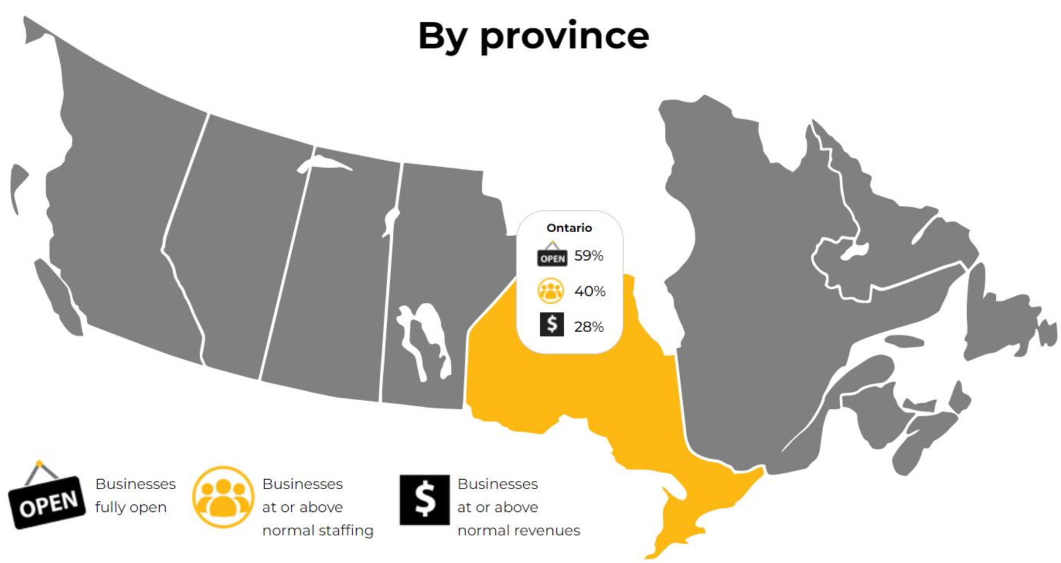
CFIB has been tracking business confidence on a monthly basis for a number of years. Our Business Barometer® index has proven to be a very accurate predicter of small and medium enterprise (SME) performance. Tracked against GDP, the Business Barometer® index closely reflects the state of the economy. Measured on a scale between 0 and 100, an index level above 50 means that owners expecting their business performance to be stronger over the next year outnumber those expecting weaker performance. According to past results, index levels normally range between 65 and 75 when the economy is growing.

The COVID-19 pandemic and related lockdowns and restrictions continue to take a toll on Ontario small businesses, and this shows in current business owners' expectations for both the short- and long-term. Over the course of the pandemic, Ontario's Business Barometer® Index scores have fluctuated. Ontario businesses' confidence appeared to be trending upwards through the final quarter of 2021 with many restrictions being lifted over time. However, the Omicron variant, lack of customers, and the Ontario government's decision to restrict business activities once again have led to a cratering in business confidence levels at the start of 2022. Ontario's small business confidence now sits at its lowest mark since May 2020 with the three-month index at 35.2 and the 12-month index at 56.3 for January. We will monitor this significant drop to determine if it becomes a trend in 2022.

Main Street businesses like small retailers, restaurants, gyms, dance studios, hair stylists and barbers once again bore the weight of government closures. By the time they reopen to half capacity on January 31, a Toronto gym will have lost 423 days to total closure since the pandemic began. Indoor dining in the city will have been closed for 436 days.

As of January 21, 2022, 59 per cent of Ontario businesses are fully open. Only 40 per cent are at normal staffing levels, and a dismal 28 per cent are at normal revenues for this time of year, coming off what are usually the best months of the year for many small businesses.

CFIB Small Business Recovery Dashboard



Source: CFIB, Small Business Recovery Dashboard, January 21, 2022

The Cost of Doing Business is Increasing

Cost of living increases are affecting both people and businesses in the province. In CFIB's October 2021 monthly survey, 76 per cent of Ontario small business owners said increasing costs associated with doing business are a major concern for their firm.

