CANADIAN FEDERATION OF INDEPENDENT BUSINESS

In business for your business

2023 PRE-BUDGET RECOMMENDATIONS

With over 97,000 members, the Canadian Federation of Independent Business (CFIB) is the country's largest non-profit organization devoted to creating and supporting an environment where small businesses can succeed.

Current Context

SMEs are facing a long and challenging road to recovery after more than two years of uncertainty linked to lockdown measures due to the pandemic. Many are struggling to get back to pre-pandemic revenues and to pay off pandemic-related debt while facing rising costs of doing business, labour shortages, and supply chain challenges.

It is important to keep in mind that SMEs are vital to the economy. Policies that support them will benefit communities across Canada. This submission provides recommendations that will foster an environment of economic growth where SMEs can thrive. This is an updated version of our prebudget submission that was sent to FINA in October 2022.

Small Business Debt Management

While all pandemic-related support measures ended on May 7, 2022, the latest data on CFIB's Small Business Recovery Dashboard shows that **52%** of small businesses are still making less than their normal revenues and **58%** are dealing with pandemic debt that is, on average, over **$114,000**.[1]

SME owners need a chance to get back on their feet. Many businesses are trying to repay their COVID-related debt, while facing lower-than-normal revenues and high inflation. **CFIB recommends government look at ways to help SMEs deal with their COVID-related debt, like extending the repayment deadline for an additional year to the end of 2024**.

Further, all CEBA loan recipients who applied for the loan in good faith, but are now deemed ineligible, should get the opportunity to keep the forgivable portion by being able to access an appeals process.

Ensuring the Cost of Doing Business Does Not Increase

Inflation is being felt by all. The Consumer Price Index increased by 6.8% on an annual average basis in 2022, well above the Bank of Canada's target rate of **2%**.[2] Dealing with the rising cost of doing business is the number one priority among our members. Among the top input cost pressures identified by SMEs were fuel and energy costs (**67%**), wage costs (**60%**), and taxes and regulatory costs (**53%**).[3]

Fuel and Energy Costs

Fuel and energy are a significant input cost across all sectors. **CFIB recommends that the government freeze the planned carbon backstop increases** to provide some relief from inflationary pressures.

The current carbon backstop is unfair to small businesses as they contribute almost **50%** of the carbon backstop revenues, yet they do not qualify for the significant rebate schemes offered to citizens in the provinces affected. Only about **10%** of carbon backstop revenues are set aside for small firms and they are not providing relief to them in any significant way. **CFIB recommends that the carbon backstop be overhauled to provide small firms a rebate scheme that reflects their contribution to the carbon backstop.**

Further, CFIB encourages government to **expedite the passing 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

[1] CFIB, Your Voice Survey, November 10-28, 2022, n = 3264
[2] Statistics Canada, Consumer Price Index, Table 18-10-0005-01, January 2023
[3] CFIB, Monthly Business Barometer®, December 2022

grain drying, barn heating/cooling, irrigation, and steam flaking from the federal carbon backstop to help keep food production costs down.

Wage Costs

SMEs tend to be more labour-intensive, thus more sensitive to changes in payroll taxes that are profit insensitive.

CPP/Quebec Pension Plan (QPP) rates started to go up in 2019. This was the first of five years of rate increases, which is to be followed by two years of increases in the maximum pensionable earnings by creating a second earning ceiling. **CFIB recommends delaying the introduction of the second CPP ceiling until inflation is stabilized around 2 percent to help middle class Canadians and their employers deal with the increasing cost of living and operating**.

EI premium rates are also projected to increase, in part to recover the deficit accrued because of the extraordinary measures introduced during the pandemic. While we appreciate that the Government is crediting the EI Operating Account for some costs related to the pandemic, this commitment has fallen short from covering all pandemic related expenses. **CFIB asks that the full amount of the current EI deficit be covered by government through general revenues.**

Further, the current 60-40 split in EI premiums was established when the employer had greater control in employment decisions. With the introduction of various special benefits over the years, employees have increasingly become eligible for benefits without being terminated by their employer (e.g., parental leave). To make EI fairer to small businesses, **CFIB recommends introducing a 50-50 split in EI premiums, so that both employers and employees contribute equally. Another approach would be to introduce a lower rate for small business with smaller payrolls, like the small business job credit did for 2015 and 2016.**

Tax and Regulatory Costs

Based on a recent survey of our members, savings generated from a reduction in tax burden would benefit employees (**59%** would increase wages/benefits, **30%** would invest in training), be used to pay debt (**55%**), mitigate the need to increase prices (**32%**) and/or be expand or reinvested in the business (**37% and 21%**).[4]

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 rate of tax enables them to retain a larger part of their after-tax earnings to reinvest in their business or pay down debt. **CFIB urges government to increase the maximum threshold for the small business tax rate (e.g., to $600,000), and to index it to inflation going forward** to ensure that the real dollar benefit of this deduction is maintained over time.

Further, **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/or address current challenges like labour shortages. Lower corporate taxes encourage investment and can help small businesses better absorb the rising costs of doing business.

When businesses invest in machinery, equipment, and technology, it can increase their output and productivity. CFIB recommends **delaying the transition into phase II (phase-out, 2024-2027) of the enhanced first-year allowances for certain eligible property that are subject to the Capital Cost Allowance (CCA) rules under the Accelerated Investment Incentive, and the phase-out of the full**

[4] CFIB, Your Voice Survey, September 8-26, 2022, n = 3679

write-offs for eligible machinery and equipment under the Full Expensing for Manufacturers and Processors and Clean Energy Investments measures. These measures provide a needed incentive for capital investment and financial relief for SMEs, by enabling them to frontload the tax savings from their recent investment in the year that it becomes available for use. These measures can help start, grow, automate, or revamp a business.

