CANADIAN FEDERATION OF INDEPENDENT BUSINESS
In business for your business

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Small Business is Canada's Business

Recommendations

1. Repeal the federal carbon backstop and develop measures that help SMEs reduce their carbon footprint. This includes making it as easy as possible for SMEs to receive the rebates for which they are eligible and doing more to raise awareness.
2. Halt or slow down additional CPP/QPP increases or at the very least develop measures to offset them.
3. Fully exempt spouses of small business owners from the new TOSI rules and grandfather passive investments accumulated prior to 2019.
4. Ensure intergenerational transfers of small businesses to family members are treated in a similar manner as those to a third party.
5. Implement a plan to balance the budget within the next five years.
6. Cut red tape by expanding one-for-one rule and regulatory count to include policies, guidelines and legislation.
7. Play a leadership role in resolving issues limiting interprovincial trade.
8. Implement a permanent lower EI rate for small business and/or introduce an EI holiday for hiring youth.
9. Expand Apprenticeship Job Creation Tax Credit beyond the Red Seal trades
10. Review the LMIA application process
11. Create a pathway to permanent residency for Temporary Foreign Workers.

Introduction

Small and medium–sized enterprises (SMEs) strongly believe that you can grow the economy and protect the environment at the same time. One should not come at the expense of the other; therefore, transitioning to a low carbon economy must be balanced with keeping the economy strong. However, SMEs face increasing challenges dealing with labor shortages, new regulatory requirements and an increasing tax burden. Planned increases of the Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) rates, and the federal carbon tax in some provinces, mean that small business owners are not as optimistic as the economic situation might suggest. CFIB's latest Business Barometer®, which measures small business confidence, fell to 57.8 in July 2019.[1] Before the energy price crunch, the index was routinely above 65. If Canada wants to make a successful transition to a low carbon economy, the government must ensure that the unique needs and realities of small businesses are fully considered.

Help make the transition to a low carbon economy possible for SMEs

As with many Canadians, small business owners want to do what they can to help address climate change and other environmental issues while still growing the economy. The current federal carbon backstop does not work for small business owners as they end up paying almost half of the tax but receive less than 7% of the rebates and incentives.[2] As a result, the majority of small businesses in the provinces affected believe the current plan is unfair and that it will actually make it even harder for them to make further investments to reduce their emissions.[3] **CFIB recommends that the federal carbon backstop be repealed and instead government should develop other measures that help SMEs reduce their carbon footprint.**

If the government maintains the carbon tax, they should make it as easy as possible for SMEs to receive the rebates for which they are eligible. Accessing a government grant is an obstacle course for small businesses as they try to cope with red tape and tight deadlines. Additionally, some programs require a business to invest a minimum amount to receive funding which effectively excludes many small businesses. For example, the Small Business Projects Stream announced in July, requires a minimum spend of $80,000 to receive a 25% rebate of $20,000. This is far more than most small business can afford. **The government should work to raise awareness about these programs, as well other others that can help SMEs reduce their emissions.**

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[1] CFIB, *Business Barometer*, 710 responses, July 2019.
[2] CFIB estimates based on data from Federal Climate Plan, Finance Canada, University of Calgary School of Public Policy
[3] CFIB, *The Federal Carbon Pricing Backstop*, February 2019.

Reducing the tax burden for SMEs

Allowing SMEs to retain more of their earnings will allow them to have more money to invest in the transition towards a low carbon economy, and in their employees.

Reducing Payroll Taxes

On top of the introduction of a federal carbon tax in some provinces, CPP/QPP rates started to go up in 2019. This is the first of five years of CPP/QPP rate increases which will be followed by two years of increases in the maximum pensionable earnings. While we welcome the reduction of the small business corporate tax rate to 9%, it will not be enough to offset seven years of CPP/QPP increases. In reaction to these increases, 69% of small business owners say they will feel more pressure to freeze or cut salaries, and almost 50% say they will be forced to reduce investments in their business[4] which could include potential investments to reduce their carbon emissions.

Payroll taxes have the biggest impact on the growth of a small business as they tend to be more labor intensive than larger firms and these taxes are profit insensitive. **CFIB recommends that government halt or slow down the CPP/QPP enhancement or at the very least develop measures to offset these increases such as lowering the effective Employment Insurance (EI) contributions paid by SMEs.**

Supporting fair taxation rules

New tax rules restricting passive investments and income-splitting among family members are complex and unfair. Small business owners have told us they often use passive investments to reinvest in their business by buying new equipment or property to expand their operations which may include investments to reduce their carbon footprint. Additionally, some small business owners who already have passive investments in their business may be unfairly punished with higher corporate tax rates. **As such, we urge the government to grandfather passive investments accumulated prior to 2019 so those businesses do not lose access to the small business deduction going forward.**

The Tax on Split Income (TOSI) continues to create uncertainties for small business owners as they struggle to understand how the new rules will apply to them. **The government must take steps to better recognize the realities of running a family business by exempting**

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[4] CFIB, *Canada Pension Plan Expansion Survey*, 4,422 responses, June–October 2016.

spouses from the new TOSI rules. Spouses take on additional risks in addition to playing many formal and informal roles that are vital to operating and growing a small business.

