




GREATER VANCOUVER
BOARD OF TRADE

COUNTING THE COSTS



Assessing Economic
Challenges for Businesses
in British Columbia

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EXECUTIVE SUMMARY:

- Small businesses employ 1.1 million British Columbians and make up 33% of the provincial GDP. Market fluctuations and rising costs disproportionately impact small and medium-sized businesses due to their reduced capacity to absorb new costs.
- Higher interest rates, continued inflation and a slowing economy are putting upward pressure on the cost of inputs, borrowing, and virtually every expense associated with owning and operating a business.
- Increased direct costs imposed by the provincial government are making it more challenging to do business, disincentivizing business growth, entrepreneurship, and economic mobility.
- From 2022 to 2024, B.C. businesses are expected to pay a cumulative \$6.5 billion in additional costs imposed by governments, after accounting for savings measures. These costs include increases to the Employer Health Tax (EHT), Carbon Tax and Corporate Income Tax. This represents an average of \$2.15 billion per year.
- On top of those costs, other significant increases include a 21% increase in the minimum wage (2019 – 2023), a nearly 10% increase in the top personal tax rate, a new statutory holiday costing \$200 million, and the reversion back to the PST, which cost businesses an estimated \$3.7 billion in 2022.
- Combined, the cumulative cost increases are harming the investment climate in B.C.
- To lessen the impact of these costs increases, we recommend the provincial government:
 - **Reduce the cost of doing business, especially for small and medium-sized businesses (SMEs).**
 - Increase the EHT threshold for SMEs.
 - Introduce PST exemptions on business inputs, such as computer, software and telecommunications services or machinery and equipment.
 - Reduce the provincial portion of commercial property taxes.
 - Implement a made-in-B.C. carbon pricing system for industry that incentivizes emissions reductions and accelerates private sector investment and innovation in our economy.

2023 ECONOMIC CONTEXT

In 2023, B.C. is entering a period of economic uncertainty, with many projecting a slowdown in economic growth or a shallow recession. While B.C. fared well during the pandemic compared to other provinces in growth and employment, many private sector forecasters project that B.C. will trail most provinces in real GDP growth in 2023 and 2024.ⁱⁱ

REAL GDP GROWTH BY PROVINCE, PERCENT CHANGE

	2021	2022F	2023F	2024F
<i>Newfoundland and Labrador</i>	0.6	1.7	0.0	1.2
<i>Prince Edward Island</i>	7.9	3.8	0.1	1.9
<i>Nova Scotia</i>	6.2	3.7	-0.2	1.7
<i>New Brunswick</i>	5.8	2.6	-1.0	1.6
<i>Quebec</i>	6.0	3.9	-0.5	1.8
<i>Ontario</i>	5.1	3.5	-0.8	2.0
<i>Manitoba</i>	1.7	3.6	1.0	2.3
<i>Saskatchewan</i>	-0.7	4.9	1.8	2.4
<i>Alberta</i>	4.9	4.5	-0.3	2.0
British Columbia	6.2	3.0	-1.0	1.9

Source: Statistics Canada; Forecast by Deloitte

These gloomy forecasts follow a period of significant and unprecedented challenges for businesses, communities, and families in B.C. Many businesses have not yet recovered from the seismic shifts caused by the COVID-19 pandemic, especially those in travel, tourism, and other high-touch industries. At the peak of the pandemic, in May and June 2000, almost 8,000 additional businesses were closing per month, and in April 2020, 408,000 people lost their jobs,ⁱⁱⁱ and our economy continues to slowly recover. In B.C., 70% of firms in the 'accommodation and food services and arts' and 'entertainment and recreation' industries reported revenues were still lower than in 2019.^{iv} Businesses in downtown Vancouver, especially small businesses, continue to see less foot traffic as office building occupancy rates and international tourism remain below pre-pandemic levels.

Further challenges unfortunately remain on the horizon. Our economy remains heavily tied to real estate, including for retail sales, and the impact of higher interest rates has precipitated a slowdown in that industry. Additionally, major projects currently under construction, including the Trans Mountain Pipeline (with approximately 16,000 workers currently working on the project) and the Coastal Gas Link pipeline, are expected to reach completion in 2023. Further, the technology sector and the forestry sector are both under pressure, with the first giving back some of its pandemic-induced job gains and the latter reeling from lower prices while a lack of fiber is curtailing production and reducing our exports.

