CANADIAN FEDERATION
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Small Businesses recommendations to restart the economy:

- **Recommendation 1**: Make sure COVID-19 emergency programs are adapted to the economic recovery and continue to find ways to mitigate/minimize the impacts of a second wave.

- **Recommendation 2**: Ensure a sound and competitive tax environment for small businesses.

- **Recommendation 3**: Make red tape reduction a priority and work with provinces to reduce interprovincial trade barriers.

- **Recommendation 4**: Ensure that businesses have access to the workers they need.

Introduction

The Canadian Federation of Independent Business (CFIB) represents 110,000 small- and medium-sized enterprises (SMEs) across Canada. We take a grassroots approach through regular surveys, bringing our members' views directly to policymakers. We are pleased to provide the Standing Committee on Finance our pre-budget recommendations to restart the Canadian economy in advance of the 2021 budget.

Canadians know that SMEs are a vital part of our economy and 96% say that they are important to Canada's future. Small businesses employ more than half of Canada's private sector workers. However, 8 out of 10 Canadians say that governments undervalue the contributions of entrepreneurs. While small business owners love what they do, running a small business, even in normal times, is no easy task.

The past couple of months have proven to be even harder. Many small firms were asked to shutdown to help fight COVID-19. The livelihood of millions of business owners suddenly became very uncertain. Still, they responded with courage and determination in face of such uncertainty. Moving ahead, public policies need to provide entrepreneurs with hope and much-needed breathing room.

Since mid-March, governments across Canada have imposed severe restrictions on business activity. Some restrictions have recently been lifted, but small businesses have not returned to normal staffing or sales levels. Our August 5th data shows that COVID-19 has led to a significant drop in activity among independent businesses with only 63% being fully open, 39% at or above normal staffing capacity and 26% at or above normal sales levels.

Based on a recent survey, CFIB estimates that the number of Canadian SMEs at risk of closing due to COVID-19 is in the range of 55,000 to 218,000 (5% to 19% of all SMEs). This wide range reflects the high degree of uncertainty business owners are feeling about their future. CFIB's best estimate is that 158,000 (14% of SMEs) may close due to COVID-19. We believe that proper government policies can help minimize the number of business failures. That is why the 2021 budget needs to layout a framework for a solid, speedy, and long-lasting economic recovery.

Recommendation 1: Make sure COVID–19 emergency programs are adapted to the economic recovery and continue to find ways to mitigate a second wave.

At the peak of the pandemic, about 80% of SMEs were partially or completely shut down. There is no doubt that some of the government emergency support programs have been critical in keeping many businesses afloat. The most used and appreciated programs have been the Canada Emergency Business Account (CEBA) and the Canada Emergency Wage Subsidy (CEWS). Despite this, 14% of SMEs may close due to COVID-19. Government needs to continue to find ways to minimize the number of business closures. As long as a business cannot fully open or serve clients to the extent it could pre-COVID-19, targeted programs to help pay wages, rent and other fixed costs need to be available. **CFIB recommends that COVID–19 emergency programs remain in place until ALL businesses are allowed to fully**

reopen. Those programs must be administered quickly, and with limited paperwork. CEBA and CEWS, have proven to be useful. But the Canada Emergency Commercial Rent Assistance (CECRA) program is simply not working and needs to be rethought.

	% using program	**% rated very/somewhat helpful**
Business Loan (CEBA)	60	69
Wage Subsidy (CEWS)	55	67
Rent Subsidy (CECRA)	15	20

CFIB is pleased that government has extended the CEWS program, expanded access and developed a plan to phase out the wage subsidy over time. CEBA, continues to exclude too many firms from accessing this needed lifeline. CECRA, however, requires fundamental changes to ensure the support for rent gets directly to tenants without requiring an action on the part of their landlord. CFIB proposes the following changes:

- Expanding CEBA access to those with less than $40,000 in non-deferrable expenses, new businesses and those without business bank accounts.
- Providing clear reasons for any CEBA rejections and personal support for follow-up questions.
- Expanding CEBA to $60,000 with 50% of the loan forgiven upon repayment of the balance.
- Allowing tenants to access CECRA rent support directly.
- Providing a sliding scale of rent support under CECRA for those with various levels of revenue losses over the months ahead.
- Simplifying the wage subsidy rules and allowing business owners and family members earning dividends to have a limited portion covered.

Should there be a second wave, governments must not shut down completely the economy, as we are now better prepared to face such situations. Instead, governments should continue to encourage safe practices to mitigate the impacts.

<u>Recommendation 2</u>**: Ensure a sound and competitive tax environment for small businesses.**

A recent COVID-19 survey found that 70% of small business owners said that reducing the tax burden and delaying planned tax increases should be key priorities for governments as they turn their attention to economic recovery. Allowing SMEs to retain more of their earnings will mean more money to invest in the recovery, help with their cash flow and pay down their COVID-19 related debt. Our data shows that small businesses have incurred, on average, $135,000 in new debt due to the pandemic. Two-thirds (68%) of those with debt estimate it will take more than a year to pay it all back. Giving businesses financial breathing room will be essential to the recovery and long-term health of the economy.

