
Outline of Pre-budget presentation (5 min)

Ambassador Room A, Canada Inns Transcona
826 Regent Avenue West
Winnipeg, MB
7:00 – 9:00 PM

1. Introduction to CFIB

At CFIB, we are passionate about small business. Because of their massive contributions to our economy, employment and communities, we believe they deserve a strong voice in government decisions. CFIB provides a reasonable, credible and effective way for small businesses to participate in the political process – just like big businesses and unions do.

Across the country, CFIB represents 109,000 independently owned and operated businesses, including 4,800 in Manitoba. We are a strictly non-partisan, not-for-profit political action organization. Our members are located in every region of the province in sectors that closely mirror the provincial economy.

CFIB policy positions are set by direct feedback from our members through regular surveys. Our views are based on results from CFIB's surveys. We also bring together findings from many other studies conducted by CFIB, including our monthly *Business Barometer*[®] and quarterly *Mandate Survey*, to provide a comprehensive assessment of Manitoba's small business environment. It is our hope the Manitoba government will pay close attention to the views of small business owners in the development of the 2017 provincial budget.

I should note that we are also surveying our Manitoba members this week on a number of small business issues and look forward to sharing the results in our written submission to the Minister of Finance.

2. Manitoba small biz optimism declines slightly in September; still below the national index of 59.0

As you may know, every month, CFIB releases our Business Barometer[®] – an important indicator of small business confidence. Over time the Business Barometer[®] has proven to be an accurate indicator of economic growth. Measured on a scale between 0 and 100, an index level above 50 means more business owners expect their businesses' performance to be stronger in the next year compared to those expecting weaker performance. Index levels normally range between 65 and 70 when the economy is growing at its potential.

According to the latest monthly Business Barometer[®], optimism among small business owners in Manitoba declined slightly in September to an index of 54.7, down 1.4 points from 56.1 in August. This index level is still below the national index of 59.0.

Small business confidence still remains below the five year average for Manitoba and 10 points below the range of index levels (65-70) that is normally associated with an economy that is growing at its potential,

That's why it will be important for the 2017 Manitoba Budget to send the right signals to entrepreneurs and fuel, not dampen, small business optimism.

3. Priority #1: Fixing the Fiscal Fundamentals

Just like families and small business owners, it is essential the provincial government live within its means. We welcome the government's commitments to implement a value-for-money audit, as well as identify savings equivalent of 1% of current spending for Budget 2017.

For most Manitobans, the 2016 budget was the first real chance to see how our new provincial government plans to manage the economy. Entrepreneurs were looking for real policy action to halt the unsustainable growth of government and address our uncompetitive tax climate.

While the government provided a few positive first steps to tackle these issues, there is still much work left to be done to unleash Manitoba's full economic potential.

Entrepreneurs rank sustainable spending and balanced budgets as one of their highest priorities — behind only the total tax burden they face. The key to balancing a budget is keeping operating spending — the day-to-day costs of running government, such as employee salaries, office supplies and building rent — under control. To do this, government must limit operating spending growth to no more than the rate of inflation and population growth.

For Manitoba, this means spending should grow by no more than 2.7 per cent annually if the government is to have balanced books and healthy fiscal fundamentals. Spending in 2015 was significantly higher than planned. Compared to the 2015 budget — a more apples-to-apples comparison — spending was up 5.2 per cent.

As long as spending continues to increase beyond the sustainable benchmark, it will be difficult to balance the budget. While the deficit is shrinking in 2016 (a good thing), a balanced budget isn't proposed until 2024.

