

# Residential Cleaning Services Industry

*Does the HST introduction in Ontario and British Columbia provide the opportunity to create new jobs and pilot a tax policy option to address the \$3B+ residential cleaning services underground economy?*

Revised Presentation

Version 3 (December 22, 2009)

# Agenda

- ❖ Introduction
- ❖ Research
- ❖ Background
- ❖ The Issue
- ❖ Policy Options
- ❖ Next Steps

# Introduction

- ❖ MOLLY MAID is a Canadian entrepreneurial success story - a collection of small businesses who are creating jobs, generating tax revenue and providing a needed service
- ❖ Despite being a household name, MOLLY MAID accounts for less than 1% of the residential cleaning service market

## Research

- ❖ An independent national telephone omnibus survey of 8,000 Canadians was conducted by Research House, a division of Environics Research Group, from June 4 to July 22, 2009
- ❖ 12%, or 1.62 million Canadian households pay for home cleaning help
- ❖ 79% of those paying for help use an independent cleaning person
- ❖ The Canadian market is valued at \$3.6 billion

# Background

- ❖ 2009 Industry Sales and Employment
- ❖ Unintended Consequences of GST
- ❖ Impact on Government

## Background

### *2009 Industry Sales and Employment*

- ❖ As more and more women have entered the workforce over the last 30 years they have in turn hired other women to clean their homes
- ❖ Annual industry sales estimated at \$3.6B nationally<sup>1</sup>
- ❖ 186,000 Canadians work in the industry<sup>2</sup>

