CANADIAN FEDERATION OF INDEPENDENT BUSINESS

Policy Brief

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Small business views on consultations for 2017 budget

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The Canadian Federation of Independent Business (CFIB) is a non-partisan, not-for-profit political advocacy organization representing the interests of 109,000 independently owned and operated businesses across Canada. On behalf of small and medium-sized business owners (SMEs), we are writing to provide feedback to the Standing Committee on Finance's 2017 pre-budget consultations.

In addition to being Canada's largest job creators and drivers of economic growth, SME owners are an integral part of the country's middle class and employ millions of Canadians that are at the very heart of this group. Recent government proposals such as the proposed increases to the Canada Pension Plan (CPP), scaling back reductions to employment insurance (EI) rates for employers, deferring the planned reduction of the small business tax rate and potential new costs related to pricing of carbon may make it more difficult for many entrepreneurs to grow their business. Red tape also limits the ability of small business owners to be more productive and innovative in their business. This submission outlines a number of recommendations that would help SMEs to expand and innovate, thereby continuing to be major contributors to the economic growth of the country.

Small Business Taxation

Taxation remains the top issue for small business owners across Canada. Seventy-six per cent of CFIB members indicated that the total tax burden is the top priority issue for their business.[1] When asked which forms of taxation affect the growth of their business the most, small and medium-sized business owners point to payroll taxes

[1] CFIB, *Our Members' Opinions survey*, January – March 2016, n= 6,458.

(e.g. EI, CPP/QPP, WCB, etc) (74 per cent), followed by corporate income taxes (43 per cent).[2]

Canada Pension Plan/Quebec Pension Plan

In June, federal and most provincial finance ministers announced an agreement to expand the Canada Pension Plan. If approved, employers and employees will be required to contribute more to their plan starting January 1, 2019. However, Quebec and British Colombia did not sign on to the agreement prior to the ratification date of July 15th and, instead, asked for time to seek feedback on the proposal. **We strongly encourage the federal and other provincial governments to consult with Canadians before finalizing an agreement.**

For smaller businesses, CPP increases will represent a significant increase in their payroll taxes. As a consequence, many business owners say they may be forced to freeze or cut salaries (69 per cent), reduce investments in their business (50 per cent) and decrease the number of employees (37 per cent).[3] Furthermore, the recent personal income tax cuts for middle-income Canadians will have less of a stimulus effect as most working Canadians will see their incomes reduced as a result of increased contributions to CPP.

If CPP enhancements move forward, other measures should be considered to offset the increases and provide smaller businesses with the confidence they need to continue to invest in the economy and create jobs. **Eighty per cent of small business owners have indicated that reinstating the plan to decrease the federal small business corporate income tax rate is the best way that the government can help mitigate the impact of increasing the CPP**. They also point to **reducing other payroll taxes such as EI** (67 per cent) and **reducing the level of government paperburden for small businesses** (65 per cent) as measures that would help their business.[4]

Small Business Tax Rate

CFIB was disappointed to see further reductions to the Small Business Tax Rate (SBTR) deferred in Budget 2016. We believe that the SBTR is an effective measure to help encourage growth in small businesses as it offsets the higher regulatory and compliance burden, and the more difficult access and higher costs of financing they face compared to larger companies. As the Canadian economy continues to face some economic uncertainty, the best way for the government to invest in the middle class is by focusing on policies that help stimulate the growth of small businesses. **Therefore, we are asking the government to reinstate the reduction of the SBTR to 9% by 2019.**

Passive vs. Active Income

Legitimate small businesses, such as self-storage facilities and campgrounds, are being denied access to the small business corporate tax rate, despite the fact that many are operated as active businesses from which the owner draws their principal

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[2] CFIB*, 2015 Federal budget and Elections survey, 6,876 responses,* November 2014.
[3] CFIB, *Small Business Views on CPP Expansion*, July 2016, n= 3,460.
[4] CFIB, *Small Business Views on CPP Expansion*, July 2016, n= 3,460.

income. We were disappointed to see that the review on passive vs. active income was closed in Budget 2016 and no further action would be taken. As a result, a number of these types of small businesses are now being audited and some are being forced to pay tens of thousands of dollars in "unpaid" taxes, resulting in some who are considering closing their doors permanently. We believe that the current rules are too simplistic and do not reflect the realities of the marketplace. In particular, businesses are often not considered active by CRA if they have fewer than five employees, which we believe is an arbitrary rule which does not necessarily reflect whether a business is active. **We are calling on the federal government to modify current rules by including other ways of determining active income than whether a business has more than 5 employees so that legitimate small businesses, including campgrounds and self-storage facilities, have access to the small business tax rate.**

Employment Insurance

Bringing fairness to the EI system continues to be a priority for CFIB. Despite the overall reductions in the rate announced in Budget 2016, small business owners will see a slight increase in their EI rates starting in 2017. This is because the Small Business Job Credit allowed smaller employers to benefit from a lower rate for 2015 and 2016. However, as the credit has not been renewed for future years, small business owners will face slightly higher EI rates starting in 2017. To reduce the burden, CFIB asks the government to consider the following measures:

- **Create a tax credit that recognizes the investments that SMEs already make in hiring and training employees;**
- **Put in place a permanent, lower EI rate for small businesses (e.g. moving from a rate that is 1.4 times more than the employee rate to 1.2 times more); and**
- **Implement an EI holiday for hiring youth, as was promised in the federal government's election platform.**

