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CANADIAN FEDERATION OF INDEPENDENT BUSINESS
In business for your business

Small Businesses Drive Canada's Growth

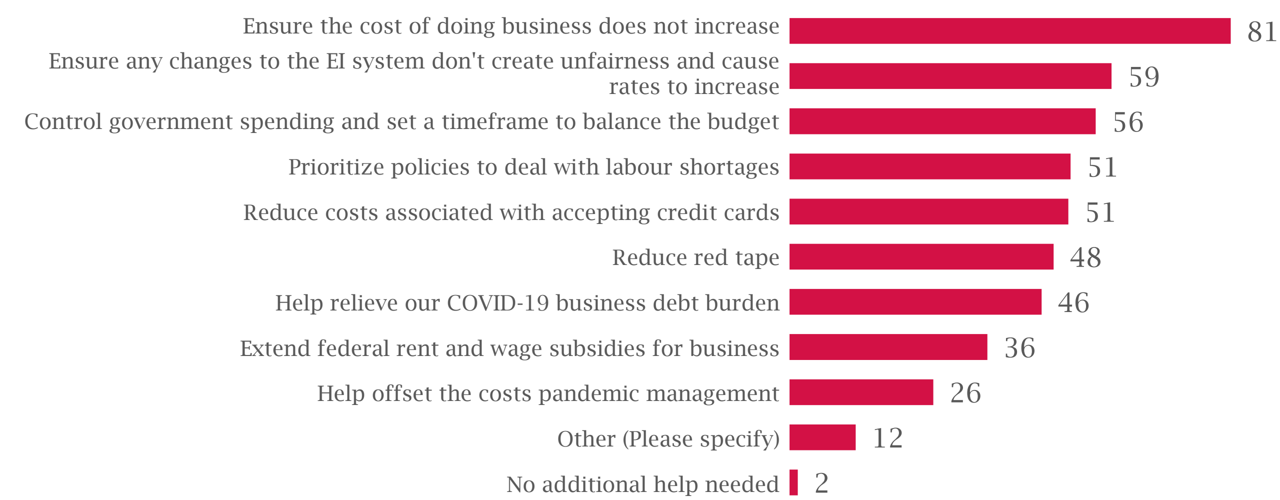
How Budget 2022 can support small businesses and spur economic recovery

Introduction

The pandemic has drastically changed the environment for small businesses. The next budget needs to lay the foundation for Canada's post-pandemic economic recovery by creating a sound business climate for small and medium-sized enterprises (SMEs). As of January 2022, 22 months into the pandemic, CFIB's Small Business Recovery Dashboard found that 65% of SMEs were fully open, but only 42% were fully staffed and 30% were making normal sales.[1] It will take several years before the economy and small businesses can fully recover, as the majority (71%) have had to take on a significant amount of debt—averaging $170,000 per business.[2] Even though the economy has been improving, many challenges remain.

CFIB encourages the federal government to use Budget 2022 to not only ensure small businesses survive the pandemic but to help them rebuild post-pandemic. Shortly after the election, we asked our members what the government should do to support small businesses (see Figure 1).[3]

Figure 1
How can the federal government best support your business? (% response)



Source: CFIB Flash Election Survey, September 2021, n=4061

[1] CFIB, Small Business Recovery Dashboard, January 21, 2022.
[2] CFIB, Your Voice Survey- February 2021 Survey, February 4–February 28, 2021, n=5,818.
[3] CFIB, Flash Election Survey, September 22—October 5, 2021, n=4,121.

Based on this feedback, as well as feedback collected through other surveys conducted throughout the past year, CFIB recommends the government focus on the following to help small businesses survive and recover:

1 - Ensure that the cost of doing business does not increase and reduce red tape.
2 - Prioritize policies that help deal with labour shortages.
3 - Control government spending and set a timeframe to balance the budget.
4 - Make sure that COVID-19 relief measures support SMEs on the path to recovery.

Ensuring the cost of doing business does not increase

When we asked our members about their most pressing concerns, 81% were concerned about increasing costs of doing business (see Figure 1).[4] Now is not the time to be increasing business-related costs, as many SMEs are still trying to get back on their feet. Budget 2022 must be about recovery. This means no new taxes should be introduced and existing taxes on businesses should not increase.

Payroll taxes

Payroll taxes like CPP/QPP and Employment Insurance (EI) 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. These taxes are also regressive and must be paid whether or not the business is profitable. Only 30% of small businesses have returned to normal sales and many are still dealing with high COVID-19 debt levels, supply chain issues and inflation, all of which add to the growing costs that small businesses face.[5] Therefore, the last thing they need is an increase in taxes. Payroll taxes and other labour costs should not be increased while businesses are still trying to recover.

Freezing CPP/QPP rates to assist in controlling payroll costs

COVID-19 continues to affect business, yet the CPP/QPP increased once again as of January 1, 2022. Most of our members (71%) disagree with increasing CPP/QPP rates right now. Over half of small businesses (54%) have indicated that higher CPP/QPP contributions will make it more difficult for their business to survive the pandemic, and 55% will be forced to reduce other aspects of their payroll budgets (e.g., wages, benefits, hours, positions).[6] **CFIB asks the government to freeze future CPP/QPP increases to help struggling small businesses. If this is not possible, then the government should offset the cost of the recent increases by introducing a CPP/QPP rebate for small businesses.**

Controlling the cost of the EI program for small businesses

A CFIB report entitled *Focusing on Fairness—Small Business Perspective on Potential Reforms to the EI System* found that small businesses are concerned that any increased costs associated with an expansion of the EI program may be passed along to them via increased EI premiums.[7] These potential increases will raise the cost of hiring and make it more challenging for SMEs to

[4] CFIB, Flash Election Survey, September 22- October 5, 2021, n=4,121.
[5] CFIB, Small Business Recovery Dashboard, January 21, 2021.
[6] CFIB, Your Voice – November 2021 - National Data - preliminary results as of Nov. 4 - Nov. 23, 2021, n=4,514.
[7] CFIB, Focusing on Fairness: Small Business Perspective on Potential Reforms to the EI System, April 2021

create new jobs and grow their business. More than three quarters (76%) are opposed to higher premiums to support an expanded program to meet Canadians' income support needs.[8] They simply cannot support paying more into the system. **Any proposed changes to the EI system need to include a detailed cost-analysis and full review of the financial viability of those potential changes.**

To ensure fairness, any changes to the EI system must benefit both employees and employers. Small business owners currently pay 1.4 times the employee rate for EI, despite the program being primarily designed for employees. A larger proportion of EI is also being used to support various special benefits related to parental leave, caregiving and illness, none of which are under the control of the employer. As a result, **CFIB recommends moving to a 50/50 split in EI premiums to provide a more equitable division of the costs of the EI program. Alternatively, the government could contribute a portion of EI premiums (e.g., 20%) as it once did to help pay for some of the special benefits supported under the EI program.**