Inflation, Rising Input Costs, Debt and Revenue Challenges

High demand for goods and supply chain disruptions led to inflation hitting 4.4 percent in 2021. Almost two thirds (64 per cent) of Ontario small businesses point to supply chain challenges as a top concern for their business. Price increase plans, which hit 4.3 per cent in November 2021 – a record high since CFIB began tracking the data – remain elevated to start the new year.

Inflation isn't the only cost pressure small business owners are facing. Canada Pension Plan (CPP) premiums increased for the third straight year on January 1, 2022 and will increase again in 2023. The carbon tax is slated to increase on April 1, 2022. A tight labour market has put upward pressure on wages, with wage increase plans just off their November 2021 high, on top of the government-issued minimum wage increases and the abolition of the liquor servers' wage (resulting in a 20% wage increase for liquor servers) during yet another province-wide shutdown.

In addition, 70 per cent of the province's small business owners say that commercial insurance premiums increased for their business in 2021. Commercial insurance premiums have skyrocketed for some businesses. An Ottawa restaurant saw premiums jump from $30,000 to $55,000 last year, despite being closed or facing capacity limits for most of the year. A Guelph restaurant saw monthly premiums quintuple; a marina owner in central Ontario saw premiums septuple.

Small business debt levels have also ballooned over the course of the pandemic. On average, Ontario small businesses have taken on well over six figures in COVID-related debt alone – debt they did not have before the pandemic started. They report that it is going to take two-plus years to pay off. It is crucial that government does not add to this debt as businesses struggle to recover.

All these rising costs form the small business backdrop against which government decisions around imposing new costs must be weighed.

Revenue Challenges and Consumer Confidence & Consumption

While we continue to encourage the Ontario government to increase and expand supports for small businesses directly or indirectly affected by the ongoing pandemic, it is extremely important to help businesses get to self-sufficiency. Reopening to full capacity as quickly as possible is crucial; however, simply reopening the economy will not be enough on its own for businesses to get back to normal revenue levels.

Throughout the pandemic, many businesses have continued to struggle to get customers through their doors. Government has consistently emphasized the importance of staying home and limiting contacts outside the household. This messaging has always been at odds with economic recovery.

This past summer, 95 per cent of business owners said that they want their politicians to encourage customers to support local, independent businesses. Government officials must urge people to get out and support the businesses in their community. Until the government is able to confidently tell consumers to pack restaurants, stores, theatres and other businesses, consumer confidence will remain low and so will businesses' odds of recovery.

Recommendations:

- **Do not introduce any new costs (tax increases, fees, etc.) on small businesses.**
- **Explore options to work with the insurance industry on reducing commercial insurance premiums.**
- **Extend the tax deferral period beyond June 2022 and commit to a plan that does not involve an immediate lump-sum payment and interest when the deferral period expires.**
- **Avoid any future lockdowns and business restrictions, and lift remaining restrictions as soon as possible.**
- **Refocus government messaging and communications on strongly encouraging people to get out and informing them that in-person shopping and services are safe.**
- **Explore using rapid testing to boost consumer confidence and help hard-hit businesses like restaurants, gyms and event spaces get and stay open.**

Business Supports

Earlier this month, the Ontario government announced the Ontario COVID-19 Small Business Relief Grant for small businesses that were closed under the modified Step Two of the Roadmap to Reopen.

While this is welcome news that will provide some help to businesses that were fully closed, far too many businesses will not be eligible. Capacity restrictions, remote work and government Omicron messaging are dramatically affecting other businesses that need in-store customers to survive, as well as the firms that supply products and services to them. Dry cleaners have been considered essential throughout the pandemic, yet with mandatory work-from-home orders, they have seen as much as 95 per cent of their business disappear in major urban centres. Businesses that feed into the restaurant supply chain, like butchers and farms, are severely limited when restaurants are forced to close indoor dining. Commercial cleaners and security companies see a pause on services when their business customers are shut down.

Six in 10 Ontario business owners feel that helping small businesses hit by the pandemic should be a top priority for the provincial government, while 43.7 per cent believe the government should increase grants and funding for small businesses.

Ontario's energy and property tax rebate program will be helpful, but only to eligible businesses. As with the relief grant, access should be expanded and the program should remain in place at least until the economy is fully open and unrestricted.