Government Debt and Deficit

After the total tax burden, government debt and deficit is the second highest priority issue for our members.[5] Small- and medium-sized business owners are very aware of the consequences of carrying heavy debt themselves, so they tend to be more concerned than the average Canadian about today's deficits becoming tomorrow's taxes. Despite a promise from the federal government to maintain the deficit under $10 billion and balance the books by 2019, the deficit is now predicted to rise to $29.4 billion this year with no commitment or plan to return to a balanced budget in the near future.[6] **CFIB would strongly encourage the federal government to put together a plan to balance the budget within the next three to five years.**

One way to do this would be to address public sector wages, pensions, and benefits which tend to be, on average, more generous than what is available in the private

[5] CFIB, *Our Members' Opinions survey*, January – March 2016, n= 6,458.
[6] Government of Canada, "Economic and Fiscal Overview: the Path Forward",http://www.budget.gc.ca/2016/docs/plan/overview-apercu-en.html (accessed, August 4th, 2016).

sector. With many collective agreements up for bargaining this year, this is an opportune time for the federal government to set the stage for increased fairness by **bringing public sector wages, pensions and benefits more in line with those in the private sector.**

Red Tape

As the third highest priority issue for small business,[7] government regulation and paper burden should be an important priority for the federal government. There are a number of ways this can be done which include:

- **Staying clear of processes and rules that hinder small business growth and innovation;**
- **Continuously improving government customer service; and**
- **Reinforcing the existing "one–for–one" rule which requires government departments who introduce new regulations to remove the equivalent regulatory burden in other areas.**

The "one-for-one" rule is important as it limits the federal government's ability to impose additional regulatory requirements without thinking through its implications for small business and considering alternative approaches. However, despite being an important tool in cutting red tape, the rule itself is not enough to reduce the total compliance burden felt by business. One reason is that it applies solely to rules coming from regulation and does not include rules stemming from policy and legislation. **In order to further reduce the burden imposed on small business, the one–for–one rule should be broadened to include rules found in policy and legislation.**

Labour

Jobs and training

Small business owners are great supporters of employee training. They spend over $14 billion annually on informal and formal training for their employees.[8] Current government support mechanisms, such as the Canada Job Grant, are not well known to small business owners and often do not recognize informal, on-the-job type training offered by small businesses. When asked what kind of support would be most helpful to encourage even more training in their business, 60 per cent of SMEs preferred a training tax credit.[9] This is not surprising as many of the employees hired by SMEs are new to the job market, and these inexperienced workers are more costly as they require more hours of training. As a result, it is important that the government do more to recognize the additional investments small businesses already make in training employees. **Therefore, we are asking the government to:**

[7] CFIB, *Our Members' Opinions survey*, January – March 2016, n= 6,458.
[8] CFIB, *Small business, big investment: Improving Training for Tomorrow's Workforce,* 2015.
[9] CFIB, *Small business, big investment: Improving Training for Tomorrow's Workforce*, 2015.

- **Ensure training dollars address the needs of small business owners (e.g. recognition of informal, on–the–job training in programs like the Canada Job Grant);**
- **Improve the awareness of the Canada Job Grant among small business owners; and**
- **Introduce a flexible, easy–to–access training tax credit aimed at small business employers.**

Apprenticeships

Small businesses know that hiring apprentices is beneficial to their business and helps to supplement their workforce. However, there are many costs associated with both the time and financial resources needed to hire an apprentice, making it difficult for many smaller companies. The Apprenticeship Tax Credit and Apprenticeship Grants for hiring Red Seal apprentices have helped to reduce some of these barriers for SMEs, but the list of eligible trades has not been updated since 2012, leaving out many in-demand skilled trades. **We recommend that the government expand the list of Red Seal trades to include a broader group of skilled trades such as computer technicians, locksmiths, tailors, small equipment mechanics and dressmakers.**

Temporary foreign workers

Small businesses across Canada continue to face shortages of skilled and unskilled labour. According to CFIB's most recent *Business Barometer*, 31 per cent cite a shortage of skilled labour and 15 per cent cite a shortage of unskilled/semiskilled labour as limitations on sales or production growth.[10] As smaller firms are more labour-intensive than large companies, this issue has a much more profound effect on an SME's ability to compete and grow their business. The shortage of unskilled labour is especially felt in certain sectors and regions of the country, sometimes forcing business owners to look abroad for employees to fill the positions required to keep their business afloat.

The temporary foreign worker (TFW) program, although only used by approximately 10 per cent of small businesses,[11] has been an essential tool for finding workers when there are no Canadians available to fill positions. We are encouraged by a number of recent announcements aimed to alleviate some of the pressure caused by the 2014 changes to the program but more needs to be done. **CFIB recommends the federal government move forward with creating a pathway to permanent residency for TFWs, that also includes lower–skilled workers, as no federal option for permanent residency currently exists.**

Conclusion

We thank you for the opportunity to provide feedback to the 2017 pre-budget consultation process. We would also like to appear in person to present our

[10] CFIB, *Business Barometer*, July 2016.
[11] CFIB, *Taking the Temporary Out of the TFW Program*, 2014.

recommendations during the Standing Committee on Finance's hearings in advance of the 2017 Budget.