One of the most discussed potential reforms is whether to provide EI coverage to the self-employed. CFIB believes that the government must move with caution on this issue. While CFIB members are opposed to mandatory coverage for the self-employed through EI, they are more open to a voluntary approach.[9] Should this plan move forward, the details of how a self-employed EI claim might be verified would need to be thoroughly considered to avoid any unintended consequences and misuse. Furthermore, the cost of the program and additional red tape should not be extended to existing contributing employers. **CFIB recommends that any changes to the eligibility for EI be fully costed and coverage for self-employed Canadians should be voluntary.**

The use of the EI system to administer some COVID-related supports has also been raised as a concern for small business owners. They are worried that their existing premium costs will increase to cover pandemic-related expenses within the program. The Operating Account cumulative balance for the next six years is set to remain in deficit. In 2021, the EI Operating Account deficit was $22.2 billion and it is expected to increase to $28.3 billion in 2022.[10] We were pleased to see the government commit to contribute to the financing of the EI program and that they are willing to shoulder some of the collective risks to the EI system as a result of the pandemic.[11] **CFIB recommends that additional generosity in the EI system introduced since the beginning of the pandemic not be borne by employers and employees through higher EI premiums in the future. Instead, this should be covered by general revenues as the vast majority of layoffs over the past two years were due to COVID.**

Getting Canadians back to work is key to small business recovery. Only 42% of small businesses are fully staffed.[12] Almost three quarters (74%) of small businesses agree that finding people to work has been challenging because the COVID-related EI and support benefits were too easy to access.[13] **Any changes to the EI program need to support a return to work and ensure that no one is better off on EI than if they were working.**

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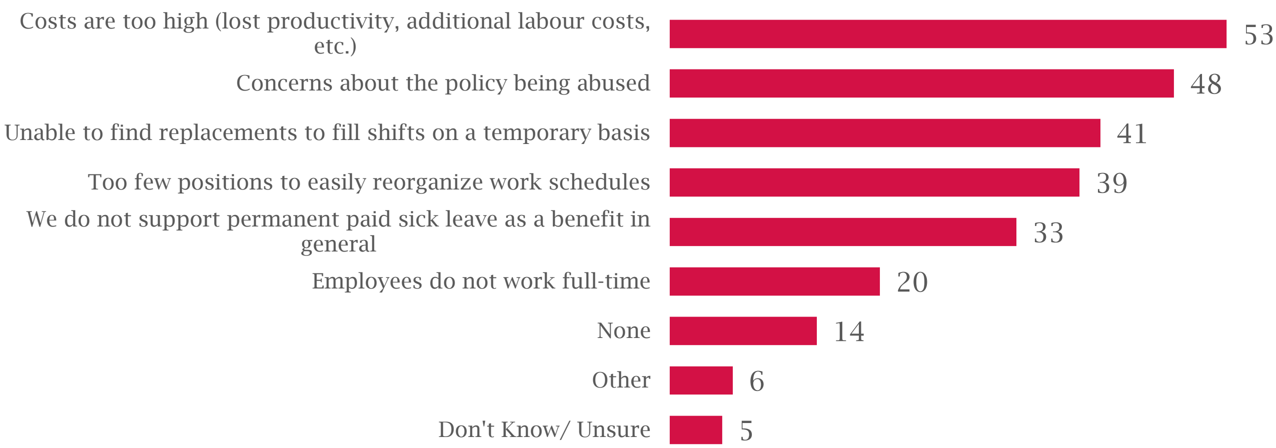
[8] CFIB, Your Voice - September 2021 Survey, September 9 - September 27, 2021, n=3,697.
[9] CFIB, Focusing on Fairness: Small Business Perspective on Potential Reforms to the EI System, April 2021
[10] Sean Casey, Modernizing the Employment Insurance Program; Report of the Standing Committee on Human Resources, Skills and Social development and the Status of Persons with Disabilities. June 2021. Pg. 22.
[11] Ibid., 22.
[12] CFIB, Small Business Recovery Dashboard, January 21, 2022.
[13] CFIB, Your Voice Survey, September 9– September 27, 2021, n=3,697.

Additional paid sick days

During the pandemic, the federal government introduced the temporary Canada Recovery Sickness Benefit (CRSB) to give income support to employed and self-employed individuals who were unable to work because they were sick or needed to self-isolate due to COVID-19. More recently, the federal government introduced new legislation outlining 10 days of paid sick leave for federally regulated businesses. SMEs are now worried that they may end up having to foot the bill for these additional sick days, whether directly, or indirectly through higher taxes, EI premiums, or being mandated to provide it. In June 2021, over half the businesses surveyed (53%) thought that the costs of implementing additional paid sick days would be too high for their businesses to sustain and just under half (48%) expressed concern the policy may be abused (see Figure 2).[14] **CFIB asks the government not to require small businesses to provide 10 paid sick days or at the very least look at ways to mitigate the impacts of this legislation on small businesses and minimize any potential abuse.**

Figure 2

What are the barriers to implementing/extending a permanent sick leave policy in your business? (Select all that apply) (% response)



Source: CFIB, Your Voice Survey, June 2021, n= 4,950.

Carbon taxes & other green initiatives

The federal carbon tax will increase to $50 per tonne in April 2022 and is set to continue increasing until it hits $170 a tonne by 2030. During one of the biggest economic downturns for small businesses, increasing the cost of doing business will only slow their recovery. **CFIB urges the government to repeal the federal carbon backstop for the foreseeable future or if that is not possible, to at least freeze it at the current level.**

Small businesses bear about half of the direct burden of paying for the carbon tax yet receive less than 7% of the rebates and incentives.[15] Small businesses are being asked to absorb a disproportionate amount of the increased price on carbon to provide households with rebate cheques that offset their increased carbon-related costs. **The government should bring more fairness into the carbon pricing system by ensuring that the same proportion of revenues**

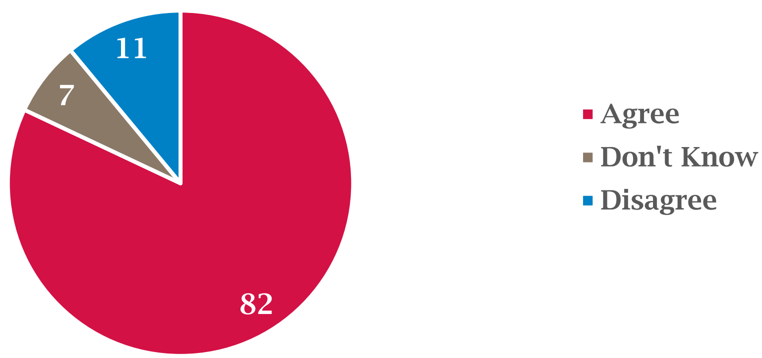
[14] CFIB, Your Voice Survey, June 3– June 30, 2021, n= 4,950.
[15] CFIB estimates based on data from Federal Climate Plan, Finance Canada, University of Calgary School of Public Policy

collected from SMEs is reallocated back to them and they are not forced to subsidize rebates to households.