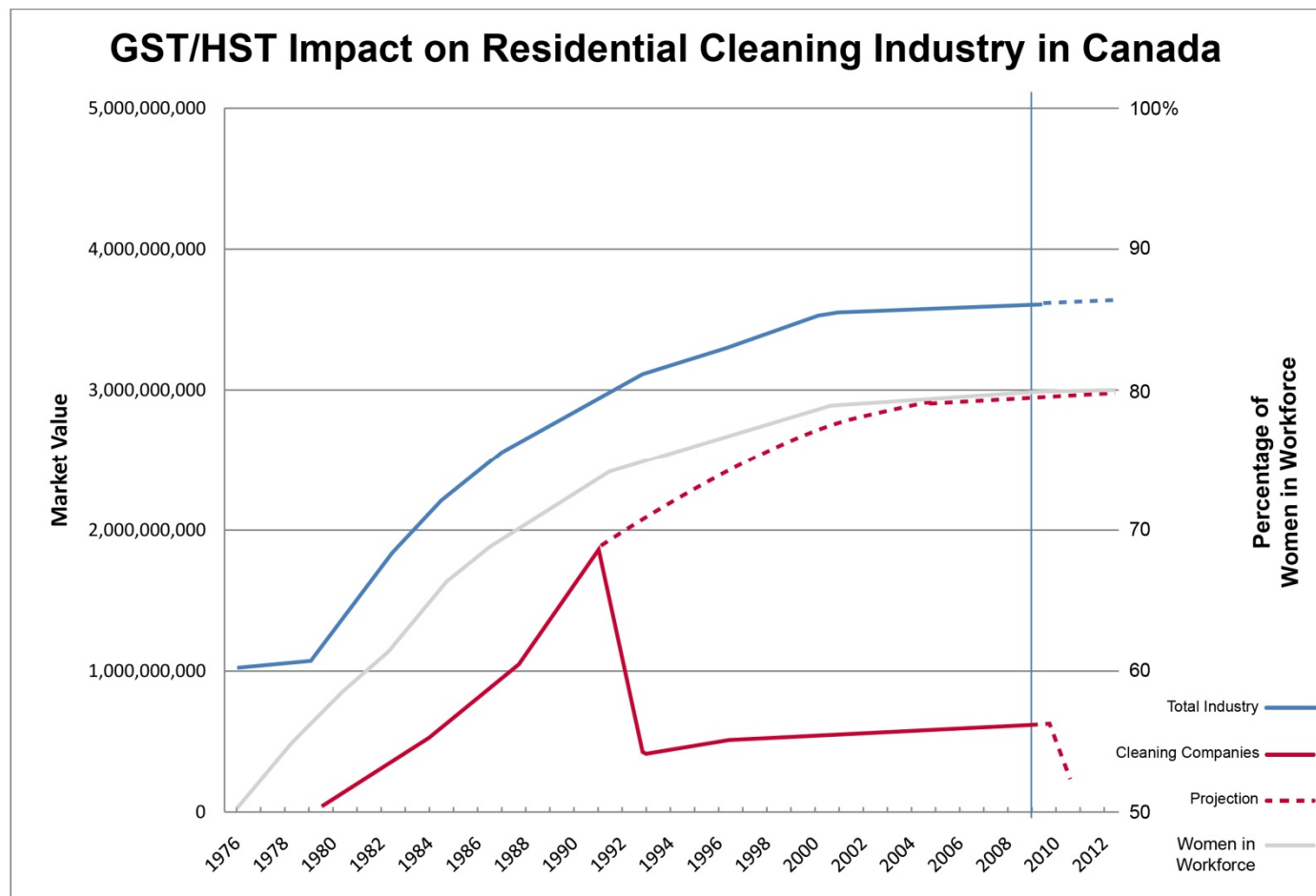
## Background

### *2009 Industry Sales and Employment*

- ❖ Of the estimated 186,000 workers, only 14,000 (7.5%) are legitimately employed by residential cleaning companies
- ❖ 172,000 Canadians work in the underground residential cleaning services economy
- ❖ GST has unintentionally provided incentive for growth in underground economic activity

