



# Uneven Ground:

*Canada's Business Tax Disadvantage  
Compared to the United States*

September 2025





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For further information (Appendices 4–8) please refer to the Supplementary Information on Methodology document located on the main web page.

# KEY ! TAKEAWAYS

## GOAL

The goal of this report is to identify how to enhance Canada's fiscal competitiveness by providing a comparative analysis of the fiscal environment for micro and small businesses in Canada and the U.S.

## FACTS

- Canada's economy has been lagging behind the U.S., notably its GDP per capita is 22% lower than its southern neighbour. High taxation has prevented businesses from investing in their operations and the economy.
- The U.S.'s recent economic and fiscal agenda, from trade wars to additional tax cuts, has highlighted Canada's vulnerabilities and will further widen the economic gap between the two countries if Canada does not improve its competitive environment.
- To strengthen its economic position, Canada must adopt competitive fiscal policies.

## FINDINGS

- Canadian microbusinesses (four employees and pre-tax net income of \$150,000) pay 20% more in taxes than in the U.S., small business (twenty-five employees and pre-tax net income of \$1,000,000) pay 23% more.
- Payroll taxes are the most burdensome type of tax for micro and small businesses in both countries.
  - Average total payroll taxes for microbusinesses in Canada (\$27,500) and in the U.S. (\$27,000) are similar.
  - Average total payroll taxes for small businesses are slightly (4%) higher in Canada (\$177,000) than in the U.S. (\$171,000).
  - In Canada, federal payroll taxes account for roughly three-quarters of the payroll burden on both Canadian micro and small businesses.
- Across all Canadian provinces, micro and small businesses face higher income taxes than in any U.S. state.
  - In Canada, income taxes for micro and small businesses are more than 40% higher than in the U.S.
  - For micro businesses in Canada, federal income taxes account for 83% of their total income tax burden, compared to 70% for small businesses.
- The largest differences between Canadian and U.S. tax burdens are in property taxes.
  - Property taxes for microbusinesses in Canada are twice as high as in the U.S., and 57% higher for small businesses.

## RECOMMENDATIONS

1. Reduce corporate income tax rates. Provincial governments should permanently lower the Small Business Tax Rate to 0% by 2030. The federal government should also lower the tax rate and even consider lowering it temporarily to 0% as a means of stimulating the economy in a difficult economic period.
2. Federal and provincial governments should raise the small business tax rate threshold to at least \$700,000 and index it to inflation going forward.
3. Implement a business income deduction for personal income tax filers so sole proprietors don't pay tax on a portion of their business income.
4. Implement a lower property tax rate for small businesses.
5. The federal government should lower payroll taxes by reducing EI premiums and by increasing the Basic Exemption Amount for the CPP.
6. British Columbia, Ontario and Quebec should raise their Employer Health Tax thresholds to at least the levels already used by Manitoba and Newfoundland and Labrador.
7. Quebec should lower its payroll tax rates so they are more in line with other provinces.
8. Legislate workers' compensation board (WCB) surplus rebates.
9. Reduce property tax unfairness.

# Introduction

The trade war between Canada and the U.S. has exposed Canada's vulnerabilities and highlighted the urgent need for Canada to become a much more competitive place to do business. However, Canada's economy has fallen behind the U.S. (see Figure 1) as our southern neighbour has been offering a stronger economic and fiscal environment for businesses. Since the end of the pandemic, Canada's economy has stagnated, while the United States has seen a healthy growth in its real GDP.<sup>1</sup>

It is worth noting that recent economic growth in Canada has been almost entirely due to an increase in hours worked, rather than gains in productivity.<sup>2</sup> This metric measures how much Canadians produce compared to the hours they work, with higher quantities of production for lower or constant hours worked yielding higher labour productivity. Labour productivity in Canada has remained stagnant or even declined since the end of the pandemic (see Figure 2).<sup>3</sup> Meanwhile, the U.S. has seen positive labour productivity growth each quarter since Q2 2022. If Canada had maintained the same productivity growth as the U.S., it would be producing over 8% more output per hour worked.<sup>4</sup>

Figure 1

*Canada's GDP growth has lagged behind the U.S...*

REAL GROSS DOMESTIC PRODUCT IN THE U.S. AND CANADA: PERCENT CHANGE, QUARTERLY AT ANNUAL RATES, FROM Q1 2022 TO Q4 2024<sup>5,6</sup>

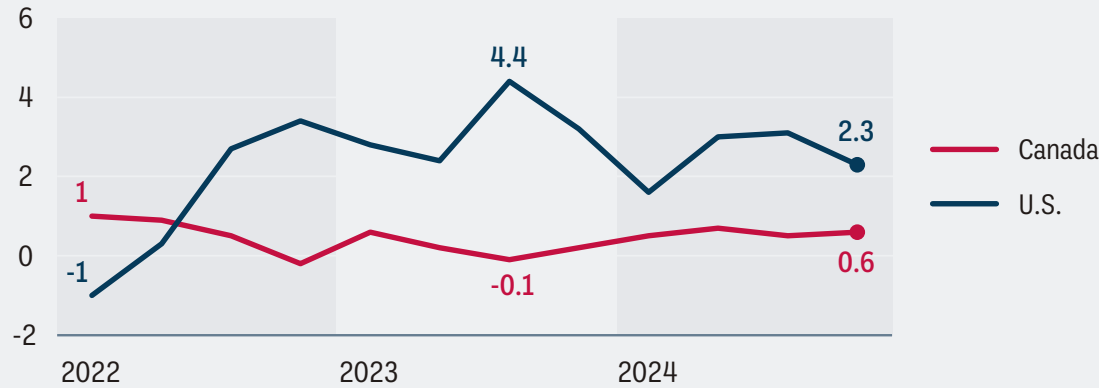
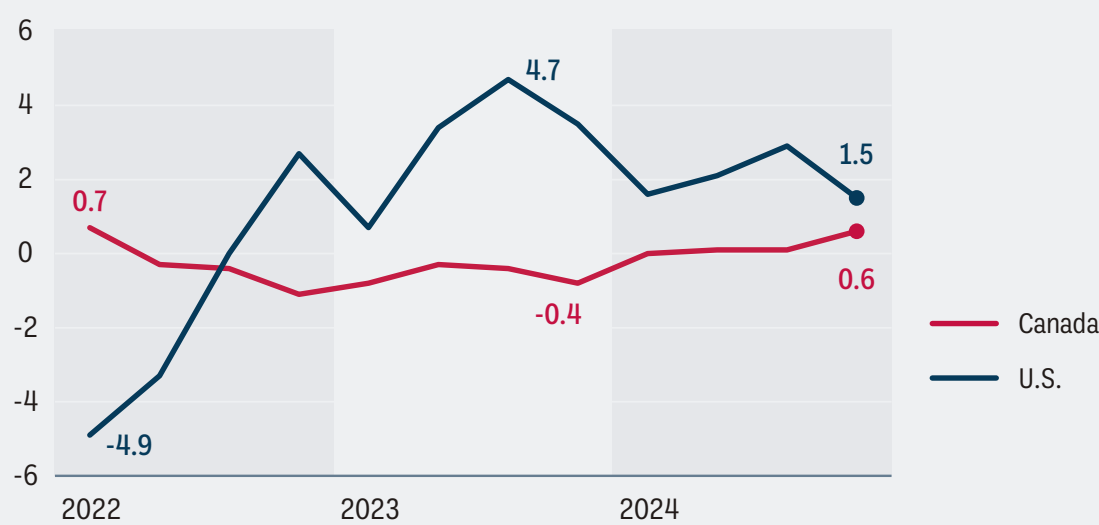


Figure 2

*...as has its labour productivity growth.*

LABOUR PRODUCTIVITY IN THE U.S. AND CANADA: PERCENT CHANGE FROM PREVIOUS QUARTER, QUARTERLY, FROM Q1 2022 TO Q4 2024<sup>7,8</sup>





*We need to change the policy environment in Canada, or we risk losing an entire generation of future business owners to other countries.”*

– Ontario,  
Enterprise management

Canada’s low labour productivity has widened the GDP per capita gap with the U.S. (see Figure 3). This metric reflects the average output of goods and services per person. Higher productivity means more supply, lower prices, better wages, and increased investment. For example, the United States’ median wage is over \$7,000 higher than Canada’s.<sup>9</sup>

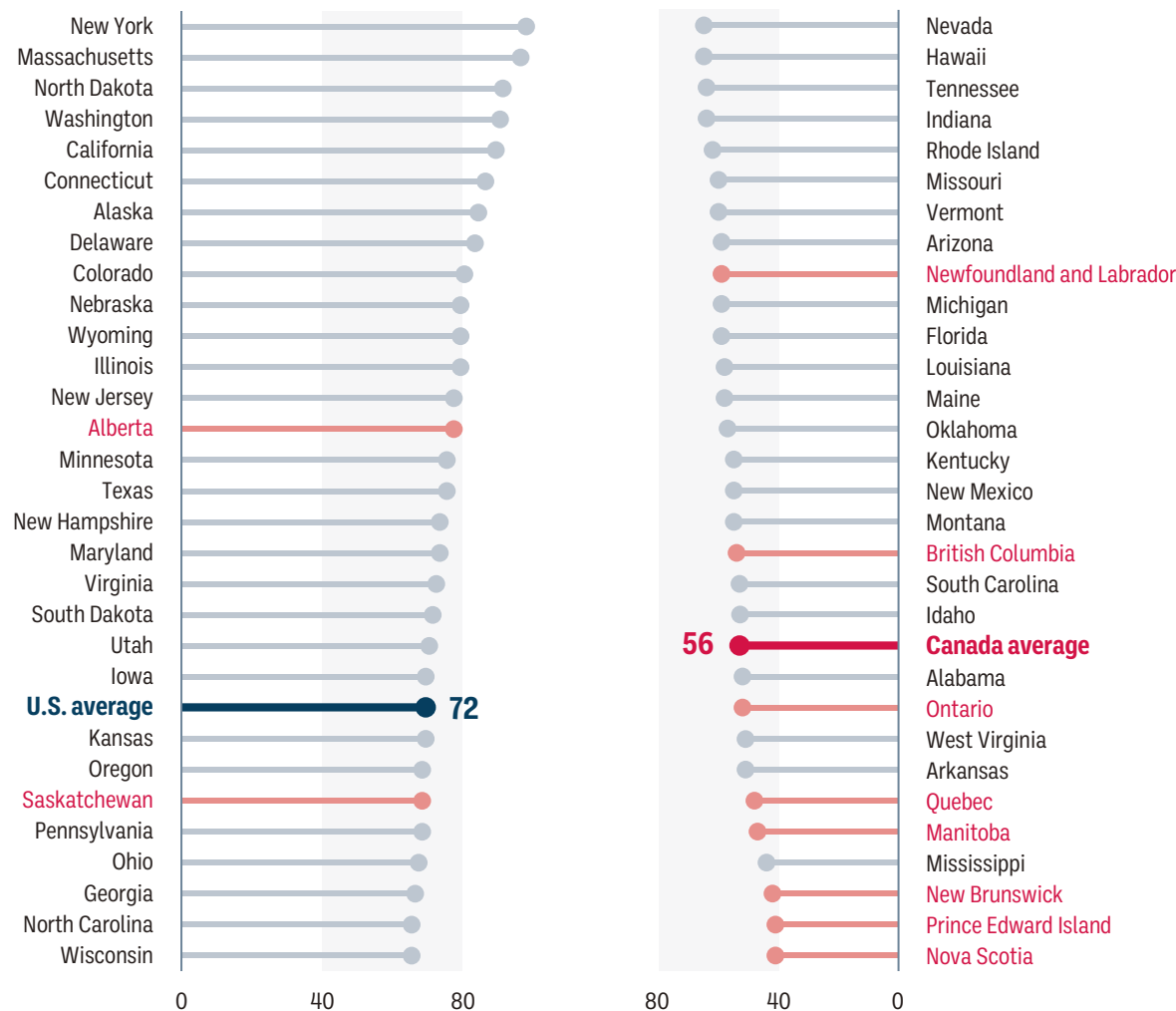
On average, Canada’s GDP per capita is 22% lower than the U.S.’, with most provinces comparable to America’s poorest states. Except for Alberta, which benefits from a productive oil and gas sector, all Canadian provinces fall below the U.S. average, and six rank among the lowest overall. This reflects a lower standard of living and higher business costs in Canada. An overwhelming 95% of Canadian small businesses agree that reducing these costs should be a priority for governments.<sup>10</sup>

The U.S. economy is outperforming Canada’s. This is partly due to a more competitive, business-friendly fiscal environment attracting more investment, innovation, and talent. This report compares the two countries’ fiscal environments to identify how Canada can improve and lower business costs.

Figure 3

**The average GDP per capita is 22% lower in Canada than in the U.S.**

CANADIAN PROVINCES AND U.S. STATES, RANKED BY GDP PER CAPITA IN 2022, THOUSANDS USD, ADJUSTED FOR PURCHASING POWER



Source: TOMBE, Trevor, As productivity plunges, Ontario and Alabama now have the same per capita GDP, The Hub.

Accessed March 2025. <https://thehub.ca/2023/06/15/trevor-tombe-most-provincial-economies-struggle-to-match-the-u-s/>





## About this report

To analyze the difference in tax burden between Canada and the United States, we compared the tax burden of a microbusiness and a small business, each with an equal amount of revenue, pre-tax net income, employees, and property value across different locations (see Table 1).

Table 1

*Main variables used to analyze tax competitiveness for a microbusiness and a small business*

Variables	Microbusiness	Small Business
Pre-tax net income	\$150,000	\$1,000,000
Number of employees	4	25
Value of property owned	\$450,000	\$3,000,000

Notes:

- 1) For further explanations and information on the justification for these variables, and for additional assumptions, see Appendix 3.
- 2) The Canadian incorporated business structure differs from that of the United States. In Canada, incorporated businesses pay corporate income tax on their net income. However, in the U.S., incorporated small businesses are generally structured as S corporations.<sup>11</sup> S corporations allow shareholders to file the business’s net income on their personal income tax returns (this mechanism is known as pass-through income). This results in a very different fiscal environment than in Canada as the business’s net income is divided among shareholders rather than taxed at the corporate level. Since S corporations represent the vast majority of U.S. small employers that are incorporated, we assume in our analysis that the analyzed microbusiness and small business in that country is an S corporation.<sup>12</sup>

We analyzed the fiscal environments of all 10 Canadian provinces and 20 selected states (see Figures 4a and 4b). Five of the most populous U.S. states were selected, with the remaining fifteen chosen based on their trade exposure and geographic proximity to Canada.<sup>13,14</sup> To include the impact of municipal taxation, we selected the largest municipality in each province and state.<sup>15,16</sup>

To examine micro- and small businesses’ fiscal environments, we looked at four types of taxes these businesses must pay:

- **Income/franchise taxes<sup>17</sup>**
- **Payroll taxes**
- **Property taxes**
- **Additional municipal taxes<sup>18</sup>**

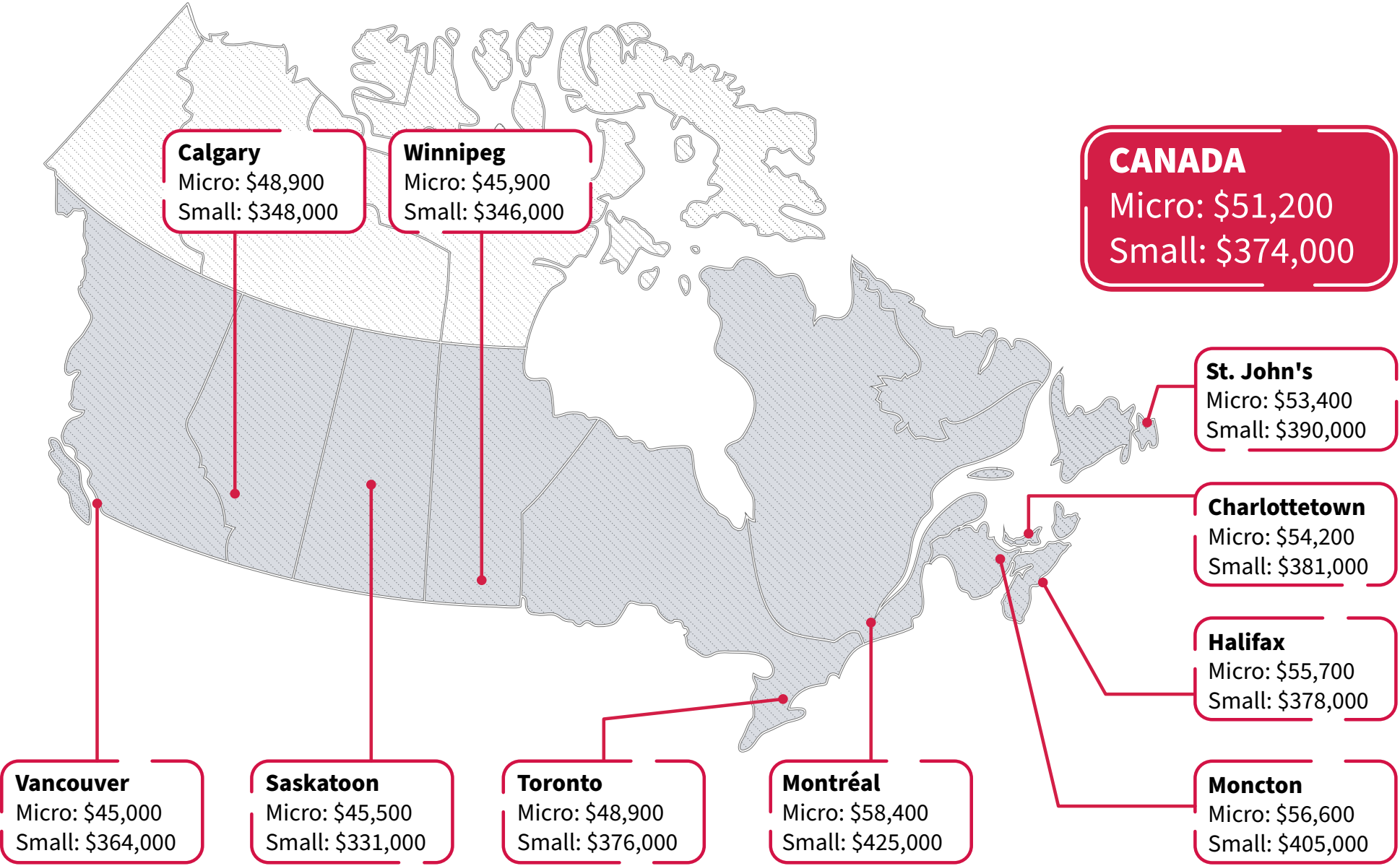
This analysis presents figures in each country’s local currency. Using local currency provides a like-for-like view from a business owner’s perspective, since taxes are incurred and paid for domestically. Exchange rate fluctuations do not affect local businesses’ costs unless a firm trades internationally. This approach offers a stable basis for comparison over time.

We rounded figures to the nearest hundred for microbusinesses and to the nearest thousand for small businesses. Individual provincial breakouts are provided in Appendix 1 where each province is ranked by the three main taxation types (Income, payroll, property). Franchise taxes are not explicitly listed in this section, as they apply only in certain U.S. jurisdictions. However, they are included as part of the overall income tax burden in the ranking. Additional municipal taxes, which only apply to certain U.S. cities, are also considered part of the income tax category as they consist of local income and franchise taxes.



Figure 4a

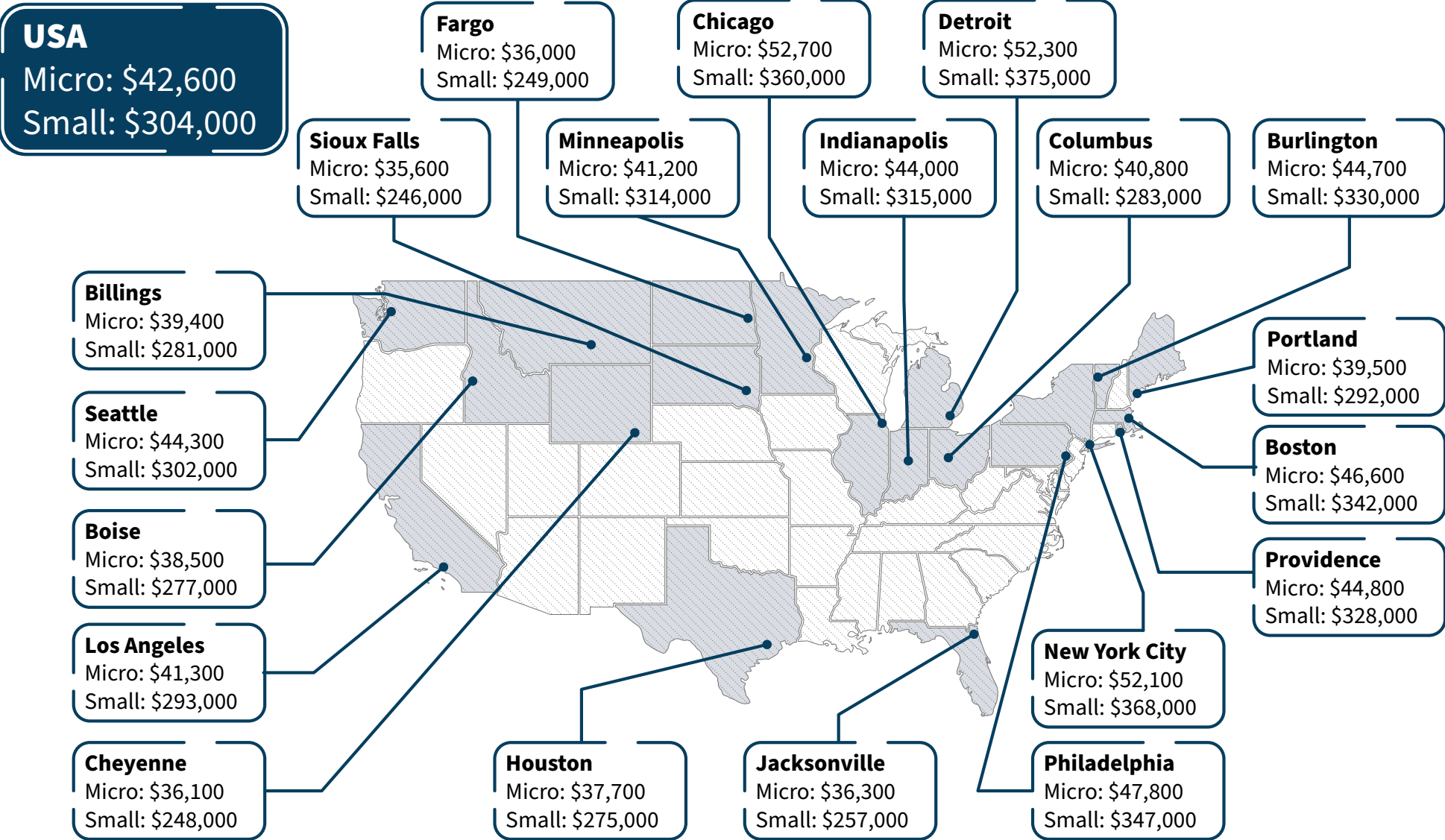
Tax burden for a business located in the largest municipality, by Canadian province, in thousands of dollars, 2025



Source: CFIB analysis of government tax rates and thresholds, own calculations.

Figure 4b

Tax burden for a business located in the largest municipality, for selected U.S. states, in thousands of dollars, 2025



Source: CFIB analysis of government tax rates and thresholds, own calculations.





*The average tax burden for a microbusiness is \$51,200 in Canada and only \$42,600 in the U.S.*

Total tax burden

Microbusiness

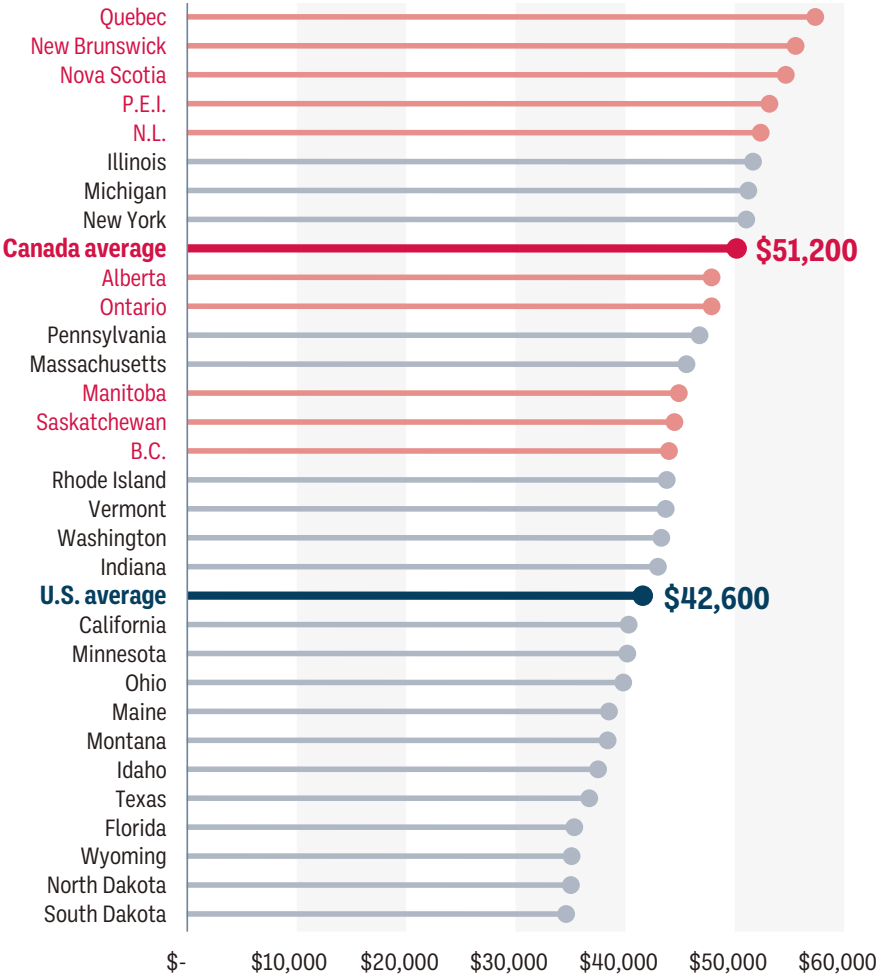
Based on the jurisdictions analyzed, microbusinesses pay on average 20% more in taxes in Canada than in the U.S. (see Figure 5). In other words, a Canadian microbusiness can expect to see nearly six percent more of its pre-tax net income go to taxes than an American one (34.1% vs 28.4%). This gap underscores the urgent need for a more competitive fiscal environment to support microbusinesses in Canada. In fact, 95% of business owners who have four or fewer employees think governments should reduce taxes.<sup>19</sup>

Overall, Eastern Canada yields the least business-friendly tax environment in our analysis. When looking at specific jurisdictions, Quebec (\$58,400), New Brunswick (\$56,600), and Nova Scotia (\$55,700) have the highest tax burdens, while South Dakota has the lowest at \$35,600. British Columbia (\$45,000) and Saskatchewan (\$45,500) have the lowest tax burdens in Canada. However, even these Canadian provinces rank above the U.S. average and far above most analyzed U.S. states.

Figure 5

*A microbusiness pays 20% more in taxes in Canada than in the U.S.*

TOTAL TAXES PAID BY A MICROBUSINESS IN SELECTED PROVINCES/STATES, WITH BUSINESS PROPERTY OWNED IN THEIR LARGEST CITY



Source: CFIB analysis of government tax rates and thresholds, own calculations.  
See Supplementary Information on Methodology document for more details.



Broken down by type of tax, Canadian provinces across the board see a universally higher income tax burden and, in most cases, a significantly larger property tax burden (see Figure 6).

The largest tax expense for businesses in both countries is payroll taxes. Microbusinesses’ payroll taxes account for 54% of the total tax burden in Canada and 63% in the U.S. Payroll taxes are similar across nearly all jurisdictions, except for Quebec, where they are significantly higher. While income and property taxes in Canada are quite similar, property taxes are more burdensome than income taxes in the United States.

