

## The Canadian Federation of Independent Business' 2026 Pre-Budget Submission to the House of Commons Standing Committee on Finance

### *CFIB recommends that the government:*

1. Reduce the small business tax rate from 9% to 6%.
2. Increase the small business deduction (SBD) threshold to \$700,000 and passive income amount to \$60,000 and index them moving forward.
3. Support investment and succession planning by:
  - a. Expanding Immediate Expensing and the Accelerated Capital Cost Initiative to all types of capital investment and sectors.
  - b. Expanding the existing rollover provisions to include the sale and purchase of assets, not just shares, over a longer period of time.
  - c. Introducing a lower capital gains inclusion rate tax on a second tranche of gains beyond the LCGE (Lifetime Capital Gains Exemption).
  - d. Including the gains from the sale of assets, beyond farm and fishing property, under the LCGE and the aforementioned second tranche of gains beyond the LCGE.
4. Introduce a lower Employment Insurance (EI) premium rate for smaller employers.
5. Continue to focus on adopting a comprehensive, national, policy of mutual recognition to fast-track the removal of internal trade barriers within Canada.
6. Truly make regulatory modernization a priority by adopting a two-for-one rule that applies to all federal requirements whether they are in regulations, legislations or policies.
7. Revisit and reject any attempt to impose restrictive Project Labour Agreements (PLAs), Community Benefits Agreements (CBAs), or prevailing wage requirements in government policy, program or procurement that sideline SMEs.
8. Support hiring:
  - a. Help business owners retain their older workers by increasing the Age Exemption amount and the CPP Basic exemption amount.
  - b. Support SMEs in hiring young people by introducing targeted tax credits, deductions and premium holidays, and by enhancing the Canada Summer Jobs (CSJ) program.
  - c. Preserve the Temporary Foreign Worker Program and allow employers to make their case by removing caps, the refusal to process policy and the hike in the prevailing wage requirement.
9. Support the self-employed through the introduction of a special small business deduction.
10. Introduce a timeline to balance the overall budget.

## Context

Entrepreneurship is in decline and investment is lagging. While Canadian Small-and-Medium Sized Enterprises (SMEs) continuously seek ways to increase sales, grow, support their employees, and contribute to their communities, recent trade and economic uncertainties, reduced consumer spending, the high costs of doing business, and excessive red tape, have made this difficult.

Indeed, **55%** would not recommend others run a business.<sup>1</sup> Canada is currently experiencing an entrepreneurial drought as, on average, the number of exits have far exceeded the number of new businesses created over the last four quarters.<sup>2</sup> This is particularly concerning as SMEs provided for 64% of Canadian private sector employment on 2025 and contributed 50% of GDP generated from the private sector.<sup>3</sup>

Budget 2026 must focus on creating the economic conditions where SMEs can prosper. Not through targeted programs with complex application requirements. But through fundamental long-lasting changes to Canada's fiscal and regulatory landscape. This submission shares recommendations on how the federal government can create a climate that supports Canadian SMEs and future entrepreneurs.

## Creating a fiscal environment that fosters and protects entrepreneurship

To support small businesses, attract investment, boost productivity, and reinvigorate entrepreneurship in Canada, CFIB recommends enhancing the fiscal environment for entrepreneurs by:

- **Reducing the small business tax rate from 9% to 6%.** This would provide businesses with an additional \$2.1 billion in liquidity to invest in their operations based on PBO's estimates.<sup>4</sup> Over **81%** of small business owners would support a lower small business tax rate.<sup>5</sup>
- **Increasing the small business deduction (SBD) threshold to \$700,000 and passive income amount to \$60,000 and indexing them moving forward so that they keep their value over time.**<sup>6</sup> While personal income tax brackets are indexed annually, the SBD has not changed since 2009 and the passive income amount since 2018. The higher SBD could enable SMEs to retain \$570 million.<sup>7</sup> About **67%** of small business owners would like to see a higher SBD threshold announced in the next Budget.<sup>8</sup>
- **Supporting investment and succession planning by:**
  - **Expanding Immediate Expensing and the Accelerated Capital Cost Initiative to all types of capital investment and sectors** and let business owners decide on how best to use the deduction.
  - **Expanding existing rollover provisions to the sale and purchase of assets, not just shares, and extending the period of availability.**
  - **Introducing a lower capital gains inclusion rate tax on a second tranche of gains beyond the Lifetime Capital Gains Exemption (LCGE).** For example, allowing for the next \$2 million in capital gains to be subject to a 33% rather than the current 50% inclusion rate.
  - **Including the gains from the sale of assets, beyond farm and fishing property, under the LCGE and the aforementioned second tranche of gains beyond the LCGE.**

---

<sup>1</sup> CFIB, Canada's Entrepreneurial Drought: The Shrinking Business Landscape. Online April 2026 at: [entrepreneurial-drought-part1-en.pdf](#)

<sup>2</sup> *Ibid*

<sup>3</sup> ISED, Key Small Business Statistics, Online, Accessed April 20, 2026: <https://ised-isde.canada.ca/site/sme-research-statistics/en/key-small-business-statistics/key-small-business-statistics-2025#s2.1>

<sup>4</sup> PBO, [Ready Reckoner](#), web tool accessed February 26, 2026.

<sup>5</sup> CFIB, *Your Voice Survey*, December 2025, n=1,163

<sup>6</sup> SBD would be at \$734,000 based on [Bank of Canada Inflation Calculator](#) as of April 2026 had it been indexed

<sup>7</sup> PBO, [Ready Reckoner](#), web tool accessed February 26, 2026.