The Ontario government must consider the needs of all businesses affected by lockdowns, capacity restrictions and other factors related to government-mandated restrictions that affect businesses' ability to operate and generate revenue. Just because a business is not locked down or restricted, doesn't mean they don't need the help after almost two years of constant on- and off-again restrictions. All impacted businesses still need provincial support to help them reach the COVID-19 finish line.

Recommendations:

- **Expand provincial program eligibility requirements to include all businesses directly and indirectly affected by the pandemic.**
- **Ensure supports remain available throughout the entire recovery period.**

Labour Challenges

A shortage of labour was the top small business issue in the province before the COVID-19 pandemic. This issue re-emerged and gained traction as the pandemic dragged on. In November 2021, 55 per cent of businesses indicated that they were experiencing labour shortages: either they did not have all the staff required, or they could not get the staff needed to expand or meet new demand.

CFIB's Labour Shortage Report finds that in addition to the upheaval the pandemic has caused, shifting demographics and a changing labour market, among other factors, are contributing to the labour shortage. Many business owners have tried to adapt by increasing wages, benefits, and other compensation; however, many have found such measures do not adequately address the lack of available, qualified labour.

In September 2021, 82 per cent of small businesses that were experiencing labour shortages said they raised wages. However, of those businesses, only 22 per cent said the increase helped them, while 47 per cent said it had not helped, and 31 per cent said it is too early to tell. Meanwhile, despite these increases, 60 per cent received no qualified applicants, or no applicants at all.

This has left a gap for many small business owners that could prolong the recovery period if it is not addressed. The government has done well moving on measures to make it easier for skilled immigrants to get licensed and work in professions that match their areas of expertise. To further advance this work, we encourage adopting the latest labour mobility bill out of Alberta that provides for mutual recognition of certifications for a number of professions in other Canadian jurisdictions.

The result of not being able to find labour is that small businesses are hiring less qualified staff and putting significant time and investment in training them up. While government programs exist to help with formal training (like in-class workshops), there isn't anything that recognizes the informal, on-the-job training undertaken in countless Ontario small businesses. We urge the government to develop a financial support that recognizes informal training and the small business investment behind it.

The government, and in particular the Minister of Labour, has done an excellent job on being proactive to bust the trades taboo, especially at the high school level. We encourage the government to consider taking this a step further and overhauling high school co-op programs. These programs are now considered less significant at the high school level, despite being prestige programs at the university level. Co-op students are extremely popular with the businesses that use them and often lead to post-graduation hires. Expanding small business access to these programs at all levels and broadening financial support for them would be a positive move.

Many small businesses have resorted to automation during the pandemic. While it can greatly improve efficiency, it comes with a cost, whether it's a robot that serves coffee, or new inventory tracking software. In recognition of this direction, we encourage the government to consider financial supports for small businesses adopting new technologies.

Recommendations:

- **Expand small business access to co-op programs at all levels and broaden financial support.**
- **Adopt measures to mutually recognize certifications from other Canadian jurisdictions to allow workers moving to Ontario from other provinces to work in their fields immediately.**
- **Consider offering financial support for small businesses adopting new technologies to address labour shortages.**
- **Provide training tax credits to incentivize businesses to invest in training new workers.**

Taxes

When the pandemic started, the Ontario government was quick to move on provincial tax deferrals and Workplace Safety and Insurance Board (WSIB) premium and reporting deferrals. These moves helped many businesses with cash flow certainty and allowed them to direct funds elsewhere (e.g., wages and rent). We commend the government for again adopting tax deferrals to help ease small business cash flow pressures as the economy slowly reopens.

We appreciate that the Ontario government recently addressed a long-standing CFIB recommendation to legislate the return of extra funds to employers by the WSIB. By giving this money back to businesses, employers will end up paying an amount that reflects the WSIB's *actual* (rather than projected) claims expenditures. The fairest and most equitable way to implement this policy is by returning <u>all the extra funds to all the employers that paid them in any year a surplus is realized</u> – i.e., surpluses should be returned <u>annually</u> <u>in full</u> to <u>all affected businesses</u> by <u>direct payments</u>, rather than by WSIB account credits. Before the WSIB can act, the government must proclaim the relevant schedule of Bill 27, 2021.