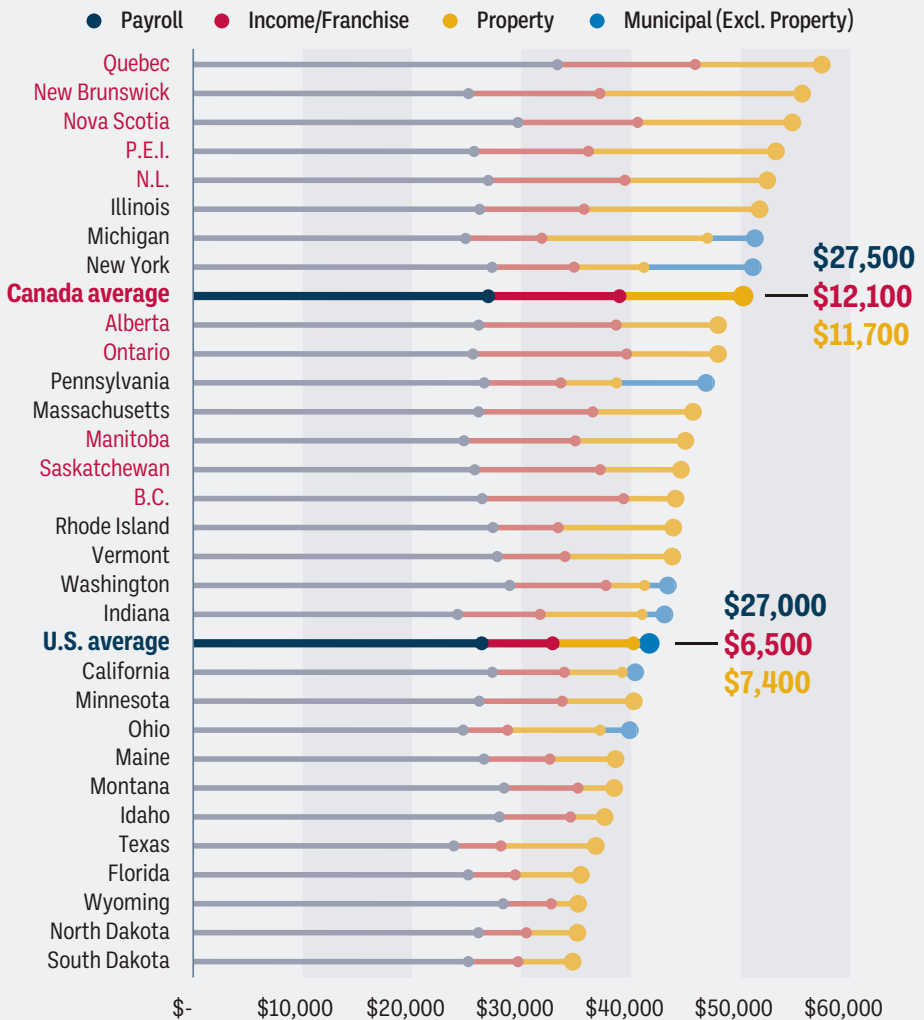
The worst-performing U.S. states overall (e.g., Illinois, Michigan, New York) are largely burdened by disproportionately high property taxes and unique municipal taxes, while the best-performing Canadian provinces (e.g., British Columbia, Saskatchewan) benefit from lower-than-average property taxes.

Much of the reason for the large U.S. advantage in income taxes comes from changes introduced in the Tax Cuts and Jobs Act (TCJA) in 2018. Notably, higher standard deductions and the qualified business income (QBI) deduction both benefit U.S. pass-through businesses (including S corporations and sole proprietors) that see their net income taxed through personal income taxes rather than corporate income taxes (see Appendix 5, Supplementary Information on Methodology).

Although originally scheduled to expire in 2026, these provisions were recently extended and expanded starting in 2025.<sup>20,21</sup> With the U.S. tax advantage set to persist and expand through automatic adjustments in recent legislation, immediate action is needed for Canada to achieve parity in tax competitiveness.

Figure 6  
**Payroll taxes account for the largest share of a microbusiness’s tax burden: 54% in Canada and 63% in the U.S.**

TOTAL TAXES PAID BY A MICROBUSINESS IN THE LARGEST CITY OF SELECTED PROVINCES/STATES, BY TAX CATEGORY



Source: CFIB analysis of government tax rates and thresholds, own calculations.  
See Supplementary Information on Methodology document for more details.





*The fiscal burden  
for a small business is  
**\$374,000 in Canada**  
and only  
**\$304,000 in the U.S.***

### Small business

The gap between tax burdens for small businesses is slightly larger than for microbusinesses. The analyzed small business pays 23% more taxes in Canada than in the U.S. (see Figure 7), meaning Canadian small businesses are taxed on 37.4% of their pre-tax net income, compared to 30.4% in the United States (a seven percentage point difference).

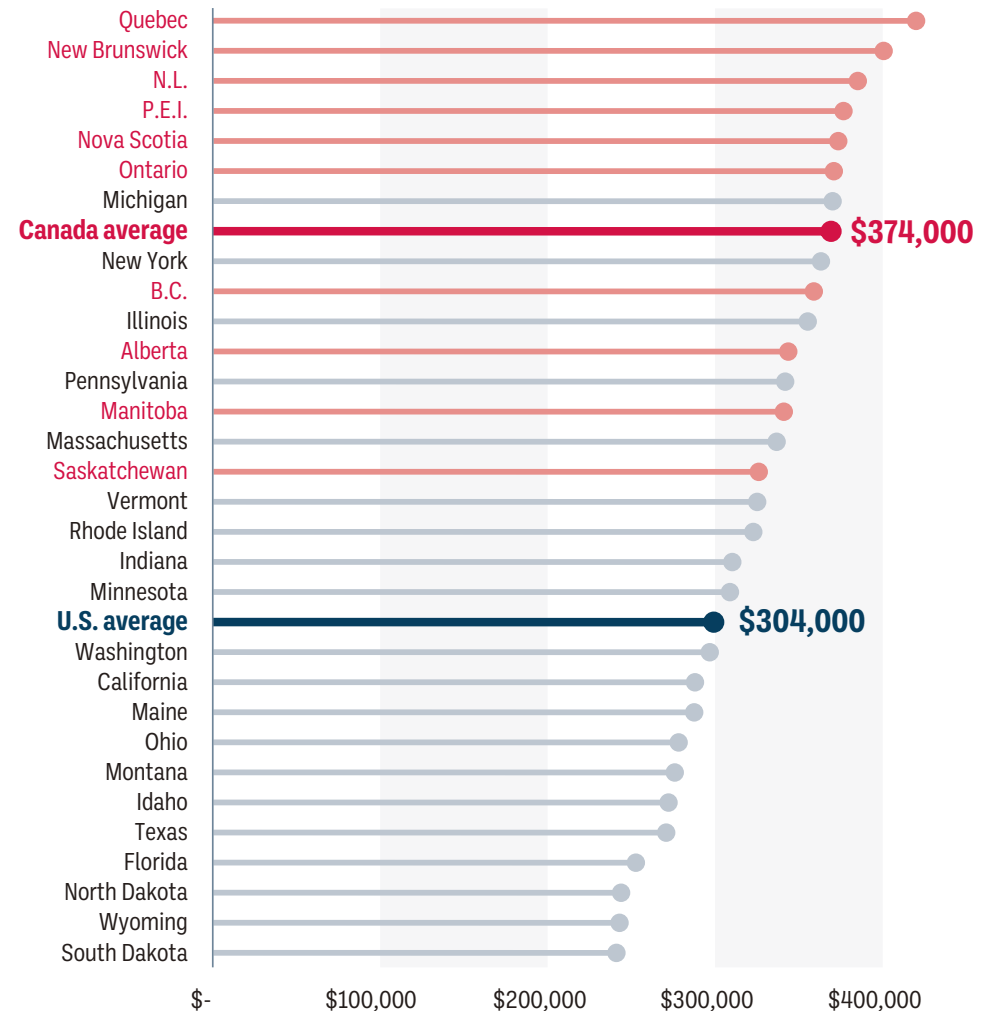
Eastern Canada fares poorly. Small businesses in every Atlantic province, as well as in Quebec and Ontario pay more than the Canadian average. U.S. regions, such as the Midwest and Mountain West, are the most competitive. Quebec has the most burdensome fiscal environment, with small business paying \$425,000 compared to just \$246,000 in South Dakota, the least burdensome jurisdiction.

Six provinces (Quebec, New Brunswick, Newfoundland and Labrador, Prince Edward Island, Nova Scotia, and Ontario) have higher tax burdens than any analyzed U.S. state. Even the lowest taxed Canadian province, Saskatchewan, has a tax burden higher than 15 of the 20 U.S. states, with a total tax bill that is \$27,000 higher than the U.S. average, and over \$82,000 more than its southern neighbour, North Dakota.

Figure 7

***A small business pays 23% more taxes in Canada compared to the U.S.***

TOTAL TAXES PAID BY A SMALL BUSINESS IN SELECTED PROVINCES/STATES,  
WITH BUSINESS PROPERTY OWNED IN THE LARGEST CITY IN EACH



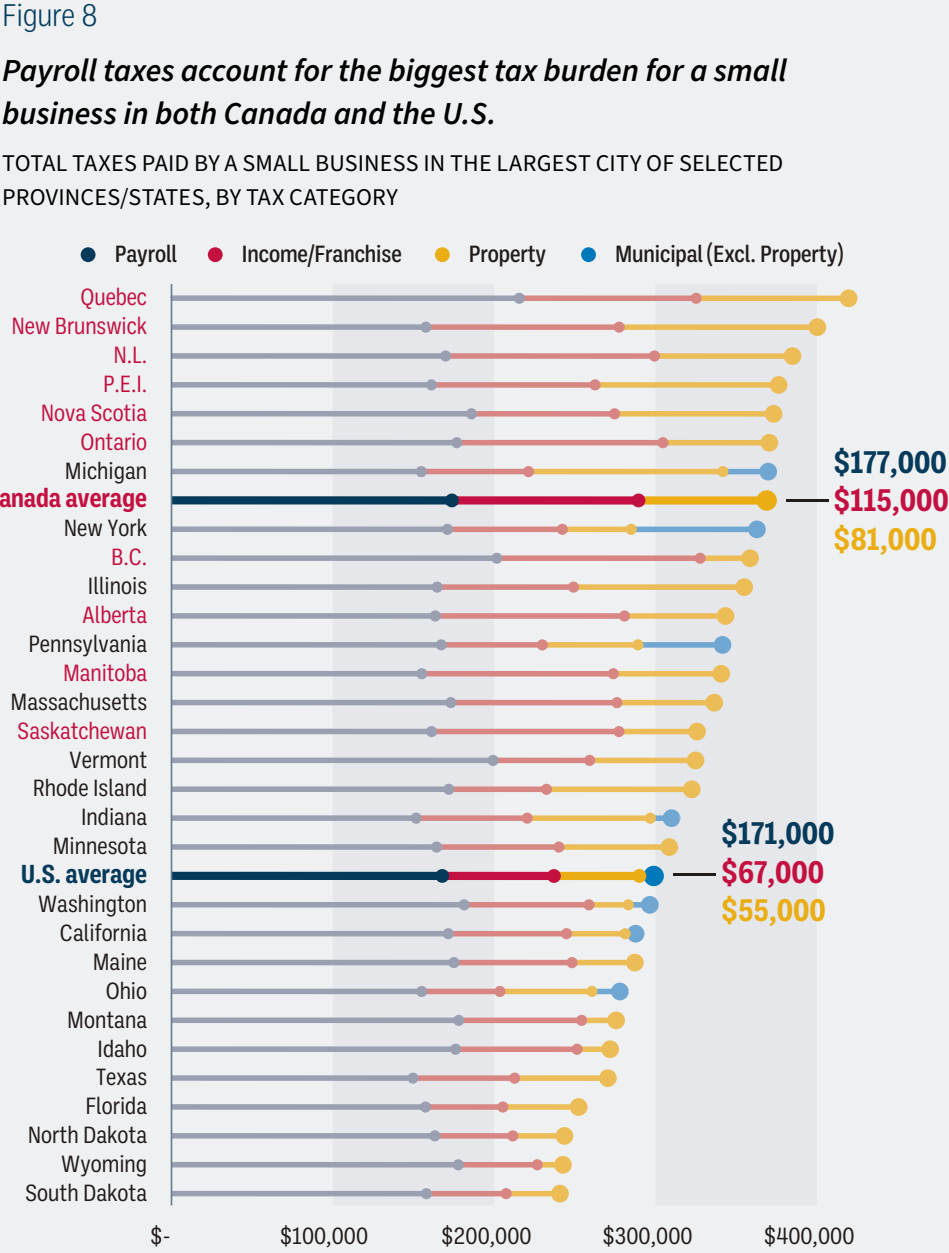
Source: CFIB analysis of government tax rates and thresholds, own calculations.

See Supplementary Information on Methodology document for more details.

Broken down by type of tax, Canadian small businesses face a large tax disadvantage stemming from income and property taxes (see Figure 8). Notably, the gap between payroll tax burdens in the U.S. and Canada has grown. While microbusinesses in both countries have a similar payroll tax burden, small businesses pay more payroll taxes (3.5%) in Canada than in the United States. This is largely due to higher employer health tax burdens in provinces with these systems that apply to small businesses of this size: BC, Ontario, and Quebec. As with microbusinesses, the changes introduced in the U.S. TCJA have created a significant discrepancy between the income tax burdens of small businesses in Canada and in the United States.

Payroll taxes account for the largest share of the small business tax burden in both countries. However, they represent a smaller share of the total tax burden for small businesses than for microbusinesses, accounting for around half of the tax burden (47% in Canada and 56% in the U.S.). Income taxes follow, making up 31% of the tax burden for small businesses in Canada and 22% in the United States. Property taxes also represent a significant burden for small businesses, accounting for 22% of the tax burden in Canada compared to 18% in the United States. The remaining portion of the average U.S. tax burden consists of additional municipal taxes, which apply only to certain U.S. cities.

The low overall tax burden in South Dakota, North Dakota, Wyoming, and Florida results from a complete absence of state income tax or alternative franchise tax. These states also benefit from property taxes that are significantly below the national average.



Source: CFIB analysis of government tax rates and thresholds, own calculations.  
See Supplementary Information on Methodology document for more details



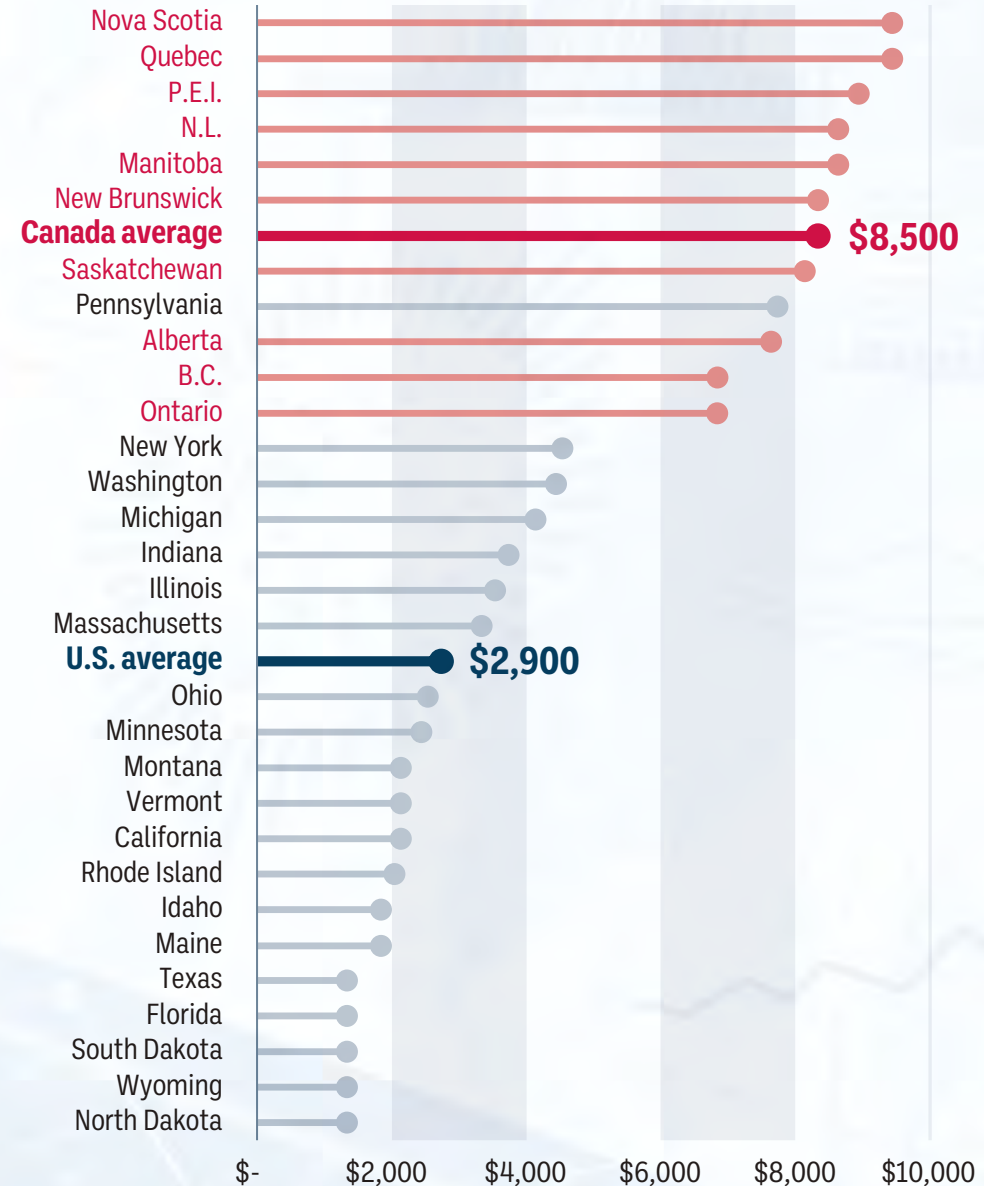
## SPOTLIGHT ON TAX COMPETITIVENESS:

### SOLE PROPRIETORS

Sole proprietors are unincorporated businesses—meaning there is no legal distinction between the owner and their business. For Canadian sole proprietors, this means that, unlike the incorporated businesses analyzed previously, business net income is taxed through the personal income taxes of the business owner rather than corporate income taxes. This results in a large difference in the tax burden between unincorporated and incorporated businesses in Canada. Comparatively, the difference is minimal in the U.S. due to incorporated businesses largely already electing to be taxed through personal income taxes.

To compare the tax burden on sole proprietors, CFIB assumed the business has no employees and no business property, so it is only being taxed on its income (\$50,000) along with any additional local-level taxes present in any of the assessed municipalities in the United States. The result shows that due to high Canadian personal income taxes, the tax burden is far greater on Canadian sole proprietors (\$8,500 vs \$2,900 on average). This may dissuade many business ventures from starting at all or prompt unincorporated businesses to incorporate much earlier than they would in the United States.

TOTAL TAXES PAID BY A SOLE PROPRIETOR BUSINESS IN SELECTED PROVINCES/STATES, LOCATED IN THE LARGEST CITY IN EACH





## Relationship between tax burden and economic health

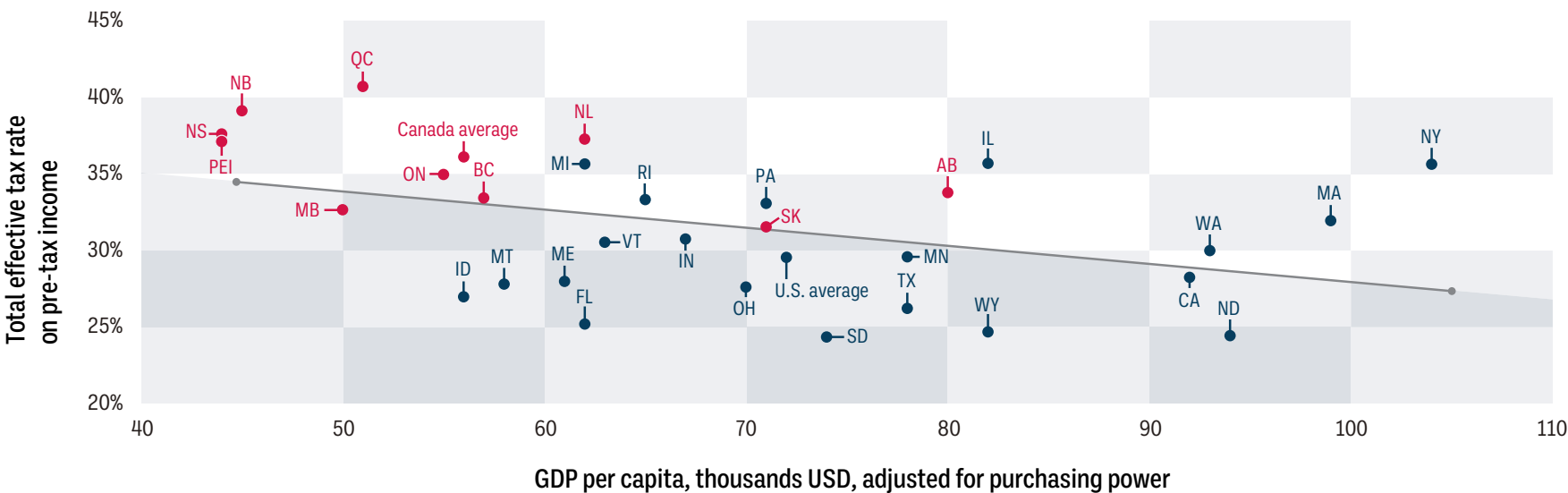
A heavy tax burden on businesses prevents businesses from reinvesting their earnings in their operations and the economy, impacting their economic health. Many potential and current business owners may forgo investing in local communities if business projects face high taxation. Instead, they may choose to build wealth by investing their funds in other markets, potentially even in other countries.

While taxation boosts government revenues, it also makes business activity prohibitively expensive and pulls money out of communities. This cost harms productivity, thereby harming output per person measured through GDP per capita. Using our analysis of total costs from taxation, there is a general trend where businesses with a higher effective tax rate tend to have lower GDP per capita levels (see Figure 9).

Figure 9

***Jurisdictions with lower tax burdens generally exhibit higher output per capita.***

RELATIONSHIP BETWEEN TAX BURDEN AND GDP PER CAPITA AMONG ANALYZED JURISDICTIONS (CANADIAN PROVINCES – RED, U.S. STATES – BLUE)



Note: Effective tax rates for microbusinesses and small businesses were averaged to determine the total effective tax rate.



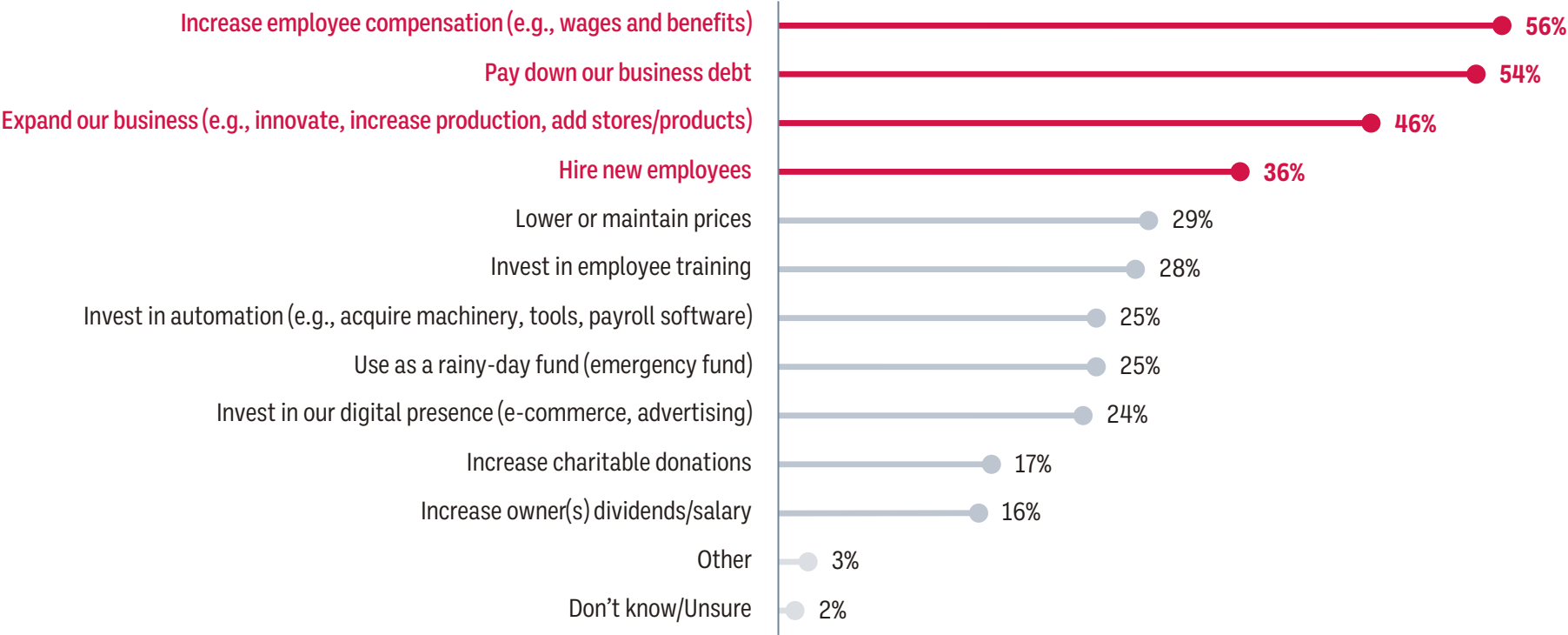
Governments can boost investment in the economy, and subsequently its economic health, by reducing taxes. Small business owners would use tax savings in ways that boost the economy (see Figure 10). This includes increasing employee compensation (56%), expanding their business (46%), and hiring new employees (36%). It is also important to note that small

business owners need their business to be able to make sufficient money to earn a reasonable income, otherwise many could discontinue operations if their labour is better allocated elsewhere. Therefore, actions such as paying down business debt (54%) and increasing the owner(s) dividends/salary (16%) help ensure that running a small business remains a viable option.

Figure 10

**Canadian small business owners would use tax savings to invest in their business**

IF GOVERNMENTS AT ANY LEVEL WERE TO REDUCE THE OVERALL BURDEN OF TAXES AND FEES, WHAT WOULD YOUR BUSINESS DO WITH THE SAVINGS? (SELECT ALL THAT APPLY)



Source: CFIB, Your Voice Survey – June 2024, final results, June 4–19, n = 2,035.