Payroll taxes are administratively burdensome and tend to have a bigger impact on the growth of a small business as they are more labour intensive than larger firms. They also must be paid whether or not the business is profitable. CPP/QPP rates started to go up in 2019 and went up again in 2020. Three more years of across the board increases are to be followed by two years of increases in the maximum pensionable earnings. **CFIB recommends that government not move forward with CPP increases in 2021.** Increasing CPP would have a large negative impact on SMEs still trying to recover from the pandemic.

The current federal carbon backstop does not work. Small business owners end up paying almost half of the tax but receive less than 7% of the rebates and incentives. Therefore, the majority of SMEs in the provinces affected, believe the current plan is unfair. **CFIB recommends that the federal carbon backstop be frozen or repealed for the foreseeable future.** The economy remains too fragile to withstand further tax hikes.

In the Economic and Fiscal Snapshot 2020 table A2.6 suggests that Employment Insurance (EI) spending is set to increase from 20 billion in 2019-2020 to 30 billion in 2020-2021. A footnote to the table states: "Of the total Canada Emergency Response Benefit, the portion of payments made by ESDC, estimated to be $3.3 billion in 2019-20 and $32.9 billion in 2020-21, are expected to be charged to the EI Operating Account and reflected in EI benefits." This suggests EI premiums would have to rise significantly. Early estimates suggest it could increase from 2.21% to 3.29% in 2021. **In transitioning the Canada Emergency Response Benefit (CERB) program to the EI system, CFIB recommends that additional costs related to CERB not be added to the EI system, especially given the impacts on employment due to the pandemic was not under the control of the employer.**

CFIB further urges government to avoid making permanent changes to EI rules, without extensive consultation with the business community. Extending permanent paid sick-leave and EI coverage to the self-employed have massive unintended consequences and would lead to billions in additional costs to taxpayers. Decisions about future years should not be made based on the situation facing us during a rare, worldwide pandemic.

<u>Recommendation 3</u>: Make red tape reduction a priority and work with provinces to reduce interprovincial trade barriers.

In 2017, we estimated that the overall cost of regulation for Canadian businesses was over $36 billion, $10 billion of which was red tape[1]. In our 2019 Federal Budget and Election Survey, 75% of entrepreneurs said that getting rid of red tape would most help their business grow over the next few years. Another 2019 survey[2] found that 93% of SMEs felt that reducing red tape would help Canada become more innovative.

The *Red Tape Reduction Act*, which included the One-for-One Rule was a step in the right direction. But more needs to be done as it only applies to regulations and not to guidelines,

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[1] CFIB, the Cost of Government Regulation on Canadian Businesses, January 2018.
[2] CFIB, Government Regulation and Red Tape Survey, August-September 2019.

policies or legislation. As such, some of the most burdensome pieces of legislation for SMEs, such as the Income Tax Act, are excluded from the one-for-one rule. **CFIB recommends applying the one–for–one rule on all departments and government agencies, including regulations related to tax and tax administration.**

The government always look for ways to encourage SMEs to export abroad. We were pleased to see CUSMA officially ratified in 2020 and that it includes a full chapter on small business. But work must continue to be done to address trade barriers between provinces. Internal trade barriers are costing the Canadian economy billions of dollars every year. CFIB is pleased to see that some progress has been made in recent years, but **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 to be removed.**

Recommendation 4**: Ensure that businesses have access to the workers they need.**

Prior to COVID-19, private sector job vacancy rates were historically high. COVID-19 changed that. On July 16, we released survey data revealing challenges for employers in rehiring or finding the workers to reopen their businesses. 27% of SMEs reported that some of their laid-off COVID-19 staff refused to return to work when recalled. Of those who had staff refusing to return to work, the top reason reported by 62% was that employees preferred to stay on the CERB, while those concerned about their own health or that of their family was at 47% and those concerned about childcare obligations at 27 %. What the crisis has taught us, especially as we move towards reopening the economy, is that work must remain more advantageous than staying at home. Although CERB should remain for those without work because of COVID-19 dealing with sickness and/or family issues, **CFIB recommends not to implement any permanent non–COVID–19 related income replacement program or basic income program.**

Small businesses understand that training is key to ensure that workers have the right skills for the job. Our 2015 report on training showed that small businesses invest around $5 billion per year in formal training and $9 billion in informal training. Informal training is widely used in small businesses, but current government training programs do not recognize this type of investment. **CFIB recommend that the government create a training tax credit to help small business continue their investments in informal training as we rebuild our economy.**

Special attention should also be given to young people starting out in the job market and to employers who provide them with their first work experiences. **CFIB recommends that the federal government implement an EI tax credit for employers who hire youth between the ages of 15 and 24 and for those who engage in Work–Integrated Learning (WIL) opportunities.**

If you have questions or would like to meet to discuss our submission further, please contact us at **613-235-2373** or email Corinne Pohlmann at corinne.pohlmann@cfib.ca or Jasmin Guénette at jasmin.guenette@cfib.ca.

Sincerely,

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