# Background

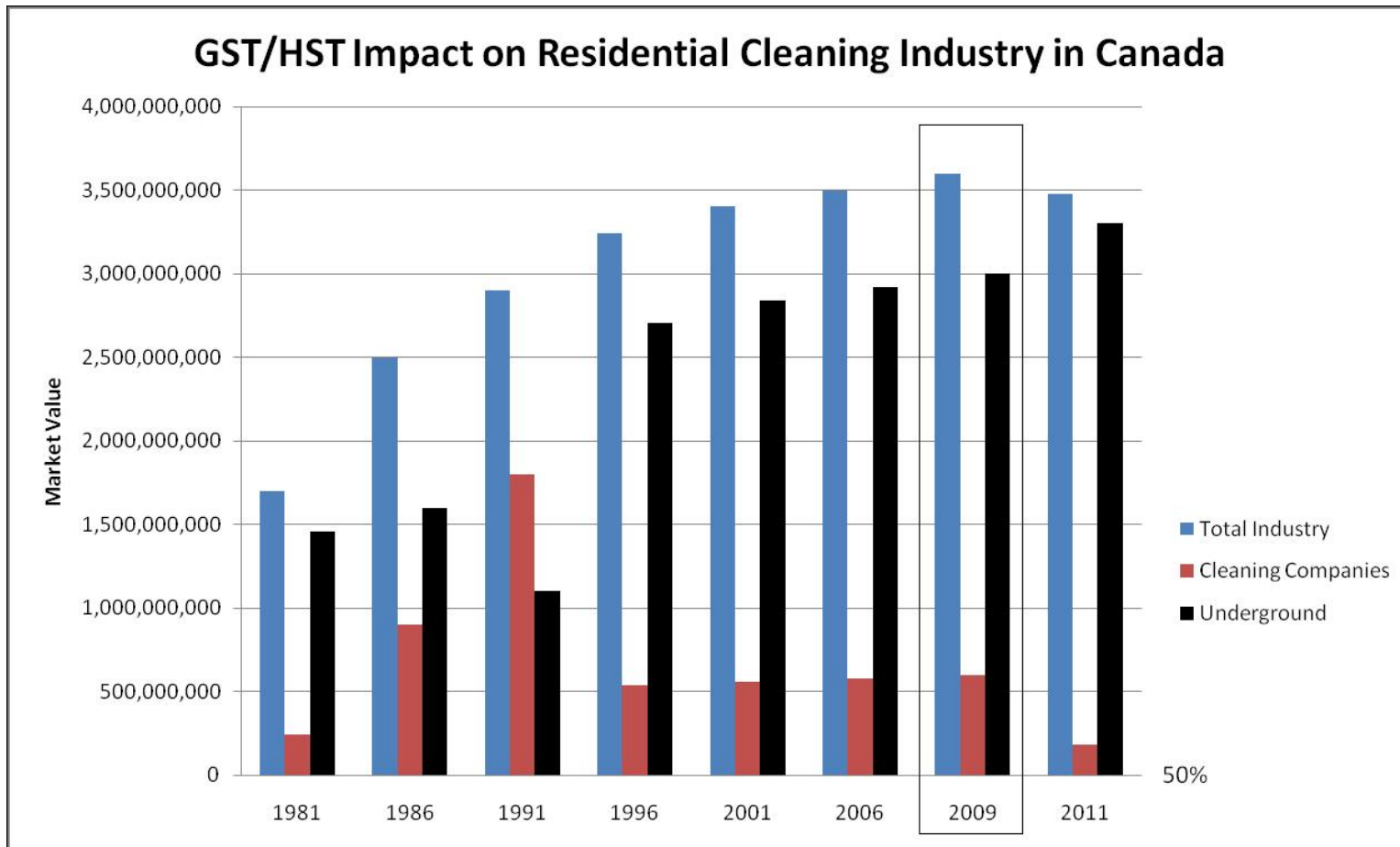
## *The Unintended Consequences of GST*





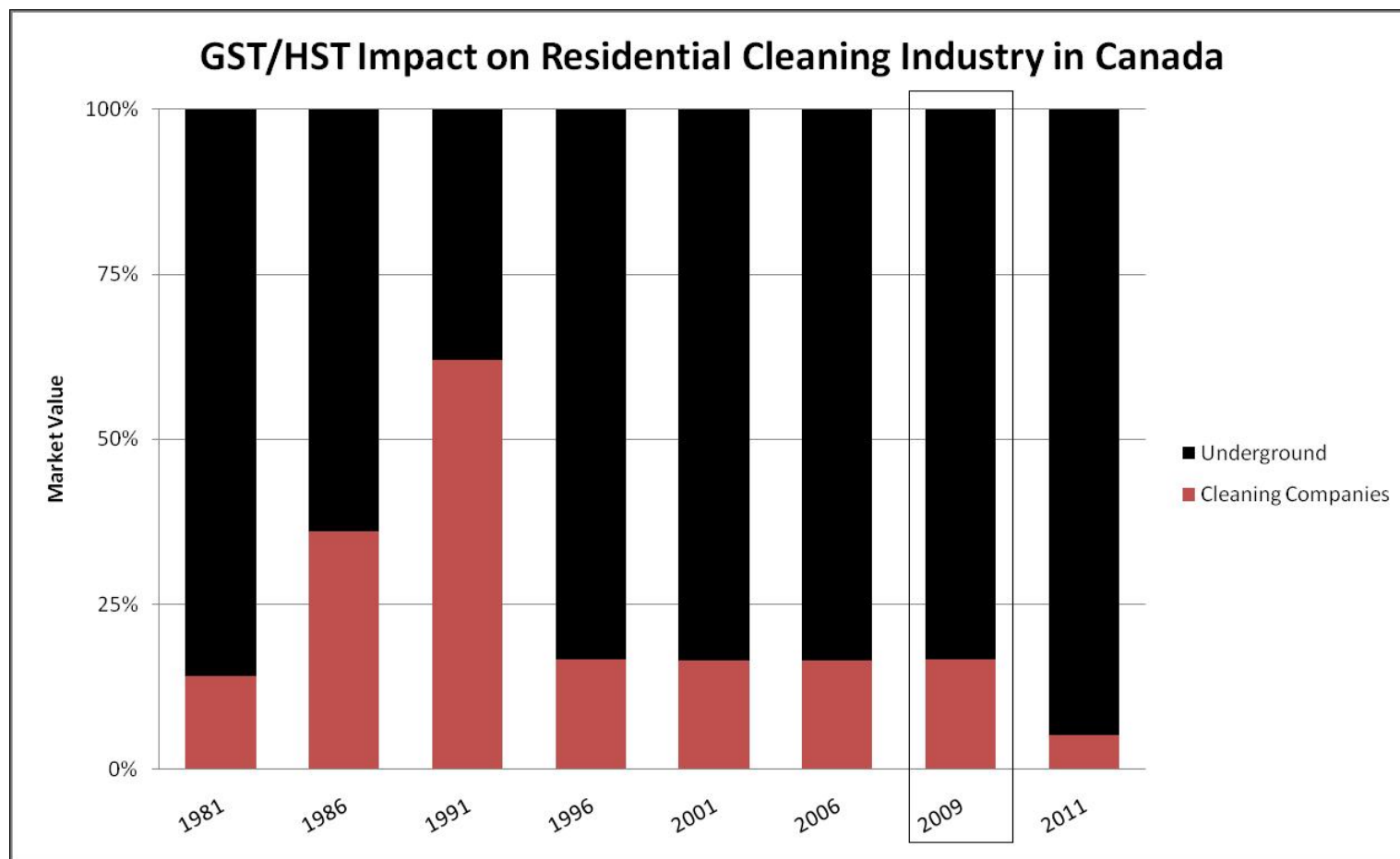
# Background

## *The Unintended Consequences of GST*



# Background

## *The Unintended Consequences of GST*



# Background

## *The Unintended Consequences of GST*

- ❖ 70% decline in volume of business generated by legitimate industry within two years of GST introduction resulting in business failures
- ❖ Dollar volume of residential cleaning services in the underground economy more than doubled to approximately \$3 billion between 1991-1996
- ❖ Former employees began working in the underground economy, simultaneously making EI and welfare claims