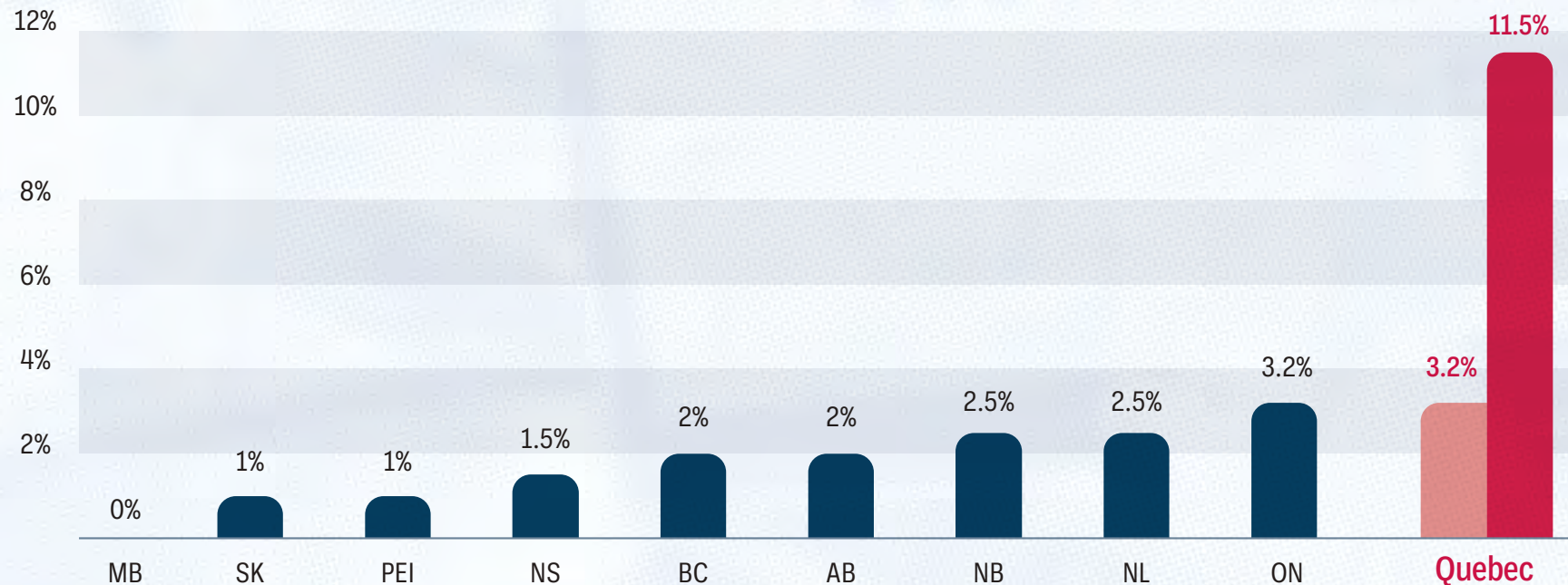


## QUEBEC STANDS ALONE IN DENYING THE SMALL BUSINESS TAX RATE TO CERTAIN INDUSTRIES

While Quebec ranks the worst among the jurisdictions analyzed in terms of tax burden, this still understates the true burden placed on Quebec small business in the construction and service sectors. This shortfall exists because the province denies the lower corporate income tax rate to many small businesses in these sectors, forcing them to pay 11.5% on net income up to \$500,000 instead of the lower 3.2%—a policy unique to Quebec.<sup>22</sup> Additionally, Quebec small businesses in any sector other than primary or manufacturing are denied the lower small business tax rate if they pay less than 5,500 hours in employee wages annually, essentially a punishment for being too small.

Our analysis assumes businesses are paying the lower rate, but the reality is worse for many small businesses, costing them thousands more in taxes. The province must urgently reverse this damaging policy to keep the cost of doing business affordable and prevent further economic damage. An external study commissioned by CFIB found that reversing this policy would create over 10,000 jobs.<sup>23</sup> It also found that targeted support for small businesses yields better economic outcomes than broad-based business subsidies.

SMALL BUSINESS TAX RATES BY PROVINCE WITH QUEBEC'S HIGHER RATE ON CONSTRUCTION AND SERVICE SECTORS







## Income and franchise taxes

The business income tax burden should be interpreted with caution as higher income taxes paid does not necessarily equate to a higher income tax burden. This is because income taxes are based on net income, which occurs after all business expenses (including payroll taxes, property taxes, and any applicable franchise tax) have been subtracted from revenues. As a result, businesses may pay less income tax in certain jurisdictions due to high levels of payroll taxes and property taxes rather than lower income taxes. This has a minimal impact on the comparison between the two countries since payroll taxes are nearly identical across all jurisdictions. However, it means that businesses in provinces like Quebec, which have high property and payroll taxes, pay less in income taxes than their rates would suggest (see Supplementary Information on Methodology document for more details). Except for certain franchise taxes, the taxes in this section are based on net income remaining after subtracting business-expense-type taxes from a pre-tax net income of \$150,000 for microbusinesses and \$1,000,000 for small businesses (see Supplementary Information on Methodology document for more details).

A fundamental difference between business taxation in Canada and the U.S. is that, in the latter country, taxes on net income are generally paid through business shareholders' personal income tax returns, rather than a corporate income tax. This allows business owners in the U.S. to take advantage of various personal tax deductions (if they have children, for example) that indirectly lower their business's tax liability. For this comparison, we assume business owners only take advantage of the deductions universally available to every business owner, potentially overestimating the amount of taxes U.S. businesses would actually pay in this area. In addition to income taxes, many U.S. states levy franchise taxes on businesses themselves. This "entity-level taxation" differs from U.S. federal and state income taxes, which generally tax the business owners rather than the business itself. These state-level taxes, which are often based on revenues instead of net income, are included in this section as some states utilize them in lieu of traditional income taxes. Municipal-specific income/franchise taxation also exists in some cities in the U.S. (see Supplementary Information on Methodology document for more details). These taxes are not included in this breakdown but are factored into the overall comparison (see Figures 5 & 7).

As previously mentioned, the U.S. income tax advantage has been largely driven by changes in the TCJA, which include higher standard deductions and the qualified business income (QBI) deduction. With these provisions now extended, the U.S. tax advantage has been cemented, worsening Canada's tax competitiveness going forward.



On average, total income tax for microbusinesses in Canada is **\$12,100**

In the U.S., the same type of tax amounts to **\$6,500**

Microbusiness

Total income taxes for microbusinesses in Canada are nearly double those of the U.S. (see Figure 11). This discrepancy is even more striking if we consider a microbusiness in Ontario (\$14,000), the most burdensome income tax jurisdiction, which pays more than three times as much as a microbusiness in the least burdensome jurisdiction, Ohio (\$4,000).

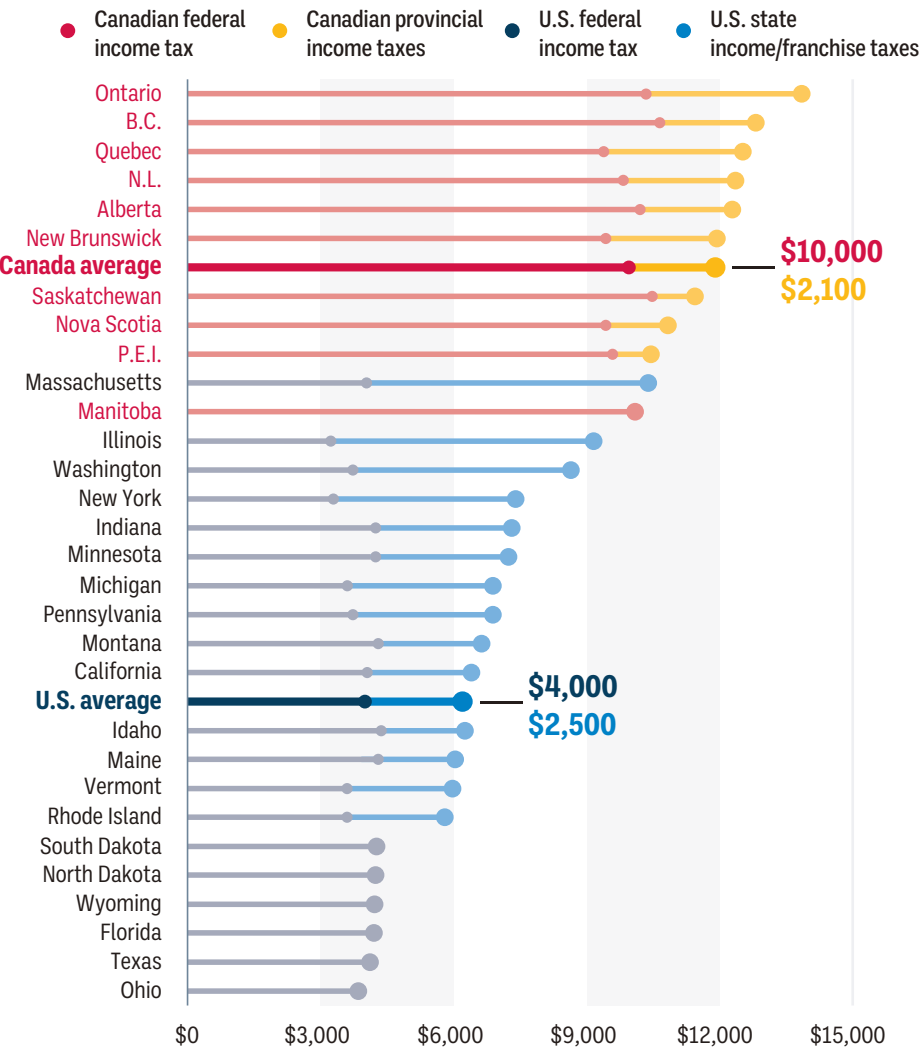
Average provincial/state income taxes are similar, with a slight advantage for Canadian provinces. Manitoba stands out with no provincial income tax for businesses earning \$500,000 or less, followed by Prince Edward Island and Saskatchewan, which have a low provincial income tax burden of around \$1,100 and \$1,200 respectively. Six U.S. states have no income tax or alternative franchise tax that apply at this level, meaning microbusinesses in these states see none of their income taxed at the state level.

The federal income tax burden is where the largest difference exists between the two countries, with microbusinesses paying on average more than twice as much in Canada as in the United States. In British Columbia, federal income tax reaches \$10,600, the highest in the country and more than twice the highest observed U.S. federal income tax of \$4,500 (South Dakota). Depending on the province, federal income taxes account for between three-quarters and all of the income taxes Canadian microbusinesses pay.

Figure 11

Federal taxes are the main reason microbusinesses in Canada face a higher income tax burden than those in the U.S.

INCOME/FRANCHISE TAXES PAID BY A MICROBUSINESS IN SELECTED PROVINCES/STATES, BY LEVEL OF GOVERNMENT



Source: CFIB analysis of government tax rates and thresholds, own calculations.  
See Supplementary Information on Methodology document for more details.





On average, total income tax for small businesses in Canada is **\$115,000**

In the U.S., the same type of tax averages **\$67,000**

Small business

Similar to microbusinesses, total income taxes for small businesses in Canada are significantly higher than those in the U.S., with a 72% gap between the two countries (see Figure 12). When comparing Newfoundland and Labrador, the most burdensome income tax jurisdiction (\$129,000), to Florida (\$48,000), small businesses in the former pay 169% more in income taxes. It is worth noting that the share of provincial/state versus federal income taxes is almost identical in both Canada (30% provincial, 70% federal) and the U.S. (33% state, 67% federal).

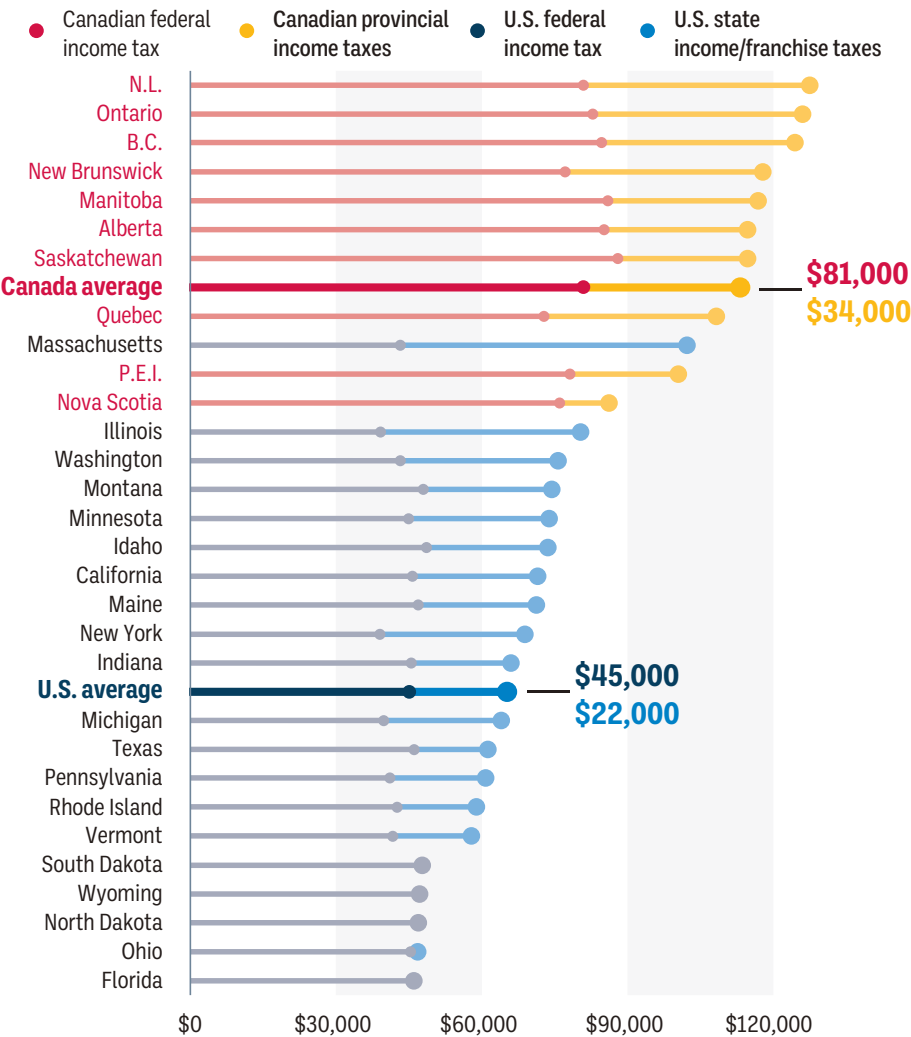
The average provincial income tax in Canada is 57% higher than state income tax in the United States. Nova Scotia has the lowest provincial income tax among Canadian provinces, at \$12,000. Four U.S. states have no income tax or alternative franchise tax at this level. The phase-in of Texas’ franchise tax results in a significant boost in the tax burden for that state while the phase-in of Ohio’s franchise tax is extremely modest.

When it comes to federal income tax, U.S. businesses pay nearly half what Canadian businesses do. In fact, a small business in any Canadian province faces higher income taxes than in any U.S. state, with the exception of Massachusetts. Even at the upper range, the highest federal income tax burden in the U.S. (\$49,000 in North Dakota, South Dakota, Wyoming, and Idaho) is 33% lower than the lowest observed Canadian federal income tax payable (\$73,000) in Quebec—far from Saskatchewan, where federal income tax reaches \$88,000.

Figure 12

Canada’s lowest federal income tax burden for a small business is still 49% higher than the highest burden in the U.S.

INCOME TAXES PAID BY A SMALL BUSINESS IN SELECTED PROVINCES/STATES, BY LEVEL OF GOVERNMENT



Source: CFIB analysis of government tax rates and thresholds, own calculations.  
See Supplementary Information on Methodology document for more details.

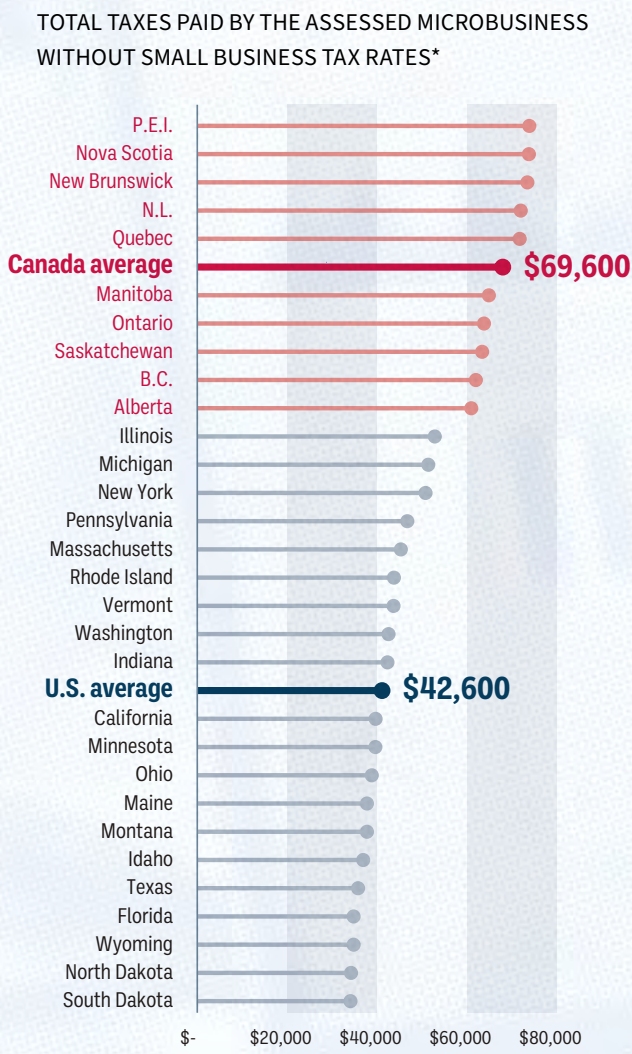


# FACTORS INFLUENCING CANADIAN TAX COMPETITIVENESS: THE SMALL BUSINESS TAX RATE (SBTR)

Canadian provinces and the federal government apply a lower corporate tax rate on the first portion of business income, typically up to \$500,000, with income above that taxed at a higher general rate—similar to personal income tax brackets. Exceptions include Saskatchewan, Nova Scotia, and PEI, which have higher thresholds that enhance their appeal to small businesses.

For instance, in Ontario, a business earning \$600,000 pays the province 3.2% on the first \$500,000 and 11.5% on the remaining \$100,000. Without this preferential rate, every Canadian province would impose a higher tax burden on microbusinesses than any U.S. state. The average Canadian burden without the small business rate would rise to \$69,600—nearly \$20,000 more than under the current system (\$51,200).

Federally, the small business tax rate is 9%, while provincial rates range from 0% to 3.2%. Lower rates, such as Saskatchewan’s 1% and Manitoba’s 0%, significantly improve the business climate and have minimal impact on government revenues, making them an effective tool to boost tax competitiveness.



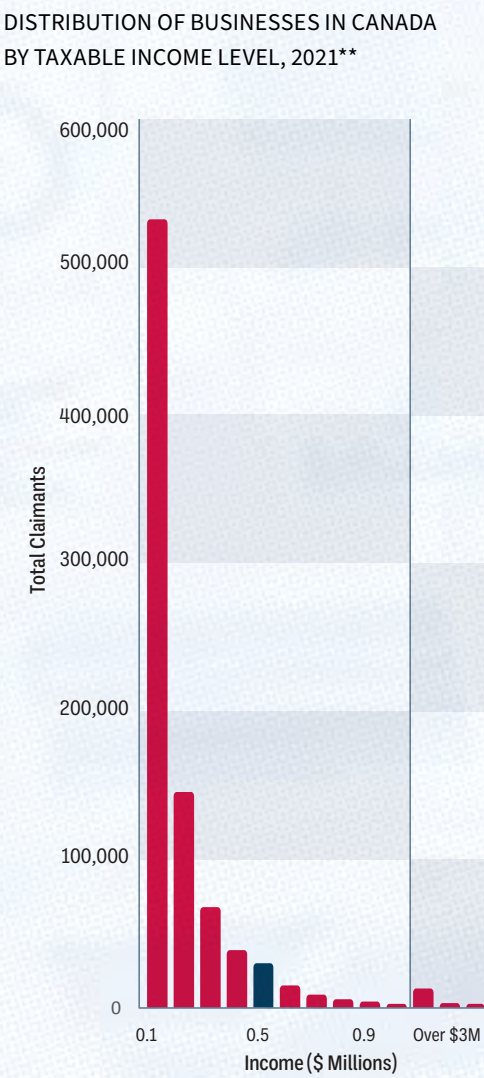
\*Source: CFIB analysis of government tax rates and thresholds, own calculations. See Supplementary Information on Methodology document for more details.

Critics argue the lower rate discourages growth, encouraging firms to stay under the threshold.

However, only a small share (under 8%) of firms earning over \$400,000 fall just below \$500,000. Most small businesses earn under \$200,000, well below the threshold. Additionally, there is evidence that any “bunching” below the threshold is largely driven by tax planning, where businesses allocate income to investments that reduce net income, rather than actually constraining their growth.<sup>24</sup>

Moreover, unlike Canada’s corporate tax structure, U.S. small businesses benefit from multiple lower personal income tax rates, meaning Canada offers fewer preferential tax brackets for businesses overall.

\*\*Source: Canada Revenue Agency. (2022, December 31). Number of small business deduction claimants by taxable income range and by taxation jurisdiction, tax year 2021 [Custom data table provided to the Canadian Federation of Independent Business].<sup>25</sup>





## Payroll taxes

Almost three-quarters (71%) of business owners identify payroll taxes as the most harmful tax for their business.<sup>26</sup> Payroll taxes consist of numerous taxes on businesses levied by both the provincial/state and federal governments (see Supplementary Information on Methodology document for more details). They are based on a business's payroll size, increasing with the number of employees or average wages. For this analysis, the microbusiness is assumed to have four employees and the small business 25, with all earning a typical Canadian wage (see Appendix 3 for details).

One difference in payroll costs between Canada and the U.S. is the cost of health insurance. While businesses in both countries often cover some, or all, of their employees' health insurance premiums, this cost is generally higher in the U.S. as less healthcare stems from government insurance than it does in Canada. While many U.S. small business owners purchase health insurance for their staff, this is optional for businesses with under 50 employees.<sup>27</sup> Therefore, small businesses and their employees often approach these costs as optional benefits which many business owners use to help attract or retain workers.<sup>28</sup> Many employees of small businesses in the U.S. choose to forgo health insurance altogether or receive health insurance from another source such as a parent or spouse. This means that even if small businesses offer health insurance, they may not incur any costs associated with it due to employees opting out. There are significant financial resources available for U.S. small businesses that choose to cover at least half of their employees' health insurance costs.<sup>29</sup> Since these costs are not mandatory for businesses of the size used in this analysis in either country, they are not considered a tax and therefore are excluded from the analysis.



Microbusinesses pay similar payroll taxes in Canada and the U.S., which is around \$27,500,

with Quebec being the notable exception at \$33,900

Microbusiness

With the exception of Quebec, where total payroll taxes reach \$33,900, average total payroll taxes in Canada and the U.S. are similar (see Figure 13). While federal payroll taxes are almost identical, average provincial payroll taxes are 55% higher than those of U.S. states. This gap is largely driven by Quebec’s unique situation, as it assumes a greater share of payroll costs at the provincial level (see Supplementary Information on Methodology document for more details). This arrangement contributes to the most burdensome payroll taxes in this analysis and the worst tax environment overall. Additionally, Quebec is the only province with an Employer Health Tax (EHT) that applies to businesses of this size.

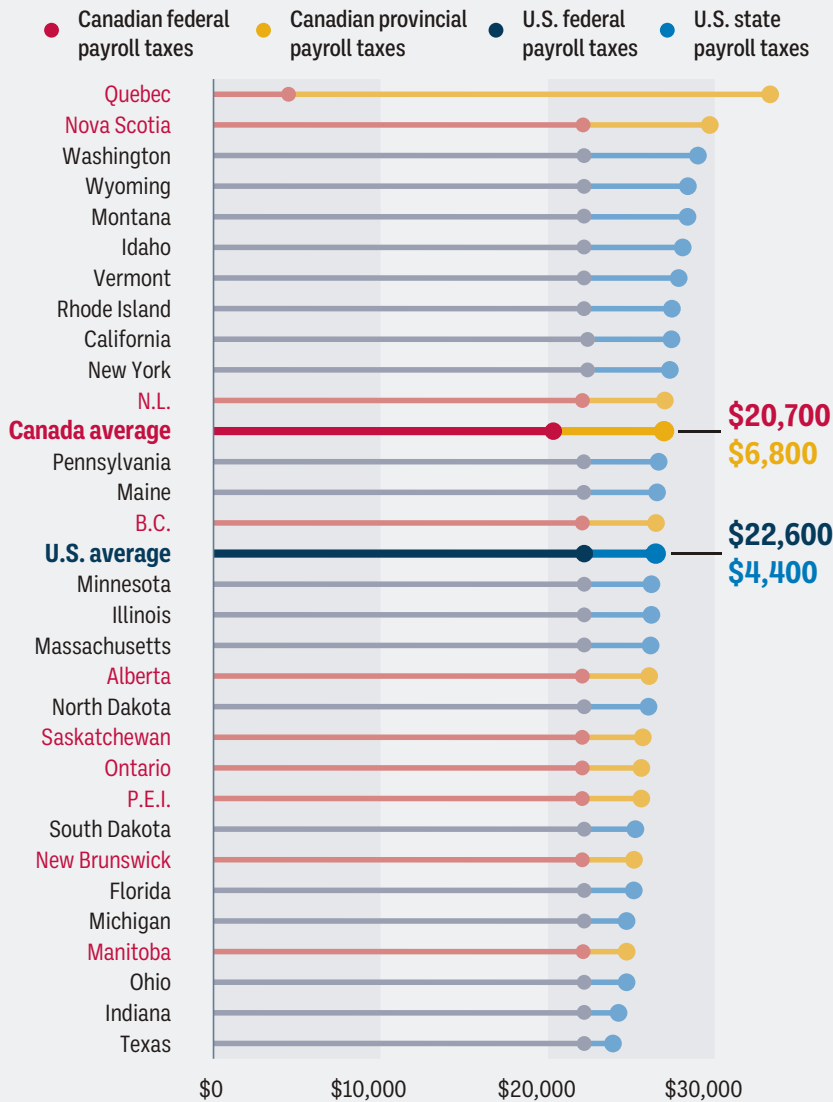
Apart from Quebec, Canadian jurisdictions face federal payroll taxes of approximately \$22,500. This is similar to the U.S., where microbusinesses pay \$22,600, with the exception of New York and California (\$22,800) where the cost is higher due to a higher federal unemployment tax burden.

Payroll taxes at the state and provincial level vary greatly. Manitoba has the lowest provincial payroll taxes in Canada at \$2,800 and ranks the fourth-lowest overall. However, this cost is still 47% higher than Texas (\$1,900), which has the lowest state payroll taxes. By contrast, Nova Scotia’s payroll taxes (\$7,800) are more burdensome than those in almost every other jurisdiction, largely due to having the highest Workers’ Compensation Board (WCB) premiums.

Figure 13

Payroll taxes for microbusinesses are similar in both countries, except for in Quebec, where they are significantly higher

PAYROLL TAXES PAID BY A MICROBUSINESS IN SELECTED PROVINCES/STATES, BY LEVEL OF GOVERNMENT



Source: CFIB analysis of government tax rates and thresholds, own calculations.  
See Supplementary Information on Methodology document for more details.





Average total payroll costs for small businesses are slightly higher in Canada \$177,000

than in the U.S. \$171,000

Small business

Average total payroll taxes for a small business are slightly higher (nearly 4%) in Canada than in the U.S. (see Figure 14), whereas they are nearly identical in both countries for microbusinesses (see Figure 13).

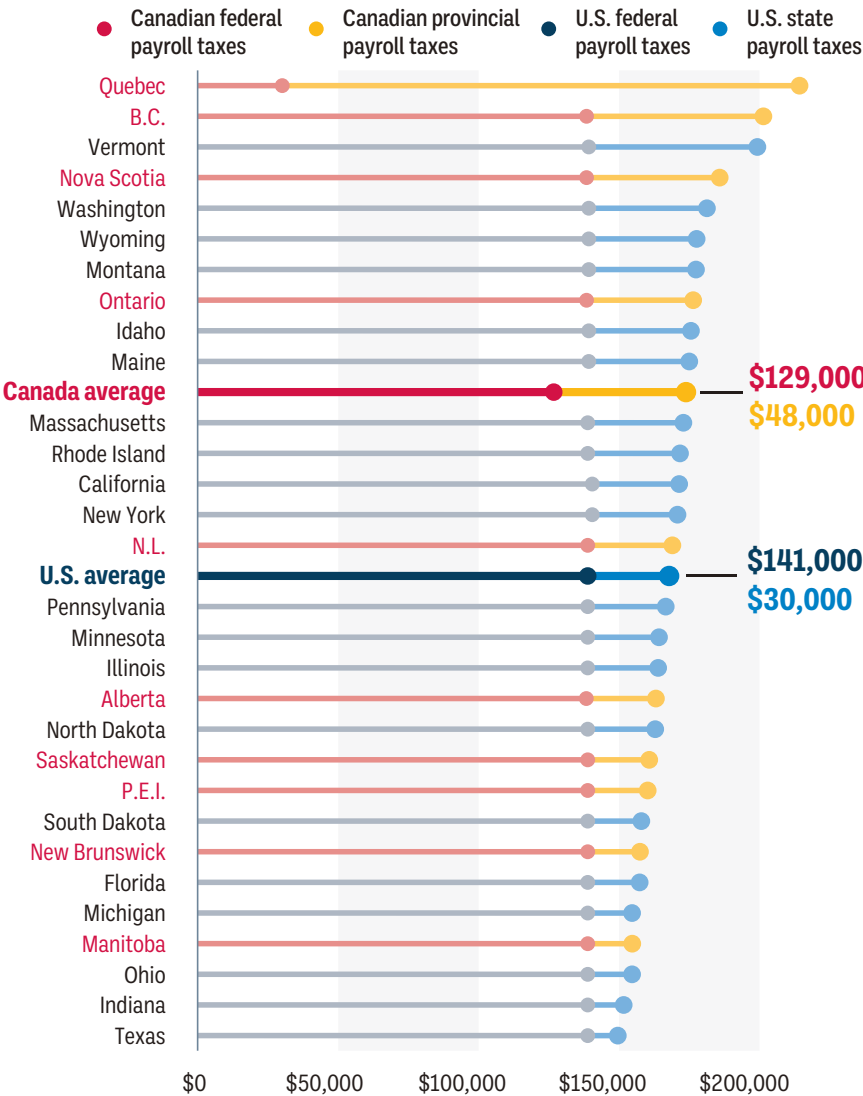
While federal payroll taxes remain proportional, provincial payroll taxes are larger, even accounting for Quebec’s unique situation. Several Canadian provinces perform significantly worse among small businesses, largely due to Employer Health Taxes (EHTs) that apply to small businesses but not to microbusinesses (with the exception of Quebec). For example, British Columbia dropped from 17<sup>th</sup> to 29<sup>th</sup> place (second last) when comparing the payroll tax burden between microbusinesses and small businesses due to the EHT. Ontario dropped from 9<sup>th</sup> place (tied with PEI) to 23<sup>rd</sup> place for the same reason.