This slowdown in economic growth is a global phenomenon not unique to B.C. What makes the situation unique in Canada, however, is that the slowdown is coming during a time of historic population growth. Our province has added approximately 250,000 people in the last two years and 150,000 in 2021 alone. Metro Vancouver added 78,000 people in 2022 or 6,500 a month. This means that Metro Vancouver added more people than the entire population of the City of North Vancouver in just one calendar year, which highlights the scale of population growth in the region. This is an incredible opportunity for our communities, as newcomers contribute to the local economy by starting businesses, creating jobs and filling labour gaps in industries where there are shortages of workers, while contributing to the creativity, innovation, and cultural diversity of our communities. However, this rapid population growth also presents a significant challenge for the region, as it increases demand for housing, infrastructure, and services to accommodate the growing population.

Overall, inflation continues to bite at firms' profits. The Canadian Survey of Business Conditions found the top five obstacles businesses in Metro Vancouver anticipate in the next three months are rising inflation (60%), rising cost of inputs (47%), rising costs in real estate, leasing or property taxes (40%), recruiting and retaining skilled employees (38%),^v and rising interest rates and debt costs (38%). In response to acute staffing challenges, three-quarters of small business owners in B.C. have to work extra hours to make up for the shortage of labour^{vi}, while anticipating an average wage increase of 3.3% over the next 12 months.^{vii} Meanwhile, upward cost pressures continue to cast a cloud over small businesses' confidence, as the CFIB long-term small business confidence index remains low at 55.7 compared to the historical average of 61.^{viii}

Overall, over half of businesses surveyed (56%) anticipate an increase in operating expenses in the coming quarter while more than a third of businesses expect a considerable decline in profitability (34%) and cash reserves (26%).

Employers are increasing wages for new hires, paying existing employees more, and offering different kinds of training and benefits incentives to recruit and retain talent in the context of a competitive labour market and skills shortages. Attracting employees with the technical skills to help their business thrive continues to be a huge challenge for business owners.

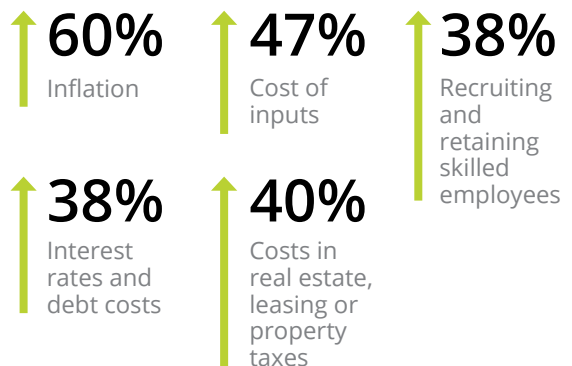
With these economic challenges on the horizon, it is critical that we do what we can to ensure our companies are competitive and our small businesses can continue to provide employment and contribute to the communities they operate in.

