

January 31, 2018

Dr. Lindsay Tedds
Chair, BC MSP Task Force
Via Email: MSPTaskForce@gov.bc.ca

Re: Task Force on MSP Premiums

Dear Dr. Tedds and Task Force Members:

By way of background, the Independent Contractors and Businesses Association (ICBA) has been the voice of BC's construction industry for over 42 years, representing more than 2,000 members and clients who collectively employ over 50,000 people. ICBA advocates for its members in support of a vibrant construction industry, responsible resource development and a growing economy for the benefit of all British Columbians.

Terms of Reference and Scope of Task Force Work

ICBA appreciates the opportunity to provide the MSP Task Force with this brief submission. The MSP Task Force has been established to give advice to the Province on how best to complete the elimination of MSP premiums and replace the foregone revenue from these premiums. The Task Force is charged with undertaking the following work:

- (Providing) an opportunity for BC citizens, businesses and interested parties to express their view on replacing MSP premiums;
- Identification of options for replacing MSP revenue, including what has been done in other provinces;
- An analysis of each option with respect to: fairness; efficiency; business competitiveness; simplicity; and, revenue stability.

Expressly excluded from the consideration of the panel is the use of the provincial sales tax regime or continuation of the existing medical services premium regime. It is unclear why the government has precluded these options from the MSP Task Force Terms of Reference.

In the 2016/17 budget delivered in February last year, the previous government committed to the elimination of MSP Premiums, beginning with a 50 percent reduction commencing on January 1, 2018 for those with incomes up to \$120,000.

The current administration extended the reduction to all British Columbians, regardless of income level. In addition, the new government raised the threshold below which households are fully exempted from MSP by \$2,000 in its fall 2017 Budget Update. This means that senior couples with a net income up to \$35,000 will no longer have to pay premiums altogether effective January 2018, while the same will hold true for single parents with two children and a net income up to \$32,000.

Backdrop to the MSP Task Force

ICBA acknowledges that British Columbians are faced with affordability challenges in many areas of the province. We understand the current government's efforts in the fall 2017 Budget Update to provide additional assistance to low income seniors and single parents by raising the threshold for exemption from MSP premiums. Providing relief for the lower end of the income distribution is laudable, but announcing the removal of MSP premiums altogether without a plan for recouping the revenue is very concerning.

The removal of MSP premiums altogether must not be undertaken in isolation from other recent revenue-boosting measures taken by the past and present provincial governments. On a broad level, ICBA is very concerned that government has undertaken or is contemplating taking a series of "one-off" or discordant tax and spending measures without an overall, integrated plan.

The stakes for British Columbia are high. Our competitive position relative to other jurisdictions is being eroded by recent or planned changes in provincial and federal taxes on business and individuals. In this regard we note the following:

- The top marginal personal income tax rate for British Columbians (federal and provincial) is now about 50 percent for income above \$150,000 as the result of recent changes over the past 18 months by both levels of government. A mere year-and-a-half-ago the rate was about 43 percent. As a consequence, it will be harder to attract highly qualified talent needed to grow our economy in a number of areas, notably the high-tech sector.
- The provincial government increased the corporate tax rate in its September 2017 Budget Update from 11 to 12 percent, while decreasing the small business tax rate marginally to 2 percent from 2.5.
- The provincial government's plan to increase the carbon tax annually by \$5 while ending the revenue-neutrality of the tax measure (previously in the form of various tax cuts and credits), will whittle away at the competitiveness of many British Columbia businesses including those that provide construction services. BC industry already carries the largest carbon tax burden of any sub-national jurisdiction on the continent. Most US states do not even have a price on carbon.
- Business will be faced with multi-year increases in Canada Pension Plan premiums, beginning in 2019.
- There are disconcerting signs the provincial government may provide direction to WorkSafeBC to enrich income-replacement benefits, scope of coverage, and other cost-driving measures which could drive up employer-paid premiums.
- The recent and dramatic tax cuts announced by the federal government in the United States, are putting significant pressure on Canadian companies with customers in the United States and on provinces competing with states in the USA for new capital and young talent.
- Finally, we note that while Vancouver submitted a bid to Amazon for its second North American head office, Vancouver was not on the short-list of 20 cities selected by Amazon for consideration. The negative consequences on attracting investment and talent to a jurisdiction characterized by significant increases in a broad array of tax measures are very real for a small, open economy like that of British Columbia.