The carbon tax revenues collected by small businesses were used to create the Climate Action Incentive Fund which was largely inaccessible to small businesses as it required a minimum initial investment of $80,000.[16] Most small businesses were in no position to make such large investments. In the fall of 2019, the government announced that it would open a smaller, more accessible project stream for small business using the carbon tax monies collected. However, no such stream was ever made available to small businesses.

CFIB has been hearing from farmers about the negative impact the federal carbon tax has had on their bottom line. Rising carbon taxes and uncertainty around new environmental proposals are adding to this burden and are discouraging agri-business owners. When CFIB surveyed our farm members, 82% of respondents agreed that the federal carbon tax is negatively affecting their agri-business (see Figure 3).[17]

Figure 3
The federal carbon tax is negatively impacting my business (% response)



Source: CFIB, National Energy and Environment Survey, Agricultural responses from SK, MB, ON, n= 234. February 2020.

Based on feedback from farm members, CFIB estimated that, on average, farmers paid close to $14,000 in federal carbon taxes in the first year that it applied to them (between April 1, 2019, to March 31, 2020, when the carbon tax was $20 per tonne of CO_2).[18] Now, the federal carbon tax is scheduled to rise to $170 per tonne of CO_2 by 2030—a 467% increase in ten years. The magnitude of these carbon tax increases will hamstring farmers' ability to compete, invest in their business and adopt new technology. **CFIB asks the government to introduce a Bill, similar to the previous Private Member Bill C-206, to help address the unfairness of the federal carbon tax for farmers by broadening the carbon tax exemptions that would apply to their industry.**

[16] CFIB, National Energy and Environment Survey, Agri-business Data Responses from SK, MB, ON. January 16 – February 18, 2020, n=406.
[17] Ibid.
[18] Ibid.

Other tax and cost issues impacting small businesses

Even before the pandemic hit, almost three quarters (72%) of business owners were already considering exiting their business by 2028.[19] This means that approximately $1.5 trillion worth of assets will need to be transferred to a new generation of entrepreneurs. Bill C-208 received Royal Assent on June 29, 2021.[20] This Bill provides a uniform tax treatment whether a small business is sold to a family member or third party, which is something that CFIB has been asking for many years. In CFIB's 2021 Federal Election Leaders' Survey, every single party leader agreed to honour the intent of this Bill so that small businesses are not penalized if they sell their business to a family member as opposed to a stranger.[21] The government has indicated that it will make amendments to this Bill. **CFIB calls on the government to honour the spirit of Bill C-208 if any amendments are introduced and conduct extensive consultations as promised by the government in order to continue to work to make intergenerational transfers easier.**

In 2017, the federal government introduced a tax on alcohol which automatically increases the excise duty rate on alcohol every April 1. The excise tax rose in 2020 and 2021, while businesses were still facing significant restrictions across the country and is set to rise again on April 1, 2022. The hospitality sector is one of the hardest-hit sectors and is struggling to recover. Continuing to increase the cost of alcoholic products makes it harder for domestic producers to compete and adds additional stressors to the hospitality industry. The excise tax is stifling economic recovery and is harmful to SMEs' health. **As such, CFIB urges the government not to increase the excise tax on alcohol in 2022.**

In 2017 the United States introduced a three-tier schedule of excise tax rates for distilled spirits based on proof gallon production per calendar year.[22] The lowest range in this system is $2.70 per proof gallon rate applied to the first 100,000 proof gallons (378,000 litres). While large distilleries run through approximately 378,000 litres within a week, most small-scale distilleries never even come close to reaching this threshold. The tiers within Canada's alcohol excise tax rates do not reflect this reality. This means that while Canadian small craft distillers pay $12.61/L in excise tax their U.S. counterparts pay just $1.77/L. Add to this a complex layered system of federal and provincial taxes, and exemptions eligibility; Canadian distilleries are at a competitive disadvantage. As a result, **CFIB recommends the federal government adopt a more gradual tiered excise tax system like the *Craft Beverage Modernization and Tax Reform Act* in the U.S. to help small Canadian distillers (and other craft alcohol producers) better compete domestically and internationally.**

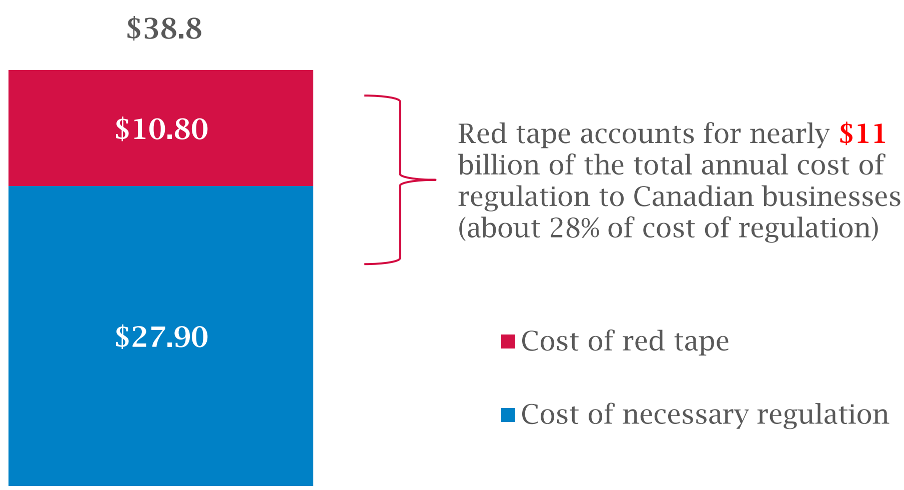
Reducing the cost of red tape and inter-provincial trade

The pandemic has shown that government departments and agencies can work quickly to implement programs and eliminate barriers. That nimbleness should be preserved. Reducing red tape is one of the most cost-effective, meaningful ways to help small businesses recover and grow back. Therefore, regulatory modernization and red tape reduction must be a top priority. Red tape reduction is listed as the second most helpful way to stimulate economic

[19] CFIB, Getting the Transition Right: Survey results on small business succession planning, November 2018.
[20] Ibid.
[21] CFIB, 2021 Federal Election Leaders' Survey Responses, 2021.
[22] U.S. Department of the Treasury, Tax Reform (CBMTRA) – Craft Beverage Modernization Act, September 30th, 2021.

recovery (55%), right behind providing a tax rebate to offset CPP/QPP and EI increases (69%).[23] However, only 8% of small businesses surveyed feel that the government is committed to reducing red tape and unnecessary regulations.[24] Red tape is so onerous on SMEs that nine out of 10 business owners say that it adds significant stress to their lives (up 10% from 2017) and almost two thirds (63%) would not advise their children to start a business given the current level of regulation.[25] CFIB recently estimated that the overall cost of regulation for Canadian businesses is $38.8 billion, with red tape representing almost a third - $10.8 billion - of these costs (see Figure 4).[26] Regulatory costs due to the COVID-19 pandemic are not included in the estimate. However, 83% of small businesses agree that COVID-19 substantially increased compliance costs.[27]

Figure 4
Cost of red tape (in billion 2020 dollars)



Source: CFIB, Survey on Regulation and Paper Burden, 2020, n=6,569

This is why the government should make reducing red tape a priority, including eliminating unnecessary regulations, putting things in plain language, and simplifying their forms and processes.