# Background

## *Impact on Government*

- ❖ GST tax base shrank
- ❖ Federal and provincial governments began to lose:
  - ❖ personal income tax revenue from legitimate operators and their employees
  - ❖ CPP, EHT, workers compensation, and EI payroll tax remittances
  - ❖ on tax credits this new underground became eligible to receive
- ❖ \$13 decline in net government revenue for every incremental \$1 gained through GST

# The Issue

- ❖ Introduction
- ❖ Impact of HST on the Industry and Government
  - ❖ Industry Snapshot: (1) Current and, (2) After HST
- ❖ Impact of HST on Female Workers

# The Issue

## *Introduction*

- ❖ HST is good for most industries and will enhance Canada's competitiveness on a macro level (just as the GST did)
- ❖ HST unintentionally:
  - ❖ drives the residential cleaning services industry further into the underground economy
  - ❖ eliminates legitimate tax-paying jobs with benefits for Canada's unskilled female workers

# The Issue

## *Impact of HST on the Industry*

- ❖ 12%-13% HST provides a 35-41% price advantage to Canadians in the underground economy versus legitimate, tax-paying businesses
- ❖ The tax-avoiding underground economy will grow as a result of their increased price advantage (just as it did immediately following GST introduction)
- ❖ Legitimate businesses providing competitive wages and benefits to approximately 14,000 primarily unskilled Canadian women with few opportunities to earn income above the minimum wage, will shrink

# The Issue

## *Impact of HST on Government*

- ❖ The Government of Canada stands to lose tax revenues from a declining revenue base and increase costs through the 'double dipping' effect of these underground operators
- ❖ Many underground operators will begin to make social assistance claims in addition to earning income from cleaning
- ❖ Finance Canada has the opportunity to work with the industry to explore policy options to create new jobs and reduce revenue leakage



# The Canadian Residential Cleaning Service Industry

## *Industry Snapshot - Current*

	Maid/Cleaning Service	Independent
Size of Market (Canada)	\$ 600,000,000	\$ 3,000,000,000
Share of Market (\$)	16.7%	83.3%
Avg. Price (incl. 5% GST)	\$ 96.37	\$ 70.00
Number of Cleanings	6,200,000	42,900,000
Number of Employees	13,900	171,600
% Share of Employment	7.5%	92.5%
<b><u>Government Revenues</u></b>		
GST (Net of Input Tax Credits)	\$ 23,400,000	
Income Tax & Credits	\$ 171,400,000	
	<b>\$ 194,800,000</b>	<b>\$ -</b>

# The Canadian Residential Cleaning Service Industry

## *Industry Snapshot – After HST*

	Maid/Cleaning Service	Independent
Size of Market	\$ 180,000,000	\$ 3,300,000,000
Share of Market (\$)	5.2%	94.8%
Avg. Price (incl. 5% GST)	\$ 103.71	\$ 70.00
Number of Cleanings	1,700,000	47,100,000
Number of Employees	3,800	188,400
% Share of Employment	2.0%	98.0%
<b><u>Government Revenues</u></b>		
GST (Net of Input Tax Credits)	\$ 17,200,000	
Income Tax & Credits	\$ 47,800,000	
	<b>\$ 65,000,000</b>	<b>\$ -</b>

## The Canadian Residential Cleaning Service Industry *Industry Snapshot – After HST*

### *Summary of expected variances after HST*

- ❖ The market share for residential cleaning companies will decline by 70% and increase 12% for Independents
- ❖ 73% of residential cleaning company employees (10,000) will lose their jobs based on a shift in consumer demand to Independents
- ❖ While HST revenues will only decline by \$6 million, income and payroll related taxes will decline by \$123 million annually

# The Issue

## *Impact of HST on Female Workers*

- ❖ Most of the 10,000 employees who will lose their jobs will begin to work in the underground economy
- ❖ In total, approximately 188,000 mostly unskilled, poorly educated female workers will be working in the underground economy with no benefits of any kind including rights afforded under their respective provincial *Employment Standards Act*, workers compensation, EI and CPP