Quebec once again stands out as the most burdensome jurisdiction with payroll taxes reaching \$217,000, 42% higher than the jurisdiction with the least burdensome payroll taxes, Texas (\$153,000), and 6% higher than the jurisdiction with the second most burdensome payroll taxes, British Columbia (\$205,000). Manitoba once again ranks as the best province and comes in fourth overall with total payroll costs of around \$158,000.

Figure 14

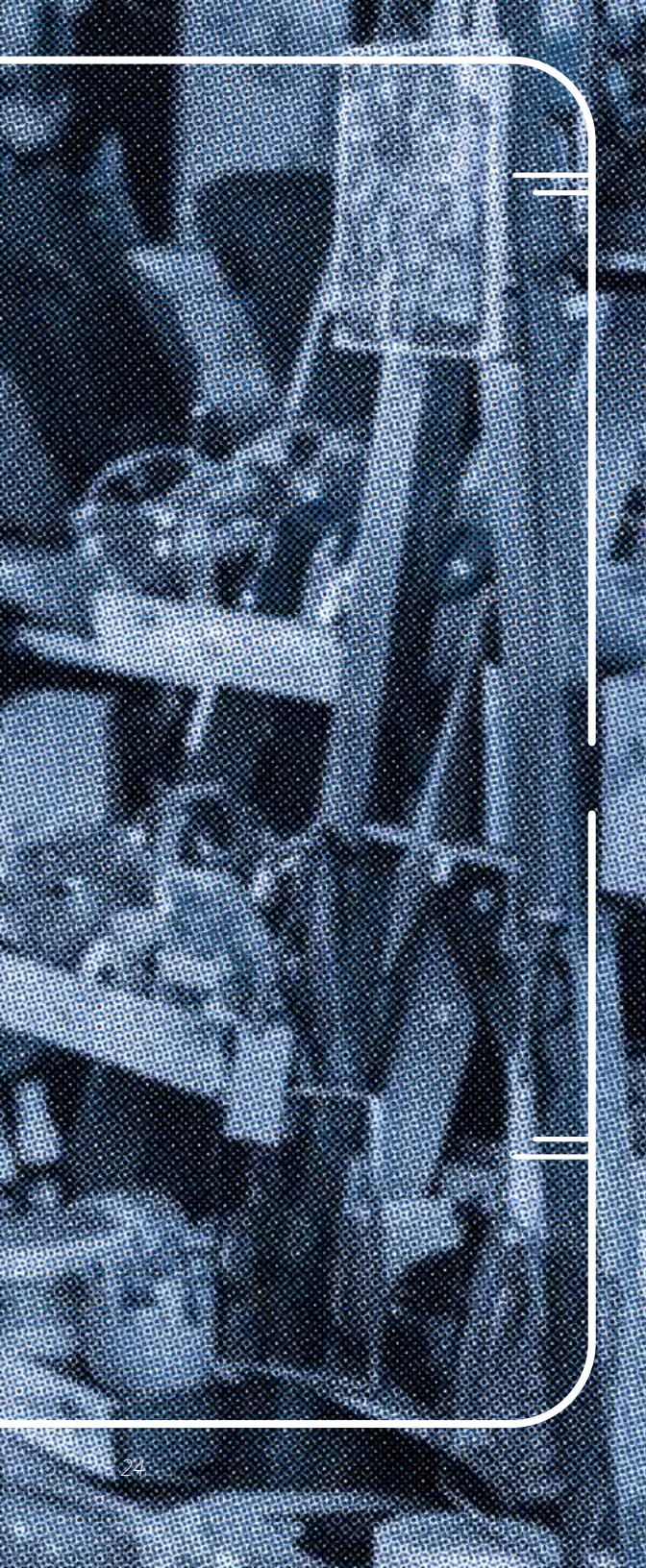
Payroll taxes for small businesses are similar in both countries, except for in Quebec, where they are significantly higher

PAYROLL TAXES PAID BY A SMALL BUSINESS IN SELECTED PROVINCES/STATES, BY LEVEL OF GOVERNMENT



Source: CFIB analysis of government tax rates and thresholds, own calculations. See Supplementary Information on Methodology document for more details.





## Total tax burden, without location-based taxation

To provide a full picture of the tax burden, we previously included property taxes and local taxes based on the largest cities in each province and state. However, it is important to note that many businesses do not operate in these cities, or in any municipality at all. Some may not own their property, meaning they would not necessarily directly pay property taxes.

To provide this outlook as well, we also ranked jurisdictions on their tax burden without any location-based taxes. This comparison only shows taxes that would apply in all situations, regardless of location within the province or state. When property taxes and other municipal-based taxes are excluded, the effect on Canada's tax competitiveness is mixed, improving its standing for microbusinesses but reducing it for small businesses, and the country remains far behind the U.S. overall. Several Canadian provinces rose in the rankings due to high property taxes in their jurisdictions, an area in which the U.S. has a significant advantage (see next section).





*When excluding local taxes, the average tax burden of microbusinesses is **18%** higher in Canada than in the U.S.*

**Microbusiness**

Disregarding location-based taxes, microbusinesses still face a larger tax burden in Canada than in the U.S., paying 18% more than their southern neighbours (see Figure 15).

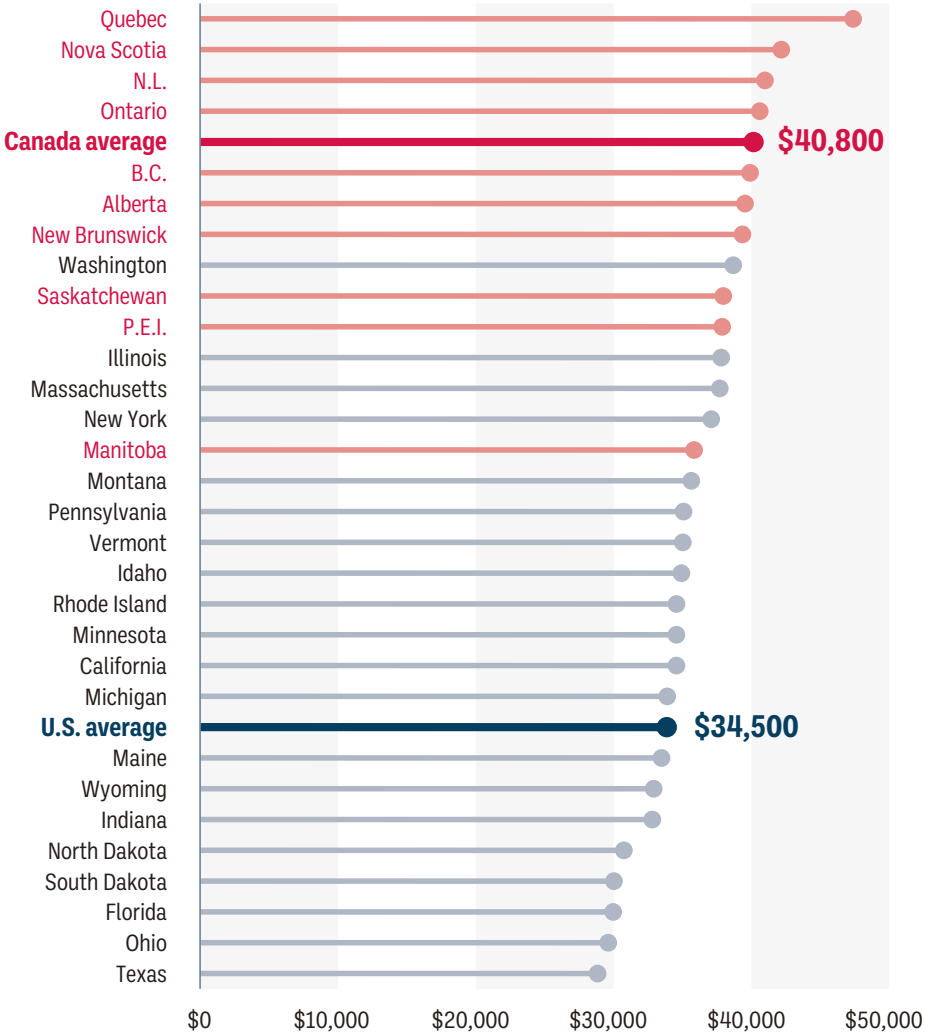
When excluding location-based taxes, seven out of 10 provinces (Quebec, Nova Scotia, Newfoundland and Labrador, Ontario, British Columbia, Alberta, and New Brunswick) still have a higher total tax burden than any of the selected U.S. states. Even the lowest-taxed Canadian province, Manitoba (\$36,500), has a higher tax burden than 16 of the 20 analyzed U.S. states.

Furthermore, whether we include location-based taxes or not, Quebec remains the most burdensome jurisdiction for microbusinesses, with taxes as high as \$48,000. When compared with taxes paid by microbusinesses in the neighbouring state of Maine (\$34,100), the gap reaches 41%. Additionally, Nova Scotia remains one of the highest-taxed provinces with microbusinesses paying \$42,800 in taxes.

Figure 15

**Seven out of ten provinces have a higher tax burden than any of the selected U.S. states, when excluding local taxes**

TOTAL TAXES PAID BY A MICROBUSINESS IN SELECTED PROVINCES/STATES, WITHOUT LOCATION-BASED TAXES



Source: CFIB analysis of government tax rates and thresholds, own calculations.  
See Supplementary Information on Methodology document for more details.



*When excluding local taxes, all Canadian provinces have higher tax burdens for small businesses than any analyzed U.S. state.*

**Small business**

When excluding location-based taxes, the gap between the tax burden of small businesses in Canada and the U.S. widens even further than for microbusinesses, reaching 28% (see Figure 16).

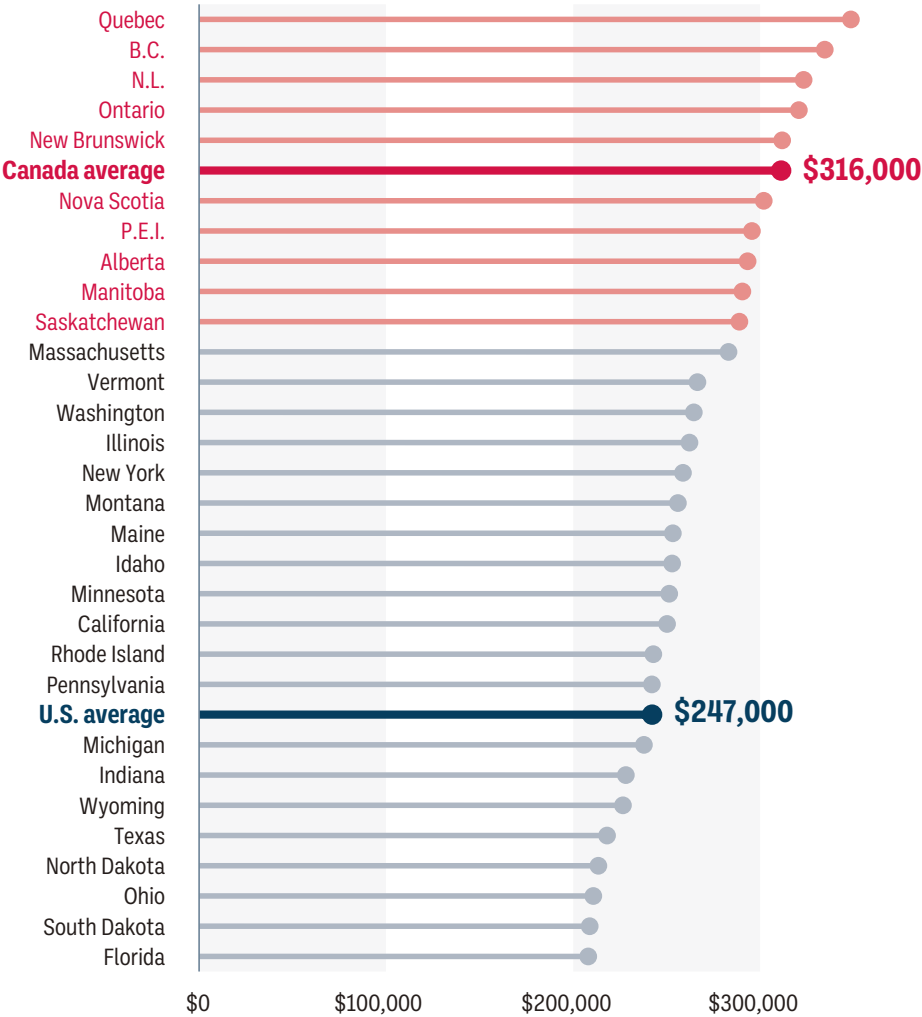
If we exclude location-based taxes from our calculations, all Canadian provinces have a higher tax burden than any U.S. state, underscoring the urgent need for more competitive fiscal policies. While Prairie provinces (Alberta, Manitoba, Saskatchewan) lead Canada with the lowest tax burden, they still lag behind their U.S. neighbours in the Midwest and Mountain West, which are among the most competitive states.

As with microbusinesses, Quebec is the most burdensome jurisdiction, with small businesses paying \$353,000 in taxes when excluding local-based taxes. When compared with the neighbouring state of Maine (\$258,000), Quebec small businesses pay nearly \$100,000 more in taxes.

Figure 16

***On average, a small business pays 28% more taxes in Canada than in the U.S., when excluding local taxes***

TOTAL TAXES PAID BY A SMALL BUSINESS IN SELECTED PROVINCES/STATES, WITHOUT LOCATION-BASED TAXES



Source: CFIB analysis of government tax rates and thresholds, own calculations.

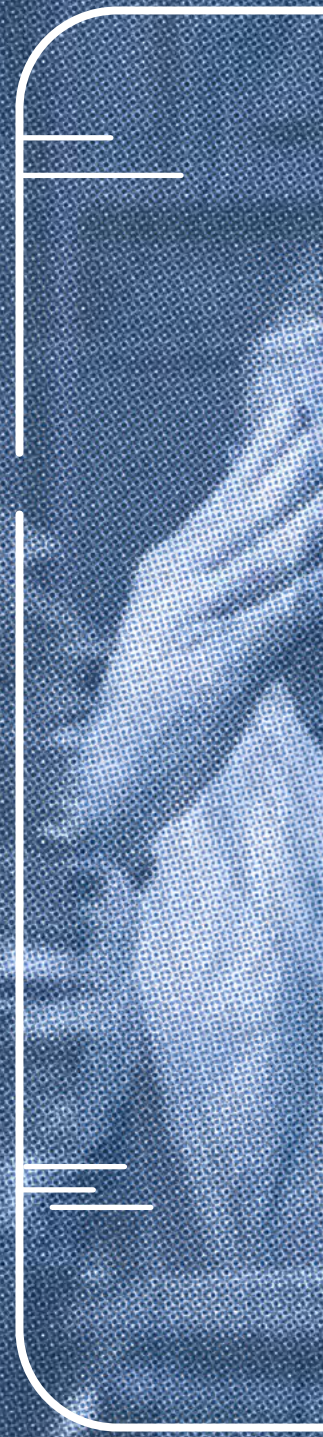
See Supplementary Information on Methodology document for more details.



## Property taxes

Property taxes are a levy based on the value of property. While not all business owners own the property they operate on, property taxes can still indirectly affect them as costs can be passed on through commercial rent. For this analysis, it is assumed that the microbusiness owns commercial property worth \$450,000 and the small business owns \$1,000,000 worth of property of the same type (see Appendices 3 and 7 for details).

Canadian property taxes are generally imposed by individual municipalities and provincial governments.<sup>30</sup> By contrast, U.S. property taxes are primarily levied by counties, school districts, and municipalities, not state governments.<sup>31</sup> Our analysis presents total property taxes paid as an aggregate of components levied at all levels of government, assuming the business is located in the largest city of each analyzed jurisdiction. When assessing property tax costs, we collected Canadian rates separately for provincial and municipal taxes. These two rates were then combined to determine a total effective property tax rate. By contrast, U.S. property taxes were provided as a single integrated figure, combining property tax rates from all levels of government.





The average property tax for microbusinesses is 58% higher in Canada than in the U.S.

Microbusiness

Property taxes can substantially add to a microbusiness owner’s tax burden (see Figure 17). A microbusiness in Canada faces a 25% increase in its tax burden when including property taxes, compared to 23% in the U.S. Although property taxes make up a similar share of the overall tax burden in both countries, the average property tax is 58% higher in Canada than in the U.S., widening the gap between the two countries.

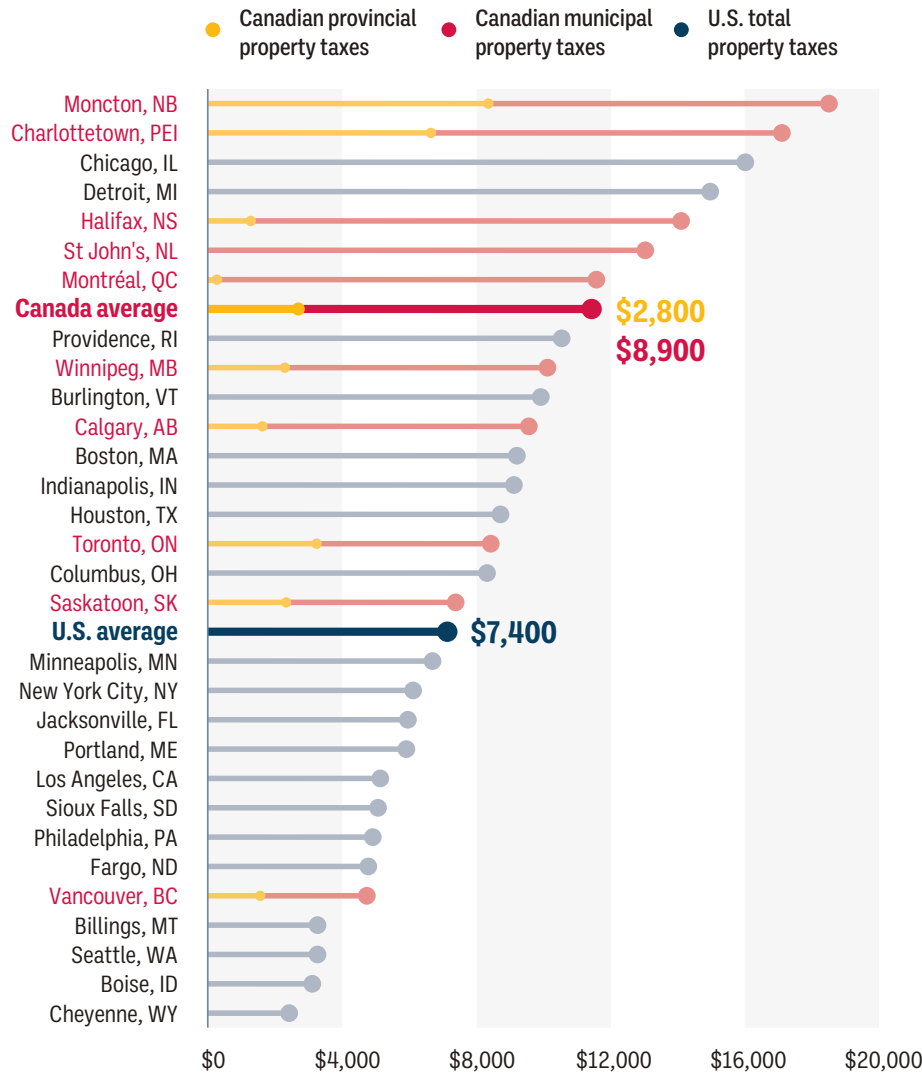
Of all the types of taxes analyzed, property taxes are where the gap between Canada and the U.S. is the most pronounced at the extreme ends. For example, a microbusiness in Moncton, New Brunswick (\$18,800), pays seven times as much as one in Cheyenne, Wyoming (\$2,700). Similarly, property taxes for microbusinesses are more than twice as high in Winnipeg, Manitoba (\$10,400), than in its neighbour, Fargo, North Dakota (\$5,000). Even without any provincial property taxes, microbusinesses in St. John’s, Newfoundland, face one of the highest property tax burdens on our list (\$13,300). Notably, six Canadian municipalities rank among the top ten most burdensome jurisdictions for property taxes. Vancouver, BC, has the lowest property tax burden among Canadian jurisdictions at \$5,000.

Within Canada, specific municipalities also show significant disparities. St. John’s and Halifax impose the highest property tax burdens, at \$13,300 and \$13,000, respectively.

Figure 17

Microbusinesses pay nearly seven times more in property taxes in Moncton, New Brunswick, than in Cheyenne, Wyoming

PROPERTY TAXES PAID BY A MICROBUSINESS IN SELECTED PROVINCES/STATES, BY LEVEL OF GOVERNMENT



Source: CFIB analysis of government tax rates and thresholds, own calculations.

See Supplementary Information on Methodology document for more details.





A small business in Canada pays **47% more in property taxes than one in the United States.**

Small business

Overall, the difference between U.S. and Canadian property taxes remains very pronounced for a small business (see Figure 18). The impact of property taxes on overall tax burden is similar for small businesses and microbusinesses. When property taxes are added to small businesses' total tax burden, it increases by an average of 23% in Canada and 18% in the United States. The difference in average property taxes between the two countries (47%) is slightly smaller than for microbusinesses (58%).

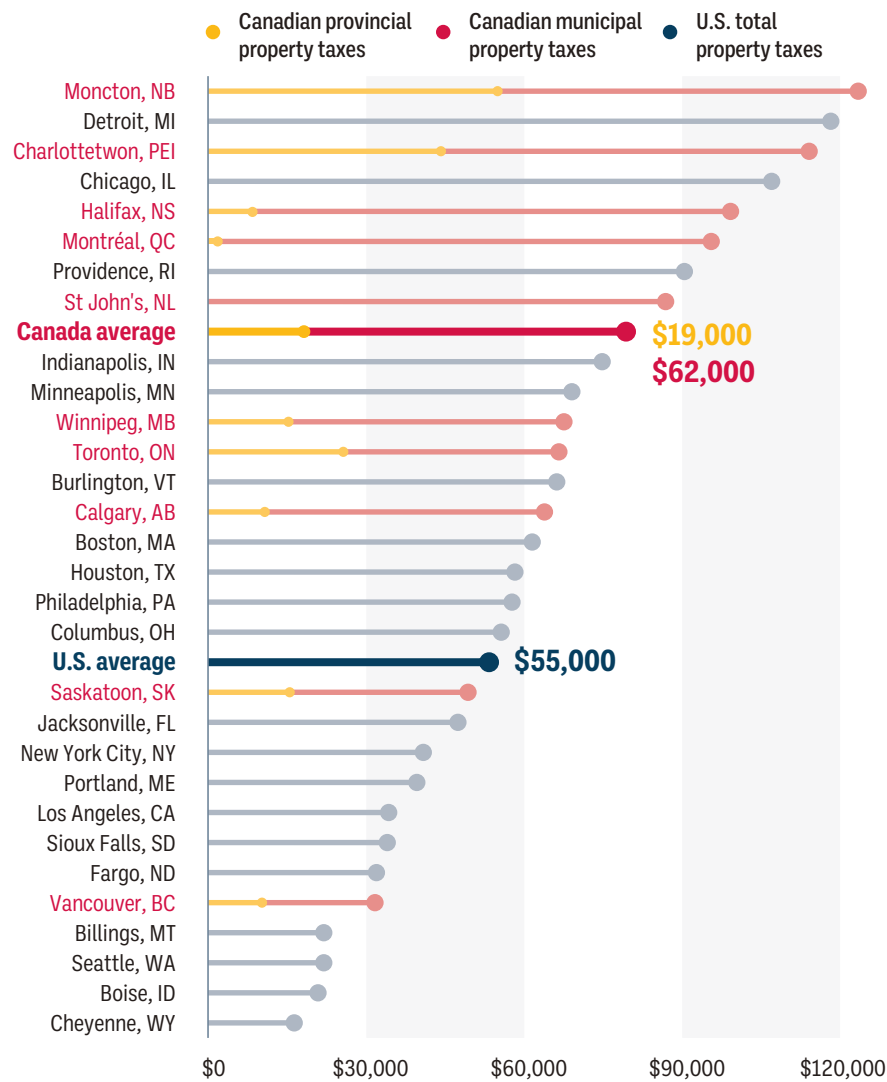
The gap between the highest and lowest property taxes remains significant with small businesses in Moncton, New Brunswick (\$125,000) paying nearly seven times more than in Cheyenne, Wyoming (\$18,000). Indianapolis and Minneapolis are now among the top 10 most burdensome U.S. cities, while Winnipeg has dropped two places.

Montréal has the most burdensome municipal property tax (\$95,000), closely followed by Halifax (\$92,000), undermining their tax competitiveness compared to the United States. Vancouver still has the lowest municipal property tax in Canada at \$22,000.

Figure 18

Property taxes for a small business are 47% higher in Canada than in the U.S.

PROPERTY TAXES PAID BY A SMALL BUSINESS IN SELECTED PROVINCES/STATES, BY LEVEL OF GOVERNMENT



Source: CFIB analysis of government tax rates and thresholds, own calculations.

See Supplementary Information on Methodology document for more details.



## Conclusion and recommendations

The trade war has underscored the uphill battle Canada faces in remaining economically competitive with the United States. Lower productivity and GDP per capita reduce the standard of living for all Canadians, resulting in higher prices for Canadian consumers and fewer opportunities for Canadian workers. Much of this shortfall can be blamed on high taxation, preventing businesses from investing in their operations and the economy. Businesses, ranging from small startups to established enterprises, face a significantly higher tax burden in Canada than in the United States. These costs dissuade entrepreneurs from starting new businesses and established businesses from expanding their operations.