Reducing the barriers to inter-provincial trade was the top regulatory barrier that small businesses want to see addressed. Eighty-six percent of SMEs support the government working to find solutions to make inter-provincial trade easier.[28] Not only do barriers to internal trade cost the Canadian economy billions of dollars per year, but they also discourage businesses from growing and expanding to new markets. Specifically, to help streamline the sale of products and services across the country, **CFIB recommends the federal government work with provinces and territories to adopt a policy of "*mutual recognition*" to internal trade,**

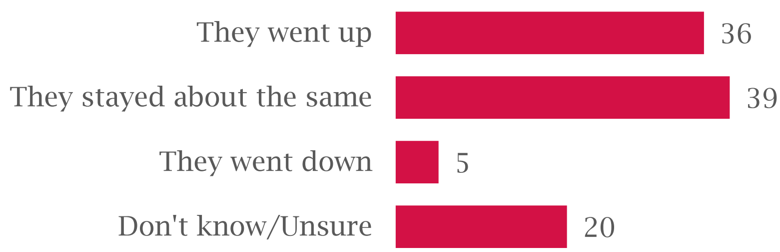
[23] CFIB, Your Voice Survey, January 12 – January 31, 2021, n=7,096.
[24] CFIB, Your Voice Survey, November 4 – November 9, 2021, n=4,514.
[25] CFIB, Regulation and Paperburden; CFIB and Intuit Survey, November 6 – December 9, 2020. n=6,569.
[26] Ibid.
[27] Ibid.
[28] CFIB, 2019 Federal Budget and Election Survey, October-November 2018, n=6,615.

which means that any good that can be legally sold in one jurisdiction can be sold in all other jurisdictions without meeting further requirements.

Reducing costs associated with accepting credit cards

The COVID-19 crisis has forced many SMEs to change the way they do business. Small businesses across the country have accelerated the adoption of various digital platforms to try to stay afloat during government-enforced lockdowns. Not only have business owners seen an increase in their overall merchant fees over the past three years (see Figure 5), but over one third of SMEs (36%) indicated that their credit card fees increased during the pandemic.[29] **CFIB asks the government to fulfill its promise of lowering the overall cost of interchange fees for small businesses.**

Figure 5
How have your overall merchant fees changed during the pandemic? (% of response)



Source: CFIB, Credit and Debit Cards Survey, results from June 10—June 25, 2021, n = 4, 339.
Notes: Respondents were asked to select one answer only.

One of the most inequitable aspects is that credit card fees are charged on sales taxes (GST/PST/HST). This is unfair because merchants are required to collect and remit sales taxes to governments. **CFIB recommends removing the ability for credit card companies to charge an additional merchant fee on the sales tax. If that is not possible, the government should find a way to compensate SMEs for the additional costs by rebating those amounts back.**

Finally, small businesses struggle with deciphering the many fees they face when they accept credit cards, and it is almost impossible to compare rates between credit card processors. This is also an industry undergoing many changes. New technologies and approaches are changing how we pay. **As a result, Canada's Credit and Debit Card Code of Conduct must be updated to reflect the new realities of the payments industry to ensure that there is increased transparency, consistency and accountability for merchants that accept credit and/or debit card payments.**

We have also seen some questionable practices by some credit card industry players. Current approaches to dealing with some of these issues do sometimes fall short as small businesses are required to work with payment card networks to resolve their issues which is often perceived as being biased against the merchant. As a result, **CFIB also recommends that the**

[29] CFIB, Credit and Debit Cards Survey, results from June 10 – June 25, 2021, n= 4,339.

government introduce an independent dispute resolution process to assist small merchants who face unfair or difficult challenges that cannot be resolved through their processor.

Prioritizing policies to deal with labour shortages

Before the start of the pandemic, labour shortages were one of the biggest concerns facing CFIB's members. In mid-2019, the majority of small businesses (76%) were reporting difficulties with hiring,[30] and in February 2020 businesses were reporting a 3.3% job vacancy rate.[31] Labour shortages are once again a top issue for small business owners as 51% that are not back to normal staffing levels report difficulty with staffing (hiring, retention and returning employees).[32] The pandemic has exacerbated existing labour shortages. Smaller businesses are particularly affected: if there is a vacancy within a business with only 4 employees, that means they must operate with 25% fewer staff.

This is further highlighted in our January Business Barometer that found the shortage of skilled labour (46%) and un/semi-skilled labour (34%) are the top issues limiting sales or production growth for small businesses (see Figure 6).[33]

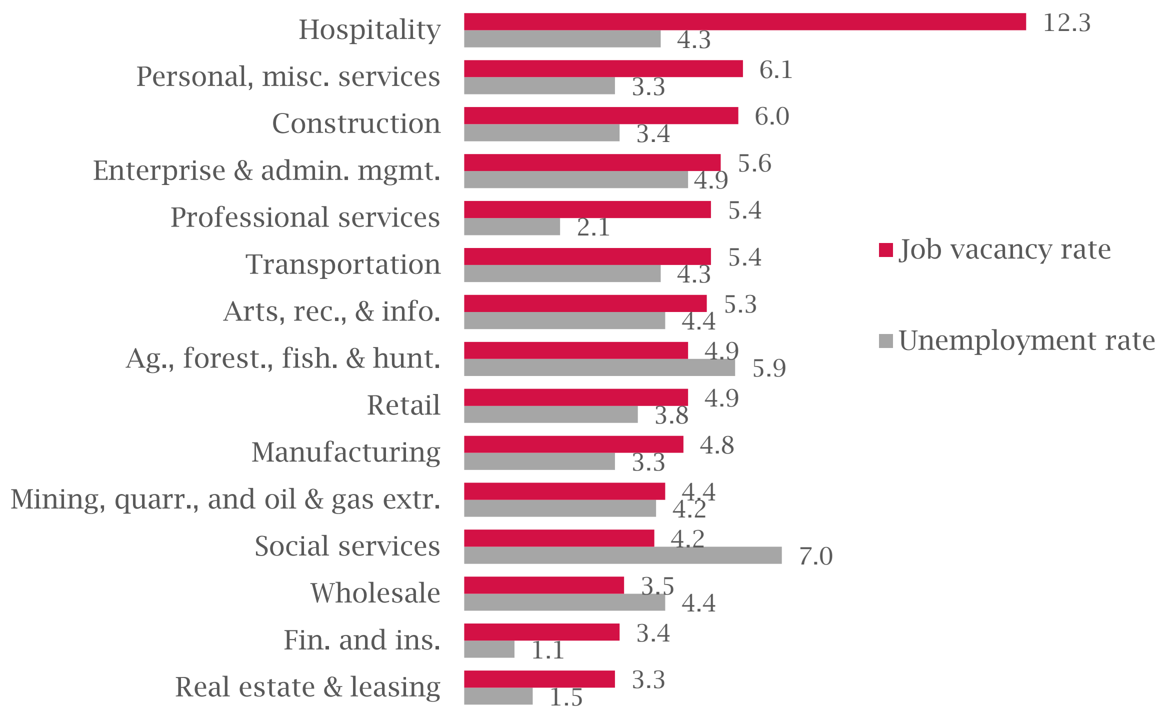
Figure 6
Limitations on sales or production growth (% response)

