The Canadian Federation of Independent Businesses' 2024 Pre-Budget Submission

CFIB recommends that the government:

1. Lower Employment Insurance (EI) premiums for smaller employers.
2. Freeze the carbon tax at its current level and find a simple way to return the carbon tax collected from small businesses back to them.
3. Expedite the passing of Bill C-234, *An Act to amend the Greenhouse Gas Pollution Pricing Act,* to exempt natural gas and propane used for on-farm activities.
4. Increase the small business deduction threshold (e.g., to $700,000) and the passive income amount (e.g., to $60,000), and index those thresholds to inflation going forward.
5. Cap or eliminate the automatic escalator on the alcohol excise tax.
6. Lower the federal small business tax rate from 9% to 8%, at least for the next two years.
7. Delay the phaseout of the Accelerated Capital Cost Allowance (ACCA) measures by at least three years and make immediate expensing permanent.
8. Strengthen competition rules.
9. Increase the Lifetime Capital Gains Exemption (LCGE) to $1.2 million for all SMEs and expand it to include some assets.
10. Include tax incentives for sellers to offset costs and risks associated with Employee Ownership Trusts.
11. Simplify and streamline immigration processes to bring and keep more workers in Canada.
12. Build on, or make permanent, recent initiatives that allow temporary immigrants already in Canada (e.g., students, super visa holders, accompanying dependents) to work or to work more hours.
13. Avoid creating disincentives to work when designing or introducing new programs (e.g., dental, disability benefits) or when modifying existing programs (e.g., EI).
14. Enhance incentives to work for older individuals.
15. Reduce the overall administrative burden (red tape) on small businesses.
16. Simplify tax filing (e.g., updating GST/source deduction thresholds to account for inflation).
17. Champion the implementation of mutual recognition to remove interprovincial trade barriers.

Current context

Many small and medium-sized enterprises (SMEs) are still struggling to get back to their pre-pandemic revenues and to pay off pandemic-related debt while facing inflation, higher interest rates, labour shortages, and supply chain challenges. It is important to keep in mind that SMEs are vital to a strong and diverse economy. Policies that support them also benefit their employees, clients, and our communities. This submission provides recommendations that will foster an environment where SMEs can thrive.

Addressing small business cost pressures

Among the top input cost pressures identified by SMEs were wage costs (**63%**), fuel and energy costs (**60%**), and taxes and regulatory costs (**56%**).[1] These are areas where government can provide relief while addressing inequities at the same time.

Small businesses are more sensitive to EI costs as they are more labour-intensive and do not have access to the economies of scale and capital of larger enterprises. The current 60-40 split in EI premiums was established when the employer had greater control over EI-related employment decisions. With the introduction of various special benefits, employees have increasingly become eligible for EI benefits that are outside of the control of the employer. **CFIB recommends introducing a lower EI premium rate for smaller employers, either through a 50-50 split or through a permanent, targeted, refundable EI premium credit** like the Small Business Job Credit that was in place in 2015 and 2016. This would result in smaller employers contributing about the same as their employees. **Refunding EI over-contributions to employers, as it is done for employee over-contributions when they file their taxes,** would also increase the overall fairness of the EI system.

While 10% of carbon tax revenues have been set aside for SMEs, only 0.17% has been returned to them.[2] Simple tax payouts (e.g., Climate Action Incentive Payments) are used to transfer to individuals what has been set aside for them, but the funds meant for SMEs have not been returned despite past promises. **CFIB recommends freezing the federal carbon pricing backstop at its current level and returning carbon tax revenues collected from small businesses since 2019 and into the future, to them and not just to a select few, through simplified rebates or tax reductions.**

Further, **we encourage the government to re-examine the economic impacts of the carbon tax on small businesses and consider other strategies** that focus on technology and other approaches to reducing greenhouse gas emissions.

CFIB also supports the adoption of Bill C-234, *An Act to amend the Greenhouse Gas Pollution Pricing Act*, which would exempt natural gas and propane used for on-farm activities.

While personal income tax brackets are indexed annually, the small business deduction has not changed since 2009. This deduction is valuable to Canadian small businesses, as this lower tax rate enables them to retain a larger part of their after-tax earnings to reinvest in their business or pay down debt. **CFIB urges the government to increase the maximum threshold for the small business tax rate (e.g., to $700,000), and to index it to inflation going forward** to ensure that the real dollar benefit of this deduction is maintained over time.[3]

Budget 2018 introduced new rules to phase out the small business deduction for Canadian-Controlled Private Corporations (CCPC) that alone (or as part of an associated group) earn more than $50,000 of passive investment income (e.g., interest, rent, dividends). This has not increased since 2018, so it has

[1] CFIB, *Monthly Business Barometer®*, June 2023.
[2] CFIB, T. Brown, F. Gionet, J. Yunis, *Fueling Unfairness: Carbon Pricing and Small Businesses*, March 2023.
[3] Bank of Canada Inflation Calculator, May 2023.

not kept up with inflation. If it had, it would be nearing $59,000.[4] CFIB recommends **increasing the amount of passive income a business could** earn to $60,000 before **reducing the small business deduction**.

The automatic escalator on the alcohol excise tax should be permanently capped, or repealed completely, to limit the impact of future increases on prices and recognize that the GST/HST already applies to the sale of these goods. The one-time Budget 2023 cap was supported by 68% of SMEs.[5]

Support Canadian SMEs' growth and transfers

Decreasing the small business tax rate from 9% to 8%, at least for the next two years, would provide businesses with additional liquidity to invest in their operations and address current challenges like paying off their pandemic-related debt and dealing with inflation.

