

Canadian Federation of Independent Business

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

CFIB's latest Business Barometer showed the fourth consecutive drop in business confidence and hit a 3 year low in July. This means that small and medium-sized enterprises (SMEs) are concerned about the economy and remain cautious about their future plans. It also means that growth in the economy is slowing, if not near a standstill, so the government must address issues of importance to SMEs so that they can rebuild their confidence in Canada's economy. At the top of the list of priorities for our 109,000 members are taxes, red tape, government debt/deficit and Employment Insurance (EI). We will provide ideas in each of these areas throughout this submission. First, as the general corporate tax rate has been coming down, the value of the small business tax rate has gradually eroded. While we support the reduction in the general rate, there are good reasons why there is a small business tax rate. For example, it helps to offset the relatively higher costs of red tape borne by smaller firms, as well as recognize that smaller firms are not always able to take advantage of certain tax breaks and credits as larger firms can. Gradually reducing the small business rate would help restore the value of this important tax measure for small business. Another tax measure that was effective and well-received by our members was the two year 100 per cent Capital Cost Allowance (CCA) rate for technological equipment. We would encourage the federal government to consider re-introducing this measure as a means of stimulating innovation and investment especially in a period of economic uncertainty. The EI Hiring Credit for Small Business was another effective tax measure that was well received by our members. EI is a payroll tax and is therefore particularly harmful as it is charged to a business the moment they hire an employee. In fact, our members have told us that payroll taxes have the greatest impact on the growth of their business so we recommend that the EI Hiring Credit continue to be renewed for as long as EI rates continue to increase.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

CFIB firmly believes that reducing the payroll tax burden will encourage SMEs to hire more workers. The EI hiring credit has been very well received by SMEs in general but especially those that have shown a desire to grow their operations, even during the recession. CFIB was pleased that government took action to minimize the impact of planned increases in EI premiums. This action, along with the EI Hiring Credit, meant that there have been no EI premium increases in the last four years for the smallest businesses, who are most impacted by payroll taxes. While pleased with this progress, CFIB still objects in principle to EI rate increases given the large surpluses accumulated in the EI account prior to 2008 and therefore believe that the EI Hiring Credit should be extended as long as EI rates continue to increase. CFIB also remains firmly opposed to any increases in Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) premiums. CFIB research has found that every 1 per cent increase in employer and employee

premiums would cost approximately 220,000 person-years of employment. Given the ongoing economic uncertainty, this is not the time for such a payroll tax increase. The recent passage of C-311, an Act to amend the Importation of Intoxicating Liquors Act, shows that many barriers still exist to interprovincial trade. CFIB believes that a concerted effort from all provinces and the federal government to reduce these barriers would yield strong positive results. CFIB members also support the continued efforts of government to pursue bilateral and multilateral trade agreements as a means of stimulating growth in the economy. It is imperative in all such negotiations that the SMEs views are included to ensure that their challenges are also addressed in the final agreements.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

The growing skills and labour shortage has been a major concern for CFIB members, and not just in Western provinces. Many Atlantic and Quebec businesses rely on the Temporary Foreign Worker Program to meet their labour needs. While there are many reasons why businesses are experiencing labour shortages, SMEs across Canada need people that are willing to work, and this need will only grow as our population ages. There is no single solution to this issue, but we must consider ways to better incorporate those that are under-employed, such as the disabled, aboriginals and older workers, as well as improve access to foreign workers. One way to improve SME access to foreign workers is to expand the Labour Market Opinion process to include lower skilled workers (i.e. NOC code Class C and D). CFIB's survey data shows that the biggest demand for labour is within these semi-skilled and lower-skilled categories. Another important issue for SMEs is succession. According to CFIB research, about two-thirds of SME owners plan to leave their business over the next ten years. Unfortunately, some of the rules to pass ownership of a business to the next generation can be difficult and costly to implement. For example, some SMEs have reported that it is cheaper and easier for them to sell a business to a foreign interest than to a member of their own family. Another important tool is the Lifetime Capital Gains Exemption (LCGE), however it can be difficult to implement and has not kept pace with inflation. CFIB recommends that the LCGE be indexed to inflation, be expanded to include at least some assets, and be simplified. Finally, now that Pooled Registered Pension Plans (PRPPs) legislation has passed, the federal government should urge all provinces to bring forward legislation that is as close as possible to the original framework. If each province implements a different system, it will add complexity and may result in less take up, especially for those businesses that operate in multiple provinces.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

A big national impediment to productivity is red tape. It is the second most important issue for SMEs (after the total tax burden), and it costs Canadian businesses over \$30 billion per year. Every new requirement added takes the business owner away from managing his or her business. Early in 2012, the government received the Red Tape Reduction Commission's recommendations, yet there has been no further action other than the implementation of the "one-for-one" rule. CFIB would like to see the government accept and implement all the recommendations of the Red Tape Reduction Commission, but especially those that address accountability by ensuring there is continued political leadership and ongoing measurement of the burden of red tape; reducing red tape by introducing reduction targets and effectively using the "one-for-one" rule; and improving customer service by having clear service standards and plain language reviews. To be sure, the effective reduction of red tape is a multi-faceted

proposition, but it is repeatedly cited by SMEs as an impediment to growth. In many cases, the needed change is not related to a rule or regulation but rather how oversight is carried out. Implementing an effective customer service culture that goes above and beyond to satisfy the client (i.e. the taxpayer) will go a long way in helping SMEs properly comply with regulations. We have been pleased to see some efforts made by the Canada Revenue Agency and the Canadian Food Inspection Agency to implement some version of a “service commitment” that clarifies responsibilities for all stakeholders and provides recourse options should there be any disagreements. These kinds of tools can help encourage compliance and reduce frustration and should be followed by other government departments and agencies that interact with SMEs, such as Health Canada.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

The government must avoid large-scale stimulus spending initiatives. We are pleased to see that the federal deficit has been reduced over the past few years. We urge the government to remain focused on eliminating the federal deficit by 2015/2016 as originally promised. One way to do that is to take action to address the unfairness and unsustainability of public sector pensions. We supported the proposed changes to public sector pensions in Budget 2012, but there has been no further action. We urge the government to make the proposed changes (50/50 split in contributions, moving retirement age to 65, etc.) but also to consider going further by introducing defined contribution instead of defined benefit plans for new employees, eliminating the bridge benefit and increasing transparency of pension plan financials. The federal government needs to modernize and coordinate its definition of “small business” and “employee”. How government agencies make this determination varies dramatically, harming legitimate micro-businesses (i.e. IT consultants, entertainment industry technicians, etc.) in the process. As Canada moves into the knowledge economy, the services industry continues to grow as does the number of people that define themselves as independent operators, or as the CRA terms them, “personal services business”. Governments must keep pace with this transformation; the world of work is changing. Revenue Quebec has already started to make adjustments in their tax regime to recognize this growing segment. CRA should do the same. We were pleased to see the Credit and Debit Card Code of Conduct implemented in 2010. The Code has been very effective in protecting low-cost debit and provided merchants with additional leverage in their dealings with the payments industry. However, developments in the industry require the Code to be updated. The Competition Bureau recently challenged Visa and MasterCard on their “honour-all-cards” and “no surcharge” rules, and we have been pushing for these rules to be eliminated. There must be added oversight of card processing companies that have found ways to circumvent the Code. Finally, the pending arrival of mobile payments means that the Code must adapt to cover this new segment of the payments industry.