Policy Brief

August 2014

Submission to the Federal Standing Committee on Finance

Small business views on consultations for 2015 budget

The Canadian Federation of Independent Business (CFIB) is a non-partisan, not-for-profit political advocacy organization representing the interests of 109,000 small- and medium-sized enterprises (SMEs) across Canada. We are writing to provide feedback to the Federal Finance Committee's 2014 pre-budget consultations. This year, the federal government is expected to reach an important milestone with the elimination of the deficit. With this important step comes also an opportunity to set the stage for future prosperity and growth by investing in policies important to small businesses. A healthy small business sector means a healthy economy as small businesses create jobs, invest in their local communities and help bring diversity to the economy.

CFIB regularly conducts surveys of our membership on a variety of small business related issues. In the recent *Our Members' Opinions* survey, we ask small business owners to rate the issues that are most important to their business. Consistently, we have found that small business owners identify the total tax burden as their top priority (78.4 per cent), followed by government regulation and paper burden (71.5 per cent), government debt/deficit (61.4 per cent), and Employment Insurance (EI) (51.9 per cent).[1] As Canada's job creators, small businesses represent nearly 98 per cent of all businesses in Canada and require sound government policy that takes into account their critical contribution to the economy. The following are key recommendations for budget 2015 in these areas of priority.

Improving Canada's taxation and regulatory regimes

Payroll taxes: Employment Insurance (EI)

One way the federal government can recognize the important contribution of small businesses is to reduce the total tax burden – the number one concern for small business

[1] CFIB, *Our Member's Opinion*, July 2014.

owners. In a CFIB survey for federal budget 2013, we found that 73 per cent of small business owners identified payroll taxes, including the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP), and Employment Insurance (EI) as the taxes that limit the growth of their business the most, followed closely by corporate income taxes (47 per cent).[2] CFIB has been actively engaged on the EI front for many years, fighting to bring increased fairness to the system on behalf of small business owners. We were pleased that the federal government announced a further freeze in Employment Insurance premiums for 2014, 2015 and 2016. However, payroll taxes like EI remain particularly challenging for small businesses, and there are several ways the federal government can further assist small business owners struggling to cope with the heavy burden of these taxes.

When the rate freeze was announced in 2013, the EI operating account was expected to reach a surplus position in 2017. However, recent government fiscal projections show that the account will climb out deficit as early as 2015-2016.[3] **CFIB recommends that the federal government lower EI rates as soon as the account reaches the break–even rate to ensure that employers and employees are not paying inflated premiums and to avoid an unnecessary accumulation of EI revenue in the account**. This will also help ensure that EI revenues are not used on other non-EI related initiatives.

Another way the federal government can help small business owners would be to implement a 50:50 split in EI premiums, so that employers and employees contribute equally. As it currently stands, an employer pays 60 per cent of this tax, while the employee pays 40 percent. **CFIB asks that the federal government move to implement a 50:50 split in premiums to help small business owners use the savings to hire, improve wages or help grow their business.** This could be implemented the year the rate falls to its break even rate – currently 2017 – to avoid increasing rates for employers in the process. In fact, if projections are correct, employers would still see a rate reduction in 2017 from $1.88 to $1.77.

Payroll Taxes: Canada Pension Plan (CPP)/Quebec Pension Plan (QPP)

Last December 2013, small business owners were relieved that federal and provincial finance ministers decided not to move forward with increases to CPP/QPP premiums. In a survey of small business owners and Canadians, we found that almost two-thirds opposed any mandatory increases to CPP/QPP premiums. Additionally, the impact of any increases to CPP/QPP premiums would be significant, with 72 per cent of our members telling us that it would lead to increased pressure to freeze or cut salaries and 55 per cent indicating that it would reduce investments in their business.[4] **CFIB strongly recommends that the federal government reject any plans to increase CPP/QPP premiums.** Instead of mandatory increases to pension premiums, CFIB recommends that the federal government explore other incentives for people to save for retirement such as a one-time government contribution to a RRSP/TFSA (as they do for the RESP) or enable voluntary additional CPP/QPP contributions.

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[2] CFIB, *2013 Federal Budget survey*, October 2012.
[3] Government of Canada, *Budget 2014*, EI Operating Account Projections.
[4] CFIB, *How to Save More for Retirement*, December 2013.

Small Business Tax Rate

In previous budgets, the federal government promised to make further tax relief for small businesses a priority once the budget is in balance.[5] The reduction of the small business tax rate is an important priority for small business owners with nearly 84 per cent of CFIB members indicating that a reduction of the small business tax rate would be a very or somewhat effective measure to maintain or strengthen business performance.[6]

The value of the small businesses tax rate has gradually eroded relative to the corporate tax rate. In 2000, the small business rate was at 12 per cent while the corporate rate was 28 per cent. Today, the small business rate is 11 per cent and the corporate is 15 per cent. **CFIB therefore recommends that the government lower the small business tax rate from 11 per cent to 9 per cent.** While CFIB supports reducing all corporate tax rates in order to stimulate investment and growth, there are important reasons the small business rate should continue to be significantly lower than the general rate:

- SMEs have a higher tax and regulatory burden per capita;
- SMEs do not have access to all the market information that larger businesses do; and,
- SMEs provide stability to the world and local economies.

