

Submission to:

Select Standing Committee on Finance and
Government Services

British Columbia

Budget 2011 Consultation

October, 2011

In collaboration with:  **SHELFSPACE**
THE ASSOCIATION FOR RETAIL ENTREPRENEURS

Retail Council of Canada and Shelfspace

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About Retail Council of Canada

Retail Council of Canada (RCC) has been the Voice of Retail in Canada since 1963. We speak for an industry that touches the daily lives of Canadians in every corner of the country — by providing jobs, career opportunities, and by investing in the communities we serve.

RCC is a not-for-profit, industry-funded association representing more than 40,000 store fronts of all retail formats across Canada, including department, specialty, discount, and independent stores, and online merchants.

RCC is a strong advocate for retailing in Canada and works with all levels of government and other stakeholders to support employment growth and career opportunities in retail, to promote and sustain retail investments in communities from coast-to-coast, and to enhance consumer choice and industry competitiveness. RCC also provides its members with a full range of services and programs including education and training, benchmarking and best practices, networking, advocacy, and industry information.

Vision Statement:

Retail Council of Canada (RCC) is the leader in advancing and protecting the interests of the retail industry in Canada.

Mission Statement:

Retail Council of Canada's (RCC) mission is to be the Voice of Retail in Canada by providing advocacy, research, education and services that enhance opportunities for retail success, and increase awareness of retail's contribution to the communities and customers it serves.

Shelfspace

Shelfspace, The Association for Retail Entrepreneurs represents 3000-plus independently owned and managed retail store fronts in the province. Most members operate one or two stores and have annual sales of less than \$1 million.

Executive Summary and Key Recommendations

Retail is the biggest source of jobs in British Columbia, with retail employment representing over 12 per cent of the province's total labour force, directly employing more than 278,000 British Columbians. Retail's success in British Columbia is driven by increased investment, strong consumer demand, and sensible and focused policy and regulation by the provincial government.

Because there are some high-profile big players in retail in BC, it is often overlooked that the retail business is still essentially small business. The majority of retail businesses in British Columbia employ fewer than four people and have sales of less than \$500,000 annually.

RCC and Shelfspace and our members across B.C. are eagerly awaiting the Province's next budget. In these uncertain economic times, B.C. retailers are looking to the provincial government to provide stability to B.C.'s economy and stimulus to the retail sector, which is our province's largest employer and a key driver for the provincial economy.

Since many of our members are national retailers with locations across the country, we encourage the Government to work with its provincial counterparts to better streamline legislation and regulation across provincial borders. The feedback from our members is that they are spending far too much time on the administrative burden created by inconsistent regulatory frameworks in the areas of health and safety, environment and labour standards. The benefits to the Province are immense, in that businesses will be more productive and greater contributors to the economic strength of BC.

RCC and Shelfspace recommend the following measures that we see as important for the long term health of B.C.'s retail sector.

Minimum Wage

As members of the Coalition of B.C. Businesses, we feel strongly that a policy framework needs to be established before government considers any change to the minimum wage. That framework would then provide the basis from which any wage increase would be considered. We are pleased to see that the Government has heard retailers concerns about the impact of raising minimum wage on employment in the Province and has resisted pressures for a huge one-time jump of \$2 which would be disastrous for job creation.

Instead of a prescriptive rate schedule and timetable, the Coalition has outlined some broad principles to guide the development of this policy framework. By developing such a framework, B.C. will be at the forefront in Canada on this issue by ensuring that

certainty, predictability and affordability are cornerstones of any future minimum wage increase made in B.C.

The Coalition's proposed principles are as follows:

1. *Consult with the B.C. business community* – Government consultations with B.C. employers, including the Coalition of BC Businesses, must precede any potential change to the minimum wage. Small and medium-sized business employers are the ones who pay the wages impacted by this policy and they are the ones who can tell you what the impact of any change would be. They must be consulted on any increase before it is imposed.