THE CANADIAN SURVEY OF BUSINESS CONDITIONS SURVEY FINDINGS

– Metro Vancouver, Q1 2023

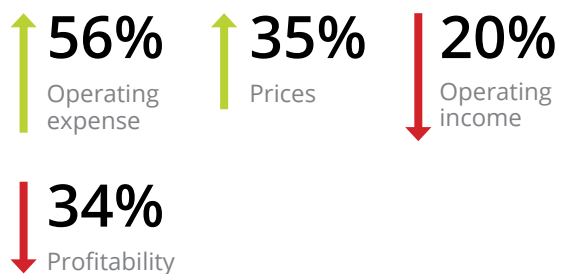
Expected obstacles

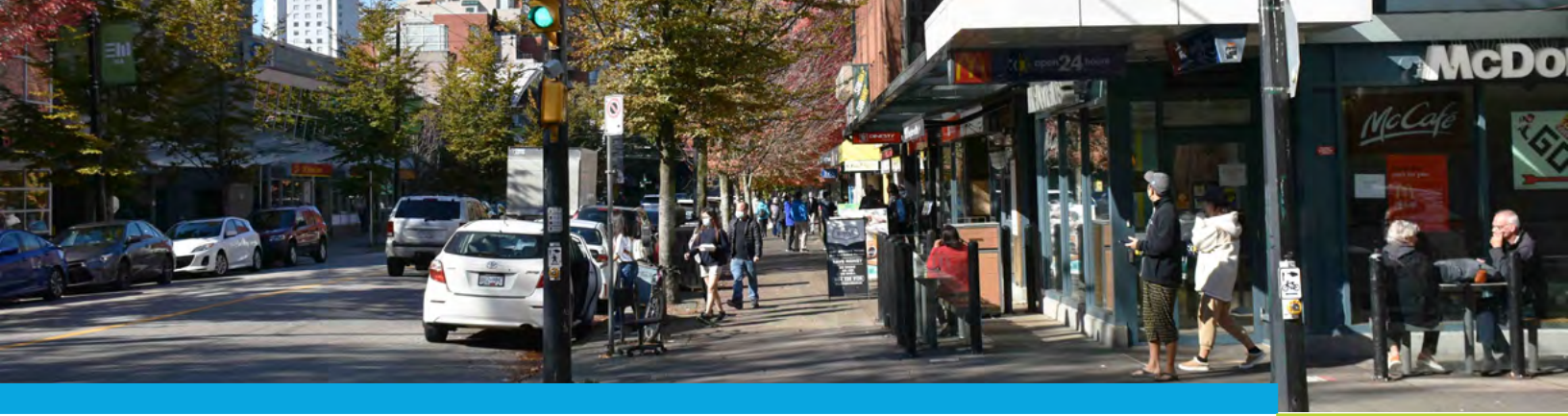
in the next three months



Anticipated changes in the business environment

in the next three months





INCREASES IN COSTS FOR BUSINESSES

An understanding of what is driving higher costs will help ensure we are aware of the cumulative impact of changes to the business environment.

Our analysis shows that B.C. government policies will add significant direct costs to businesses between 2022 and 2024:

- **The regular addition of new taxes is having a substantial cumulative impact on businesses, particularly SMEs:** \$7.3 billion in new cumulative revenues or costs imposed directly by the government of B.C.
 - The creation of a new payroll tax in 2019, the Employer Health Tax, increased costs for businesses by a total of \$4.0 billion
 - The cumulative increases in the Carbon Tax costs businesses \$515 million
 - An increase in the Corporate Income Tax cost businesses a total of \$1.6 billion
 - Five days of paid sick leave cost at least \$1.2 billion

The government has implemented two broad-based saving measures that benefit businesses, for total savings of approximately \$873 million over the same time period.

- Removing the PST on electricity is estimated to save businesses \$594 million.
- Reducing the Small Business Tax Rate from 2.5% to 2% is estimated to save businesses \$279 million.

In total, direct costs attributable to the B.C. government amount to a cumulative total of \$6.5 billion.

New Costs (\$M)	2022	2023	2024	Total
Net Health Taxes	1,228	1,345	1,428	4,001
Carbon Tax	75	139	301	515
Corporate Income Tax	371	669	567	1,607
Paid Sick leave	127	526	547	1,200
Subtotal Additional Costs	1,801	2,679	2,844	7,323
Savings (\$M)	2022	2023	2024	Total
PST	198	197	199	594
SME Tax Rate (2.5 - 2%)	85	105	89	279
Subtotal Savings	283	302	288	873
Total Additional Cost (\$M)	1,518	2,377	2,556	6,450

PROVINCIAL PAYROLL TAX INCREASES

Introduced in 2019, the Employer Health Tax is a payroll tax calculated on employment income. B.C. is one of five provinces that levies a payroll tax on employers.

The Employer Health Tax came into effect in 2019 and is an annual tax which requires businesses to pay tax on their annual payroll over \$500,000. Businesses with payrolls under \$1.5 million are required to pay 2.925% on their total payroll over \$500,000, while businesses with total payroll over \$1.5 million are required to pay 1.95% on their total payroll. For charitable and non-profit employers, the exemption amount is set, at \$1,500,000.

EXAMPLES OF THE IMPACTS OF PAYROLL TAX INCREASES

Example 1

The City of Vancouver pays **\$15 million** annually for the payroll tax, the equivalent of **150** individuals making **\$100,000 a year**. This is close to the same number of people working in Water Engineering at the city, and half of the full-time employees in Development, Buildings & Licensing.

Example 2

A not-for-profit housing provider that supports youth experiencing homelessness estimates their costs to be **\$196,560 per year**.



A home building company with **225 employees** pays their employees an average of **\$96,000**. The increase in the payroll tax is the equivalent of eliminating **3** full-time family-supporting jobs.