Source: CFIB, Business Barometer, January 6 to 7, 2022, n = 503

As shown in Figure 7, some sectors have a higher vacancy rate, meaning they are more in need of labour, while others have a lower rate, indicating a relatively less critical situation in terms of shortages.[34] These shortages are especially critical in the hospitality sector.

[30] CFIB, Workers without Borders: Addressing SME Labour Shortages Through Immigration – February 2020
[31] CFIB, Business Barometer, February 2020 results
[32] CFIB, Your Voice - September 2021 Survey, September 9 - September 27, 2021, n=3,697.
[33] CFIB, Business Barometer, January 2022 results.
[34] Statistics Canada, Table 14-10-0372-01 and 14-10-0022-01, December 3, 2021.

Figure 7
Job vacancies compared to the unemployment rate by sector (% reported)



Source: Statistics Canada, Table 14-10-0372-01 and 14-10-0022-01.

Implement policies to help address labour shortages—payroll tax holiday for new employees

Ensuring access to labour is vital to economic and small business recovery. CFIB's report, *Labour Shortages are Back with a Vengeance,* highlights some of the biggest factors driving the current shortage of labour for small businesses in Canada.[35] The report found that labour shortages are complex, and so are the solutions. Suggesting that small businesses only need to offer higher salaries does not address the complexity of the problem which stems from many issues. Solutions to the shortage of labour will be equally complex but should include a focus on education, training, and immigration.

Governments can do more by implementing policies to help employers hire and retain employees. This could include **a payroll tax holiday for all new hires** which would effectively lower CPP/QPP and EI premiums paid by small businesses, thereby freeing up funds to invest in hiring and training new employees. **Alternatively, the government could create a tax incentive to hire underrepresented groups in the workplace, such as youth, seniors, people with disabilities and indigenous people.**

Using immigration to address SME labour shortages

[35] CFIB, Labour Shortages are Back with a Vengeance – December 2021

CFIB's report, *Workers without Borders: Addressing SME Labour Shortages Through Immigration,* found that small businesses struggle with the current immigration system. SMEs found it particularly difficult to fill labour gaps, whether it be through the Temporary Foreign Worker (TFW) program or the permanent immigration system.[36] Since the release of the report, the situation has been further complicated by COVID-related border closures, increased pressure on the labour market and vaccination measures.

To help small businesses, the immigration process needs to be streamlined. It's important that more workers get into Canada faster and small businesses spend less time and money recruiting foreign workers. Government must also ensure that the skills of new immigrants being welcomed into Canada on a temporary or permanent basis more closely align with the skill levels needed by employers of all sizes, including in the skilled trades, and lower-skilled occupations.

In CFIB's recent shortage of labour report, 16% of SMEs having difficulty hiring had explored using the TFW program to fill the gap.[37] The TFW program was the second most useful action for SMEs to help resolve staffing issues. Half (52%) of SMEs who used the program found it to be helpful.[38] **In the short term, CFIB recommends that the TFW program be open to all types of jobs and all sectors, regardless of the prevailing regional unemployment rate, to quickly help small businesses address current labour shortages.**

Despite being intended to help employers fill temporary vacancies, the TFW program is often used to fill permanent labour market needs when other options have been exhausted. However, the restrictions on the TFW program make it very time consuming and expensive for most small businesses to use. Subsequently, there must be a better pathway for TFWs to achieve permanent residency. **CFIB recommends creating an "Introduction to Canada Visa" which would allow employers to bring someone in on a TFW visa who then works with that business for up to two years, after which they can apply for permanent residency.**

Controlling government spending and setting a timeframe to balance the budget

A balanced budget is necessary for ensuring long-term stability for Canada's economy. Investments in COVID-19 support programs had to be made during the pandemic and need to continue until all small businesses are fully open. With a deficit of $354.2 billion[39] in 2020/2021 and a projected deficit of $154.7 billion[40] in the next fiscal year, small businesses are concerned about the long-term repercussions of the pandemic on the economy (see Figure 8).[41] Small business owners do their best to keep their books balanced and they expect the government to do the same. Continuing deficits and growing debts will necessarily lead to higher taxes for businesses in the future.

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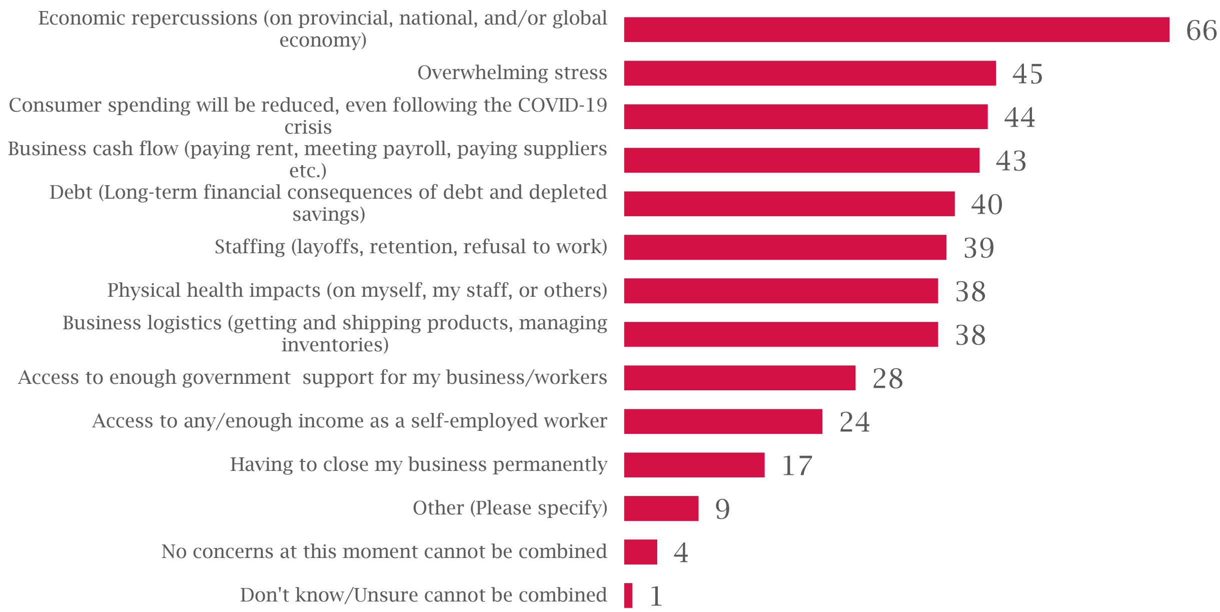
[36] CFIB, *Workers without Borders: Addressing SME Labour Shortages Through Immigration,* February 2020.
[37] CFIB, Labour Shortages are Back with a Vengeance – December 2021
[38] Ibid.
[39] Department of Finance, Budget 2021 Overview: Our Shared Economic and Social Foundations — Challenges and Opportunities Ahead, 2021.
[40] Ibid.
[41] CFIB, Your Voice Survey, June 2021 Survey, June 3– June 30, 2021, n=4,950.