Increasing the Employer Health Tax (EHT) threshold to $1 million was also a very welcome measure and response to another long-standing CFIB recommendation. Payroll taxes are profit-insensitive and have been particularly punitive during times of slow revenue recovery. We continue to recommend that the government index the EHT threshold annually to inflation to avoid bracket creep.

We also recommend that the government review its sector-specific taxes as a way to spur growth and economic recovery. Alcohol taxes on brewers, distillers and vineyards create an uneven playing field for domestic, inter-provincial and international competition. With Ontario's craft-alcohol sectors being the very definition of "Made in Ontario", we encourage the government to eliminate these competitive barriers to help boost the industry.

The hospitality sector has been particularly hard-hit throughout the pandemic, with on- and off-again closures and restrictions on indoor dining. The Ontario government's decision to allow restaurants to sell alcohol with takeout and delivery orders has helped, as have the recent changes allowing restaurants to purchase alcohol from the LCBO at reduced wholesale prices. The government should consider further measures, including reducing the LCBO markup on alcohol sold directly to licensees by local Ontario breweries and distilleries, reducing the 62 per cent basic spirits tax, and changing marketing regulations.

Recommendations:

- **Proclaim Schedule 6 of Bill 27, 2021 and ensure that the WSIB returns surplus funds to employers as soon as possible.**
- **Follow the Canada Revenue Agency (CRA) model in arranging for interest- and penalty-free payment plans for businesses that cannot afford to pay deferred taxes.**
- **Tie the EHT threshold to inflation annually.**
- **Eliminate the aluminum tax on beer cans.**
- **Review liquor and spirits taxes to spur growth in the craft distilleries industry.**
- **Eliminate the 6.1 per cent Basic Wine Tax for Ontario wineries selling their product on site, and eliminate the "import tax" imposed on Ontario wines at the LCBO that treats them as though they were produced out of province.**
- **Implement incentives that encourage local shopping once businesses are fully open.**
- **Reduce the LCBO markup on alcohol sold directly to licensees by local Ontario breweries and distilleries.**
- **Reduce the 62 per cent basic spirits tax to help increase margins on alcohol sales.**
- **Alter regulations that prevent licensees from offering promotions on alcohol sales.**

Red Tape

The Ontario government has been very responsive to cutting red tape identified during the pandemic.

We applaud the Attorney General for making meaningful regulatory changes permanent, including allowing: 1) restaurants to deliver alcohol with takeout/delivery and expand their patios; 2) licensed cannabis retailers to deliver products directly to customers; and 3) craft cideries without on-site orchards to open digital and bricks-and-mortar retail locations. These moves have continued to greatly help with recovery.

Government must maintain its focus on eliminating regulatory barriers to growth to spur COVID-19 recovery, especially in sectors that can bounce back more quickly, like transportation and construction.

We appreciate that the Ontario government recently committed to count and track regulations affecting citizens, not just those affecting businesses. This will help the government to measure its regulatory reduction progress more accurately.

The government also strengthened its regulatory cost measures. It is now required by legislation to offset 125% of direct compliance costs within 24 months (e.g., for every dollar of new or existing increasing direct compliance costs on business, $1.25 of old and unnecessary direct compliance costs must be removed). Direct compliance costs include administrative costs, fees, upfront capital costs, upfront operating costs, and ongoing operating costs. In addition, Ministers proposing new rules must follow seven principles and are also required to ensure that an analysis of the potential regulatory impact is conducted, including the prescribed administrative costs. The analysis must also be published to show the potential impact of changes proposed in draft bills, regulations, policies, or forms.

We commend the government for continuing to work towards its cross-government 25 per cent regulatory reduction target by achieving a 1 per cent reduction annually. To maintain regulatory health, we continue to encourage government to set a one-in, one-out regulatory rule once the 25 per cent target is met.

Even with all its progress, the government must remain vigilant on the red tape file. Close to 40 per cent of small business owners might not have gone into business if they had known about the burden of government regulation. This “hidden” tax is estimated to cost Ontario businesses billions annually. Every minute devoted to filling out excessive paperwork is a minute not spent on growing the economy and creating employment opportunities for Ontarians.

Furthermore, regulation disproportionately impacts smaller businesses, both in time and in money. On average, Ontario businesses with fewer than five employees spend $6,776 per employee in regulatory costs, taking an average of 177 hours per employee. In contrast, Ontario businesses with more than 100 employees spend only $1,552 and 25 hours per employee.