Example 3



CARBON TAX

B.C. was a leading jurisdiction in North America in putting a price on carbon across a significant portion of its economy. The carbon tax began in 2008 at a rate of \$10/tCO_{2e} and reached \$30/tCO_{2e} in 2012. It was subsequently raised to \$65/tCO_{2e} as of April 1, 2023, as detailed in the table below, while changes to fuel tax rates (not included in this analysis) were also made. The business share of the carbon tax is estimated to be 35%, based on the provincial accounts.^{ix}

The total net new cost to employers is an average net increase of \$1.3 billion in annual costs for businesses.

Carbon Tax	2021-22	2022-23	2023-24	Total
Carbon Tax per tCO _{2e}	\$45	\$50	\$65	
Carbon Tax Revenues (\$M)	2,011	2,211	2,811	7,033
Carbon Tax Revenues at \$30/tCO _{2e} (\$M)	1,341	1,327	1,297	3,965
Business Share Carbon Tax Change Above \$30 (\$M)	235	310	530	1,074
Business Share Carbon Tax \$30 & Below (\$M)	469	464	454	1,388
Total Business Carbon Tax (\$M)	704	774	984	2,462



In total, before programs that offset costs, the carbon tax is estimated to cost businesses a total of \$3.6 billion over three years.



Importantly, as the carbon tax began to increase above \$30/tCO_{2e}, the provincial government introduced some programming to offset the increased costs to industry. The CleanBC Industry Fund “supports the development, trial and deployment of projects that reduce greenhouse gas (GHG) emissions from large industrial operations in British Columbia.” The CleanBC Industrial Incentive Program (CIIP) provides funding for facilities that have “emissions intensity that is below the emissions benchmark for its sector, it will be eligible to receive a payment equal to the full amount of carbon tax above \$30/tCO_{2e} paid in the previous year. Operations that have low emissions but do not fully meet the low-carbon benchmark for their sector may still be eligible for a partial incentive on a sliding scale if they meet the eligibility threshold.”^x

Industry Applied to over \$30	2021-22	2022-23	2023-24	Total
Business Share Carbon Tax Change Above \$30 (\$M)	235	310	530	1,075
Industry Programs (CIP & CIIP)	160	171	229 ^x *	560
Net Above \$30 tCO_{2e}	75	139	301	515

According to the available government figures, it appears that funding is not fully flowing back to industry on incremental taxes over \$30/tCO_{2e}. We estimate that \$515 million is flowing to government and not back to supporting made-in-B.C. low-carbon technology implementation. This represents a substantial cost to B.C. businesses that is not faced by other Canadian companies operating under the federal carbon pricing structure, let alone the rest of global competitors who are not subjected to pricing mechanisms.

Industry Applied to All Business Carbon Tax	2021-22	2022-23	2023-24	Total
Total Business Carbon Tax (\$M)	704	774	984	2,462
Industry Programs	160	171	229	560
Net Business Paid	544	603	755	1,902

The scale of the challenge becomes heightened when looking at total carbon tax revenues compared to industry programs. Using the same available government figures, approximately \$1.9 billion has been paid by industry in three years. As previously noted, this paper uses the conservative estimates of the business share of the carbon tax. It is very likely that the true business share would be closer to 50%. At 50%, the total would be \$2.9 billion paid by industry over three years.

Aligned with the new federal standards, the carbon tax is expected to rise substantially in the coming years from \$50/tCO_{2e} in 2022 to \$170/tonne in 2030. Given the magnitude of the increases, the 2023 B.C. Budget announced a transition from the current burdensome carbon tax regime to an output-based pricing system (OBPS) effective April 1, 2024. This policy shift would ensure better alignment with other provinces across Canada. The hope is that this program would support B.C.’s low-carbon innovation, increase local production, and secure local jobs, while maintaining the ambitious goals towards our climate targets.

As taxes increase substantially, we need to ensure that our carbon tax is securing local jobs, innovation, and driving investment into B.C. We believe that industry and government should collaborate closely on this solution to ensure that B.C. is benefitting, and we continue to have quality, family-supporting jobs created here in the province. The new made-in-B.C. OBPS should ensure that all carbon tax revenues are recycled back into our local economy to ensure that we can be competitive and low-carbon exporters now and into the future.