Delaying the phaseout of enhanced first-year allowances under the ACCA, including the Accelerated Investment Incentive, and the Full Expensing for Manufacturers and Processors and Clean Energy Investments measures, would enable SMEs to front-load the tax savings from recent eligible investments. It would therefore encourage investment in new capital, including automation, that could help with labour shortages. The government could also support small business investment and growth by **making permanent the tax support measures that allow for temporary immediate expensing** of up to $1.5 million per taxation year **for eligible property** acquired by a CCPC.

Small businesses face various obstacles when it comes to generating sales, and our competition rules have failed to keep up. About 66% of SMEs noted that an increase in large corporate giants within Canada has made it harder for small businesses to compete. When it comes to the digital markets, about half of SMEs (**48%**) have found it harder to compete with the rise of e-commerce giants (e.g., Amazon, Etsy, eBay).[6] **As the federal government seeks to modernize the *Competition Act*, the reforms being made must ensure that small businesses have an equitable opportunity to compete fairly in today's economy.**

About 76% of Canada's business owners plan to exit their business within the next decade.[7] The sale of their business is their retirement income. The Lifetime Capital Gains Exemption (LCGE) is an important tax measure in this regard. It was $971,190 in 2023 and $1 million for farmers and fishers. **CFIB recommends simplifying the LCGE, expanding it to include at least some assets, and increasing it to $1.2 million for all SMEs (including fishers and farmers).**

Further, while Budget 2023 included more details on Employee Ownership Trusts (EOTs), these are still under development and far from clear. EOTs must be accessible and understandable for small business owners. Based on the experiences in other jurisdictions, we would recommend that **tax incentives be introduced to encourage SMEs to take on this succession option, as they face various risks and challenges when establishing an EOT.**

More labour and the gift of time

About **45%** of our members identify the shortage of skilled workers, and **34%** the shortage of unskilled and semi-skilled workers, as a factor that is limiting their sales or production growth.[8] While vacancy rates are not as high as they were a year ago, they remain much higher than the number looking for work. In the first quarter of 2023, there were over 780,000 job vacancies.[9] SMEs have been doing all

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[4] Bank of Canada Inflation Calculator, July 2023.
[5] CFIB, *Your Voice Survey*, April 2023, n=3,053.
[6] CFIB, *Survey on competition policy in Canada*, January 2023, n=2,423.
[7] CFIB, Su*ccession Tsunami: Preparing for a decade of small business transitions in Canada*, January 2023.
[8] CFIB, *Monthly Business Barometer®*, June 2023, n=528.
[9] Statistics Canada. Table 14-10-0325-01, quarterly, unadjusted for seasonality. Online (07/20/2023).

they can to attract workers. Many have tried increasing wages and offering hiring bonuses with limited success. There are few, if any, applicants for their job postings. However, automation and the hiring of foreign workers have helped many employers address their staffing needs.

To improve access to foreign workers, the government should reduce red tape, costs, and processing times. CFIB urges the government to **streamline the application processes for temporary immigration programs** and **consider the needs of all employers when setting immigration priorities by creating a pathway to permanent residency for lower-skilled foreign workers**, including those in TEER 4 and 5 occupations (formerly NOCs C or D). **Building on or making permanent recent initiatives that allow temporary immigrants already in Canada (e.g., students, super visa holders, accompanying dependents)** to work or to work more is also encouraged.

It is also important to **avoid creating disincentives to work when designing or introducing new programs (e.g., dental, disability benefits) or when modifying existing programs (e.g., EI)**. Further, with an aging population, the government should **enhance incentives for older individuals to work** by allowing them to keep more of what they earn (e.g., improving access to the age credit amount by basing it on age only, making EI voluntary for pensioners, rebasing the Basic Earnings exemption for the CPP).

Red tape and excessive bureaucracy limit productivity, cause operational delays, and leave business owners with less time to manage their business. CFIB asks the government to **give small business owners back time by making regulatory modernization a priority, measuring and reporting on the total number of rules in place, and updating the "one-for-one" rule to include all regulations, legislation (e.g., the *Income Tax Act*), and policies**.

At the federal level, tax-related issues ranked high among small business irritants. The tax system is often complex and cumbersome. CFIB recommends introducing measures to **simplify tax filing**, such as **making the temporary flat rate method for home office expenses permanent and updating the GST and source deduction thresholds for remittance frequency to account for inflation**.

Further, many regulatory requirements vary between provinces, thereby creating barriers to internal trade. **CFIB asks the federal government to work with provinces and territories towards a mutual recognition agreement that quickly removes the remaining barriers to internal trade within Canada.**

Conclusion

While we would hope to hear an announcement on this well before Budget 2024, we urge the government to extend the CEBA repayment deadline, while maintaining access to the forgivable portion. Some entry restrictions only ended in October of 2022, less than a year ago.[10] Many small business owners are still in a difficult debt situation, and they need a reprieve.

SMEs are vital to the economy and are at the heart of our communities. It is imperative that government foster an environment of economic growth where all businesses, even the smallest ones, can thrive.

[10] Public Health Agency of Canada, *Government of Canada to remove COVID-19 border and travel measures effective October 1*, Online (07/20/2023).