While Canadian policymakers are unable to control the actions of foreign nations, they are able to control the tax burden within Canada. Notably, 65% of business owners believe that tax reductions would help offset the impacts of the trade war between Canada and the U.S.<sup>32</sup> These actions can help the country better weather current global economic challenges and position itself better for the future. They would also make the country more attractive to domestic and foreign investors, including investors in the United States. Furthermore, business owners would have greater leeway to absorb economic shocks or unforeseen disruptions such as a trade war or a pandemic. Keeping more money in their pockets would enable them to reinvest in their employees, through higher wages or benefits (see Figure 10). They would also expand their operations through capital investments in machinery or R&D. In order to boost Canada's tax competitiveness and increase our economic health, CFIB recommends governments do the following:

1. **Reduce corporate income tax rates** so incorporated businesses can better compete with their international counterparts. This is the tax cut that is most prioritized (72%) by SMEs.<sup>33</sup> Provincial governments should permanently lower the small business tax rate to 0% by 2030. The federal government should also lower the tax rate and even consider lowering it temporarily to 0% as a means of stimulating the economy in a difficult economic period.
2. Two-thirds (67%) of SMEs think provincial and federal governments **should raise the small business tax rate threshold to at least \$700,000** as Nova Scotia did in its Budget 2025-2026.<sup>34,35</sup> The federal threshold has been at \$500,000 since 2009. **Thresholds should also be indexed to inflation** to stay proportional to small business size. It is already the case for unincorporated small businesses in Canada and for U.S. federal and many states' personal income tax brackets paid by business owners. However, no Canadian province indexes its equivalent small business tax rate threshold.<sup>36,37</sup>
3. **Implement a business income deduction for personal income tax filers** similar to the U.S. Qualified Business Income (QBI) deduction so unincorporated businesses such as sole proprietors can retain more of their earnings.
4. **Implement a lower property tax rate for small businesses**, similar to Toronto or Ottawa's small business property tax subclass. More than half (51%) of SMEs think reducing property taxes should be a priority for governments.<sup>38</sup>



## *Nova Scotia rises in the rankings by lowering business taxes*

*Nova Scotia's 2025 budget lowered the small business tax rate from 2.5% to 1.5% and raised the threshold to \$700,000—the latter being the highest in the country.<sup>40</sup> This decision significantly boosted Nova Scotia's standing among analyzed jurisdictions.*

*For the analyzed small business, the province improved from the second worst in Canada to approximately average among Canadian jurisdictions.*

*Replicating actions like this across all provinces and federally would go a long way to improving Canada's standing.*

5. **Reduce property tax unfairness.** In many cities across Canada, businesses pay a disproportionate amount of municipal and provincial property taxes. For example, last year, in Calgary, Alberta, business properties paid almost half (47%) of the municipal property taxes yet only make up around 17% of the city's taxable property assessment value.<sup>39</sup> Reducing this imbalance would increase tax competitiveness in the area of property taxes.
6. The federal government should **reduce payroll taxes by introducing lower EI premiums** through a permanent targeted EI credit or by moving the employer/employee split of the costs from 60/40 to 50/50. The federal government should also **increase the Basic Exemption Amounts for the CPP** which have not changed since 1997.
7. British Columbia, Ontario, and Quebec should **raise their Employer Health Tax thresholds** to at least the levels currently used by Manitoba and Newfoundland and Labrador. These taxes make it much more difficult for small businesses in these three provinces to be competitive as they face some of the highest payroll taxes in Canada.
8. While payroll taxes are generally equivalent in Canada and the U.S., Quebec's unique payroll taxes (QPP, employment insurance, etc.) make its overall payroll taxes the highest among all analyzed jurisdictions in both countries. The Quebec government should **lower these payroll tax rates** to better align with other provinces.
9. **Legislate workers' compensation board (WCB) surplus rebates.** This employer-paid provincial payroll tax funds insurance for workers involved in workplace accidents. However, many WCB funds—such as British Columbia's—have collected more than their target reserve ratio. They are therefore overfunded, holding far more funds than required to sustain the program. Rebating the excess amount to businesses would reduce their tax burden without impacting services delivered.





# Appendix 1

## Provincial breakouts

Each province is assigned two overall rankings (out of 30): one for microbusinesses and one for small businesses, based on their fiscal burden relative to the other nine provinces and 20 U.S. states, using the variables outlined in the methodology (see Appendix 3). The fiscal burden that forms the rankings includes taxes from the largest municipality in each jurisdiction, as it does in the main body of the report. Additionally, category rankings are provided for the three main taxation types analyzed in the report: income taxes, payroll taxes, and property taxes. The rankings are provided for the following provinces/municipalities in this order (see Table 2).

As stated previously, franchise taxes, which apply to certain U.S. states, are included in the income tax category. Additional municipal taxes, which only apply to certain U.S. municipalities, are also included in the income tax category for these rankings as they mostly consist of local-level income and franchise taxes.<sup>41</sup> Individual income tax rankings may not align with the income tax burden figures presented in the main report, as they were calculated in isolation here for comparison purposes.<sup>42</sup>

Table 2  
Overall rankings for each Canadian province (out of 30)

Province	Municipality	Overall Ranking for Microbusinesses (higher is worse)	Overall Ranking for Small Businesses (higher is worse)
British Columbia	Vancouver	16 <sup>th</sup>	22 <sup>nd</sup>
Alberta	Calgary	22 <sup>nd</sup>	20 <sup>th</sup>
Saskatchewan	Saskatoon	17 <sup>th</sup>	16 <sup>th</sup>
Manitoba	Winnipeg	18 <sup>th</sup>	18 <sup>th</sup>
Ontario	Toronto	21 <sup>st</sup>	25 <sup>th</sup>
Quebec	Montréal	30 <sup>th</sup>	30 <sup>th</sup>
New Brunswick	Moncton	29 <sup>th</sup>	29 <sup>th</sup>
Nova Scotia	Halifax	28 <sup>th</sup>	26 <sup>th</sup>
Prince Edward Island (PEI)	Charlottetown	27 <sup>th</sup>	27 <sup>th</sup>
Newfoundland and Labrador (NL)	St. John's	26 <sup>th</sup>	28 <sup>th</sup>



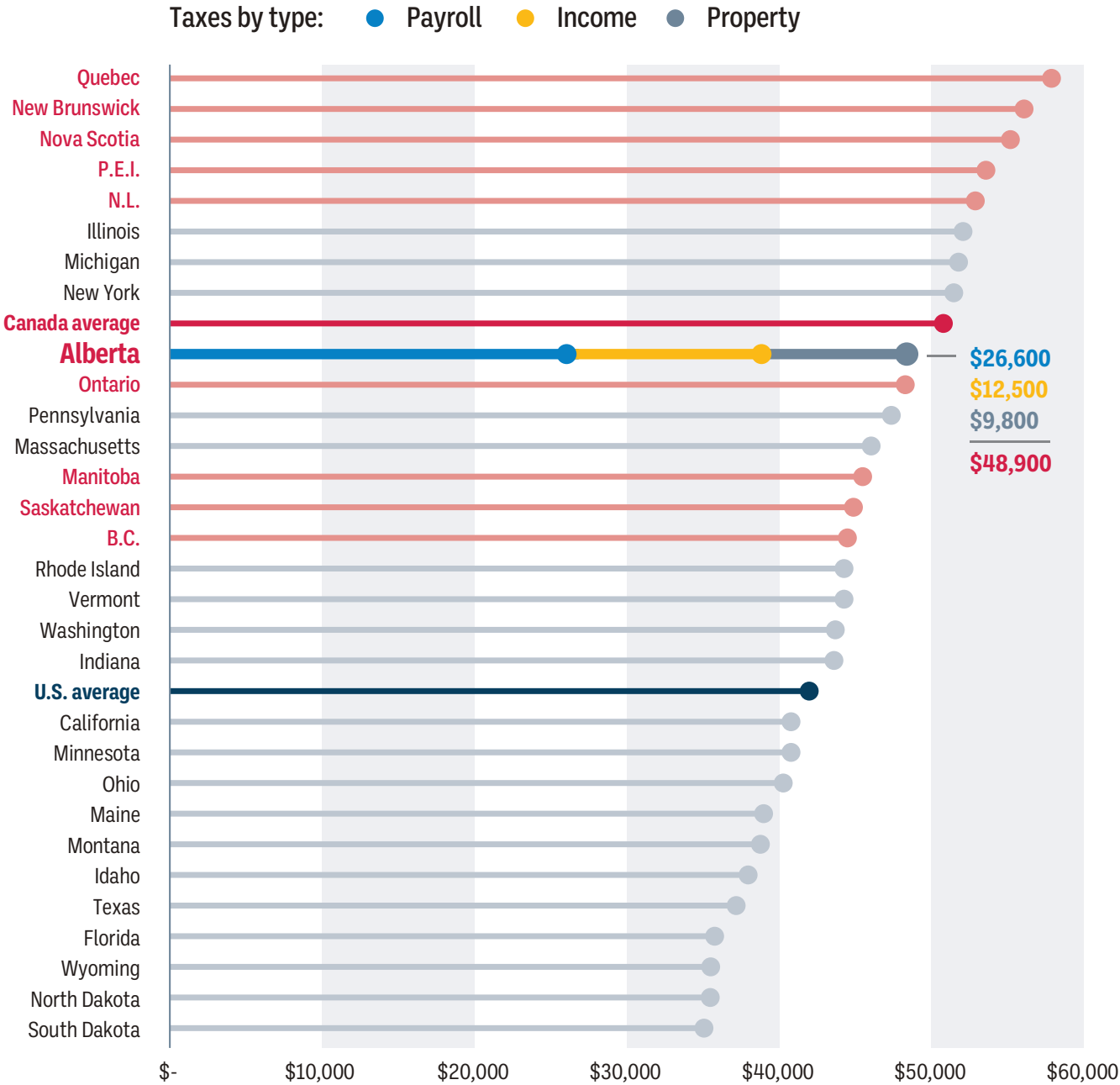
# Microbusiness:

Alberta  
Calgary



Total: \$48,900

*\*Tied with British Columbia*



Overall ranking  
for microbusinesses  
22/30

Payroll Taxes  
13/30

Income Taxes  
21/30\*

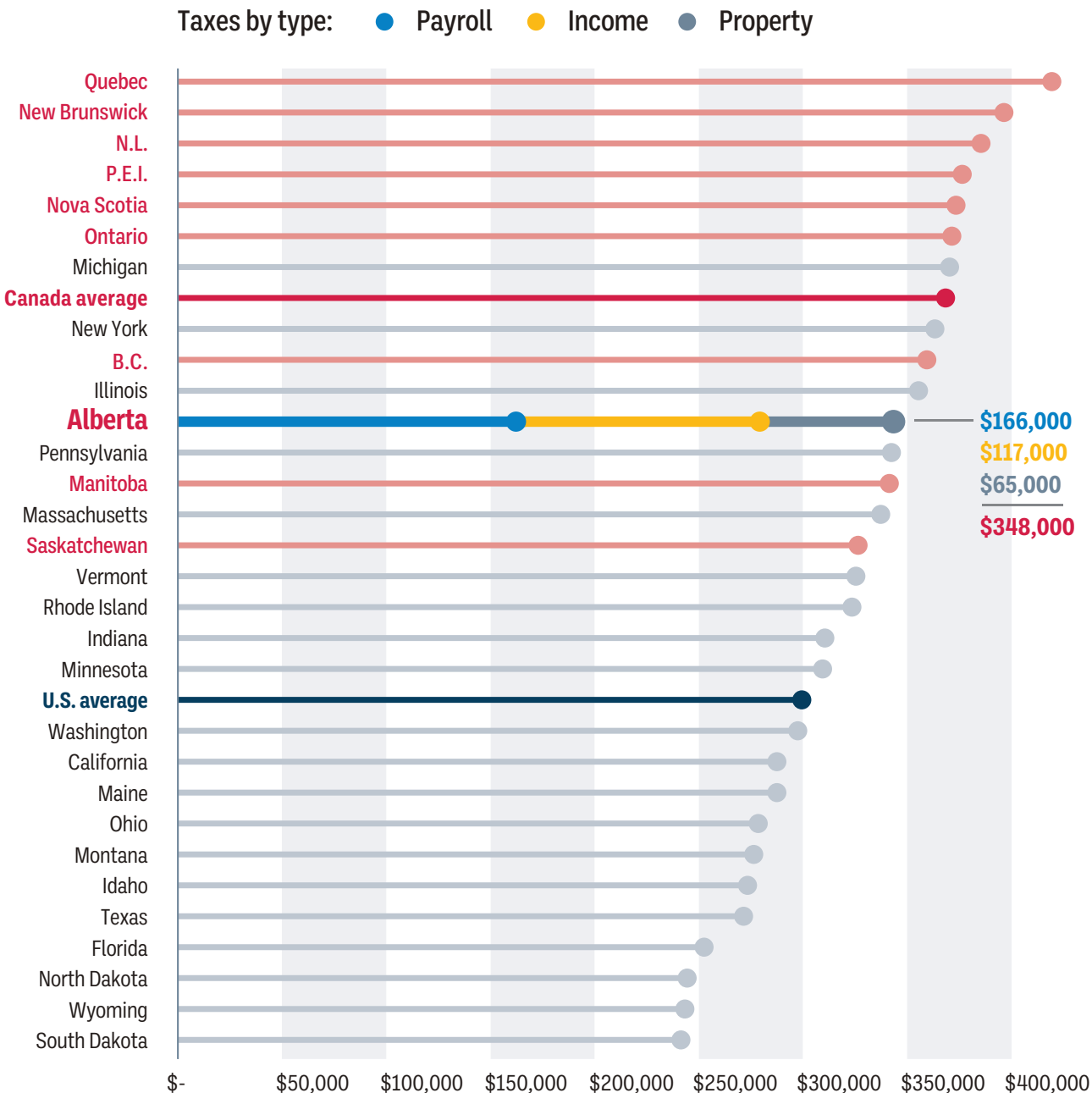
Property Taxes  
20/30

# Small Business:

Alberta  
Calgary



Total: \$348,000



Overall ranking  
for small businesses  
20/30

Payroll Taxes  
12/30

Income Taxes  
20/30

Property Taxes  
17/30

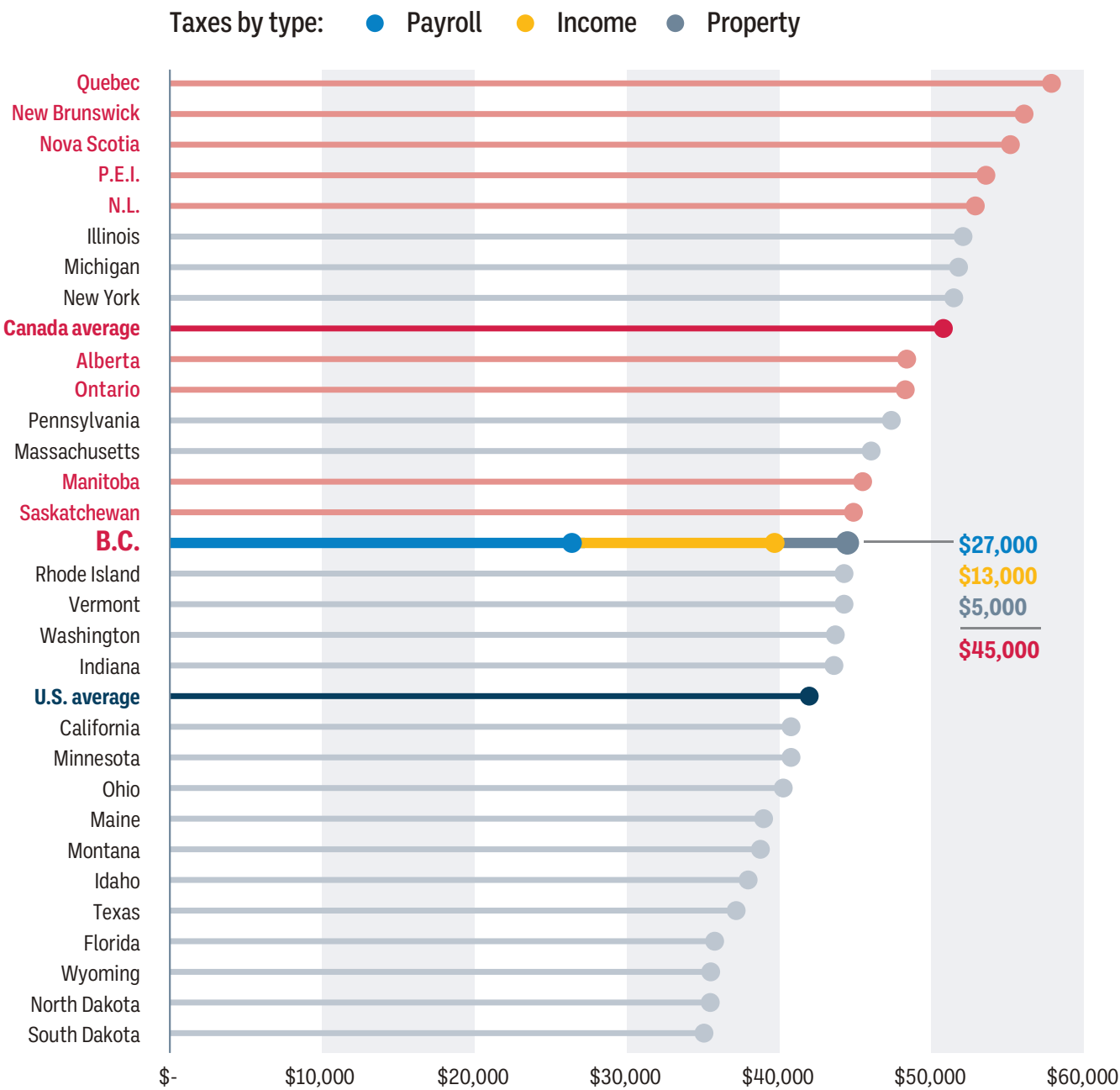


# Microbusiness: British Columbia Vancouver



Total: \$45,000

\*Tied with Alberta



Overall ranking  
for microbusinesses  
16/30

Payroll Taxes  
17/30

Income Taxes  
21/30\*

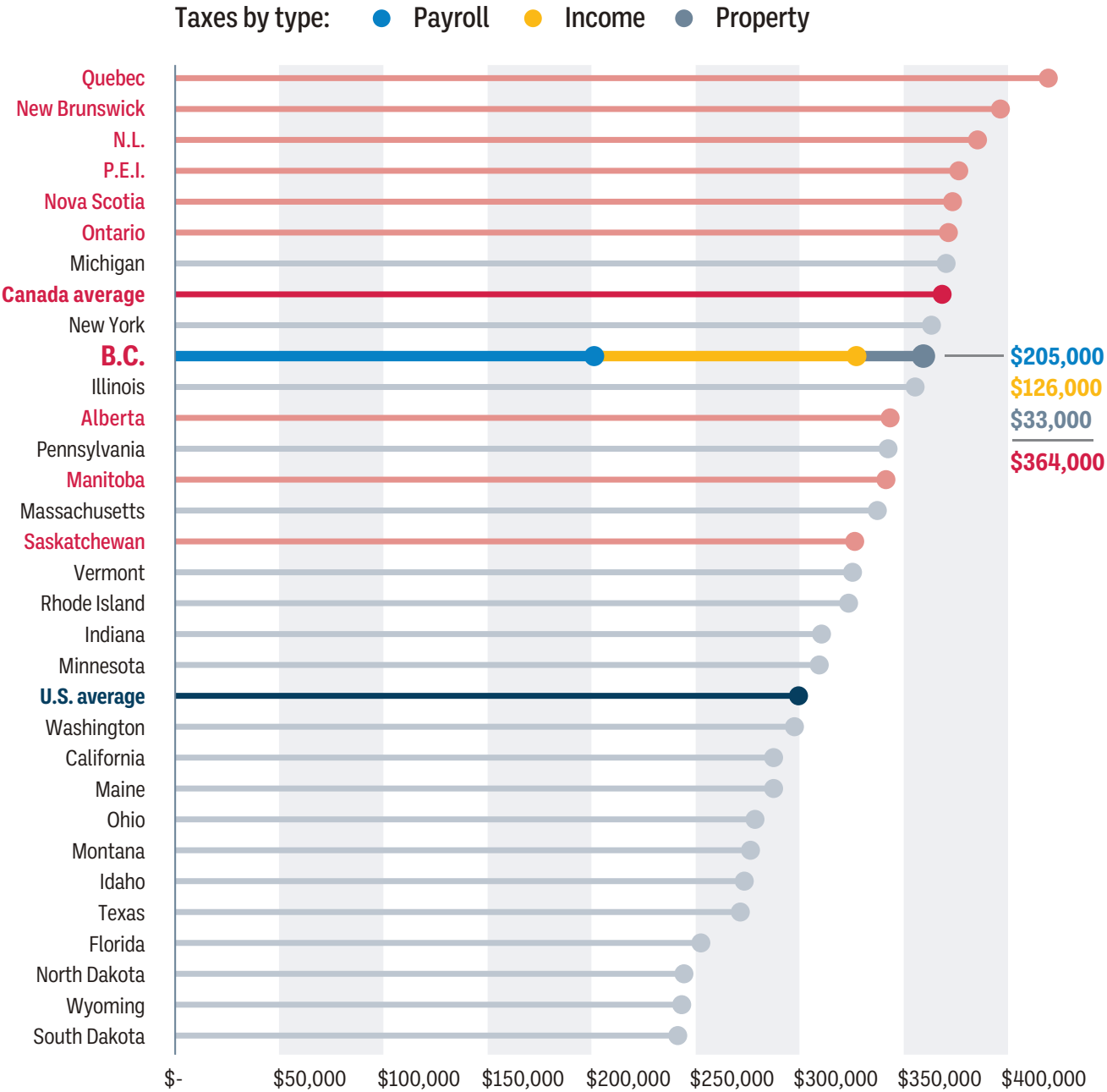
Property Taxes  
5/30

# Small Business:

## British Columbia Vancouver



Total: \$364,000



Overall ranking  
for small businesses  
22/30

Payroll Taxes  
29/30

Income Taxes  
25/30

Property Taxes  
5/30

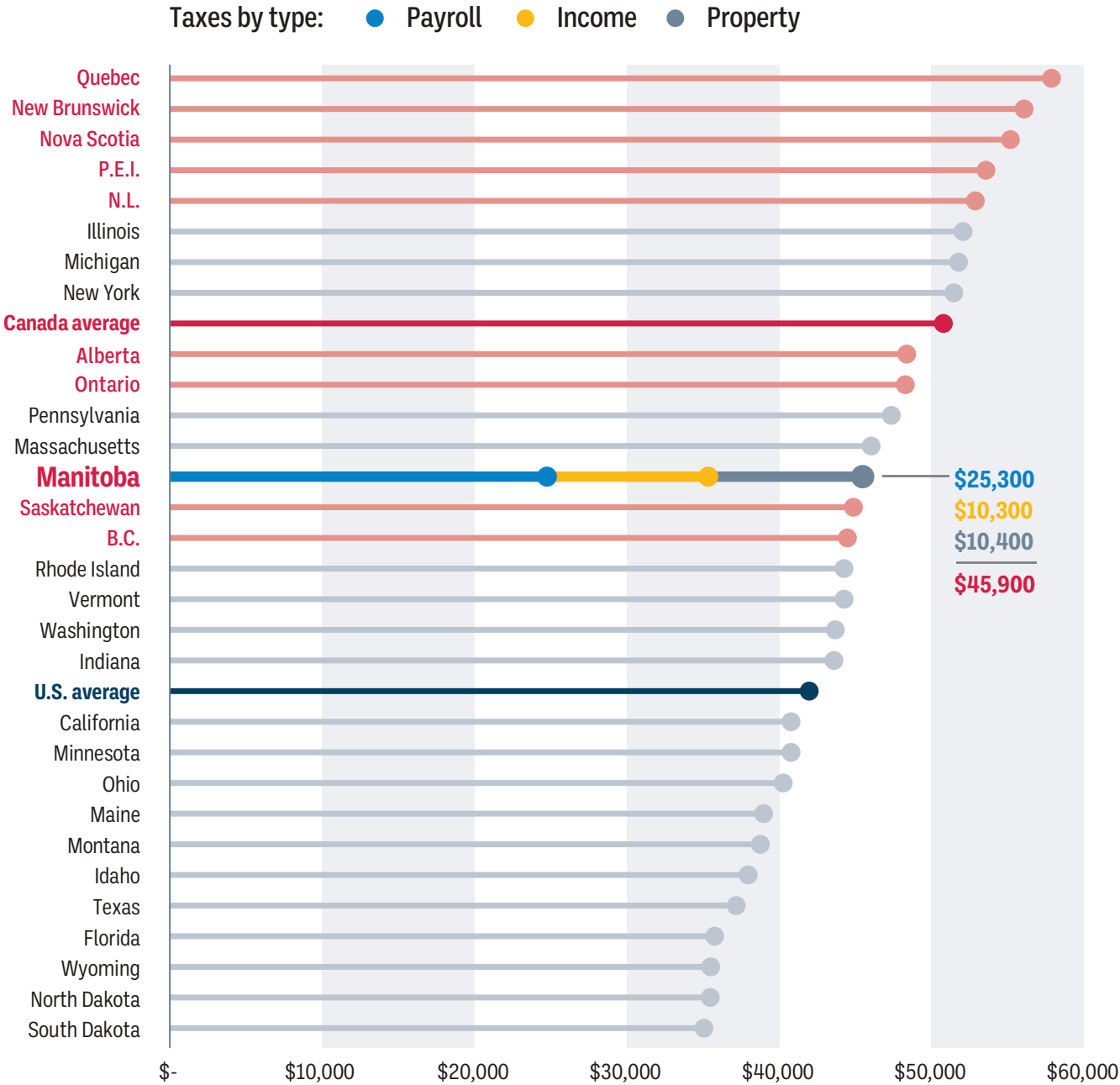


# Microbusiness:

Manitoba  
Winnipeg



Total: \$45,900



Overall ranking  
for microbusinesses  
18/30

Payroll Taxes  
4/30

Income Taxes  
14/30

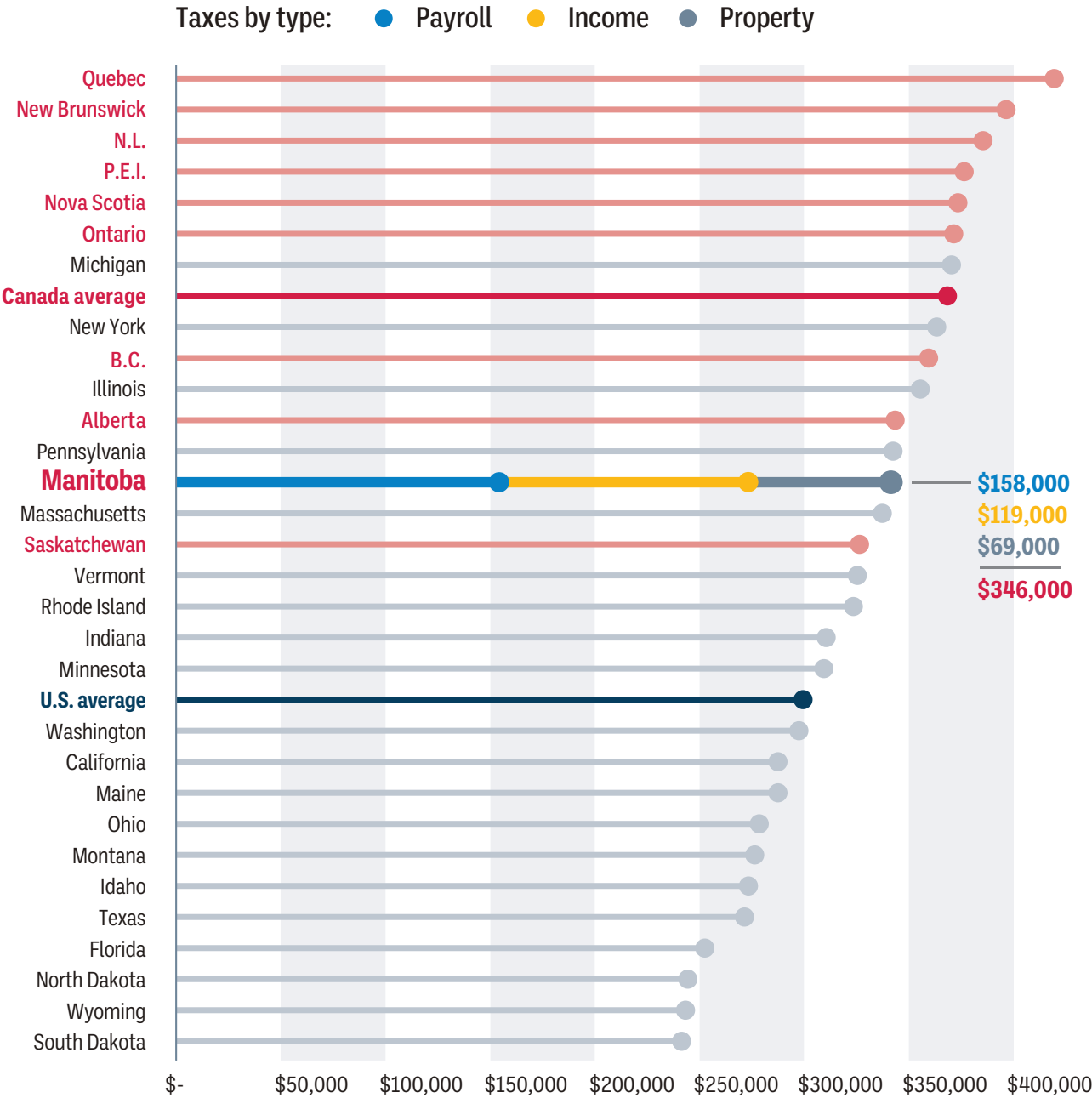
Property Taxes  
22/30

# Small Business:

Manitoba  
Winnipeg



Total: \$346,000



Overall ranking  
for small businesses  
18/30

Payroll Taxes  
4/30

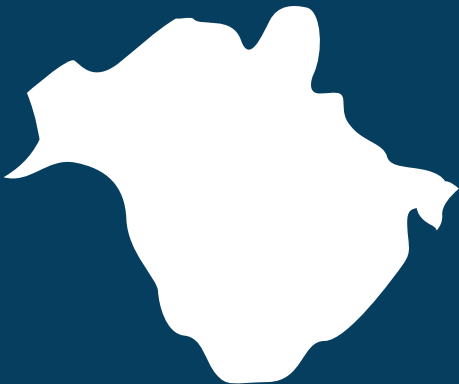
Income Taxes  
23/30

Property Taxes  
20/30



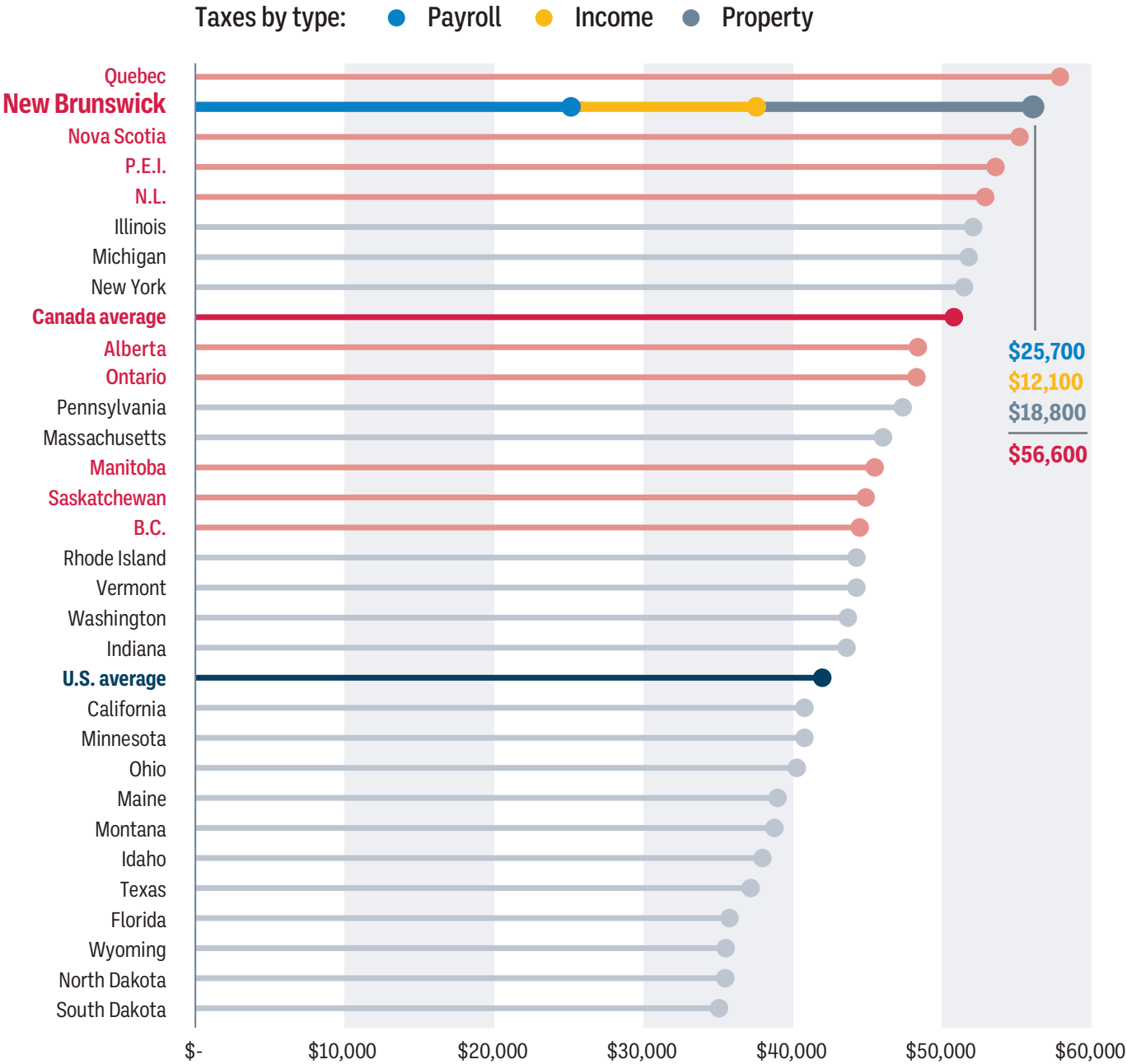
# Microbusiness:

New Brunswick  
*Moncton*



Total: \$56,600

*\*Tied with Newfoundland  
& Labrador*



Overall ranking  
for microbusinesses  
29/30

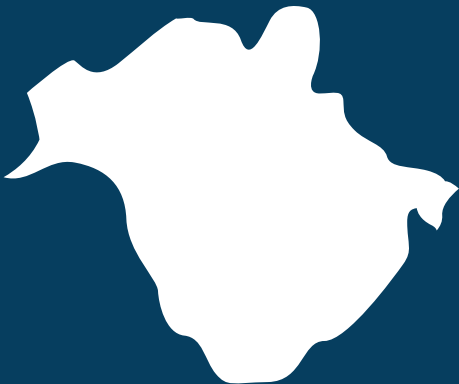
Payroll Taxes  
7/30

Income Taxes  
24/30\*

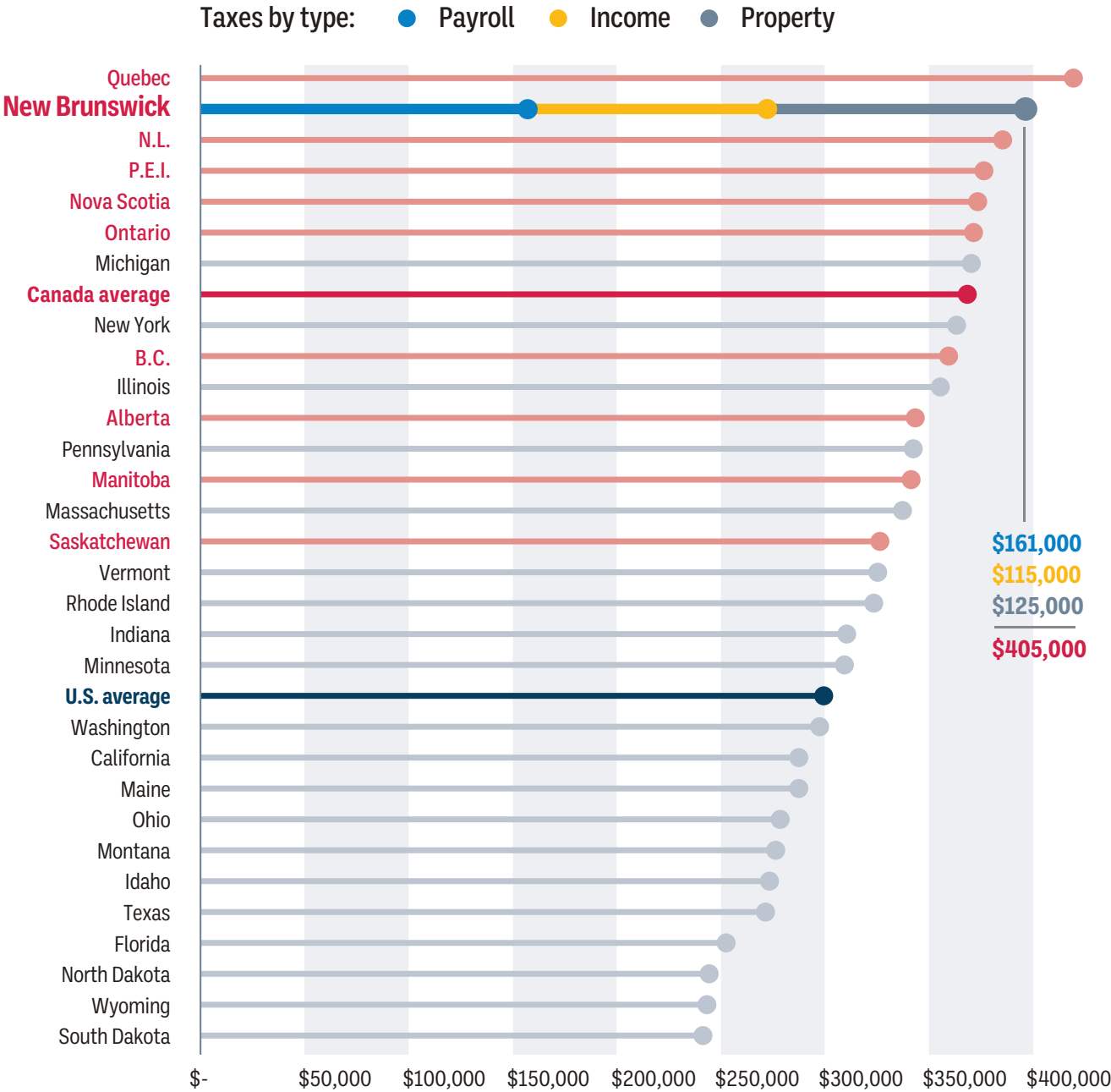
Property Taxes  
30/30

# Small Business:

New Brunswick  
*Moncton*



Total: \$405,000



Overall ranking  
for small businesses  
29/30

Payroll Taxes  
7/30

Income Taxes  
29/30

Property Taxes  
30/30



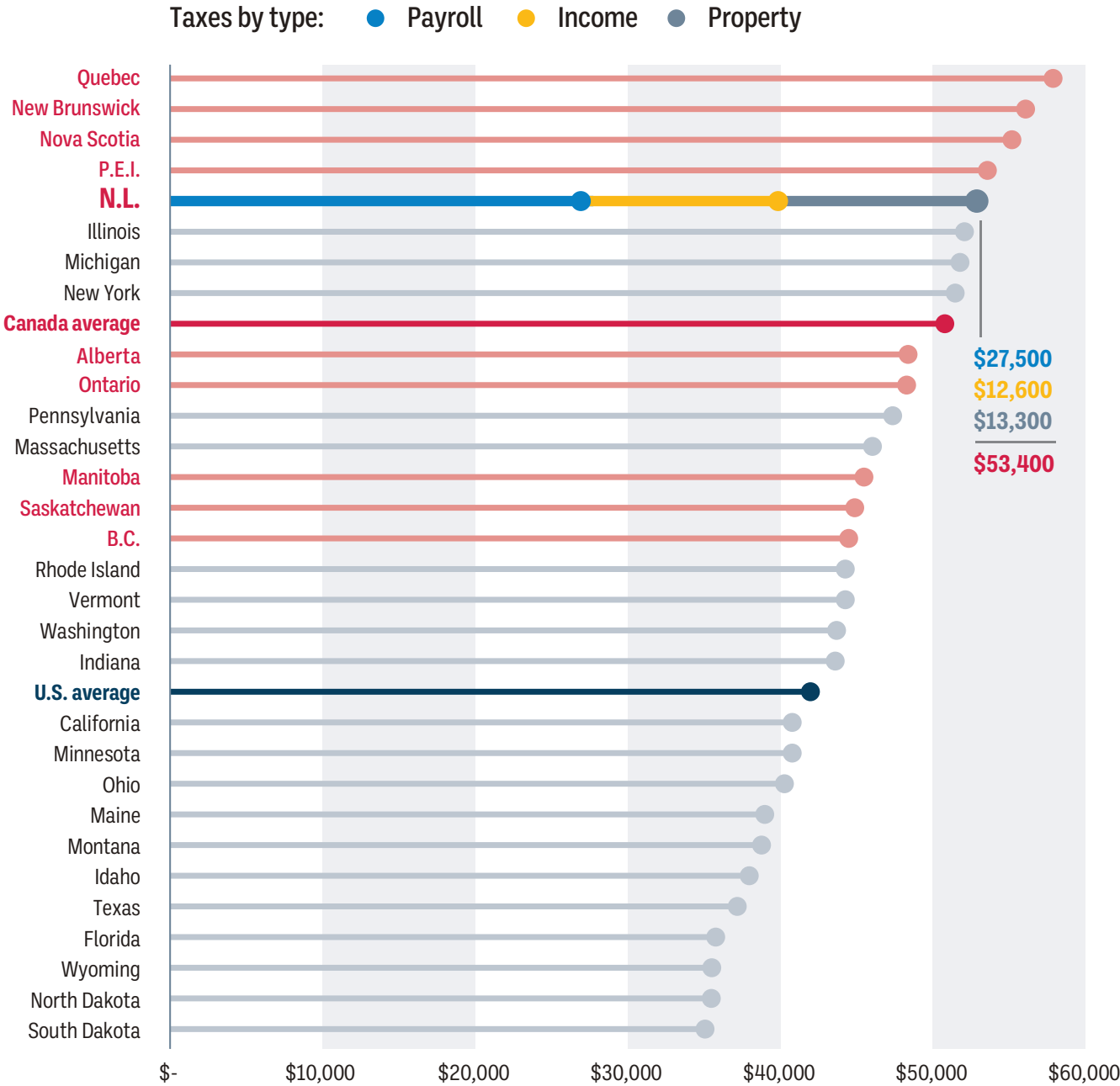
# Microbusiness:

Newfoundland  
& Labrador  
St. John's



Total: \$53,400

\*Tied with New Brunswick



Overall ranking  
for microbusinesses  
26/30

Payroll Taxes  
20/30

Income Taxes  
24/30\*

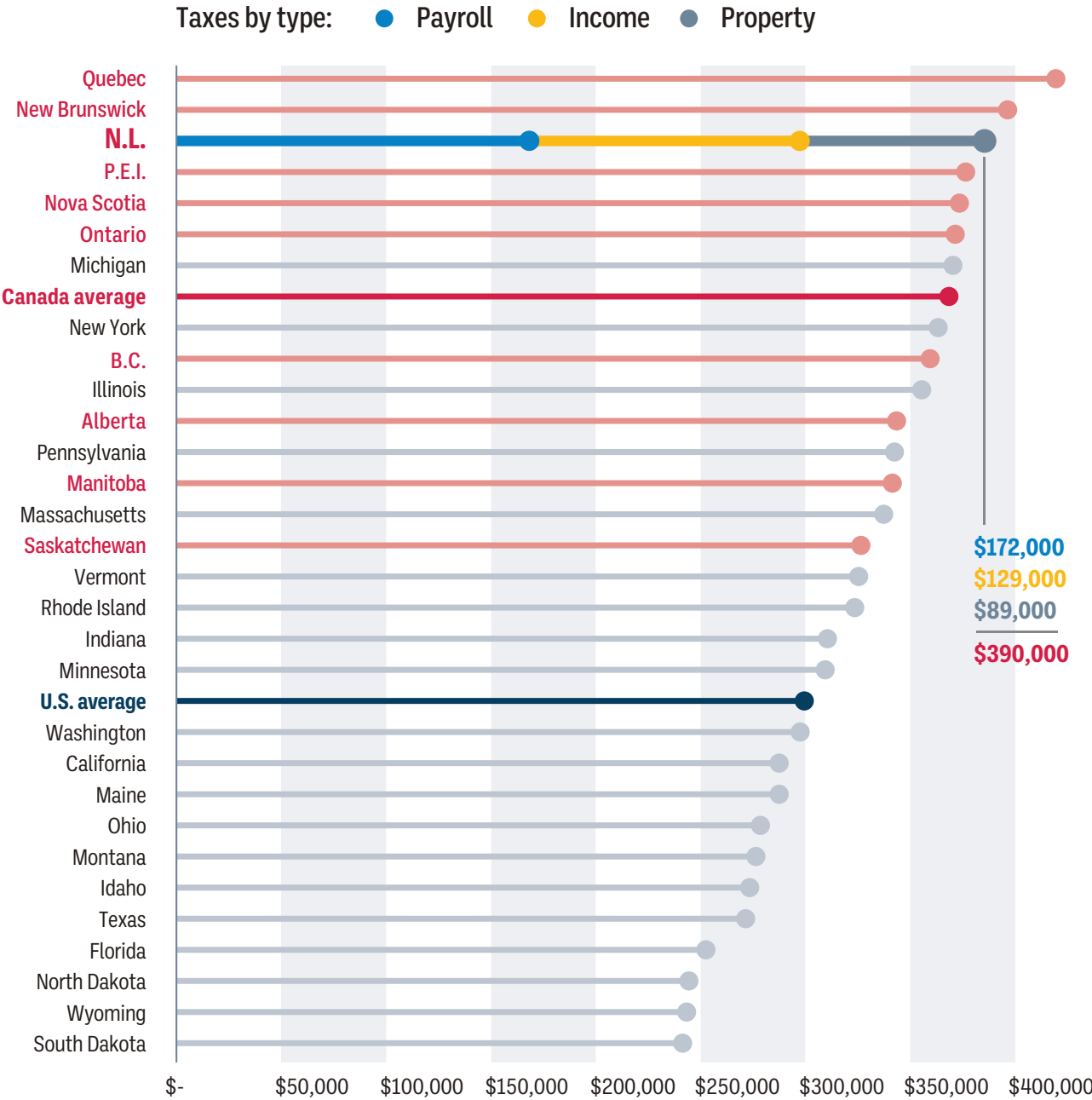
Property Taxes  
25/30

# Small Business:

Newfoundland  
& Labrador  
*St. John's*



Total: \$390,000



Overall ranking  
for small businesses  
28/30

Payroll Taxes  
16/30

Income Taxes  
30/30

Property Taxes  
23/30

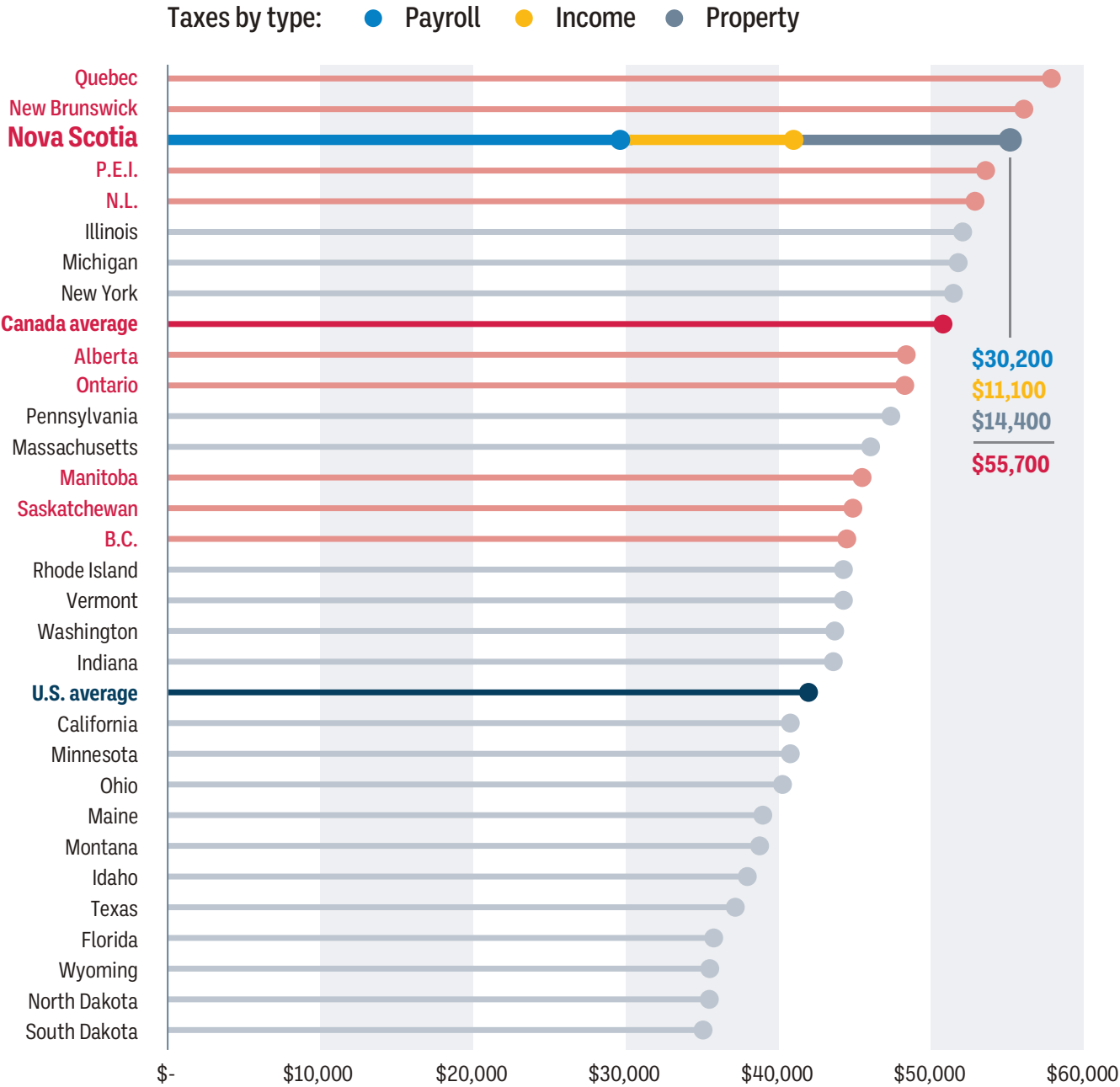


# Microbusiness:

Nova Scotia  
Halifax



Total: \$55,700



Overall ranking  
for microbusinesses  
28/30

Payroll Taxes  
29/30

Income Taxes  
19/30

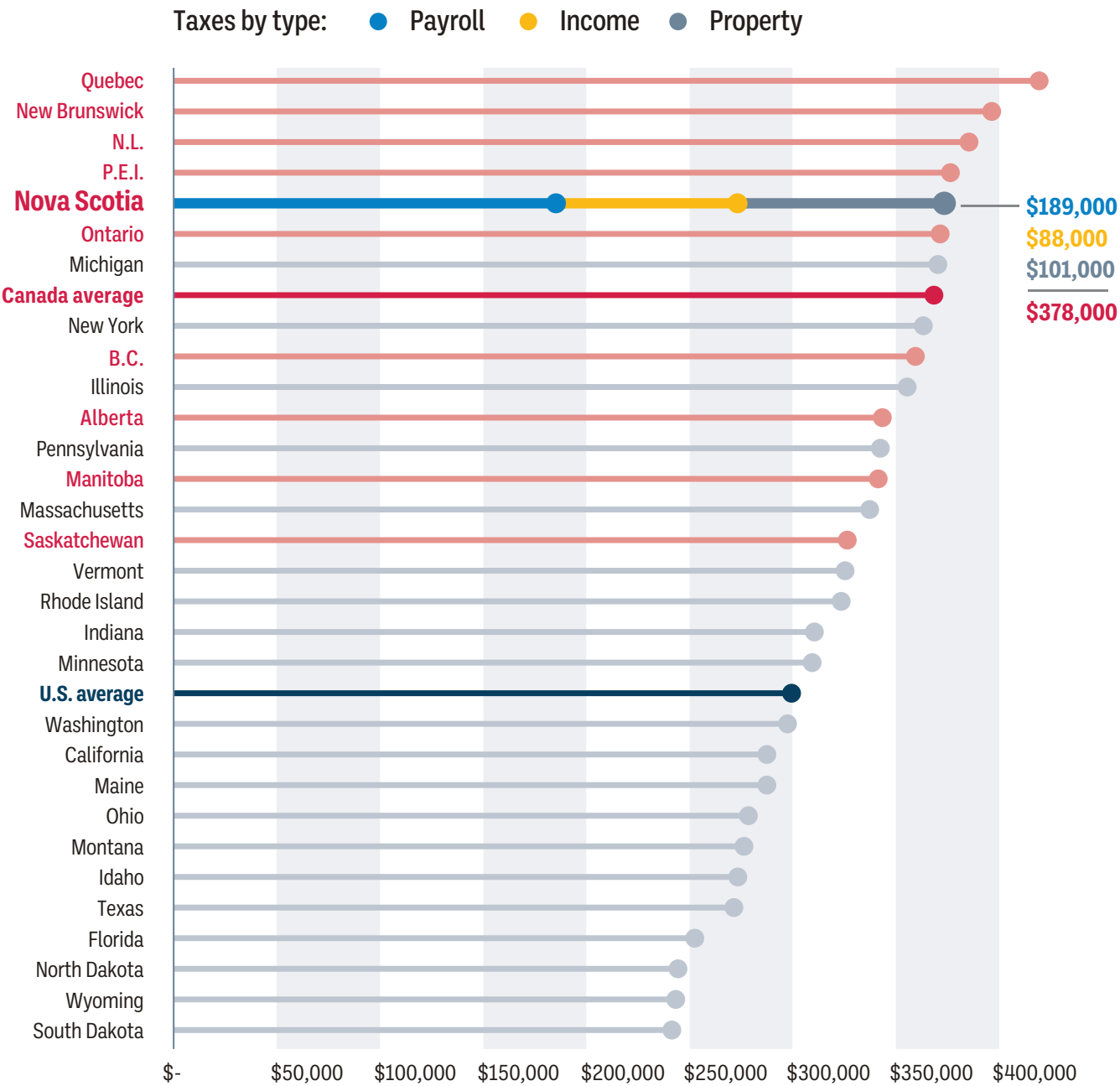
Property Taxes  
26/30

# Small Business:

Nova Scotia  
Halifax



Total: \$378,000



Overall ranking  
for small businesses  
26/30

Payroll Taxes  
26/30

Income Taxes  
21/30

Property Taxes  
26/30



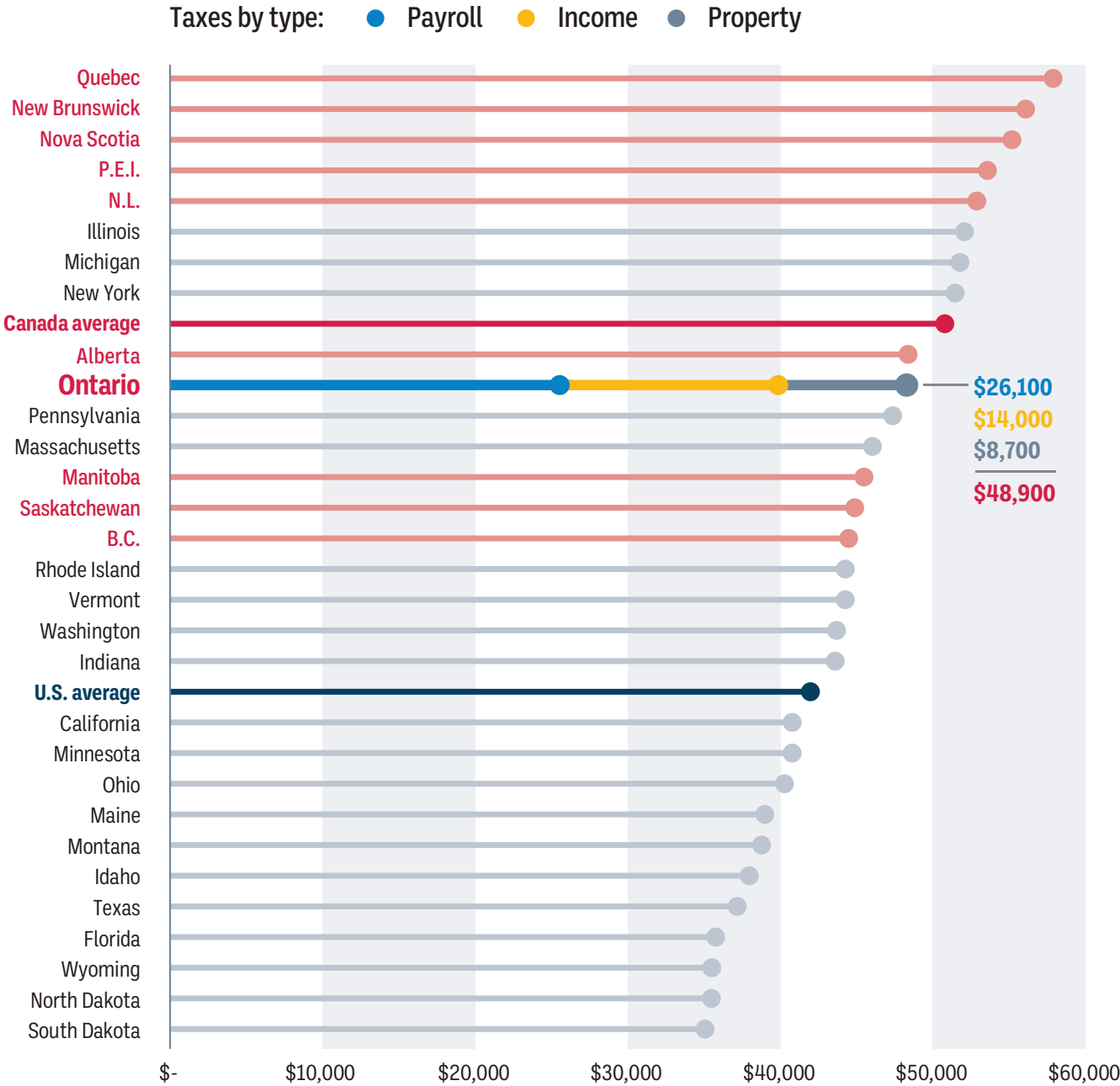
# Microbusiness:

Ontario  
Toronto



Total: \$48,900

\*Tied with P.E.I.  
\*\*Tied with Quebec



Overall ranking  
for microbusinesses  
21/30

Payroll Taxes  
9/30\*

Income Taxes  
26/30\*\*

Property Taxes  
16/30

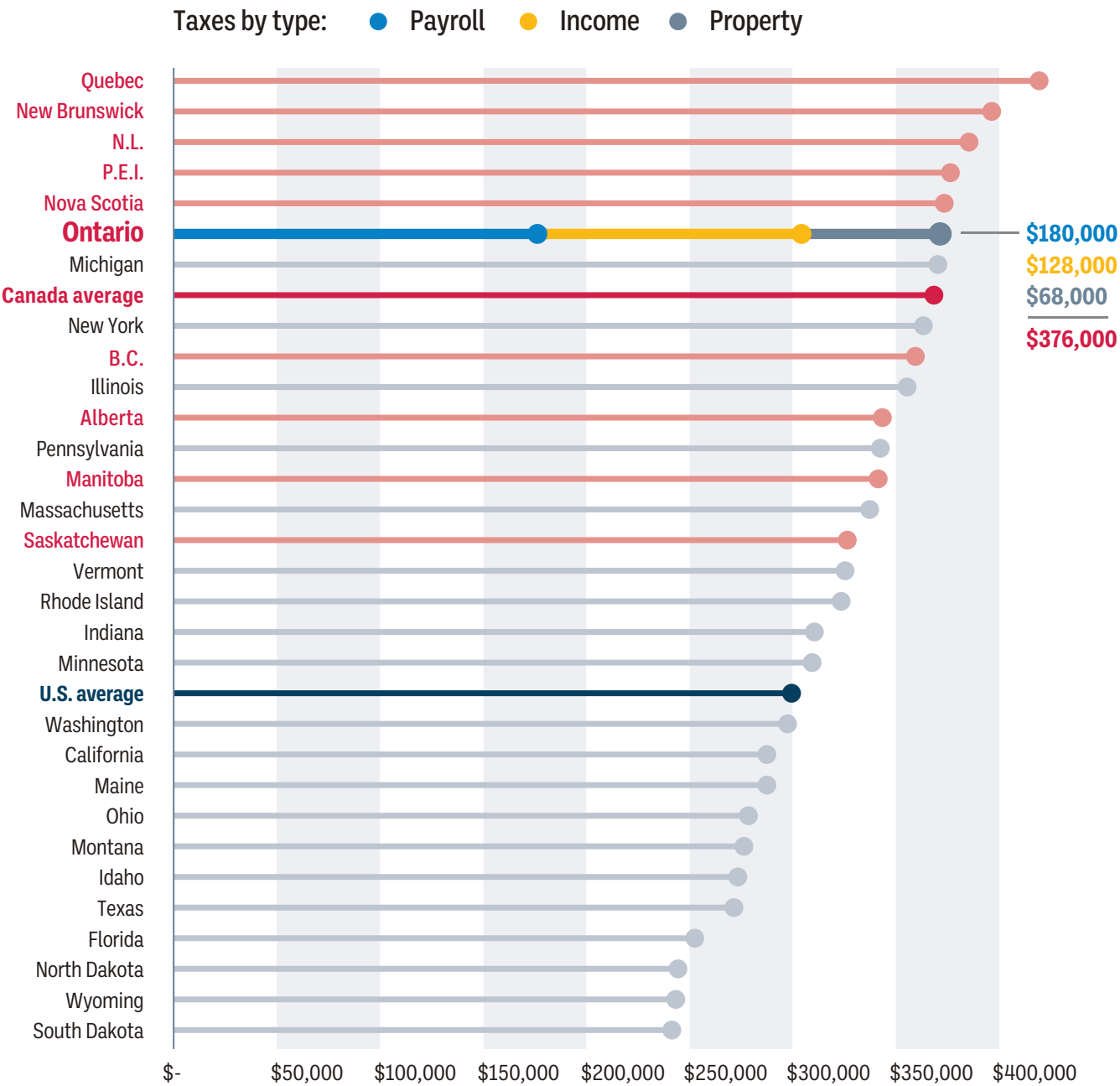
# Small Business:

Ontario  
Toronto



Total: \$376,000

\*Tied with Quebec



Overall ranking  
for small businesses  
25/30

Payroll Taxes  
22/30

Income Taxes  
27/30\*

Property Taxes  
19/30



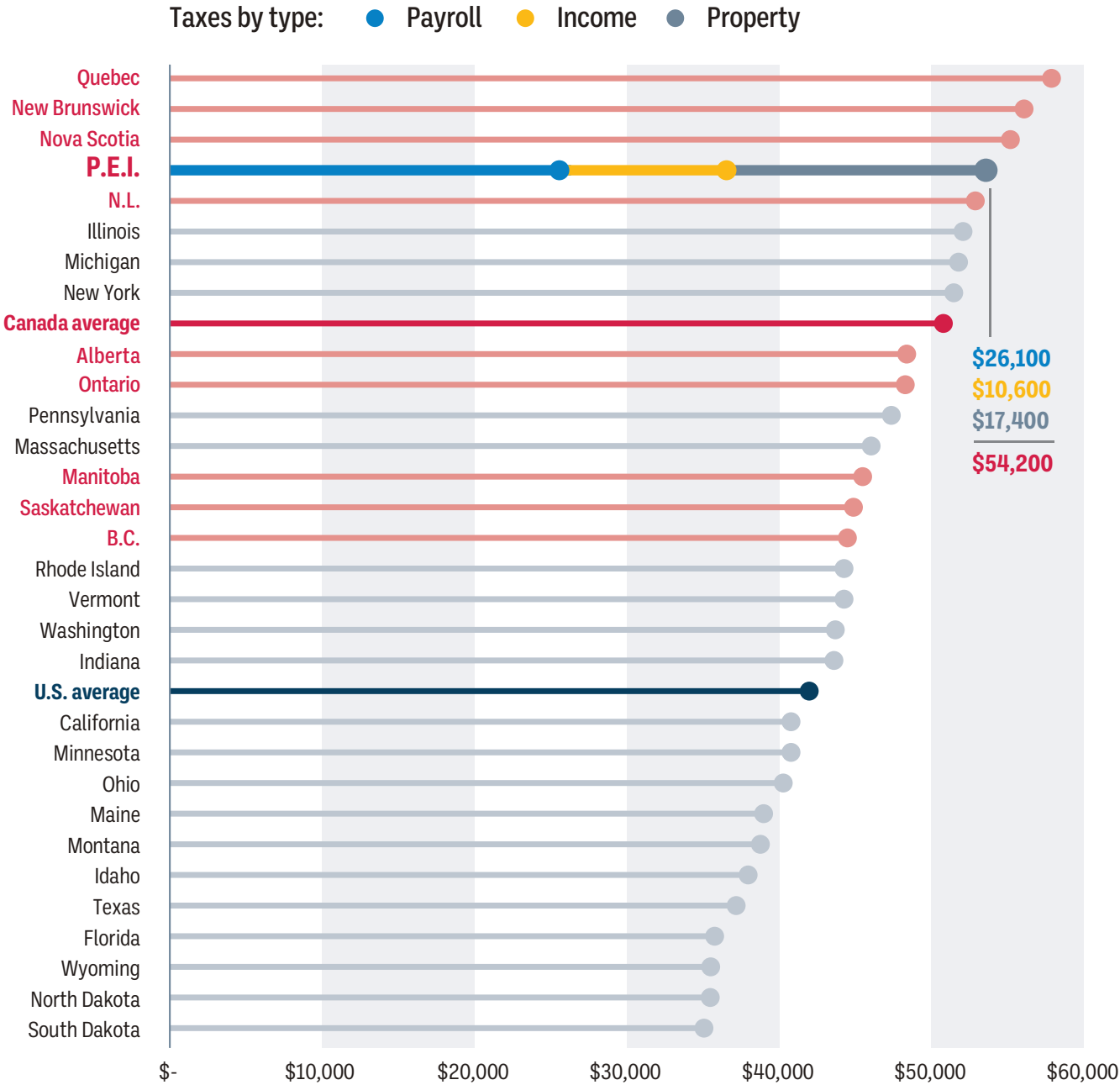
# Microbusiness:

Prince Edward  
Island  
Charlottetown



Total: \$54,200

\*Tied with Ontario  
\*\*Tied with Saskatchewan



Overall ranking  
for microbusinesses  
27/30

Payroll Taxes  
9/30\*

Income Taxes  
17/30\*\*

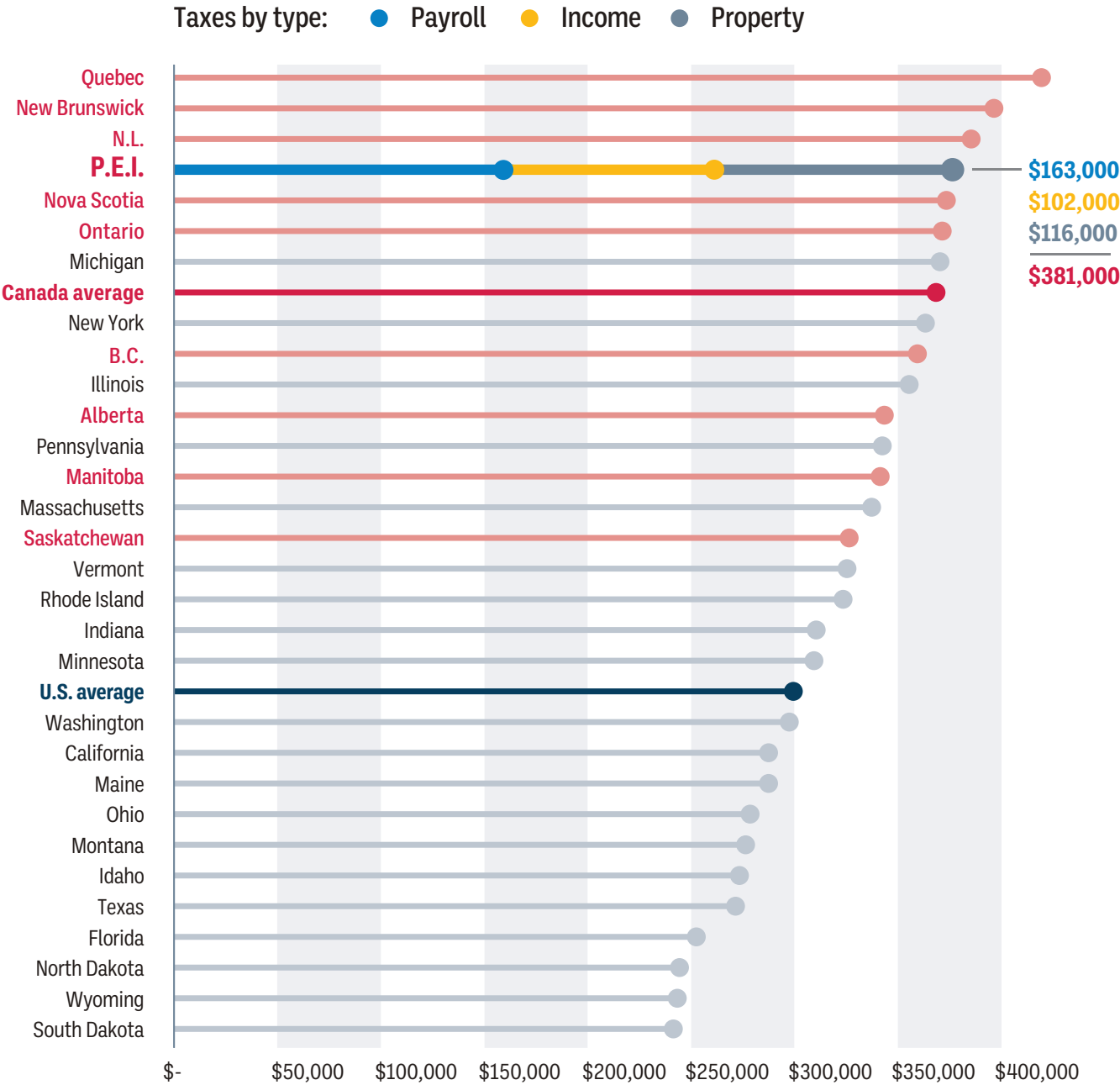
Property Taxes  
29/30

# Small Business:

Prince Edward  
Island  
Charlottetown



Total: \$381,000



Overall ranking  
for small businesses  
27/30

Payroll Taxes  
9/30

Income Taxes  
24/30

Property Taxes  
28/30



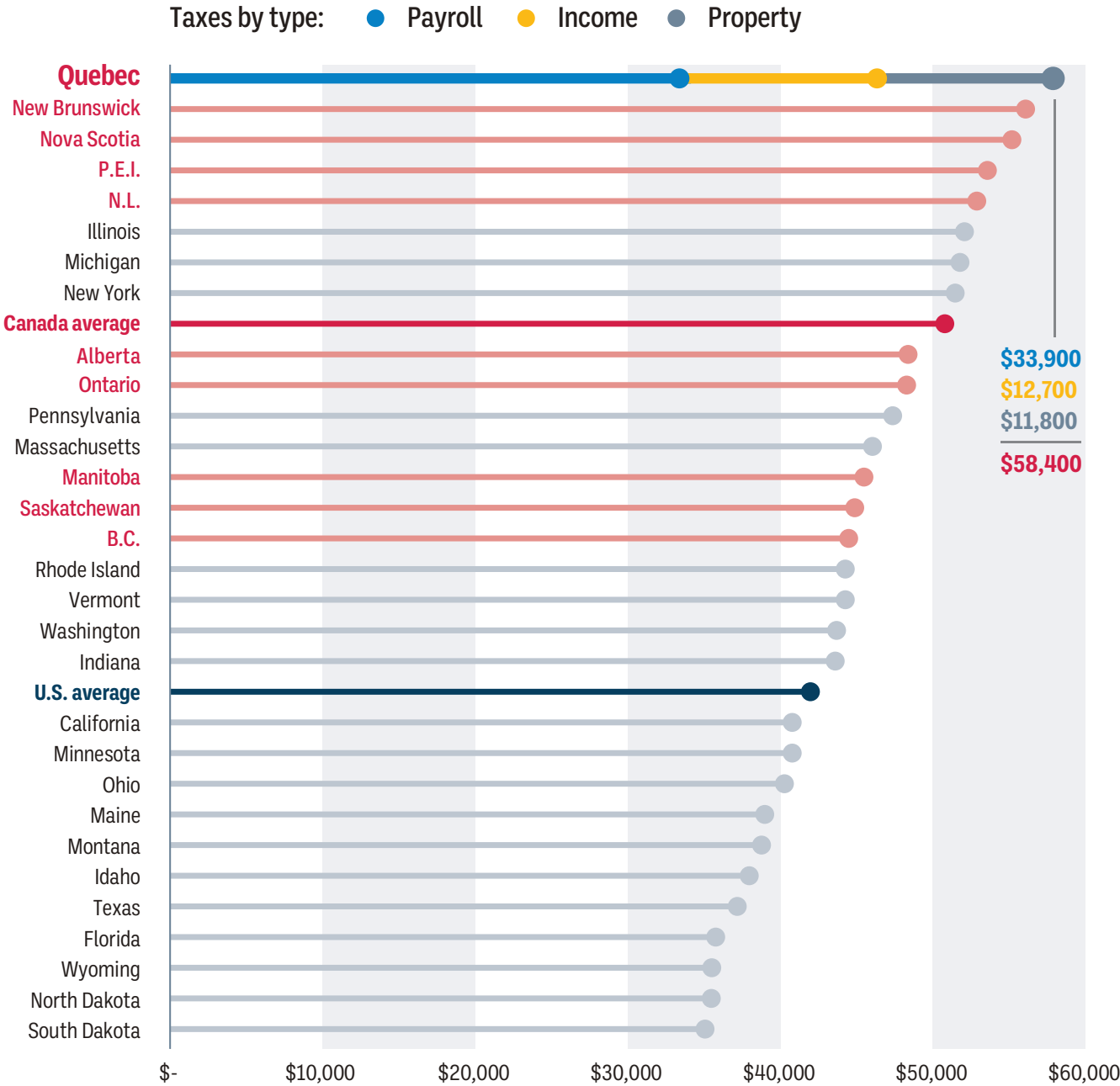
# Microbusiness:

Quebec  
Montréal



Total: \$58,400

\*Tied with Ontario



Overall ranking  
for microbusinesses  
30/30

Payroll Taxes  
30/30

Income Taxes  
26/30\*

Property Taxes  
24/30

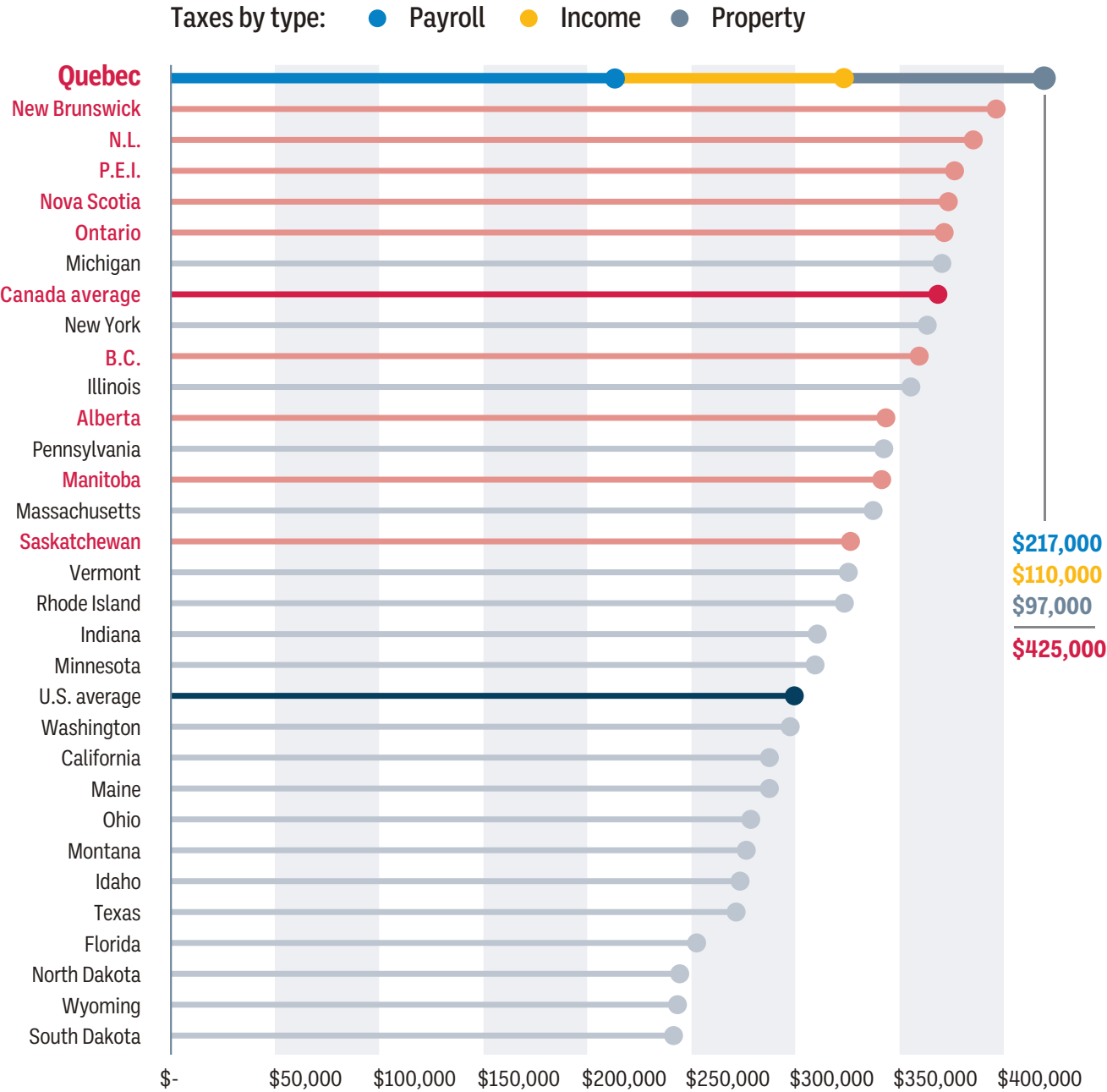
# Small Business:

Quebec  
Montréal



Total: \$425,000

\*Tied with Ontario



Overall ranking  
for small businesses  
30/30

Payroll Taxes  
30/30

Income Taxes  
27/30\*

Property Taxes  
25/30

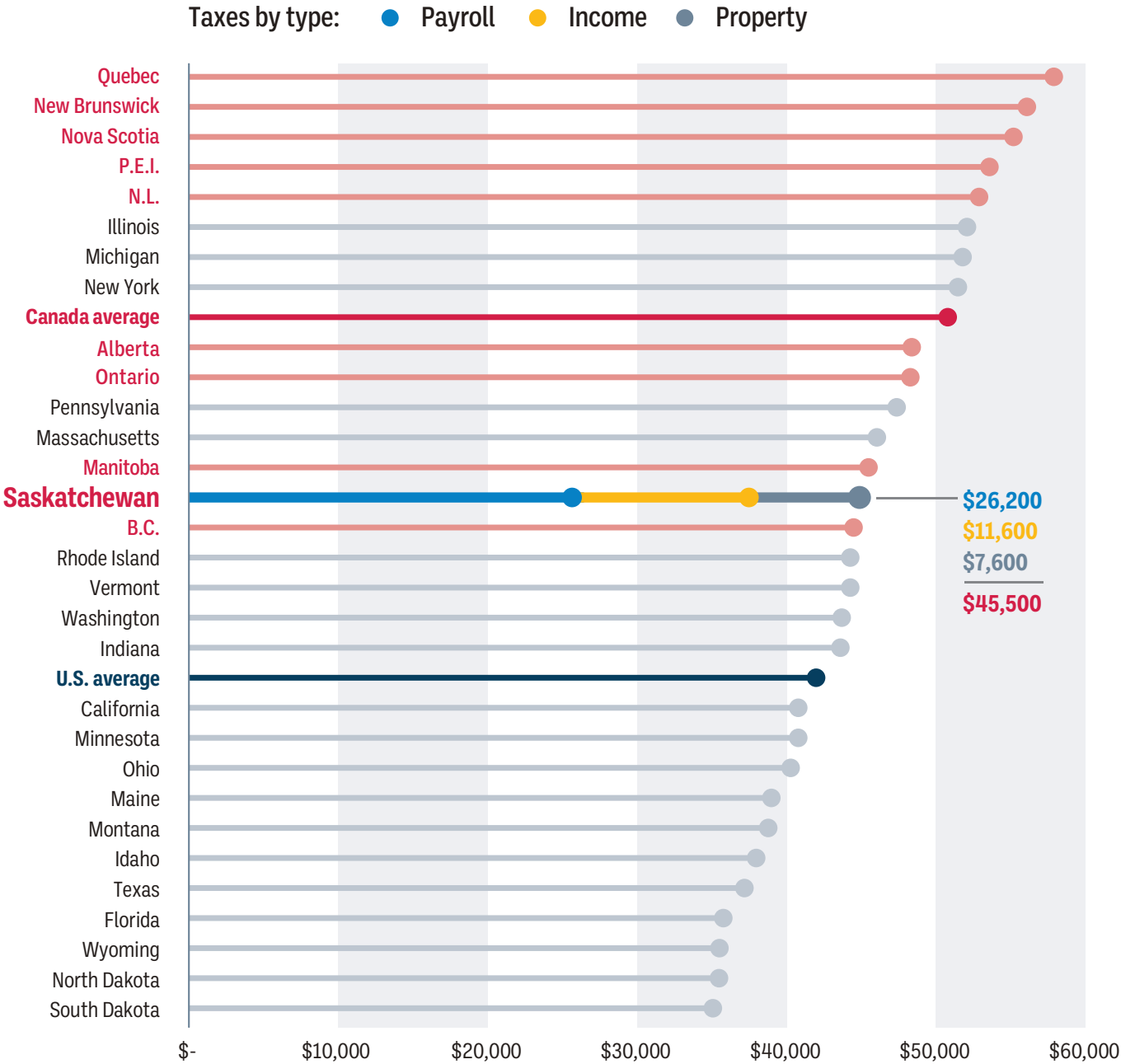


# Microbusiness: Saskatchewan *Saskatoon*



Total: \$45,500

*\*Tied with P.E.I.*



Overall ranking  
for microbusinesses  
17/30

Payroll Taxes  
11/30

Income Taxes  
17/30\*

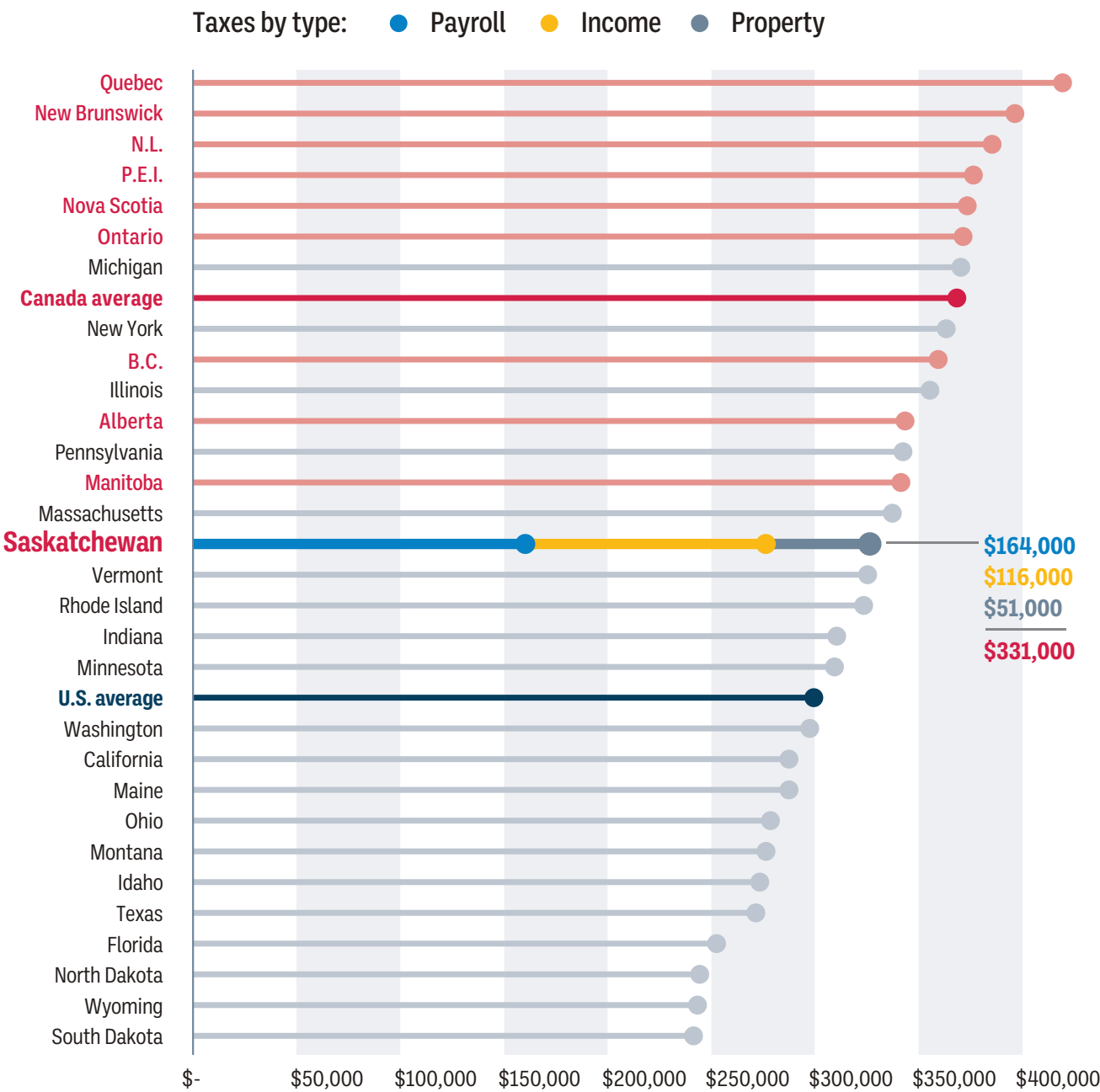
Property Taxes  
14/30

# Small Business:

## Saskatchewan Saskatoon



Total: \$331,000



Overall ranking  
for small businesses  
16/30

Payroll Taxes  
10/30

Income Taxes  
22/30

Property Taxes  
12/30





Appendix 2

Sales taxes

A major category of taxation, sales taxes, is a percentage tax levied on the cost of most goods and services bought by consumers. They have a large direct impact on consumers, but businesses generally do not directly pay them. As businesses only have a responsibility to collect them, sales taxes were omitted from the comparison of direct taxation in this report. However, this does not mean that they do not inflict a cost on micro- and small businesses.