British Columbian products are leading the way in terms of providing among the lowest GHG intensity. Decarbonization is a critical and jointly held priority of British Columbians and the business community.



CORPORATE INCOME TAX

The Corporate Income Tax rate was increased in 2017. B.C.'s corporate income tax rate is higher than the other major provinces including Alberta, Ontario, and Quebec. We estimate that the incremental revenue amounted to \$371 million in added costs for businesses in 2022 alone and \$1.6 billion over three years.

*The biggest threat to small service businesses are the multiple layers of increasing costs, it's not just one thing that cuts into the bottom line: **it's everything***

- Vancouver Bakery Owner

SICK LEAVE

Businesses are required to provide five days of paid sick leave per year for their employees since January 1, 2022

Analysis conducted by the Greater Vancouver Board of Trade estimated that five days of paid leave would cost between \$506 million and \$1.1 billion, depending on employee take up. For this analysis, we have chosen to estimate the low end of \$506 million.

OTHER INCREASES

Considered individually, a provincial tax increase, especially in a seemingly niche area of the economy, may not appear to be too significant in the grand scheme of things. However, years of tax increases against a backdrop of increased costs and economic volatility has made it increasingly difficult to do business in B.C., especially for small businesses.

Tax/Costs	Increase	Challenge
Personal income tax	53.5% top rate, up from 47.7%	B.C. now has the fourth highest income tax rate in North America, trailing behind only Newfoundland and Labrador, Nova Scotia and Ontario ^{xii} . Top rates in Washington State are 16.5% lower and comparable income levels in California are 9.2% lower.
Minimum Wage	\$13.85 an hour to \$16.75	From 2019 to 2023, the minimum wage has increased by 21%.
Statutory Holiday	\$200 million	A new statutory holiday will be implemented for 2023. Conservative estimates are that the cost will be \$200 million.
HST/PST	\$3.7 billion in 2022	Utilizing past work from the Business Council of British Columbia, it is estimated that \$3.5 billion of PST was paid by businesses in 2022. Businesses would not have paid \$3.7 billion in 2022 under the HST system. The reversion back to the PST, leaves B.C. with the highest marginal tax rates on new investment in Canada.

PERSONAL INCOME TAX

High marginal personal income tax rates can have several negative effects on economic growth. One of the main concerns is the potential impact on the behaviour of high earners, who may be less incentivized to work and be productive due to the higher tax burden. This can ultimately slow down the rate of economic growth. Additionally, high taxes may discourage highly skilled and mobile workers from choosing to live and work in B.C., instead opting for other jurisdictions with more favorable tax policies. This can lead to a “brain drain” and reduce the province’s competitiveness in attracting talent and investment.

In recent years, B.C.’s top combined federal/provincial personal income tax (PIT) rate has increased substantially. The federal government’s creation of a new top income tax bracket in 2016 increased every province’s top PIT rate by four percentage points. Meanwhile, B.C.’s provincial government has increased the top provincial marginal PIT rate from 14.7% to 20.5%. These changes have increased B.C.’s top marginal PIT rate by 9.8 percentage points since 2015, from 43.7% to 53.5%.

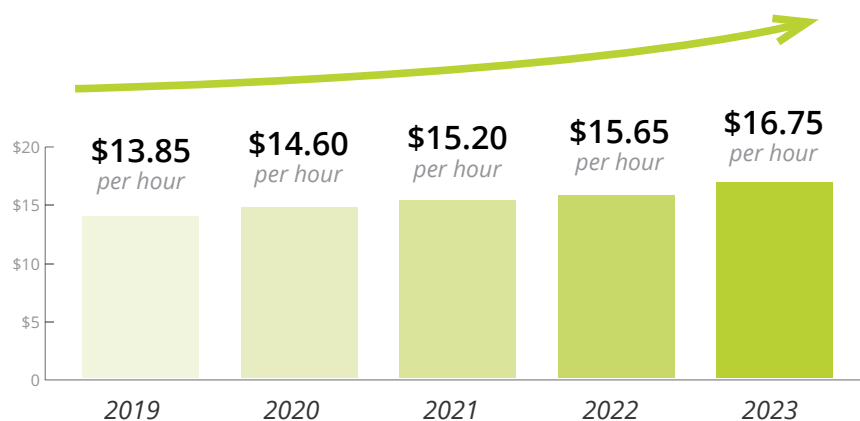


Compared to other Canadian provinces and US states, B.C.'s top personal income tax rate is now the fourth highest in the country and North America. Even B.C.'s neighboring states, Alaska and Washington, have top marginal PIT rates that are 16.5 percentage points lower than B.C.'s since they do not have state-level income taxes. Taxes at comparable income levels in California are 9.2 percent lower than B.C.