Figure 8

What worries you the most about COVID? (Select all the apply) (% response)



Source: CFIB, Your Voice Survey, June 2021 Survey, June 3—June 30, 2021, n=4, 950.

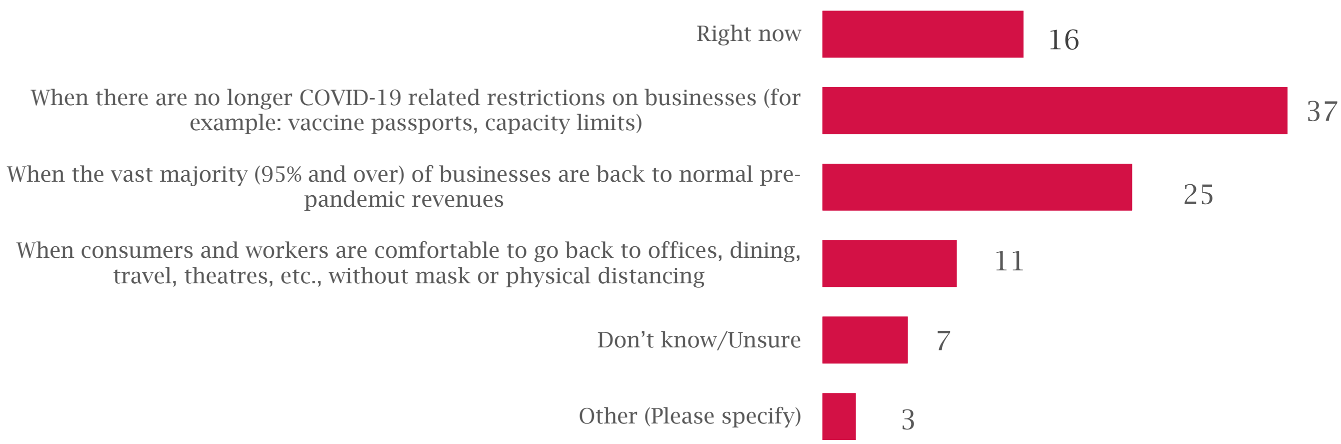
Setting a timeframe to balance the budget was the third-highest priority for small business owners when we asked about their priorities right after the election.[42] **CFIB recommends that the government put in place a concrete plan to control core spending and set a timeframe to balance the budget.**

COVID-19 relief measures to support SMEs on the path to recovery

Most small businesses remain at reduced sales or staffing levels compared to pre-pandemic times and are shouldering high levels of debt averaging $170,000 per small business.[43] **Given that we are not yet out of the pandemic, and the level of debt accumulated by SMEs, CFIB recommends that the government extend COVID-19 business programs until the economy is fully reopened and all restrictions are lifted, including international border measures and vaccine passports.** We believe that these subsidies are temporary measures and we do not want them to continue indefinitely. However, cutting the COVID-19 subsidies too quickly could lead to a slower recovery and further long-term harm to the economy. More than a third (37%) of small businesses feel the subsidies should continue until there are no longer COVID-19 related restrictions on businesses (i.e. vaccine passports, capacity limits), while 25% feel they should continue until businesses are back to normal pre-pandemic revenues (see Figure 9).[44]

[42] CFIB, Flash Election Survey, September 2021, n=4,061.
[43] CFIB, Small Business Debt: The COVID-19 Impact, Second Assessment, August 2021.
[44] CFIB, Your Voice Survey, November 4 – November 23, 2021, n=4,514.

Figure 9
When should COVID-19 business subsidies end? (% response)



Source: CFIB, Your Voice, November 2021 Survey, November 4—November 23, 2021, n=4,514.

CFIB estimated that one in six businesses is at risk of closing because of COVID-19.[45] Recently 16% of our members indicated they are actively considering bankruptcy/winding down their business as a result of COVID-19 and this increases to 26% for businesses in arts and recreation and 29% for businesses in hospitality.[46] The business subsidies have provided a lifeline to small businesses and helped many survive, but we are not through the storm yet. Before the latest restrictions, a third of small businesses were still losing money each day they were open (34%) and one in five (22%) businesses did not expect to last more than 6 months at their current levels of revenue loss.[47]

Lower wage and rent subsidies are not enough for small businesses still impacted by COVID

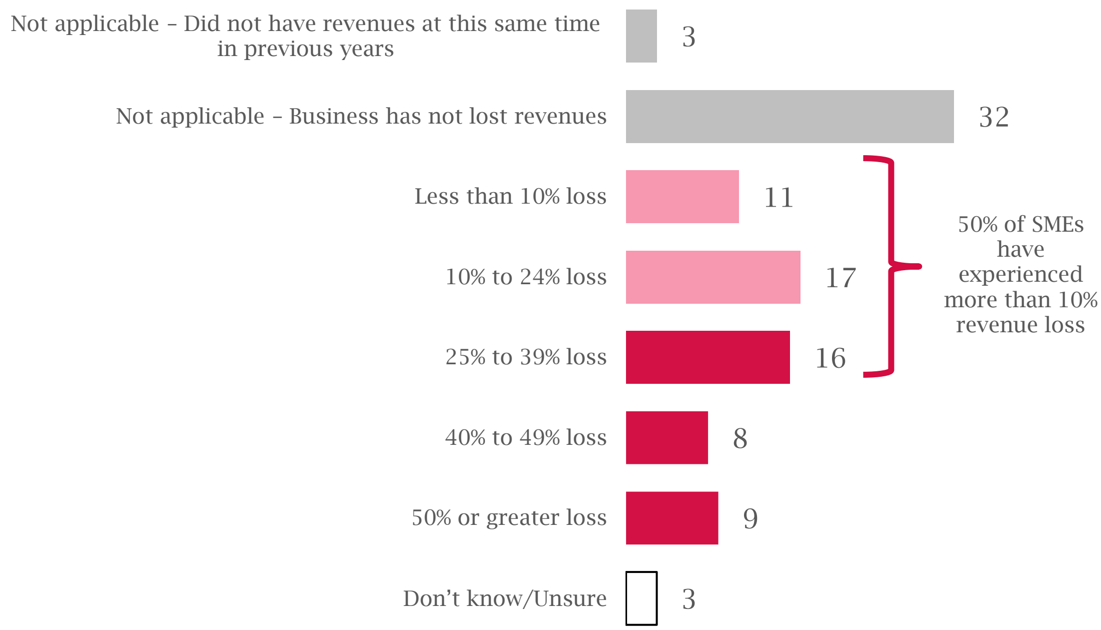
The Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Rent Subsidy (CERS) were replaced with the Tourism and Hospitality Recovery Program (THRP), the Hardest Hit Business Recovery Program (HHBRP) and the Local Lockdown Program. These changes to the wage and rent subsidies first announced in October 2021 leave many businesses without support. While CFIB welcomed the temporary expansion to the Local Lockdown Program to include capacity restrictions of 50% or greater and revenue losses of over 25%, many SMEs are still left out or will remain left out once the temporary measures end in February 2022.