<sup>8</sup> CFIB, *Your Voice Survey*, December 2025, n=1,163

- **Introducing a lower EI (Employment Insurance) premium rate for smaller employers,** through a permanent, targeted, refundable EI premium credit, so that smaller employers pay the same EI premium rates as their employees. About **72%** of small business owners would like to see lower EI premiums in the next Budget.<sup>9</sup>

Just advancing measures that incentivize capital investment is not sufficient. Budget 2025 introduced the Productivity Super-Deduction, aimed at encouraging and supporting investment and re-investment. While SMEs support the concept, few (**19%**) felt that they would be able to benefit from it, and **41%** of SMEs are unable to benefit from it because of lack of available funds.<sup>10</sup> General fiscal relief measures are also needed. Fiscal relief and investment incentives - together - will boost productivity, investment, and entrepreneurship, benefiting the broader economy.

## **Ensure all sizes of businesses benefit from government policy and approaches and reduce red tape**

The current sentiment among small business owners is that recent government policy has prioritized big businesses, and big projects, while overlooking small business realities. This needs to be corrected.

To support entrepreneurship, government must recognize the important role that entrepreneurs and SMEs play in Canadian society by implementing policies that reflect the operational realities of SMEs. Unfortunately, we have recently seen numerous policies excluding a large number of SMEs and their employees by design. These should be revisited and avoided moving forward.

For example, the Building Communities Fund prioritizes projects using unionized labour or with a Community Benefit Agreement in place, when not even **3%** of our membership is unionized.<sup>11</sup> Not only are such requirements exclusionary, but they can also increase costs for public projects. Another example is the existence of prevailing wage requirements to access certain tax credits (e.g., Clean Economy Tax Credit). Programs and procurement rules must allow equal participation from SMEs regardless of their workers' chosen labour model. Exclusionary requirements risk sidelining the majority of Canada's job creators.

Further, the government has opted to reduce red tape for select projects through the Major Project Office and Bill C-5, rather than introduce broad base changes. If the rules are onerous and a burden for one, they are for others. Cut red tape for everyone.

Thus, CFIB recommends that governments:

- **Continue to focus on adopting a national policy of mutual recognition to remove internal trade barriers within Canada.** While progress has been made on this front, it has resulted in a hodgepodge of reciprocal agreements rather than one mutual recognition agreement.
- **Truly make regulatory modernization a priority** by measuring and reporting on the total number of rules in place, by updating the "one-for-one" rule for a "two-for-one" rule and by extending it to include all regulations, legislation, and policies. This could unlock close to \$18 billion currently wasted on red tape.<sup>12</sup>
- **Ensure small firms can compete fairly regardless of whether they are unionized. Do not impose restrictive Project Labour Agreements (PLAs), Community Benefits Agreements (CBAs), or prevailing wage requirements as part of government policies and programs.**

<sup>9</sup> CFIB, *Your Voice Survey*, December 2025, n=1,163

<sup>10</sup> *Ibid*

<sup>11</sup> CFIB, *Your Voice Survey*, December 2023, n=3,147

<sup>12</sup> CFIB, <https://www.cfib-fcei.ca/en/research-economic-analysis/canadas-red-tape-report>, Online April 2026

## Labour where labour is needed

Some sectors and regions still face persisting labour shortages, which will not improve with the approaching retirement of the tail end of the Boomer generation and the anticipated loss of trained temporary foreign workers. These workers are often needed to help train the next generation (e.g., experienced journeymen).

- **Help business owners retain their older workers by increasing the Age Exemption amount and the CPP Basic exemption amount.** The latter has been at \$3,500 since 1996.
- **Support SMEs in hiring Canadian youth by introducing targeted tax credits, deductions and premium holidays for hires under 25 years of age**, and by enhancing the Canada Summer Jobs (CSJ) program, to allow year-round intake and part time opportunities. About **60%** of small business owners would support such changes.<sup>13</sup>
- **Protect the Temporary Foreign Worker Program (TFWP)**, as it helps sustain Canadian jobs. Without access to their existing temporary foreign workers, **57%** of SMEs who have had to turn to the TFWP would scale back growth, **24%** would reduce operating hours, and **18%** could close.<sup>14</sup> Further, **allow employers to make their case for a foreign worker** by removing caps, the refusal to process policy and the hike in the prevailing wage requirement.

## Self-Employed

To support the self-employed and incentivise entrepreneurship, **introduce of a special small business deduction**, like the Qualified Business Income (QBI) Deduction in the United States that would allow for a certain amount of self-employment income to be exempt from taxes. Alternatively, government could introduce an additional personal exemption amount (like the age credit) for those with self-employment income.

## Public finances

Over 80% of small business owners believe that balancing the budget should be a top priority for the federal government. CFIB recommends **implementing a clear path to balancing the overall budget** with legislated spending limits outside of a global crisis.<sup>15</sup>

## Conclusion

A country that neglects its small businesses, eventually finds its economic resilience has thinned and its communities' have weakened. Further, fewer start-ups mean fewer future mid-sized and large firms. Less competition, and less innovation.

The recommendations we have proposed cost a fraction of what the government has spent on major capital projects or subsidies to multinationals. Government policies must focus more on entrepreneurs, strengthen Canada's economic resilience, and ensure small businesses remain the backbone of communities across the country.

---

<sup>13</sup> CFIB, *Your Voice Survey*, February 2026, n=1,379

<sup>14</sup> CFIB, *Survey on Recent Changes to Temporary Foreign Workers (TFW) Program*, November 2024- January 2025, n=1,645.

<sup>15</sup> CFIB, *Your Voice Survey*, *December 2023*, n = 2,966. Note: this data includes net high priority and medium priority.