# Policy Options

- ❖ Options and Key Criteria
- ❖ Industry Snapshot: (1) Current (2) After HST and (3) With Rebate/Tax Deduction
- ❖ Government Revenues Summary
- ❖ Policy Options Summary<sup>1</sup>

# Policy Options

## *Options and Key Criteria*

- ❖ HST
  - ❖ HST collected in every province and territory
- ❖ Zero rating/Exemption
  - ❖ No HST collected
  - ❖ Companies continue to claim input tax credits under zero rating
- ❖ Zero threshold with rebate/tax-deduction
  - ❖ All service providers must collect and remit HST (taxi/limo industry example)
  - ❖ Consumers eligible for rebate or tax-deduction **only if** service fees paid are claimed as income (day care example)

# Recommended Policy Option

## *Zero Threshold with Rebate/Tax Deduction*

- ❖ All service providers to collect and remit HST
- ❖ Must submit SIN or Business Number of provider to claim tax deduction
  - ❖ Forces all providers to remit income and payroll taxes
- ❖ New HST revenue to fund tax deduction along with income and payroll taxes
  - ❖ Net revenue gain, offsetting costs associated with tax deduction

# EU and France Example

## *Reduced VAT with Tax Deduction*

- ❖ Recognized high levels of underground activity costs all taxpayers
- ❖ June 2009 EU Directive to reduce VAT in labour intensive industries
  - ❖ Objective to create jobs and reduce underground activity
- ❖ France 70% VAT reduction combined with tax deduction
  - ❖ Tax deduction 50% up to maximum of €12,000 (\$18,000 CAD)



# The Canadian Residential Cleaning Service Industry

## *Industry Snapshot - Current*

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Size of Market (Canada)	\$ 600,000,000	\$ 3,000,000,000
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Avg. Price (incl. 5% GST)	\$ 96.37	\$ 70.00
Number of Cleanings	6,200,000	42,900,000
Number of Employees	13,900	171,600
% Share of Employment	7.5%	92.5%
<b><u>Government Revenues</u></b>		
GST (Net of Input Tax Credits)	\$ 23,400,000	
Income Tax & Credits	\$ 171,400,000	
	<b>\$ 194,800,000</b>	<b>\$ -</b>

# The Canadian Residential Cleaning Service Industry

## *Industry Snapshot – After HST*

	Maid/Cleaning Service	Independent
Size of Market	\$ 180,000,000	\$ 3,300,000,000
Share of Market (\$)	5.2%	94.8%
Avg. Price (incl. 5% GST)	\$ 103.71	\$ 70.00
Number of Cleanings	1,700,000	47,100,000
Number of Employees	3,800	188,400
% Share of Employment	2.0%	98.0%
<b><u>Government Revenues</u></b>		
GST (Net of Input Tax Credits)	\$ 17,200,000	
Income Tax & Credits	\$ 47,800,000	
	<b>\$ 65,000,000</b>	<b>\$ -</b>

# The Canadian Residential Cleaning Service Industry

## *Industry Snapshot – With Rebate/Tax Deduction*

	Maid/Cleaning Service	Independent
Size of Market	\$ 3,900,000,000	\$ 700,000,000
Share of Market (\$)	84.8%	15.2%
Avg. Price	\$ 103.71	\$ 70.00
Number of Cleanings	37,600,000	10,000,000
Number of Employees	84,600	40,000
% Share of Employment	67.9%	32.1%
<b><u>Government Revenues</u></b>		
HST Collected	\$ 372,700,000	
Income Tax & Credits	\$ 1,035,400,000	
	\$ 1,408,100,000	
Rebate/Tax Deduction	-\$ 780,000,000*	
<b>Total Government Revenues</b>	<b>\$ 628,100,000</b>	<b>\$ -</b>

\*Assumed at 20% of revenue.

# Government Revenues Summary

	Current	After HST	With Rebate /Tax Deduction
<b>GST/HST Collected (Net of Input Tax Credits)</b>	<b>\$23,000,000</b>	<b>\$17,000,000</b>	<b>\$373,000,000</b>
<b>Income Tax &amp; Credits<sup>1</sup></b>	<b>\$171,000,000</b>	<b>\$48,000,000</b>	<b>\$1,035,000,000</b>
	<b>\$195,000,000</b>	<b>\$65,000,000</b>	<b>\$1,408,000,000</b>
<b>Rebate/Tax Deduction</b>	<b>-</b>	<b>-</b>	<b>- \$780,000,000</b>
<b>Total</b>	<b>\$195,000,000</b>	<b>\$65,000,000</b>	<b>\$628,000,000</b>