Figure 10 shows that a third (33%) of small businesses still have revenue losses of over 25% compared to before the pandemic. However, only about one in six (17%) who need support are able to access the new programs and about one third (30%) of small businesses say that the subsidy changes make it more uncertain that their business will survive until the end of the pandemic.[48]

[45] CFIB, Canadian Businesses and Jobs at Risk due to COVID-19, January 2021
[46] CFIB, Your Voice Survey – Preliminary results, January 17 – January 18, 2022, n=3,335.
[47] CFIB, Your Voice Survey, November 4 – November 23, 2021, n=4,514.
[48] CFIB, Your Voice Survey, November 4– November 23, 2021, n=4,514.

Figure 10

Revenue loss experienced since the same time last year (% response)



Source: Flash Survey, Changes to federal COVID-19 relief programs, October 26-27, 2021, n = 5,877.

The government should return the wage and rent subsidies to the levels used in spring 2021: available to all businesses on a sliding scale as a percentage of their revenue losses to a maximum of 75%. At the very least, CFIB recommends further broadening the definition of businesses eligible for the THRP to ensure those who supply and/or rely on the tourism industry (such as suppliers to the industry, retailers in tourist resorts/communities, etc.) are also included.

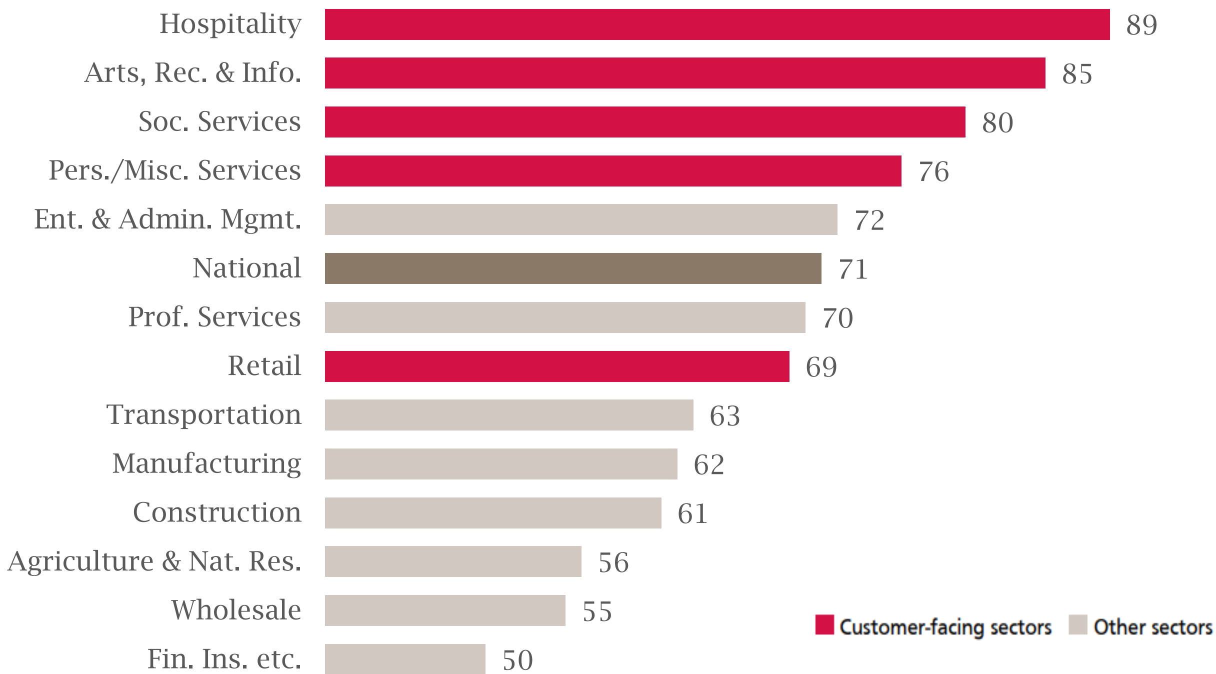
Forgive more small business debt and allow longer repayment terms for loans.

On average, small businesses in Canada have taken on $170,000 in COVID-related debt since the start of the pandemic.[49] Many of the support programs available to small businesses, such as the Canada Emergency Business Account (CEBA) and the Highly Affected Sectors Credit Availability Program (HASCAP), were mostly loan-based programs that encouraged businesses to take on debt to stay afloat during the pandemic.

As shown in Figure 11, 71% of small businesses took on debt due to the pandemic. By sector, hospitality has the highest proportion of businesses that took on debt (89%) and the highest debt load at an estimated $333,000 per business, twice that of the average across all sectors.[50]

[49] CFIB, Small Business Debt: The COVID-19 Impact, Second Assessment, August 2021.
[50] Ibid.

Figure 11
Businesses that took on debt due to COVID-19, Canada (% response by sector)



Source: CFIB, Your Voice Survey—May 2021, May 6-31, 2021, n = 5,126.

The expected time it will take for businesses to pay back their COVID-19-related debt is different for businesses that have been fully open, fully staffed, and making normal sales compared to those that have not. For businesses that have not yet returned to normal, less than one in five (17%) say they will be able to repay their COVID-related debt within a year, and just 40% believe they will have repaid their debts within two years.[51] Almost a quarter (24%) of businesses are concerned that they may never be able to repay their debt.[52]

As it currently stands, those that accessed the maximum loan amount available under CEBA ($60,000) are eligible to have 33% forgiven ($20,000) if they can repay the balance of their loan by December 31, 2023. CFIB was pleased that the government extended the CEBA repayment deadline to 2023. Considering that 45% of businesses that took on debt will take more than two years to repay what they owe, this deadline may still be unattainable for a substantial number of businesses if we continue to encounter further restrictions.[53] **To help small businesses deal with their heavy COVID-related debt load, CFIB recommends offering additional funding through the CEBA loan program by increasing the amount to $80,000 and the forgivable portion to 50%.**

Provide newer businesses with pandemic assistance.

