

January 23, 2023

Letter to all Members of Parliament

Subject: Small business deduction, tax rate and targeted job credit

Dear Member of Parliament:

We represent 95,000 small and medium-sized businesses that are members of the Canadian Federation of Independent Business (CFIB). We are writing to reiterate and expand on some of the recommendations we made in our 2023 Pre-Budget Submission to support small businesses.

Inflation, labour shortages, supply chain disruptions, tax increases and COVID-related debt are all affecting businesses' efforts to get back on their feet after more than two years of lockdowns and business restrictions due to the pandemic. The latest data on CFIB's Small Business Recovery Dashboard shows 52% of small businesses are still making less than their normal revenues, and 58% are dealing with pandemic debt averaging over \$114,000.¹ Small businesses need some reprieve. Their level of optimism is at 40.2% on a three-month horizon, one of its lowest levels ever.² That is why we are calling on the government to help small businesses by implementing various fiscal relief measures outlined below.

Small Business Deduction

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 as it is done for other tax measures.

¹ CFIB, *Small Business Recovery Dashboard*, Your Voice Survey, November 10-28, 2022, n=3,264

² CFIB, *Monthly Business Barometer*, December 2022

Small Business Tax Rate

Furthermore, 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. Based on a recent survey of our members, savings generated from a reduction in tax burden would benefit employees (60% would increase wages/benefits, 28% would invest in training), be used to pay debt (56%), mitigate the need to increase prices (31%) and/or be reinvested in the business (57%).³

Small Business Job Credit

Further, to help small business owners and smaller employers deal with rising payroll taxes, **CFIB is asking the government to introduce a targeted, Employment Insurance (EI) premium credit for 2023**, like the Small Business Job Credit that was in place in 2015 and 2016. More specifically, the credit could be used to effectively lower a small employer's EI premium rate from 1.4 times the rate of the employee to the same rate paid by the employee. Eligibility could be based on:

- Eligibility for the small business deduction;
- Paying and/or deducting and remitting EI premiums; and,
- Payroll size (e.g., total amount of employer EI premiums paid is \$20,000 or less).

As a result, the maximum an eligible employer would pay in annual EI premiums in 2023 would be the same as their employee, \$1,002.45, down from a maximum of \$1,403.43 per employee. A savings of up to \$400.98 per employee. That is a significant amount for a small business owner. Indeed, over 77% of our members stated that they would have liked to see the small business job credit extended in a Special EI Survey undertaken in 2016 as it was considered helpful among eligible small businesses with employees.

We also continue to encourage the Government of Canada to work with the provinces to offset the costs of the 2023 increases in Canada Pension Plan premiums through a similar targeted credit for small businesses.

³ CFIB, Your Voice Survey, September 2022, results from September 8-26, 2022, n = 3,679