Further, CFIB recommends 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 Canadian-Controlled Private Corporation (CCPC). This measure was introduced in Budget 2021 and enhanced in 2022 to include property acquired by a Canadian-resident individual or partnership.

Credit Card Fees

While credit cards are beneficial to both consumers and businesses, they also bring significant costs to merchants. Many business owners (**78%**) feel that the current credit card processing rates and fees are unaffordable.[5] **CFIB urges the government to deliver on its 2022 fall economic statement commitment to lower credit card merchant fees.**

Addressing labour shortages

Approximately **59%** of SMEs are experiencing labour shortages.[6] Labour shortages have led business owners to: work more (**73%**), turn down sales and contracts (**48%**), and/or decrease service offerings (**47%**). SMEs have been doing all they can to attract workers. Many have tried increasing wages and offering hiring bonuses with limited success. Automation and hiring foreign workers have proven to be more successful in addressing labour shortages.[7]

Immigration would be more widely used were it not for the red tape, costs, and increased processing times. Further, many SMEs are looking for permanent, skilled and semi-skilled workers. These workers are often in trades requiring college certification, apprenticeships, or on-the-job training. They build homes, drive trucks, cook food, care for seniors. However, there are few permanent immigration avenues for those in occupations considered lower skilled. **CFIB urges the government to consider:**

- **the needs of *all* employers when it comes to setting immigration priorities by creating a pathway to permanent residency for lower skilled foreign workers**,
- **streamlining the application processes for temporary immigration programs, and**
- **extending the maximum duration of new work permits to four or five years to limit the need for re-application and renewals and potentially helping to reduce backlogs.**

We would also urge the government to consider the risk of creating disincentives to work when it comes to pursuing certain EI reforms, such as reducing eligibility requirements or enhancing the benefit payable. In this period of strong labour market growth, businesses need policies that encourage labour market attachment.

Other ways the government could help small businesses with labour shortage pressures would be by providing supports (e.g., credit through EI/reduced income tax) to businesses that invest in training

[5] CFIB, Credit and Debit Cards Survey, June 10-25, 2021
[6] CFIB, Your Voice Survey, September 8-26, 2022, n = 3679
[7] CFIB, Labour shortages are back with a vengeance, December 2021, page 12.

and retraining of their staff, and those that hire a certain percentage of either younger or older Canadians.

Red Tape

Red tape and excessive bureaucracy can limit productivity, lower investment capacity, and leave business owners with less time to manage their business. **CFIB asks the government to make regulatory modernization a priority and appoint a minister responsible, task every department with simplifying/improving their frontline interactions with citizens/small businesses, develop a measure to track the total regulatory burden, and update the "one-for-one" rule to include all regulations, legislation, and policies.**

Further, regulatory requirements can vary from one province to the next and are numerous and cumbersome. They create barriers to internal trade and inefficiencies. **CFIB asks that the government work with the provinces towards a policy of "mutual recognition" to improve internal trade within Canada.**

Conclusion

SMEs are vital to the economy and are at the heart of our communities. Fostering an environment of economic growth where SMEs thrive is imperative. Budget 2023 is the perfect opportunity for the government to send a strong signal that they are committed to the success of small businesses.

Summary List of Recommendations

That the Government help small businesses deal with their COVID-19 related debt by:

1. Increasing the forgivable portion of the Canadian Emergency Business Account (CEBA) loan and extending the repayment deadline for an additional year (to December 2024). Similar provisions should be extended to other federal COVID-19 subsidy programs, like the Highly Affected Sectors Credit Availability Program.
2. Allowing all CEBA loan recipients who received it in good faith, but are now deemed ineligible, to keep the forgivable portion by implementing an appeal process of the decision.

That the Government help small businesses deal with the increased cost of doing business by:

3. Pause the carbon pricing at the current level.
4. Overhauling the carbon tax backstop to ensure that small firms are provided with a rebate scheme that reflects their contribution.
5. Expediting the passing of Bill C-234, to provide farmers with a tax break from the carbon tax on natural gas and propane used for various on-farm activities.
6. Delaying the upcoming introduction of a second ceiling for the Canada Pension Plan (CPP) premiums.
7. Using general revenues to pay down pandemic related costs incurred by the Employment Insurance (EI) plan.
8. Splitting EI premiums 50/50 between employers and employees or introducing a lower rate for smaller payrolls.
9. Increasing the small business deduction threshold to $600,000 and indexing it to inflation going forward.
10. Lowering the federal small business tax rate from 9% to 8%, at least for the next two years.
11. Delaying the phase-out of the Accelerated Capital Cost Allowance measures by at least three years and making immediate expensing permanent.
12. Delivering on the promise to lower card fees for small business.

That the Government help employers facing labour shortages by:

13. Creating a pathway to permanent residency for lower-skilled foreign workers.
14. Simplifying the application process to bring in foreign workers.
15. Extending the maximum duration of new work permits to four or five years to limit the need for re-application and renewals.

That the Government reduce red tape by:

16. Expanding the One-for-One rule, so that it applies to legislation and policies, not just regulations.
17. Championing a policy of “mutual recognition” to improve internal trade.