



Presentation to

**Select Standing Committee on Finance and
Government Services**

**Kelowna Chamber of Commerce
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INTRODUCTION

The Kelowna Chamber of Commerce is the largest Chamber outside of the Lower Mainland. Focusing on connection, value, and influence for its members the Chamber pro-actively works with all levels of government to reduce barriers to the Okanagan economy. We welcome this opportunity to bring forward issues relevant to the Kelowna business community.

In addition to working with our membership on a variety of issues, the Kelowna Chamber of Commerce conducts grass roots advocacy initiatives and works closely with the Canadian Chamber of Commerce to effectively lobby legislative changes on the provincial and federal levels.

With a population of more than 106,000, Kelowna is the largest community in the Central Okanagan and continues to be one of the fastest growing cities in British Columbia. Kelowna's economic growth is driven by increased activity in the manufacturing, technology and health care sectors in particular, which are attracting new businesses and residents to the area (Economic Profile – Regional District of Central Okanagan, EDC August 2007).

This is fuelled by the recognition of Kelowna as being identified as the third most cost effective place to conduct business in the Pacific Northwest Region of North America in KPMG's 2008 Competitive Alternatives Study. This study measured 27 cost components – such as labour, taxes and utilities – applied to business operations in a study of 136 cities in 10 countries.

The city's vibrant retail and commercial base attracts a trading area of 450,000 residents, making it the largest center for urban development, business, commerce, retail and health care services between Greater Vancouver and Alberta.

The city is known all over the world for its championship golf courses, extraordinary powder skiing and award-winning wineries. Arts and cultural amenities are rapidly evolving to meet a broad range of interests for both residents and tourists.

As a growing region, Kelowna and the Okanagan are faced with significant issues such as organized crime, the Property Transfer Tax, the Harmonized Sales Tax and barriers to business development. The presentation will delve into these issues.

We are appearing today before the Select Standing Committee to discuss a number of select issues relating to the fiscal policy of the Provincial Government. These specific issues can be linked to the common theme of economic sustainability. We believe it is imperative to maintain a smart fiscal policy agenda with the goal of ensuring the economic sustainability of our economy.

ORGANIZED CRIME TASK FORCE

Organized crime poses a serious long-term threat to Canada's institutions, society, economy and to our quality of life. In 2007, the Canadian criminal intelligence community identified approximately 950 organized crime groups that were found to operate in communities throughout Canada. The vast majority of organized crime groups use or exploit the legitimate economy to some degree by insulating their activities, laundering proceeds of crime and committing financial crimes via a legitimate business front. The international monetary fund has estimated that between \$22 - 55 billion are laundered annually in Canada. Drug trafficking continues to be the principle source of revenue for most organized crime groups accounting from \$100-300 billion annually. Organized crime groups exploit opportunities around the country and create a sophisticated trans-national network to facilitate criminal activities and challenge law enforcement.

With the expansion of organized crime throughout the Provinces and regions in Canada, and the necessity to reduce its growth, there must be plans and priorities established to guide our law enforcement efforts towards reducing the threat and impact of organized crime in Canada. Strategic studies undertaken confirm that certain regions throughout Canada are more susceptible to the establishment of organized crime operations, and the necessity for integrated task forces to combat this problem must be identified and utilized immediately.

A coordinated law enforcement effort must be undertaken that provides for a regionalized approach to combating organized crime utilizing the services of the RCMP, municipal and provincial police forces and other agencies in a coordinated effort. The necessity to address and combat the organized crime issue can only be dealt with through ensuring that there are sufficient financial resources available to establish organized crime task forces in regions throughout Canada. The financial investment by the Federal and Provincial governments in manpower and resources to combat organized crime is essential.

The funding for the organized crime task force that was established in Kelowna has been committed for three years and will be reassessed in 2011. The Kelowna Chamber emphasizes the need for the funding to continue beyond this initial three-year term that it has been committed for. The funding is essential in order to ensure that the Task Force remains in place to deal with the very serious issues that affect our community and our local economy.

Recommendation:

The Kelowna Chamber of Commerce recommends that the provincial government allocate funds received from the federal government towards the continuation of the organized crime task force that was established in the Okanagan region beyond the three year term that the funding has been committed for.

PROPERTY TRANSFER TAX (PTT)

The Property Transfer Tax (PTT) has a negative impact on affordable housing throughout the province. The PTT adds to the costs of relocating to BC adding to the difficulty of attracting employees. The PTT adds increased upward pressure on wages making it more difficult for businesses to be competitive.

The Property Transfer Tax negatively affects the productivity of the economy of British Columbia. It is important to attract investors to a business climate that is hospitable and open for business. Unfortunately, the Property Transfer Tax continues to be one tax that hinders our growth. With the implementation of the HST, there is also now the issue of additional taxation at the provincial level.

The October 11, 2005 BC Budget 2006 Consultation Paper by the British Columbia Real Estate Association recommended, among other issues, that the provincial government address the Property Transfer Tax (PTT) and called on the government to eliminate the tax.

The BC Chamber of Commerce recognizes this issue as being provincial in scope and adopted a policy resolution submitted by the Kelowna Chamber of Commerce in May 2006.