# Policy Options

## Summary

Stakeholders	HST	Zero Rating /Exemption	Zero Threshold with Rebate/Tax Deduction
Female Workers	• 10,000 jobs lost	TBD	• 71,000 new jobs created
Industry	• 35-41% price disadvantage	TBD	• Price disadvantage reduced
Independents	• 35-41% price advantage	TBD	• Price advantage reduced
Governments	• \$130 million tax revenue <u>loss</u>	TBD	• \$433 million tax revenue <u>gain</u>
Consumers	• Reduced choice in above ground economy	TBD	• Increased choice in above ground economy

# Appendix I

## Policy Options

# Appendix I: Policy Options

## *Summary of Analysis*

Female Workers	HST	Zero Rating /Exemption	Zero Threshold with Rebate/Tax Deduction
Access to Jobs with Benefits in Industry	<ul style="list-style-type: none"> <li>• Job loss of approximately 10,000</li> <li>• Majority will migrate to underground economy</li> </ul>	TBD	<ul style="list-style-type: none"> <li>• 70,000 new jobs created</li> </ul>
Workplace Health and Safety Protection/Benefits	<ul style="list-style-type: none"> <li>• Approximately 4,000 will keep their jobs and benefits in industry</li> <li>• Approximately 188,000 will have no benefits</li> </ul>	TBD	<ul style="list-style-type: none"> <li>• Approximately 85,000 employees will be employed in industry</li> <li>• Approximately 40,000 will have no benefits</li> </ul>
Access to E.I.	<ul style="list-style-type: none"> <li>• Approximately 4,000 will keep their jobs and benefits in industry</li> <li>• Approximately 188,000 will have no benefits</li> </ul>	TBD	<ul style="list-style-type: none"> <li>• Approximately 85,000 employees will be employed in industry</li> <li>• Approximately 40,000 will have no benefits</li> </ul>

# Policy Options

## *Summary of Analysis*

Industry	HST	Zero Rating /Exemption	Zero Threshold with Rebate/Tax Deduction
Financial Impact	<ul style="list-style-type: none"> <li>• 35-41% price disadvantage</li> <li>• Market share declines to 5% from 17%</li> </ul>	TBD	<ul style="list-style-type: none"> <li>• Price disadvantage reduced</li> <li>• Market share rises to 85% from 17%</li> </ul>
Independents	HST	Zero Rating /Exemption	Zero Threshold with Rebate/Tax Deduction
Financial Impact	<ul style="list-style-type: none"> <li>• 35-41% price advantage</li> <li>• Market share increases to 95% from 83%</li> </ul>	TBD	<ul style="list-style-type: none"> <li>• Price advantage reduced</li> <li>• Market share declines to 15% from 83%</li> </ul>



# Policy Options

## *Summary of Analysis*

Governments	HST	Zero Rating /Exemption	Zero Threshold with Rebate/Tax Deduction
Taxation	<ul style="list-style-type: none"> <li>• GST/HST revenue decreases to \$17 million from \$23 million</li> <li>• Income/Payroll revenue decreases from \$171 million to \$48 million</li> </ul>	TBD	<ul style="list-style-type: none"> <li>• GST/HST revenue decreases to loss of \$407 million (net) from \$23 million</li> <li>• Income/Payroll revenue increases from \$171 million to \$1.035 billion</li> </ul>
Employment	<ul style="list-style-type: none"> <li>• Industry share of employment drops to 2% from 8%</li> <li>• Industry job loss of approximately 10,000</li> </ul>	TBD	<ul style="list-style-type: none"> <li>• Industry share of employment rises to 70% from 8%</li> <li>• Industry net job gain of 71,000</li> </ul>

# Policy Options

## *Summary of Analysis*

Consumers	HST	Zero Rating /Exemption	Zero Threshold with Rebate/Tax Deduction
Affordability	<ul style="list-style-type: none"> <li>• Industry consumers pay an additional 7.6%</li> <li>• Independent consumers pay same</li> </ul>	TBD	<ul style="list-style-type: none"> <li>• Industry consumers pay \$103.71</li> <li>• Independent consumers pay \$70.00</li> </ul>
Choice	<ul style="list-style-type: none"> <li>• Reduced choice in above ground economy</li> <li>• Creates choice in underground economy</li> </ul>	TBD	<ul style="list-style-type: none"> <li>• Increased choice in above ground economy</li> <li>• Reduced choice in underground economy</li> </ul>
Taxpayers	HST	Zero Rating /Exemption	Zero Threshold with Rebate/Tax Deduction
Net Revenue Gain/Loss	<ul style="list-style-type: none"> <li>• \$130 million revenue loss</li> <li>• Increased tax revenue leakage</li> </ul>	TBD	<ul style="list-style-type: none"> <li>• \$433 million revenue gain</li> <li>• Decreased tax revenue leakage</li> </ul>