Recommendations:

To return to fiscal sustainability small business owners recommend:

- ▶ Balance the budget, no later than 2020, without tax increases
- ▶ Keep annual spending increases sustainable (2.7% or less)
- ▶ Reduce government program costs by:
 - ▶ Reducing the size and cost of government, through workforce attrition
 - ▶ Narrow wage disparity between public and private sector workers
 - ▶ Eliminate work week hours gap between public and private sector workers
 - ▶ Move new hires from a defined benefit to defined contribution pension plan

4. Priority #2: Creating a Competitive Tax Environment

Spending levels and deficits matter because they impact tax rates. As Manitobans know all too well, today's deficits are tomorrow's taxes. That's why it should come as no surprise to Manitobans that addressing our uncompetitive tax climate is entrepreneurs' top priority.

In the latest CFIB inter-provincial tax comparison, Manitoba's tax system placed sixth in Canada. No matter which tax you look at — personal income taxes, sales taxes, etc. — Manitoba fares poorly in almost every area.

A middling tax grade may not concern some, but for entrepreneurs competing to attract capital investment dollars and workers to Manitoba, the lure of brighter business climates is a tough hurdle to overcome. The two most tax competitive provinces for small businesses happen to be our Prairie neighbours: Alberta and Saskatchewan.

The fiscal reality facing Manitoba's government means the strong measures needed on this front can't all happen at once.

Two specific tax policy actions that entrepreneurs want to see, both of which are as rich in symbolism as they are in substance, are: increasing the small-business corporate income tax threshold, and increasing the Manitoba Health and Post-Secondary Education Levy (the Payroll Tax) exemption and index it to inflation.

Eliminating "bracket creep" as announced in the 2016 budget is a great first step to ensure we don't keep falling further behind. In fact, 82 per cent of Manitoba small business owners are very supportive of this decision. However, stronger action, such as raising the basic personal exemption to the national average by 2020, is still needed.

We also recognize the provincial government has committed to lower the PST to 7% no later than 2020, increase the small business threshold during your term as government, and further increase the Basic Personal Exemption (BPE) throughout your term to move it towards the national average.

On the corporate income tax side, Manitoba has been a leader in lowering the tax rate for small businesses, but has been a laggard in allowing all small businesses to access the rate. Manitoba is one of only two provinces yet to set its small-business tax exemption threshold at \$500,000.

Recommendations:

Short-Term

- ▶ Raise the basic personal exemption by \$2,000
- ▶ Honour election commitment to increase the small business threshold to \$500,000
- ▶ Increase the Manitoba payroll tax exemption, currently at 1.25 million in annual payroll and index it to inflation

5. Priority #3: Reducing red tape; Low Cost Opportunities to Increase Prosperity:

At CFIB, we are committed to meaningful solutions to another "hidden tax" facing small business - red tape. Red tape is regulation run amok. Small business owners in Manitoba deal with piles of red tape, in fact they are tied up in everything from assessments, Labour standards, PST, GST regulations, income tax filings, municipal by-laws, privacy rules, payroll taxes, WCB paperwork, the list goes on and on.

Small business owners have no issue complying with common sense rules and policies that protect consumer safety, the environment and their employees. Unfortunately, governments at all levels continue to expect entrepreneurs to waste time filling out confusing forms, dealing with bad customer service from government agencies, and complying with rules that don't make sense or offer any public benefit. This is not regulation, this is red tape.

We are pleased the Manitoba government has committed to create a Red Tape Reduction Task Force to reduce red tape and consider ways to embed regulatory reform into government policy. We are also pleased the provincial government is pursuing membership in the New West Partnership.

Recommendations:

To improve regulatory accountability and reduce the cost of red tape on small businesses and consumers, Manitoba entrepreneurs recommend the provincial government:

- ▶ Legislate red tape accountability which contains the following success factors:
 - ▶ Annual measurement and public reporting of the regulatory burden

- ▶ Constraints on regulatory burden growth
- ▶ Set a target to reduce red tape by 30% in 3 years
- ▶ Introduce a *Taxpayer Fairness and Service Code*

Conclusion

While far from an exhaustive list of the policy changes needed to create a competitive small business climate, we believe our recommendations highlight the actions required to ensure Manitoba is squarely focused on addressing its competitive challenges.

The long-term prosperity of our province depends on it.