These personal, business, and payroll taxes, together with other escalating fees and levies across a myriad of government agencies and statutory authorities, signal increasing costs for businesses throughout the economy. This comes as BC has the sixth highest "marginal effective tax rate" for the business sector as a

whole among 34 OECD jurisdictions and the 10 provinces combined.¹ The bottom line – the provincial government’s fiscal framework is tenuous, and “shifting” or adding to the business tax burden will compound BC’s lagging competitiveness.

The Path Forward?

ICBA understands the “policy conundrum” the current provincial government has passed along to the MSP Task Force to try and resolve. There are no easy or readily apparent answers to the question of how to fill the go-forward approximately \$1.3 billion annual fiscal hole the government has in its fiscal framework as a consequence of the decision of the past and present governments to eliminate MSP Premiums.

The best advice is that the government work towards “growing its way” out of this dilemma by enabling a strong and vibrant BC economy. In our view, this will be difficult in the short-term given that the economy has been firing on all cylinders, and is unlikely to continue to beyond fiscal year 2018/19. However, a series of bold measures to reduce taxes, create opportunities and attract investment and people to B.C. would help to achieve this goal.

The provincial government is sending decidedly mixed signals in the early stages of its administration about whether it is committed to establishing the conditions for future competitiveness and prosperity. In fact, moves to increase taxes – some of which are outlined above – and the myriad of policy and program reviews initiated by the provincial government is adding to uncertainty and is setting the stage for reduced business investment and slower growth in BC.

Against this backdrop, unfortunately there is no obvious option to replace MSP premium revenues. While there may be others, ICBA offers the following comments on three possible options:

- Put in place a payroll tax. This is not a viable option in ICBA’s view, against the backdrop of recent and anticipated provincial and federal tax hikes. We note that the vast majority of our member companies are small employers (i.e. under 20 employees) which do not pay employees’ MSP premiums. Accordingly, **ICBA will strongly oppose any recommendation by the MSP Task Force that government adopt a payroll tax for all or a portion of the revenue gap.** Construction contractors are already shouldering significant government-mandated costs (some of which are outlined in the previous section) and face the prospect of more on the horizon.
- Run a deficit. ICBA believes government should maintain a balanced budget over a 4-year cycle unless faced with extraordinary financial circumstances as, for example, that experienced during the 2008-09 global economic downturn. We are particularly concerned that government not fall into a “structural deficit” as BC experienced throughout much of the 1990’s. ICBA does not recommend this course of action to fill the MSP premium gap.

¹ D. Chen and J. Mintz, “The 2014 Global Tax Competitiveness Report,” School of Public Policy, University of Calgary, SPP, Research Papers, Volume 8, Issue 4, February 2015 as cited in: Business Council of BC, Submission to the Select Standing Committee on Finance and Government Services in Advance of the 2018 Provincial Budget, October 16, 2017, page 9.

- Combination of Measures. Government could pursue a combined approach which would trim existing government programs and dedicate completely new anticipated revenue streams (e.g. government “mark-up” and taxation revenue from cannabis) to off-set MSP premium reductions.

Conclusion

ICBA appreciates the opportunity to provide the MSP Task Force with our input.

We are very concerned that this review will result in additional costs for small and medium sized businesses generally, and our members -- most of which are small businesses – in particular. We are strongly opposed to a payroll tax or similar levy on business to replace the MSP premium regime.

We are also concerned that the MSP Task Force may take a “one-off” approach when British Columbia is desperately in need of a comprehensive review of tax competitiveness that includes a full assessment of the cumulative federal, provincial and local government burden and that has as its ultimate goal, the long-term competitiveness of our economy and the prosperity of all British Columbians.

Respectfully,

Independent Contractors and Businesses Association



Chris Gardner
President