# Appendix II

## Research Report

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**A Study of Home Cleaning Help  
Incidence and Expenditure**

**Conducted for:**

**Molly Maid**

**July 30, 2009**

# Introduction

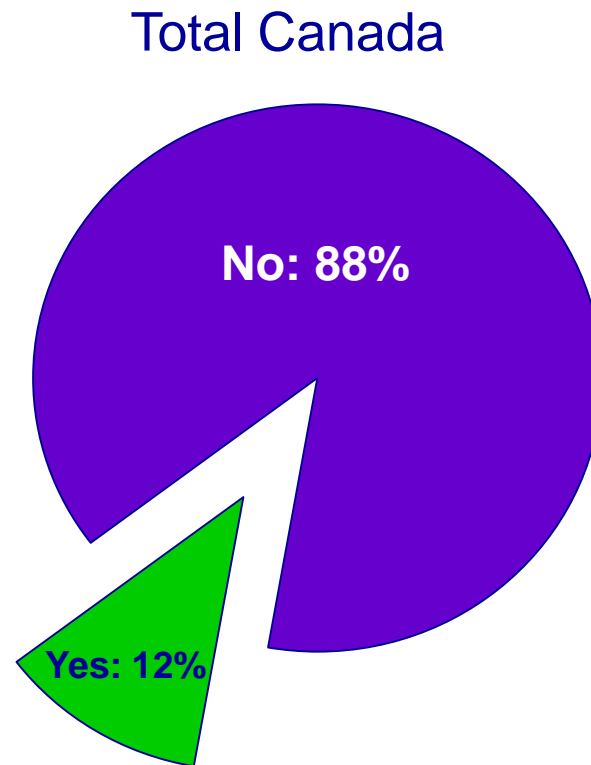
This study was conducted to determine the incidence with which Canadians pay for help in cleaning their homes and the \$ amount they pay for this service.

It was conducted by including questions on the bi-weekly national telephone omnibus survey of 2000 Canadians conducted by Research House, a division of Environics Research Group. This particular study was conducted over 4 waves and resulted in a total sample of 8014 Canadian adults. It was conducted from June 4 to July 22 with all respondents selected on a stratified probability basis. This sample is representative of the Canadian population with a total margin of error of +/- 1.1%, 19 times out of 20. Further details on the sampling method and quality controls are available from Commins Wingrove on request. The results of the survey are summarized on the following pages.

## A Note About Commins Wingrove:

Commins Wingrove is a Toronto based consultancy which for over 30 years has managed the marketing and survey research activity for a variety of clients including: Unilever Canada, Visa Canada, Kellogg's, Rexall/Pharma Plus and many others.

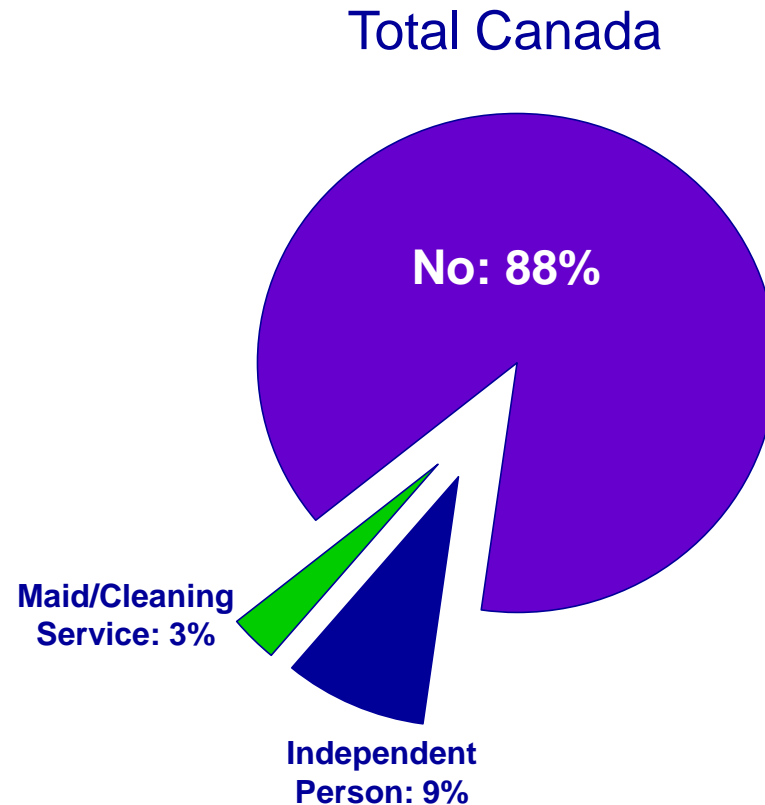
1. A total of 12% of Canadian households pay for home cleaning help.