Therefore, in addition to the longstanding challenge of business tax competitiveness, B.C. is now also uncompetitive on its top marginal personal income tax rate. The combined 9.8 percentage point increase in the top combined rate is due to increases at both the federal and provincial levels and is the largest increase in Canada.

MINIMUM WAGE

The minimum wage rate in B.C. from 2019 to 2023 has steadily increased in line with the recommendations of the Fair Wage Commission:



STATUTORY HOLIDAY

In the past decade, we have added two new statutory holidays – Family Day and Truth and Reconciliation Day. The National Day for Truth and Reconciliation was made a provincial holiday on March 9, 2023, and is the second statutory holiday in September. Family Day was established in 2013.

Business in Vancouver quotes a BMO Capital Markets study that suggests a new statutory holiday costs around 0.1% of provincial GDP or between \$198 million and \$279 million.^{xiii} For the purposes of this analysis, we estimate that the addition of a new statutory holiday would cost \$200 million. It is important to note that these new holidays do represent significant priorities and values for the business community.

HST/PST

Prior analysis undertaken by the Business Council of British Columbia notes the extreme costs to businesses from the legacy of the HST to PST reversion. If these costs were also included in the analysis, it would have added an additional \$3.7 billion in 2022.^{xiv} We are indebted to prior analysis from the Business Council of British Columbia which estimated that businesses pay 40% of the PST revenues collected by government as well as approximately \$200 million in administrative revenues.^{xv} Utilizing their analysis, it is estimated that \$3.5 billion of PST was paid by businesses in 2022.

SAVING MEASURES FOR BUSINESSES

The government has invested in specific industries such as film and television and provided some supports during the pandemic. The pandemic-related programs include the increased Employment Incentive tax credit, the SME Recovery Grant, and the B.C. PST rebate on select machinery and equipment. We want to acknowledge the help and support these programs provided. They were not included in the above, however, given that they are time-limited and are no longer in place.^{xvi}

Pandemic Programs (\$M)	2022	2023	Total	Budget ^{xvii}	Difference
Rebate for Select Machinery and Equipment	124	142	270 (\$4M in 2021)	470	200
Employer Incentive Tax Credit	28	2	30	150	120
SME Business Recovery Grant	469		469	470	1
COVID-19 Paid Sick Leave	16		16	325	309
Total Pandemic Programs	637	144	785	1,415	630

These initiatives represented meaningful relief to businesses at a critical time that supported organizations throughout the pandemic. These four programs totalled \$785 million between 2022 and 2023 in support. The budget for these programs was \$1.4 billion, of which approximately 55% was spent, in part due to improved economic conditions, but also, in the case of COVID-19 paid sick leave, the program parameters prevented utilization.



CONCLUSION – WHAT’S AT STAKE

These cumulative costs can be the death by a thousand cuts for businesses. The government needs to take a holistic look at the tax and regulatory burden being placed on businesses in B.C., especially small businesses. The mainland southwest region of B.C. has the highest population concentration as well as the highest number of small businesses. There is simply too much at stake to not consider how to improve, and not contribute to, the affordability challenges impacting all businesses.^{xviii}

We are renewing our call for governments to focus on the cumulative nature of these tax increases and to create ways of supporting businesses of all sizes through these periods of economic challenges.

To lessen the impact of these costs increases, we recommend the provincial government:

- **Reduce the cost of doing business, especially for small and medium sized businesses (SMEs).**
 - Increase the EHT threshold for SMEs.
 - Introduce PST exemptions on business inputs, such as computer, software and telecommunications services or machinery and equipment.
 - Reduce commercial property taxes.
- Implement a made-in-B.C. carbon pricing system for industry that incentivizes emissions reductions and accelerates private sector investment and innovation in our economy.

END NOTES

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- viii. Ibid.
- ix. The estimate of 35% is based on conservative estimate of the 2019 and 2020 provincial GHG inventory. The range of estimates for the business share was between 35 and 54%. For the purpose of this paper, we chose the conservative estimate.
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