Addressing Ontario's Underground Economy in the Residential Construction Sector:
Interim Report for the Minister of Finance
On Behalf of Parliamentary Assistant Laura Albanese, MPP

CONTEXT:

When individuals and businesses deliberately ignore their tax and other legal obligations, they put the safety of workers and consumers at risk. Participation in the underground economy also creates an unfair competitive advantage for illegitimate operators over those businesses that choose to play by the rules.

According to Statistics Canada, the country’s underground economy is estimated to be 2.3 per cent of annual gross domestic product (GDP), and is estimated to largely occur in the construction, retail and hospitality sectors where cash payments are common. Applied to Ontario, this means that about $15 billion in annual economic activity can be attributed to the underground economy.

The government is already taking a number of concrete actions to address Ontario’s underground economy, including:

- enhanced compliance to address underground economy activity in high risk sectors which has generated an additional $825 million;
- requiring corporations to demonstrate compliance with their tax obligations before receiving government contracts; and
- making the use, manufacture and distribution of electronic sales suppression devices an offence under the Taxation Act, 2007.

Statistics Canada has also identified that the residential construction sector comprises almost 30 per cent of Ontario’s underground economy, which translates into approximately $4.5 billion in economic activity per year.

In the 2015 Ontario Economic Outlook and Fiscal Review, the Minister of Finance asked me to consult with the construction sector on additional measures the Province could take to help level the playing field and better protect workers and consumers. In the weeks and months that followed, I began those consultations, having important conversations around the province with key stakeholders.

CONSULTATION OBJECTIVES:

Establishing an ongoing dialogue with the residential construction industry will help the government better understand the scope of the underground economy within the sector and
gather advice on how best to support the hardworking businesses that are the backbone for our economy.

On January 11, 2016, I launched a series of discussions to engage and listen to key stakeholders in the residential construction sector. I sought to better understand the key issues, determine the impact of underground economic activity on legitimate businesses in the sector, and develop recommendations.

Ontario is committed to continue working with the residential construction sector to identify further opportunities for collaboration.

SUMMARY OF CONSULTATION EVENTS:

I have heard from Ontarians across the province through a successful series of initial meetings and consultations with different stakeholders, including:

- Ontario Home Builders’ Association (OHBA), who welcomed the launch of these consultations at their office;
- Carpenter's District Council of Ontario;
- Provincial Labour Management Health and Safety Committee (PLMHSC);
- Presentations as part of the pre-budget consultations carried out by the Standing Committee on Finance and Economic Affairs (SCFEA);
- Pre-Budget consultations across the province;
- Laborers’ International Union of North America (LIUNA) Local 1059, the OHBA London chapter and other construction sector stakeholders from London where I was joined by MPP Deb Matthews; and
- Submissions received through the Ministry of Finance’s email address: MOF-PPAB@ontario.ca.

In my discussions with the OHBA and the PLMHSC, I asked the following questions:

1. What type of underground economy activities do you encounter within your sector (e.g., false invoicing, cash payments, partial payments, etc.)?
2. Why do people in the residential construction sector participate in the underground economy?
3. What is the single most important action that Ontario could undertake to deter underground economy activity in residential construction? Why is this important?
4. What consequences should individuals and businesses who undertake underground economy activity in the residential construction face? What do you think would be most effective?
5. Have you encountered any new trends in underground economy activity in residential construction?
6. How can the government best communicate with stakeholders in residential construction?
7. What do those who work in residential construction need to know about the impact of the underground economy – what messages would make a difference?
8. What opportunities exist for your organization, or your membership, to partner with government to address some of the challenges you’ve raised today?

KEY THEMES AND RECOMMENDATIONS:

The real-world examples of how the underground economy has had an impact on legitimate businesses, and the advice received from stakeholders have formed the basis of the key themes and interim recommendations outlined below.

Better Collaboration Within and Across Governments

One of the key messages delivered by the Ontarians I spoke with was that ministries within municipal, provincial, and federal governments must work more collaboratively to address the underground economy. Specifically, the individuals and businesses I heard from advised the Province to:

- Build effective partnerships to ensure all players are aware of the impact of the underground economy on workers, consumers and businesses; and
- Improve information sharing across municipal, provincial, and federal governments, regulatory agencies, and enforcement bodies.

Recommendations

1. Examine opportunities for the Province and federal government to continue to work together in addressing underground economic activity in high risk sectors, including the residential construction sector.

2. Build on the success the government has seen with its pilot projects that target high-risk sectors.

3. Move forward with the government’s 2015-16 Budget commitment to enhance information sharing across the Ontario government and between levels of government to tackle underground economic activity in a smarter, more coordinated way.

Increase Public Awareness

I also heard that the government should increase its efforts to raise awareness about the impact of the underground economy on workers, consumers, and businesses, by:
• Implementing a public awareness campaign to inform homeowners of the risks and liabilities related to cash transactions and unwritten contracts, including liability for damages, injuries and even liens filed by unpaid suppliers;
• Better informing contractors and sub-contractors of their tax and labour-related obligations; and
• Informing homeowners and builders about permit and licensing requirements.

Recommendation
4. Launch a public awareness campaign that will inform Ontario homeowners, businesses, and consumers of the risks and potential liabilities associated with participation in the underground economy.

Incentives to Reduce Participation in the Underground Economy

Another constant theme that emerged from my discussions was how incentivizing homeowners and the public at large to use legitimate contractors could help contribute to tackling the underground economy. By highlighting the consumer benefits of working with registered businesses and licensed contractors, both consumers and businesses will be more likely to comply with all of their legal and tax obligations.

Specifically the advice I received included:
• Reducing the regulatory burden associated with collecting, reporting and remitting taxes;
and
• Introducing incentives that incentivize homeowners to use legitimate contractors for home renovations and other home improvement work.

Recommendation
5. Introduce incentives for homeowners to hire qualified and reputable contractors for home improvements.

NEXT STEPS:

The Province remains committed to addressing underground economy and maintaining tax fairness. As such, I will continue to seek opportunities to meet with stakeholders and businesses in the construction industry through early spring 2016.

I submit my initial recommendations as outlined above, and I will submit my final recommendations following the conclusion of the consultation process.
I look forward to continuing my conversations and building partnerships with the individuals who represent hardworking businesses in the residential construction sector.