

November 06, 2024

Open letter sent via email

The Honourable Chrystia Freeland, P.C., M.P.
Deputy Prime Minister and Minister of Finance
Department of Finance
90 Elgin Street
Ottawa, ON K1A 0G5

Subject: Canada Carbon Rebate for Small Businesses

Dear Deputy Minister Freeland:

I'm writing to express our strong concern and opposition to the decision to levy income taxes on the long-awaited Canada Carbon Rebate for Small Businesses.

As we've discussed in detail, the entire design and roll-out of the carbon tax was disastrous from a small business perspective.

When the tax was first levied in 2019, your government committed to rebating 10% of carbon tax proceeds back to SMEs as part of your promise to ensure the tax was revenue neutral. But other than a few failed programs near the start of the tax, virtually none of this revenue was returned to small businesses for over five years. This resulted in an accumulated surplus of \$2.5 billion owed to small firms across eight provinces.

And despite the growing opposition to the federal carbon tax among small businesses, CFIB worked hard to remind government of your rebate commitment and bring fresh ideas on how to return these dollars to their promised target.

I give you significant credit and thanks for your work in helping to break the logjam by announcing the rebate structure with the commitment to a simplified process to deliver the \$2.5 billion to over 600,000 small firms in December of this year. While this will likely not change the fact that 82% of our members now oppose the carbon tax, the rebate will help government meet its long-outstanding promise to small firms and restore some degree of revenue neutrality.

But CFIB has just learned that, despite earlier interpretations from the Canada Revenue Agency, **your government has decided that the small business rebate will be taxable in the hands of the recipient businesses.** If allowed to stand, this decision will be deeply unfair to Canada's small firms.

My main arguments against this move are:

1. The CCR for consumers is tax-free, but the CCR for small firms will not be. It is hard to understand why these groups would be treated differently. Yes, small firms can deduct expenses like fuel charges and taxes, but a huge percentage of them are not profitable in any given year.
2. Finance officials have shared that the CCR is considered "government assistance" under the income tax act. This again makes no sense as this is a rebate of taxes paid by small firms, not a gift to small firms from general revenue. This would be akin to levying income taxes on one's income tax return.
3. This move will mean the carbon tax is anything but revenue neutral. If government is levying corporate income taxes on the carbon rebate, it will recoup a large portion of the \$2.5 billion, meaning a portion of the carbon tax itself will end up in general government revenue.

The entire journey with the carbon tax has been filled with broken or delayed promises to Canada's small businesses. On top of this, your government has also recently announced that it will reduce future rebates to small firms from 9 to 5% of total revenues. And on April 1, 2025, small firms will be paying even more as the carbon tax rises by 19% to \$95 per tonne.

The decision to levy income taxes on the carbon tax rebate is deeply offensive to small businesses - including the small percentage that continue to believe in the concept of the tax itself. **I urge you to reconsider this plan and deliver the full value of the rebate as promised in 2019.**

In addition to this urgent request, CFIB is calling on government and all parties to:

1. Fully eliminate the carbon tax (supported by 82% of our members).
2. As long as the tax is in place, restore the small business rebate to the previous 9% and expand the rebate plan to include unincorporated businesses and those without T-4 employees.
3. Abandon the plan to raise the carbon tax rate on April 1, 2025.
4. As long as the tax is in place, fully exempt natural gas and all agricultural uses.

After waiting for over five years for government to deliver on its promise to small businesses, taxing the Canada Carbon Rebate businesses is deeply disappointing and wrong. Please reverse this decision today.

Sincerely,



Dan Kelly
President and CEO