A recent CFIB survey found that almost half (47%) of small business owners plan to exit their business within the next five years.[5] As small businesses are often family–run, many owners wish to keep the business in the family. In fact, 45% say they plan on selling or transferring their business to a family member. However, under current tax rules, it is more expensive to sell a business to a family member than to a third party. **We urge the government to find solutions to ensure that intergenerational transfers of small businesses to family members are treated in a similar manner as those to a third party.**

Addressing future tax increases

The federal deficit is projected to be $17.7 billion in 2019–2020.[6] As public debt charges increase, more government revenues will be needed to service the growing debt, leaving less for essential programs and services. In order for the government to be able to stimulate demand during an economic downturn, the deficit should be addressed now while the economy is growing at a modest pace. Small business owners worry that continued deficits and growing government debt levels will mean increases in their future tax bills. **As such, we urge the government to put forward a plan to balance the budget within the next five years.**

Tackling excessive regulations and paper burden

When small business owners are forced to spend time and money dealing with excessive and unnecessary government regulations or bad customer service, they have fewer resources they can dedicate to growing their business or reducing their carbon emissions. Additionally, the burden is significantly heavier for SMEs as the annual regulatory cost per employee is five times more for firms with fewer than five employees than for businesses with more than 100 employees.[7]

In order to ensure efforts to reduce government red tape have a meaningful impact on small businesses, the government must have a simple, comprehensive measure that goes beyond the existing inventory known as the administrative burden baseline count. Currently, the impacts of measures, such as the one–for–one rule, are limited as they only apply to regulations and not guidelines, policies or legislation. As a result, some of the most

[5] CFIB, *Succession Planning for your Business Survey*, 2,507 responses, May 2018.
[6] PBO, *Economic and Fiscal Outlook*, April 2019.
[7] CFIB, *Survey on Regulation and Paperburden*, 8,867 responses, 2014.

burdensome pieces of legislation for SMEs, such as the Income Tax Act, are excluded from the regulatory count and the one–for–one rule. **Therefore, the regulatory count and one-for-one rule must be expanded to include all types of administrative burden including those found in guidelines, policies and legislation.**

While the government looks for ways to encourage SMEs to export abroad, work must also be done to address trade barriers between provinces. Internal trade barriers have a direct cost for small businesses, which are forced to comply with confusing and overlapping regulatory requirements in different jurisdictions. As recent trade issues with the United States and China are causing significant worries for small business owners, it is important to ensure they have the opportunity to trade to other provinces and expand their market share within Canada. While recent progress has been made to address certain interprovincial trade barriers, **the federal government must continue to play a leadership role to help resolve issues that have already been identified, as well as continue to identify new barriers that must be addressed.**

Addressing Labor shortages

Addressing skill shortages

The shortage of skilled labour is the primary limitation keeping SMEs from increasing their productivity or growing their business.[8] Training is key in continuing to grow Canada's labour force and addressing these skills shortages. The government should look at ways to recognize the investment small businesses already make in both formal and informal training and encourage them to do more. In fact, they already invest more than $1,907 per employee per year.[9] **To recognize these investments, we recommend the government implement a permanent lower EI rate for small business (such as on the first $500,000 in payroll). The government could also consider introducing an EI holiday for hiring youth**, whereby the employer does not pay EI for a new worker under 25 for the first year in recognition of the extra costs and time associated with training younger workers.

Among all industries, businesses in construction are facing the highest vacancy rates.[10] To tackle this issue, small businesses are investing in training their employees so they acquire the skills the economy needs. **The government could help encourage more training investments in the skilled trades by broadening access to the Apprenticeship Job Creation**

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[8] CFIB, *Business Barometer*, 710 responses, July 2019.
[9] CFIB, *Small business, big investment: Improving training for tomorrow's workforce*, 2014.
[10] CFIB, *Help Wanted*, 2,376 responses, Q1 2019.

Tax Credit by expanding the list of Red Seal trades to include more provincially recognized trades.

Addressing shortages of unskilled and semi-skilled labor

Many SMEs face a shortage of labor for all types of positions including those that do not require advanced skills. It is currently more difficult to access lower-skilled workers through the available federal immigration programs. As a result, many small businesses are turning to the Temporary Foreign Worker Program (TFWP) to find workers when no Canadians are available. Numerous small businesses applying for Labour Market Impact Assessments (LMIAs) to hire workers under the TFWP not only face wait times upwards of six to nine months, but also see their request rejected without a clear explanation on why that decision was made. The delays, cost and red tape involved create a significant barrier for small businesses to fill vacant jobs. **We recommend the government undertake a review of the LMIA application process to make sure it is equipped to meet today's economic challenges.**

While the TFWP is designed to temporarily fill gaps, it is often used to fill permanent positions that employers consistently have trouble filling. This is why we are advocating for a permanent immigration solution to labour shortages, especially for employers who need semi- and low-skilled workers. **The government should work to create a pathway to permanent residency for workers brought to Canada as temporary foreign workers.** The government could start by expanding the recently announced Agri-Food Immigration pilot program to a broader range of businesses struggling with finding workers.