2. *Keep it affordable* - Any increase to the minimum wage must be measured in small increments and spread out over a protracted period of time. Employers should not be subjected to large minimum wage increases that are inconsistent with current and forecasted economic indicators.

3. *Maintain the training wage* - Any proposal to increase the minimum wage would recognize the cost to employers to train new employees for entry-level positions. The minimum wage would maintain an appropriate training wage.

4. *Link minimum wage increases to economic indicators* - Any future increases to the minimum wage would be linked to economic indicators that reflect current and forecast market conditions. No increases would occur in years of flat or negative economic growth. We hope to learn from the mistakes of Ontario where prescriptive rate increases occurred during a recession, leaving many employers and employees in a vulnerable position.

5. *Keep minimum wage changes in context of the wider economic strategy* - Increases to the minimum wage should be weighed against a wider strategy to provide relief to low income earners, such as increases to the basic personal exemption, low income taxes and job training programs.

6. *Provide long term stability* – This policy framework, once established, should be enshrined in legislation, requiring any future government to maintain the policy and its key principles before considering any increase in the wage.

We recommend that Government adopt a process and a set of guiding principles that provide certainty and affordability to B.C.'s small and medium-sized business employers and employees.

HST

In October of 2009 RCC presented to Government what the impact of HST would be for retailers. We indicated that RCC was supportive of the HST due to the business benefits such as time savings through reduced paperwork, fewer complex exemptions to manage at the point of sale, and input tax credits for many business costs.

However, we also noted that there were many disadvantages for smaller retailers, most notably the loss of PST commission.

At this time, it is premature to say what kind of impact the HST has had on the retail sector. Most economists argue that the long term economic impacts in terms of capital investment and jobs are significant. However, in the shorter term, some consumers scale back on spending which means they are spending less in our stores.

The Government will need to continue to make the case for HST with British Columbians and remind them that there will be costs should they chose in the referendum to go back to the old divided tax system. Nonetheless, we are sympathetic with the challenges around HST and understand that ultimately the consumer is king and that sometimes it is difficult to change consumer perception.

We recommend that the government continue to invest in educating British Columbians about the benefits of the HST, while considering consultations with the retail sector to identify measures to mitigate the impact on smaller retailers.

Municipal Property Taxes

Business owners across BC are paying much higher property taxes than residents on the same value property. In fact, BC has the most anti-competitive business property tax regime in Canada. These unfair business taxes impede growth and act as a deterrent for small merchants to survive and thrive in cities.

We recommend that the province put some limits on the ability of municipalities to set property tax rates, by legislating “fairness ranges” to control the tax rates that municipalities can charge businesses.

B.C.’s Labour Shortage – Opportunities Lost

While B.C. is currently grappling with a softening economy, if we do not deal with the province’s labour shortage we are unlikely to reach our full economic potential once the current economic uncertainty has been resolved.

B.C.’s labour shortage brings with it many challenges. Not only are independent merchants working longer hours to maintain their businesses, they are spending more time and money training new employees as the labour shortage leads to higher staff turnover.

The B.C. government took a step toward addressing the skills shortage in Budget 2006 when it announced the development of a training tax credit, however the decision not to extend the credit to non-apprentice occupations, like those in retail, does nothing to address the larger issue of B.C.’s labour shortage.

We recommend the government expand the training tax credit to non-apprentice occupations to help employer’s absorb the high costs of training stemming from labour shortage induced turnover.

Retailers do extensive in-house training and while some of this is job and employer-specific, there is also considerable employer-provided training that builds portable skills and contributes to overall economic strength. Moreover, helping retailers defray the high costs associated with training allows them to invest elsewhere in their businesses and the B.C. economy.

We recognize there are challenges in defining what in-house expenditures would be eligible. Quebec is one jurisdiction that includes some forms of in-house training in its training tax/credit scheme, proving that it is possible to identify and support certain defined forms of in-house training.