Recommendations:

- **Continue to make small business-friendly pandemic-related regulatory measures permanent.**
- **Continue to annually update the province’s regulatory reduction progress by Ministry in future Burden Reduction Reports.**
- **Keep your recent commitment to count and track the regulatory burden on Ontario’s citizens by first reporting on the province’s progress by no later than September 30, 2023.**
- **Prioritize cutting red tape as a recovery measure.**

Electricity

The government's move to hold electricity rates at off-peak pricing, before moving to a fixed COVID recovery rate until October 31 was a good one early in the pandemic, especially as utility bills have continued to come due. We are pleased to see the government reinstitute this measure during the most recent lockdown period. It was also positive for the government to commit to updating electricity rates once per year, providing much-needed certainty for small businesses.

The move to allow small businesses to select the electricity model that best suits their business remains a positive one. As the province begins to reopen, we urge the government to increase the thresholds under the tiered rate system for small businesses, so that more can take advantage of the new option.

Energy bill support remains important for small business owners, especially as they get their operations back up and running. We commend the government for bringing back the energy rebate program, but strongly advise that its eligibility be expanded to include all businesses directly or indirectly impacted by government rules.

Electric Vehicles

Ontario's previous Long-Term Energy Plan (LTEP) forecasted little change in the energy supply, thanks largely to the belief that the electrification of the economy will increase. The LTEP outlook projects 2.4 million electric vehicles (EV)s on the road by 2035 – up from 7,000 as of June 2016 – representing less than one per cent of all vehicles in the province.

While there is continuing debate about the reality of meeting such an ambitious target, of more immediate concern to the small business community is that the current LTEP supply projections account for 2.4 million EVs on the road, while its cost projections do not account for the cost to residents or businesses for charging these vehicles. This likely means that the LTEP cost projections are misleadingly low.

It is highly likely that a shift towards EV usage would also come with a behavioural shift in transportation and driving as a whole. While many government and industry officials are focused on creating a "gas station style" network for EV charging, it is possible that EV drivers will regard charging their cars the same way they charge their cell phones – at home overnight and at the workplace. Because of this, it's likely that as EV usage grows, the demand for access to electricity for charging EVs at the workplace will also increase (both for employees and customers), rapidly driving business electricity costs upward.

We remain concerned that these costs have not been taken into account when forecasting provincial energy plans.

Furthermore, a substantial amount of money is transferred from the province to municipalities through gas tax revenue; government should study and plan for this revenue shortfall now to get a better understanding of the impact of electrification on the existing funding arrangement.

Recommendations:

- **Increase the existing 750 kWh threshold for the tiered rate system to 3,000 kWh.**
- **Expand eligibility for Ontario's new energy rebate program.**
- **Consult on and publish a new Long-Term Energy Plan (LTEP) that reflects the government's energy policy changes and their impact on the existing LTEP projections.**
- **Provide small business support for electric vehicle charging stations.**

Construction Mitigation

Based on government announcements, we understand that infrastructure will be a major component of Ontario's economic recovery. While small business owners generally support infrastructure and transit upgrades, the impacts on local businesses during the actual construction phase can be devastating.

Almost half of Ontario businesses have been disrupted by construction projects over the past five years. Small businesses cannot afford to take another major hit, just as they are getting back on their feet.

With the government prepared to invest heavily in major infrastructure, we strongly urge the province to adopt comprehensive construction mitigation programs for all major projects to help the businesses disrupted by construction survive to see and benefit from project completions.

Recommendation: Include a comprehensive construction mitigation package as part of all significant provincial construction projects that cause major disruptions for extended periods of time to the regular operations of local business owners. The package should include the following components:

- **A direct compensation program that is easy to access and involves fair and timely monetary compensation.**
- **An improved contracting process that includes a bonus/penalty system for the early/late completion of the project.**
- **A comprehensive planning process that uses the "sign once" principle and spells out the phasing/timing of a project.**
- **A "no surprise" rule that includes significant consultation with the affected communities on expected timelines and disruptions to ensure no business is caught off guard during the construction period.**
- **A designated business liaison officer with managerial authority for the project to ensure the local business community is regularly canvassed and updated on the project's progress.**