CFIB's tax recommendations for federal budget 2015 to increase EI fairness for employers and a reduction in the small business tax rate will help lower the overall tax burden of SMEs. These changes will help create additional savings for small businesses that can be used to strengthen business performance going forward, enabling additional investments in capital, research, and development initiatives. Any lost tax revenues for the federal government in the short term will be severely outweighed in the longer term by the benefits of small business' contributions to the economy through job creation and the growth of small businesses in local communities.

Succession planning: Lifetime Capital Gains Exemption (LCGE)

Another important tax measure is the Lifetime Capital Gains Exemption (LCGE). CFIB was pleased that the LCGE was increased to $800,000 in 2014 and indexed to inflation going forward. The LCGE is a very important tax measure due to the fact that many small business owners depend on the proceeds from the sale of their business for their retirement income. The rules around the LCGE are complex and difficult to understand for a small business owner planning the succession of their business. Currently, the tax measure does not account for any business related assets, only shares. However, for many small business owners, the value of their business is directly tied to the value of their assets. **In order to maximize the use of this measure by small business owners, CFIB recommends that the government simplify the LCGE and expand it to include at least some assets.**

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[5] Government of Canada, *Budget 2013*, page 120.
[6] CFIB, *2013 Federal Budget survey*, October 2012.

Balancing the federal budget to ensure fiscal sustainability and economic growth

Government debt and deficit

Small businesses know that today's deficits are tomorrow's taxes, so they are pleased with the government's commitment to achieving a balanced budget by 2015. Not having the luxury of accumulating substantial deficits themselves, small businesses view balancing the budget as a top priority for their business and the Canadian economy as a whole. In fact, in a survey conducted for federal budget 2013, nearly 70 per cent indicated that if tax revenues rise faster than expected during the next few years, the federal government should use the extra revenue to help accelerate deficit/debt reduction.[7]

Public sector pensions

One important way the government can reduce spending is by addressing the liabilities tied with public sector pensions and wages. Small business owners are very concerned with the costs tied to public sector pensions and while there have been efforts in recent years to address some of the issues, there remains much work to be done to bring fairness to the Canadian pensions system. **CFIB encourages the federal government to continue to advocate for greater control of public sector wages, benefits and pensions at the federal level. Specifically, to help achieve this important goal, CFIB recommends the following:**

- Convert new hires from Defined Benefit plans to Defined Contribution plans (or explore a shared risk model);
- Eliminate early retirement for all current government employees (not just new employees) in a manner similar to the plan to increase OAS from 65 to 67; and,
- Eliminate the bridge benefit for public sector workers.

Other small business issues

Maximizing the number and types of jobs for Canadians

CFIB research has shown that in the first quarter of 2014, 312,000 private sector jobs had gone unfilled for more than four months, representing a vacancy rate of 2.6 per cent. This rate has steadily increased since mid-2009.[8] There are many ways the federal government can help fill these vacancies and better prepare Canadians for the job market.

SMEs are actively engaged in providing training to their employees. As they often face different realities than their larger counterparts, the types of training they provide (i.e. informal, on-the-job training) can also be different than training provided by big business. That is why CFIB supports approaches that include investing training dollars in the workplace as this is the most effective way in getting people trained for the jobs needed in the current labour market. **CFIB has provided several recommendations for governments**

[7] CFIB, *2013 Federal Budget survey*, October 2012.
[8] CFIB, *Help Wanted*, July 2014.

to consider when reviewing Labour Market Development Agreements (LMDAs). These include:

- **Allow employers access to LMDA funds for training that is tailored to their needs;**
- **Recognize informal, on–the–job training; and,**
- **Include provisions to offset training costs for employers, such as a tax or EI credit similar to the preexisting EI Hiring credit.**

The EI Hiring credit was very well received by small businesses. In particular, it helped to offset some of the training costs associated with new hires, and it only applied if one's payroll increased from one year to the next. This relatively low cost tax measure (annual cost of $225 million) helps to recognize the role of informal training in small businesses and should be reinstated. **We therefore recommend that the government reintroduce the EI Hiring Credit, or convert it to an EI Training Credit to offset some of the costs associated with training**. We also encourage the government to explore options to encourage job retention at small businesses.

Conclusion

We thank you for the opportunity to provide feedback to the 2014 pre-budget consultation process and would be happy to present our recommendations during finance committee hearings in the fall.