New businesses that started their activities in March 2020 or later, have been shut out from accessing any of the major government emergency programs, like CEBA, CEWS, CERS and

[51] CFIB, Small Business Debt: The COVID-19 Impact, Second Assessment, August 2021.
[52] Ibid.
[53] Ibid.

HASCAP, as well as the THRP and the HHBRP. New businesses have faced the same impacts and challenges as other small businesses during the pandemic, including lockdowns and restrictions of their operations. Opening a business often requires months, if not years, of planning, including finding and/or renovating a location, purchasing equipment, as well as hiring and training staff. Business owners that opened after March 2020 had likely already made significant investments of time and money into their operations, meaning they had little choice but to proceed with an opening. Entrepreneurs should not be punished or discouraged from taking on the risk of opening a small business because of the government's response to an unforeseeable emergency.

For these new businesses struggling to remain open and keep their workers employed, Budget 2021 and subsequent announcements were missed opportunities to address a long-standing gap in government support. **CFIB continues to recommend allowing new businesses to gain access to these much-needed emergency support programs and any future COVID-related supports.**

Offset the cost of COVID adaptation and regulations

Small businesses have taken on a significant cost in adapting their existing workspaces, stores, restaurants, and venues to meet changing pandemic regulations around social distancing. This includes installing barriers, buying personal protective equipment (PPE), upgrading ventilation systems, and implementing contact tracing and vaccination screening for patrons and guests to their business. All this is costly for businesses. We were pleased to see government include the Small Business Air Quality Tax Credit in the Economic and Fiscal Update (EFU) but more needs to be done. **CFIB recommends that the government look at other ways to help offset these COVID-related compliance costs, whether it be through a tax credit or grant-type program.**

Conclusion and recommendations

Small businesses are at the heart of our communities. They provide needed goods and services and job opportunities for our neighbours, family, and friends. CFIB appreciated the government's willingness to move quickly to implement COVID relief programs at the beginning of the pandemic and their willingness to make adjustments as time went on. For economic recovery to be fully realized, small businesses will need to be at the core of government policies and actions and central to the next Budget.

Here is a summary of our recommendations for Budget 2022 and a few additional ideas for your consideration:

Recommendations to ensure the cost of doing business and burden of red tape do not increase

Payroll costs

- Freeze future CPP/QPP increases to help small businesses or help offset the cost of the recent increases by introducing a CPP/QPP rebate.
- Exempt small businesses from having to provide 10 paid sick days as it will have a disproportionate impact on smaller businesses.

- Improve fairness by instituting a 50:50 split in EI premiums paid between employers and employees.
- Allow for the refund of EI overcontributions from employers.
- If a self-employed EI program is introduced, it should not be made mandatory.

Carbon taxes

- Freeze the federal carbon backstop at its current level.
- Ensure the same proportion of revenues collected from SMEs is reallocated back to them in the form of rebates.
- Introduce a Bill like C-206 to expand carbon tax exemptions to more fuel and farm activities.

Red tape and interprovincial trade:

- Establish a comprehensive measure of the regulatory burden which includes all government departments, agencies and delegated authorities and ensure that it is reported publicly on an annual basis.
- Improve the Red Tape Reduction Act, and the one-for-one rule so that it applies not only to regulations but to legislation and policies as well.
- Adopt a policy of "*mutual recognition*" to internal trade, which means that any good that can be legally sold in one jurisdiction can be sold in all other jurisdictions without meeting further requirements.

Reducing credit card fees

- Deliver on the government's promise to lower the average overall cost of interchange fees for merchants and ensure the reductions flow primarily to small businesses who already pay the highest rates.
- Remove the ability for credit card companies to charge a merchant fee on sales taxes or find a way for them to compensate for this extra cost by rebating those amounts to merchants.
- Reform the Credit/Debit Card Code of Conduct to improve transparency and consistency between processors of credit-card-related fees and rates and introduce an independent dispute resolution process.

Other taxes and cost issues impacting small businesses

- Honour the spirit of Bill C-208 if any amendments are introduced and conduct extensive consultations as promised by the government in order to continue to work to make intergenerational transfers easier.
- Do not to increase the excise tax on alcohol in 2022.
- Adopt a more gradual tiered excise tax system like the Craft Beverage Modernization and Tax Reform Act in the U.S. to help small Canadian distillers (and other craft alcohol producers) better compete domestically and internationally.

Recommendations to address labour shortages

Promoting hiring

- Ensure EI and COVID support measures do not disincentivize people from returning to work.
- Introduce a payroll tax holiday for all new hires (e.g., EI, CPP/QPP, etc.).
- Introduce an EI holiday for hiring youth, seniors, and other underrepresented groups.

- Better communicate hiring and employment programs available to business owners and workers.

Matching Canadians' skills with labour demands

- Introduce a training tax credit that recognizes informal on-the-job training.
- Better align existing EI training programs and initiatives with the needs of small businesses.
- Make the recent changes to the Canada Summer Jobs Program permanent (i.e., 75% wage subsidy, allowing part-time work, extending to year-round).
- Encourage Work-Integrated Learning (WIL) programs in universities and colleges (such as co-op and internships) by including and aligning the needs of SMEs.

Immigration

- Improve and simplify the process for the TFW program and permanent immigration system to bring foreign workers to Canada faster.
- As soon as possible, open the TFW program to all types of jobs and all sectors, regardless of the prevailing regional unemployment rate as a temporary measure to address immediate labour shortages caused by the pandemic (e.g., for one year).
- Rework the "points system" for immigration to ensure that economic immigrants being welcomed into Canada are filling actual labour market needs for employers of all sizes, including skilled trades, semi-skilled and entry-level occupations.
- Provide a pathway to permanent residency for TFWs by implementing an "Introduction to Canada Visa" or similar type of program.

Recommendations to control government spending and address the deficit

- Avoid creating any new permanent spending.
- Enact a concrete plan to control core spending and set a timeframe to balance the budget.

Recommendations to improve COVID-19 recovery measures for small businesses

Rent and wage subsidies:

- Return the wage and rent subsidies to the levels used in spring 2021: available to all businesses on a sliding scale as a percentage of their revenue losses to a maximum of 75%.
- Include new businesses that started after the pandemic began in all business support programs.

Debt repayment

- Offer additional funding through the CEBA loan program: increase the amount to $80,000 and the forgivable portion to 50% ($40,000).
- Make a portion of HASCAP forgivable.

Offsetting COVID adaptation and regulations

- Examine ways to help offset these COVID-related compliance costs, whether it be through a tax credit or grant-type program.