The Quebec regime covers expenses incurred during training provided by internal resources, including:

- The salaries of trainers and those being trained;
- The salaries of employees who develop training materials;
- The cost of renting material, equipment, or space used for training; and,
- The cost of acquiring teaching materials and products used exclusively for training, or hardware or software for training.

We recommend the Province consider providing tax support for these types of training costs.

B.C.'s Paper Burden – the Need for Ongoing De-Regulation

In addition to the serious issues facing retailers as a result of labour shortage and economic uncertainty, retailers need ongoing support from the Province to reduce the paper burden on the sector. Accordingly, RCC is making several recommendations to the Province.

Sector Lens for Regulation

The Province must develop a mechanism that can be applied to the development of any new regulations to make sure no sector has new regulations added without the benefit of deregulation elsewhere. In the past few years, retailers have seen new rules for gift cards, security guards, tobacco sales and late night staffing. Late night staffing rules notwithstanding, RCC does not take issue with public policy objectives behind these new rules, but must point out that the sector seems to be facing a disproportionate number of new regulations.

Retailers recommend that the B.C. government develop a ‘Sector Lens’ that would be applied like the ‘Small Business Lens’ to ensure that no sector is disproportionately burdened with new regulations without benefiting from a corresponding removal of regulations in other areas.

Credit Card Transaction Fees – an Unnecessary and Growing Cost

There is one final issue that must be included in this submission to accurately reflect the current state and needs of B.C.'s retail sector. Even in light of current economic uncertainty, more than any other issue today, retailers are concerned about dramatic increases in credit card fees.

Merchants pay a fee, calculated as a percentage of the value of transaction, every time a credit card is used to pay for a purchase. This fee has risen rapidly in recent years and now averages two per cent of the value of the transaction. In 2007, retailers paid credit card fees upwards of \$4.5 billion. The vast bulk of these revenues flow as "interchange" and other fees to financial institutions and the international credit card companies, Visa and MasterCard. The fees that Canadians pay are grossly out of step with the rest of the world. Canadians are paying some of the highest interchange fees in the world, an average of two percent, compared with less than one percent in some other industrialized countries:

Australia - 0.45%
UK - 0.79%
Sweden - 0.90%
Belgium - 1.35%
US - 1.75%

This is an issue that should be of concern to the provincial government because it is effectively a hidden tax on every organization that does business with British Columbians. First of all, most of the revenue is drained out of the B.C. economy to the benefit of the multinational card companies and financial institutions. As a result, the fees provide little economic stimulus for B.C.-based businesses. While British Columbians pay these fees in the cost of every product and service they buy, we see no benefit from these billions of dollars. Secondly, the B.C. government is also paying these fees when credit cards are used to pay for products at BC Liquor Stores, for drivers licence renewals or any number of B.C. government services. Additionally, municipalities, hospitals, universities and schools have also begun raising concerns around the escalating costs of credit card fees, and possibly debit, if VISA and Mastercard introduce new debit products into Canada. Unlike every other input business cost, these are costs over which merchants, and other users, have absolutely no control.

RCC and its coalition representing more than 120,000 businesses across Canada applaud the response of the federal Minister of Finance to this issue, and his strong commitment to move forward with voluntary regulatory measures overseeing the debit and credit card industry in Canada.

We welcome the opportunity to work with government to provide thoughtful solutions that protect consumers and small businesses from skyrocketing credit card fees. We encourage the federal government to address the \$4.5 billion in hidden credit cards fees Canadians pay each year by incorporating the issue into their consumer protection agendas.

RCC and Shelfspace recommend that the Province encourage the federal government to study the issue of credit card transaction fees and determine how consumers and small businesses can be protected from these escalating costs.

Conclusion

Retail is one of B.C.'s most important economic engines. It has benefited from tremendous growth in the past several years. And, it has contributed to B.C.'s economic growth.

As government makes its budget decisions, RCC and Shelfspace would encourage the adoption of these recommendations. All of them have the potential to contribute to the ongoing strength of the B.C economy.