Question: Does your household pay someone to help clean your home; such as a maid or cleaning service company, or an independent cleaning person?

Sample Size = 8014 Total Canada

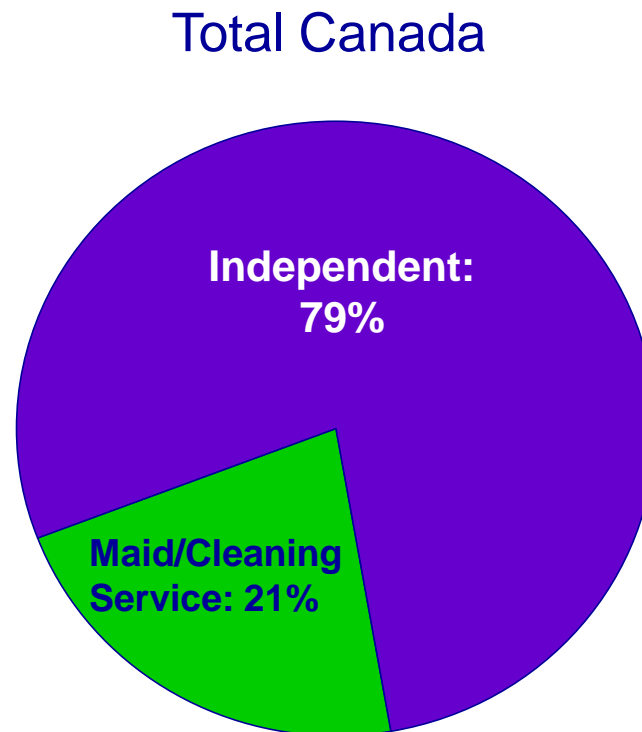
**2. More of those paying for help use an independent person rather than a maid or cleaning service company.**



Question: Who: a maid service or cleaning service company, an independent person?

Sample Size = 8014 Total Canada

**3. About four-fifths of those paying for help use an independent cleaning person.**



Question: Who: a maid service or cleaning service company, an independent person?

Sample Size = 995 Total Canada



4. The average expenditure in Canada for home cleaning is \$190 per month. Those using independents spend more per month, on average, than those using a maid or cleaning service company.

AVERAGE MONTHLY EXPENDITURES

	<u>Total Canada</u>
<u>In Total</u>	<u>\$190</u>
For:	
Independents	\$195
Maid/Cleaning Service	\$160

Question: Approximately how much does your household spend per month for this?

**5. When these average expenditures are projected to total household populations it shows that the total Canadian market size is between 3 and 4 billion dollars. Independents represent a large majority of this market.**

	<u>Total Canada</u> (000,000)
In Total	\$3,600
For:	
Independents	\$3,000
Maid/Cleaning Service	\$ 600

Projections based on July 1, 2009. Source: FP Markets

Total Canada: 13,500M households and are rounded

# Questionnaire

1. Does your household pay someone to help clean your home; such as, a maid or cleaning service company, or an independent cleaning person? [RECORD ONE RESPONSE]

Yes	1
No	2
DON'T KNOW	?

IF HOUSEHOLD PAYS SOMEONE TO HELP CLEAN HOME (CODE 1 AT Q.1) CONTINUE, OTHERWISE SKIP TO NEXT SECTION

2. Who: \_\_\_\_\_? [READ LIST - RECORD ONE RESPONSE]

A maid service or cleaning service company	1
An independent cleaning person	2
DON'T KNOW	?

3. Approximately how much does your household spend per month for this? [RECORD EXACT RESPONSE BELOW]

[INTERVIEWER NOTE: IF RESPONDENT USES LESS THAN MONTHLY ASK TO ANSWER ON A PER MONTH BASIS]

\$ \_\_\_\_\_ per month  
DON'T KNOW ?