Recommendation:

- 1.) The Kelowna Chamber recommends that the provincial government undertake an immediate review of the Property Transfer Tax***
- 2.) That the provincial government move to eliminate the Property Transfer Tax within three years.***

HARMONIZED SALES TAX (HST)

The Kelowna Chamber has identified a number of key sectors that are negatively impacted by the Harmonized Sales Tax (HST). These sectors include but are not limited to the development, construction and real estate sectors, as well as the restaurant sector. According to the Canadian Real Estate Association, the new harmonized sales tax has had an immediate impact on the housing market.

Home sales activity continued to trend down in July 2010 with the decline being almost entirely the result of fewer sales in British Columbia and Ontario. In British Columbia sales dropped 14.1 per cent in July from the previous month. A recent survey conducted by Royal LePage Real Estate Services polled 765 realtors online at the end of July 2010 and found that 44 per cent of those polled in BC and Ontario said that the introduction of the HST is having the greatest effect on the cooling residential real estate market in those provinces.

In all, more than 86 per cent of respondents said the HST is affecting their business somewhat. According to a province-wide survey conducted by the Canadian Restaurant and Foodservices Association (CRFA), 72 per cent of respondents said the HST on restaurant meals has had a negative impact on business since it took effect July 1. On average, respondents reported a 10 per cent decline in sales compared to the same period last year. The CRFA survey was conducted online between July 26 and 31, 2010.

The findings represent 802 BC restaurants. The BC foodservice industry creates \$10 billion in sales annually and creates 173,000 jobs for British Columbians. According to the British Columbia Restaurant & Foodservices Association (BCRFA), the HST is expected to create a drop in sales of approximately \$700 million for 2010 to 2011. The Kelowna Chamber is committed to working with our members to determine the impact of tax harmonization on their businesses; and bringing those concerns forward to government to mitigate any negative impact.

To address the areas of concern identified by Kelowna Chamber members and other stakeholders, it is recommended that the Provincial Government:

- Revisit the provincial tax portion of the HST and reduce this portion from 7% to 5% (for a combined tax rate of 10%). The total cost to the Provincial Government for this initiative would be approximately \$1.5 billion (based on the fact that the PST generates approximately \$6 billion in revenue annually for the Provincial Government and a one percentage point decrease in the provincial portion of the HST would result in a decrease in revenue of \$750 million for the Provincial Government based on the premise that the HST is intended to be revenue neutral).
- Address the negative impact of harmonization on significantly impacted sectors and consider offering targeted tax rebates:
 - Work with the restaurant sector to mitigate the negative impact of harmonization to consumers.
 - Offset the negative impact to those businesses where new provincial sales taxes are applied (which were previously exempt).

INVESTING IN BUSINESS DEVELOPMENT

The Provincial Government is encouraged to invest in business development, which in turn enhances our economy's ability to grow. In some sectors, a skills gap has been identified between the skills required by businesses, and the skill set of those currently seeking employment. For businesses struggling with day-to-day operations of running their business, they lack the ability to adequately train new employees. Assistance is needed to help bridge this gap to provide new employees with the necessary skill set to perform the required duties.

TRAINING TAX CREDIT

The BC Chamber of Commerce was the leading voice calling for the introduction of the Training Tax Credit introduced in Budget 2006. Upon further work by the Chamber to design the actual credit system, it became clear that a welcome start of \$30 million a year for three years does not address the sheer scale of the issue.

On April 7, 2009, the BC Government announced that it will double the BC Training Tax Credit effective July 1st, 2009. This means that instead of a person receiving up to \$2,000, they will now receive up to \$4,000.

Recommendation:

1.) The Kelowna Chamber echoes the BC Chamber in recommending that the government introduce a review mechanism that be initiated after year one of the program to review the take-up.

2.) The Chamber also recommends that the government create a fund to be used in the event that the program is found to be oversubscribed to the degree that it is affecting employers' ability to provide training, or that it be found to be excluding employers for lack of funds.

CO-OP TAX CREDIT

In dealing with the issues of skills gap, it is necessary to ensure that BC has the highly skilled workforce essential to the knowledge-based economy of the future BC needs, to ensure that students are provided the made-in-BC skills necessary to our future success.

While a co-op infrastructure exists in the province many small businesses, the backbone of the economy and likely employer for young workers, find the cost of participating prohibitive.

Recommendation:

The Kelowna Chamber of Commerce echoes the recommendation of the BC Chamber of Commerce and recommends that the provincial government introduce a co-op tax credit to business employers equal to 15% of wages paid to qualified co-op students. This approach would assist businesses to access trained employees and provide valuable hands-on training for students.

CONCLUSION

Economic prosperity is by no means guaranteed. However, we can enhance our chances of success by adopting strategic policies that make British Columbia an attractive location for individuals, businesses and investment.

Strategically focused smart policies must include a tax policy that embodies a competitive tax system that encourages work effort, saving, investment and risk taking, thereby, enhancing productivity and economic growth on a sustainable, long term basis.

On the spending side, government spending priorities must include those areas that can have a direct bearing on our productivity and competitiveness as a nation and enhance our economy's ability to grow.

Members of the Select Committee, as a leading business organization in British Columbia, the Kelowna Chamber of Commerce urges the provincial government to enhance our economy through the implementation of strategic smart policies. These policies should focus on economic sustainability and provide a legislative infrastructure structure that supports entrepreneurs to enhance the competitiveness and productivity of our business community.

Thank-you for this opportunity to expand upon a number of issues relevant to our business community.