Table 3: *Applicable sales taxes and corresponding rates, 2025, by jurisdiction*

Province	Tax Rate	State	Tax Rate
British Columbia (BC)	7%	California (CA)	8.8%
Alberta (AB)	None	Texas (TX)	8.2%
Saskatchewan (SK)	6%	Florida (FL)	7%
Manitoba (MB)	7%	New York (NY)	8.53%
Ontario (ON)	8%	Pennsylvania (PA)	6.34%
Quebec (QC)	9.98%	Montana (MT)	None
New Brunswick (NB)	10%	Michigan (MI)	6%
Nova Scotia (NS)	9%	Illinois (IL)	8.87%
Prince Edward Island (PEI)	10%	North Dakota (ND)	7.04%
Newfoundland and Labrador (NL)	10%	Vermont (VT)	6.37%
Canadian Federal Government	5%	Maine (ME)	5.50%
		Minnesota (MN)	8.13%
		Washington (WA)	9.45%
		Ohio (OH)	7.24%
		Massachusetts (MA)	6.25%
		Idaho (ID)	6.03%
		Wyoming (WY)	5.44%
		South Dakota (SD)	6.11%
		Indiana (IN)	7%
		Rhode Island (RI)	7%
		U.S. Federal Government	None

Sources:

- 1) For Canadian provinces - Retail Council of Canada, Sales Tax Rates by Province. Accessed February 2025. <https://www.retailcouncil.org/resources/quick-facts/sales-tax-rates-by-province/>
- 2) For U.S. states - YUSHKOV, Andrey, Jared WALCZAK, and Katherine LOUGHEAD, 2025 State Tax Competitiveness Index, Tax Foundation. Accessed February 2025. <https://taxfoundation.org/research/all/state/2025-state-tax-competitiveness-index/>

Note: In many U.S. states, a local sales tax is imposed in addition to the state system. The average local rate was included in the state tax rate when applicable.



## Appendix 2

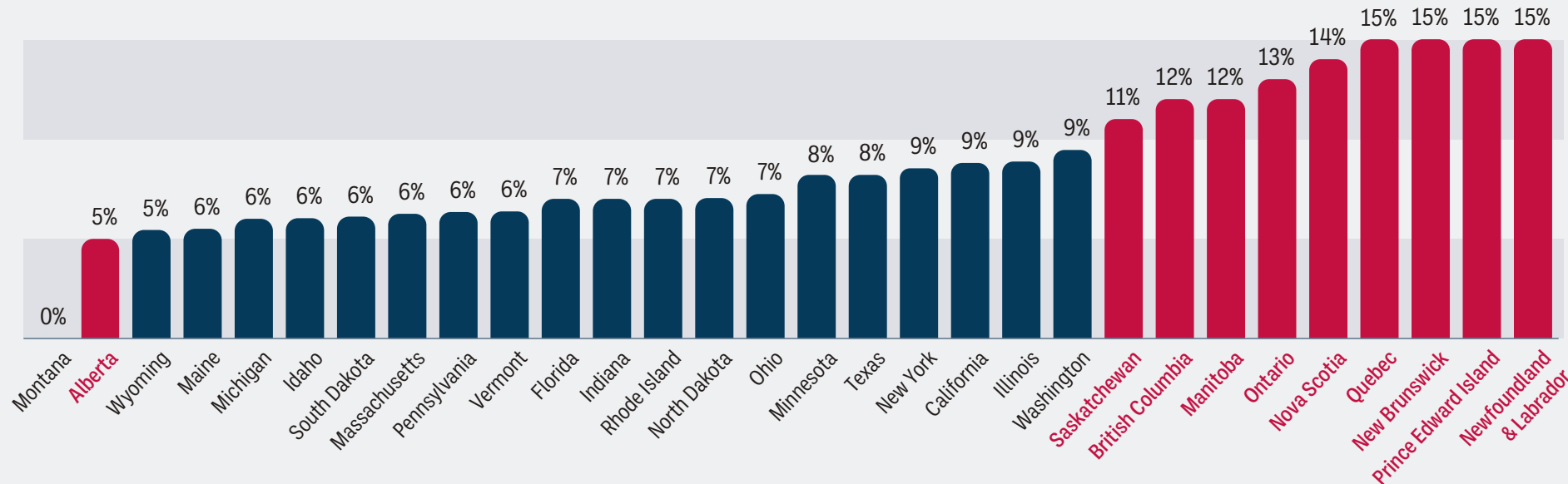
### Sales taxes

For example, the provincial sales taxes of three western provinces (British Columbia, Saskatchewan, Manitoba) and several U.S. states apply to businesses' capital investments.<sup>43,44</sup> The taxation of these investments, which include machinery and equipment such as computers, construction vehicles, and ovens, are a situation where businesses would directly pay sales taxes. Additionally, by raising the cost of goods and services which business sell, it may raise prices above what consumers are willing to pay, forcing businesses to absorb the cost. In this way, there is a large indirect cost.

While individual state sales tax rates tend to be lower than those of Canadian provinces, there is no national sales tax in the U.S., resulting in significantly higher combined sales tax rates in nearly every province in Canada (see Figure 19). Including these factors would therefore showcase even worse Canadian tax competitiveness, although it is unclear what share of the cost burden businesses would have to absorb.

Figure 19

*Total combined sales tax rates by analyzed jurisdiction (rounded to the nearest whole number)*



Sources:

1) For Canadian provinces - Retail Council of Canada, Sales Tax Rates by Province. Accessed February 2025. <https://www.retailcouncil.org/resources/quick-facts/sales-tax-rates-by-province/>

2) For U.S. states - YUSHKOV, Andrey, Jared WALCZAK, and Katherine LOUGHEAD, 2025 State Tax Competitiveness Index, Tax Foundation. Accessed February 2025.

<https://taxfoundation.org/research/all/state/2025-state-tax-competitiveness-index/>

Note: In many U.S. states, a local sales tax is imposed in addition to the state system. The average local rate was included in the state tax rate when applicable.



## Appendix 3

### Methodology

#### Basic assumptions

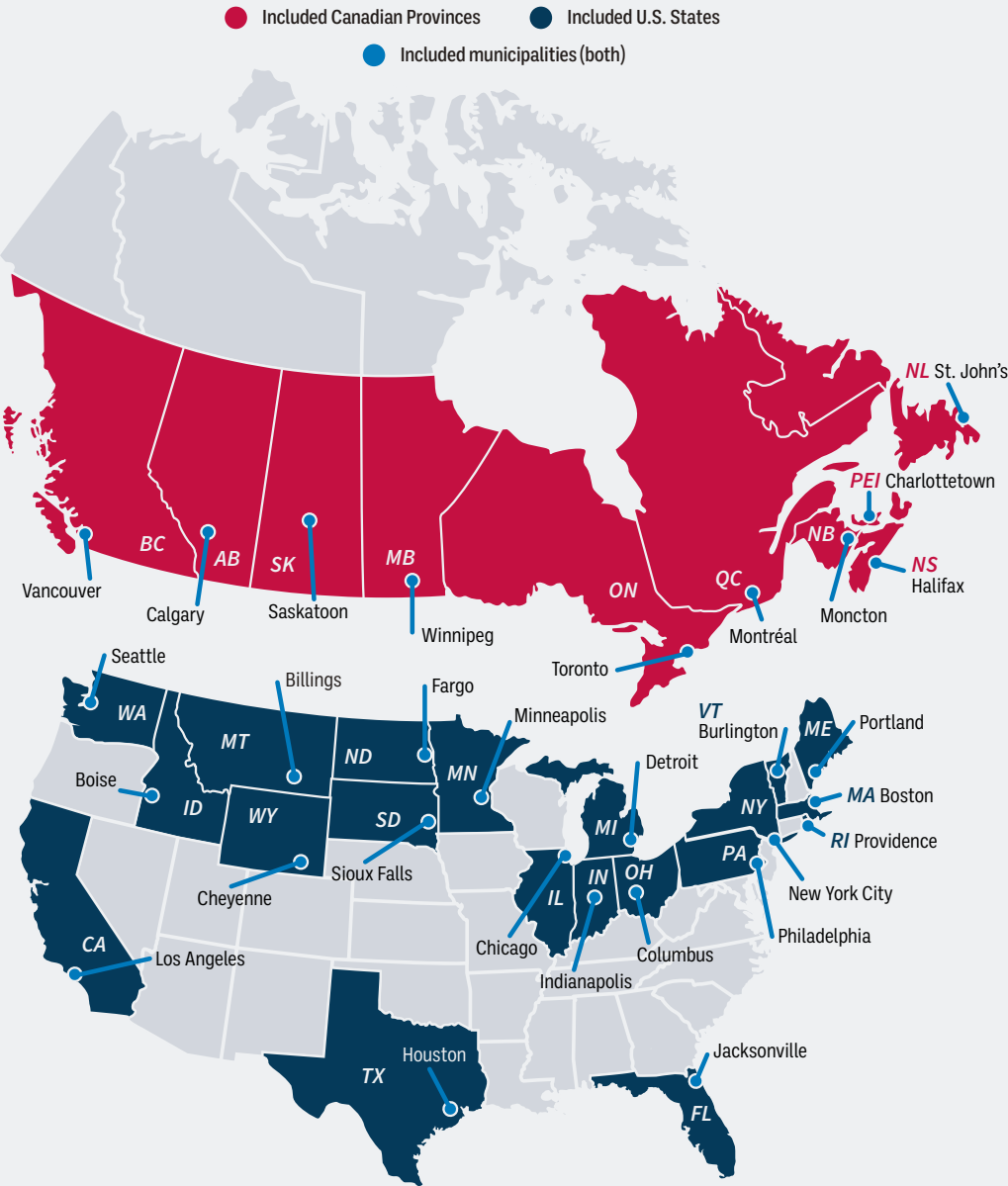
The method used to assess tax competitiveness between Canada and the U.S. uses both variables and constant factors. Variables differ between scenarios while constant factors are uniform across all three types of businesses assessed. In order to create a standardized comparison, we assume the businesses share identical characteristics across jurisdictions, despite operating in regions with differing economies, environments, and cultures. We used characteristics of typical Canadian businesses to estimate the cost burden if the same business operated in the U.S., all else being equal.

#### Jurisdictions analyzed

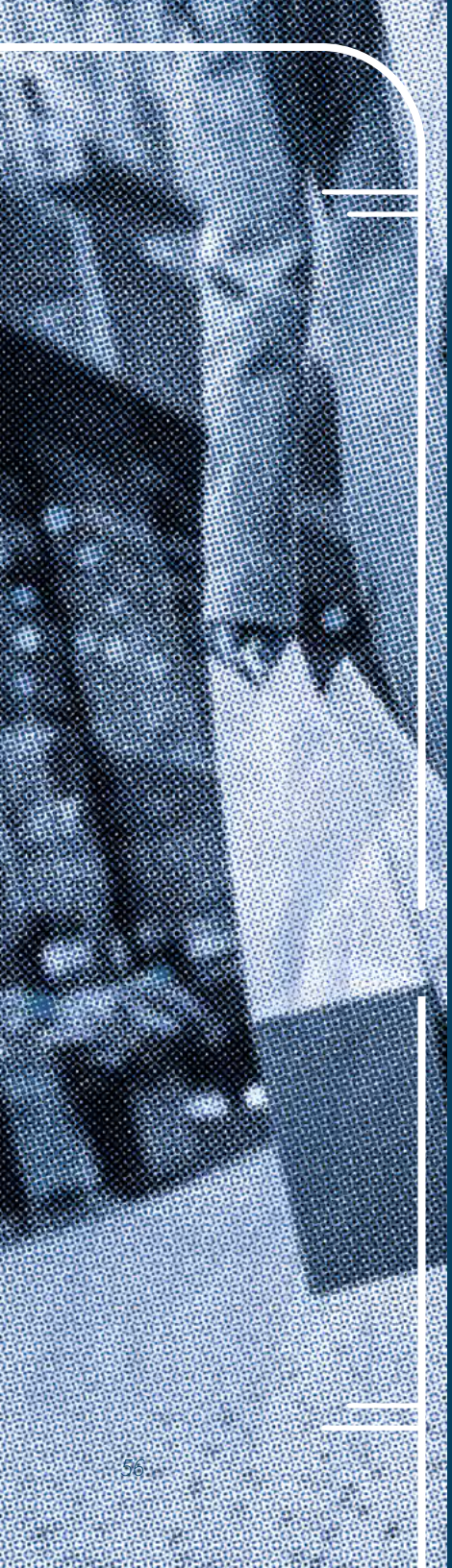
We analyzed the fiscal environment of all 10 Canadian provinces and 20 selected states (see Figures 4a and 4b). Five of the most populous U.S. states were selected, with the remaining fifteen chosen based on their trade exposure and geographic proximity to Canada.<sup>45,46</sup> To include the impact of municipal taxation, we selected the largest municipality in each province and state to assess the most probable location within each jurisdiction.<sup>47,48</sup> A comparison of business taxes without any location-based taxation (property, additional municipal) was also showcased to highlight the amount of taxes a business would pay regardless of its location within a specific province/state. Due to differences in splits between the taxation responsibilities of provincial/state and local governments, solely focusing on provincial/state property taxes would produce a skewed result. Choosing smaller municipalities would have an unclear effect on property taxes but would likely reduce business taxes in U.S. states where the largest city imposes significant municipal income or franchise taxes (e.g., New York, Michigan, Pennsylvania), in contrast to smaller municipalities that may have no such taxes or levy them at lower rates.

Figure 20

#### Provinces/states analyzed and their largest municipality







*Businesses’ characteristics for base scenarios*

Selected variables, such as pre-tax net income, number of employees, and value of property owned, are based on levels we deemed reasonable given the size and type of business (see Table 4).

Implied variables were calculated using constant factors that apply across all scenarios (see Table 5). For example, net income is determined by subtracting taxes that are considered business expenses (payroll taxes, property taxes, franchise taxes, etc.) from pre-tax net income. Because net income varies across jurisdictions based on business expenses affected by other taxes (e.g., payroll and property), we average net income for the analyzed business in each Canadian province to establish a common revenue starting point using the assumed pre-tax profit margin stated in Table 5. Meanwhile, annual payroll was determined using the selected number of employees per business in this table along with the constant hourly wage and hours worked that apply uniformly across all scenarios (see Table 5).

A significant variable that impacts U.S. S corporations’ tax burden is the number of shareholders. Since net income is split among shareholders and taxed on their personal returns, having a higher number of shareholders reduces overall taxes by allowing greater use of individual deductions and keeping income in lower tax brackets since each shareholder has less income to report. Sole proprietors have no shareholders, since there is no legal distinction between the single owner and the business. However, a reasonable estimate is needed for S corporations. To make this assumption, data from the Internal Revenue Service (IRS) was analyzed.<sup>49</sup> Based on an average

of the most recent five years of available data (2017–2021), adjusted for inflation to 2024, the average net income for an S corporation with 2 shareholders is \$127,451, while a business with 4-10 shareholders averages \$568,629.<sup>50,51,52</sup> These figures suggest the estimated number of shareholders for the analyzed microbusiness is broadly in line with the data, while the estimate for the analyzed small business may understate the number of shareholders based on our calculated level of average net income (for U.S. states) of \$760,239.

Table 4

*Business characteristics selected for the analysis*

Variables	Unincorporated Business	Microbusiness	Small Business
Selected			
Business type	Sole proprietor	Corporation/ S corporation	Corporation/ S corporation
Pre-tax net income	\$50,000	\$150,000	\$1 million
Number of employees	0	4	25
Value of owned property	\$0	\$450,000	\$3 million
Numbers of shareholders (for U.S. only)	1	2	8
Implied			
Average net income <sup>53</sup>	\$50,000	\$110,198	\$737,326
Revenue	\$490,196	\$1,080,375	\$7,228,689
Annual payroll	\$0	\$292,864	\$1,830,400



*Additional, constant factors used to analyze tax competitiveness*

These assumed constant factors apply to every analyzed business and are used to calculate some variables that distinguish the three different analyzed scenarios from each other (see Table 4). Most factors were justified using data that reflects what is reasonable for a typical business and its employees (see Table 5). Each country’s analysis used its local currency, with no cross-currency effects.

We did not assess personal compensation specifically in either country. In the U.S., business owners involved in managing or operating the business must pay themselves a “reasonable” salary.<sup>54</sup> While this salary would stack on top of personal income taxes paid on business net income, raising their tax liability, Canadian small business owners also draw taxable compensation through salary or dividends. Moreover, unlike in Canada, where withdrawing funds from a business triggers taxation, U.S. business owners can retain, reinvest, or withdraw pass-through business income as needed since it is only taxed once. This system offers greater flexibility and a structural advantage. As a result, U.S. business owners can pay themselves a modest salary (minimizing payroll taxes), drawing from business income as needed, while Canadian owners generally need to draw higher compensation to achieve a similar after-tax income, subject to higher personal income tax rates.

Table 5

*Constant factors used to analyze tax competitiveness*

<i>Factors</i>	<i>Value</i>	<i>Justification</i>
Employee hours worked per year <sup>55</sup>	2,080	Represents a full-time workload (52 weeks @ 40 hours)
Hourly wage of employee(s)	\$35.20	Average hourly wage in Canada <sup>56</sup>
Annual wage of employee(s)	\$73,216	Calculated from above (2,080 hours @ \$35.20/hr)
Profit margin	10.2%	Average pre-tax profit margin in Canada (Q1 2025) <sup>57,58</sup>
Tax filing status of shareholders (for U.S. only) <sup>59</sup>	Joint filer	Over one-third (68%) of U.S. tax filers that report S corporation income file jointly <sup>60</sup>
Cost burden from sales taxes	0%	See Appendix 2
Currency conversion rate	1-1	Differences in international currency conversion rates cause no difference in business affordability unless the business is engaged in international trade. A standardized measure enables a more direct comparison and will not be subject to fluctuation in the future



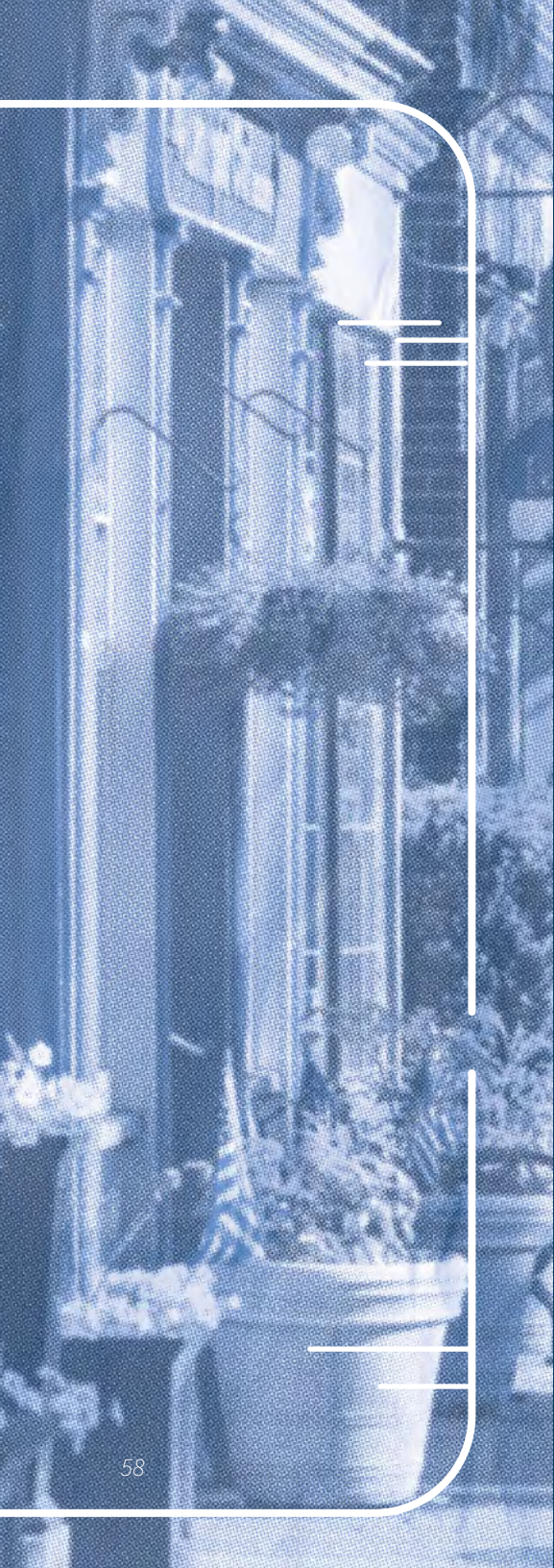


Table 6

Provinces/states analyzed and their largest municipality

Province	Largest Municipality	State	Largest Municipality
British Columbia (BC)	Vancouver	California (CA)	Los Angeles
Alberta (AB)	Calgary	Texas (TX)	Houston
Saskatchewan (SK)	Saskatoon	Florida (FL)	Jacksonville
Manitoba (MB)	Winnipeg	New York (NY)	New York City
Ontario (ON)	Toronto	Pennsylvania (PA)	Philadelphia
Quebec (QC)	Montréal	Montana (MT)	Billings
New Brunswick (NB)	Moncton	Michigan (MI)	Detroit
Nova Scotia (NS)	Halifax	Illinois (IL)	Chicago
Prince Edward Island (PEI)	Charlottetown	North Dakota (ND)	Fargo
Newfoundland and Labrador (NL)	St. John's	Vermont (VT)	Burlington
		Maine (ME)	Portland
		Minnesota (MN)	Minneapolis
		Washington (WA)	Seattle
		Ohio (OH)	Columbus
		Massachusetts (MA)	Boston
		Idaho (ID)	Boise
		Wyoming (WY)	Cheyenne
		South Dakota (SD)	Sioux Falls
		Indiana (IN)	Indianapolis
		Rhode Island (RI)	Providence

Sources:

1) For Canadian municipalities – Statistics Canada, Population estimates, July 1, by census metropolitan area and census agglomeration, 2021 boundaries. Accessed April 2025.

<https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710014801>

2) For U.S. municipalities - Lincoln Institute of Land Policy, 50-State Property Tax Comparison Study for Taxes Paid in 2024. Accessed July 2025.

<https://www.lincolninst.edu/publications/other/50-state-property-tax-comparison-study-2024>



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## About CFIB

CFIB is a non-partisan organization exclusively representing the interests of 100,000 small and medium-sized businesses in Canada. CFIB's research capacity is second-to-none because it is able to gather timely and concrete information from members about business issues that affect their day-to-day operation and bottom line. In this capacity, CFIB is an excellent source of up-to-date information for governments to consider when developing policies impacting Canada's small business community.

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Questions or data requests :  
[research@cfib.ca](mailto:research@cfib.ca)

All CFIB research :  
[cfib.ca/research](https://cfib.ca/research)

X:  
[@CFIB\\_FCEI\\_Stats](https://twitter.com/CFIB_FCEI_Stats)

## Endnotes:

1. We define the end of the pandemic as Q1 2022.
2. Statistics Canada, Indexes of business sector labour productivity, unit labour cost and related measures, seasonally adjusted, 2025. Accessed April 2025. <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610020601&cubeTimeFrame.startMonth=10&cubeTimeFrame.startYear=2021&cubeTimeFrame.endMonth=10&cubeTimeFrame.endYear=2024&referencePeriods=20211001%2C20241001>
3. Labour productivity is a measure of real gross domestic product (GDP) per hour worked.
4. The Hub, Trevor Tombe: As productivity plunges, Ontario and Alabama now have the same per capita GDP, June 2023. Accessed March 2025. <https://thehub.ca/2023/06/15/trevor-tombe-most-provincial-economiesstruggle-to-match-the-u-s/>
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6. U.S. Bureau of Economic Analysis, Table 1.1.1. Percent Change From Preceding Period in Real Gross Domestic Product, 2025. Accessed March 2025. BEA.gov: [LINK HERE](#)
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8. U.S. Bureau of Economic Analysis, Labor productivity, nonfarm business, percent change from same quarter a year ago, and from previous quarter, 2025. Accessed in April 2025. <https://www.bls.gov/charts/productivity-and-costs/nonfarm-business-sector-productivity-percent-change.htm>
9. OECD, Society at a Glance 2024: OECD Social Indicators. Accessed May 2025. <https://doi.org/10.1787/918d8db3-en>



## Endnotes

- 10.** CFIB, Your Voice Survey, January 2025, n = 2,345.
- 11.** A business can qualify for S corporation status if it (1) is domestic, (2) has only allowable shareholders (e.g., no corporations or non-residents), (3) has no more than 100 shareholders, (4) has only one class of stock, and (5) is not an ineligible corporation (such as certain financial institutions, insurance companies, or international sales corporations). <https://www.irs.gov/businesses/small-businesses-self-employed/s-corporations>
- 12.** U.S. Small Business Administration Office of Advocacy, Frequently Asked Questions About Small Business, 2023. Accessed June 2025. <https://advocacy.sba.gov/2023/03/07/frequently-asked-questions-about-smallbusiness-2023/>
- 13.** United States Census Bureau, State Population Totals and Components of Change: 2020-2024. Accessed May 2025. <https://www.census.gov/data/tables/time-series/demo/popest/2020s-state-total.html>
- 14.** TOMBE, Trevor, Partners in Prosperity: How the Canada-U.S. Trade Relationship Goes Beyond Buying and Selling, Canadian Chamber of Commerce & Business Data Lab, October 2024. Accessed January 2025. [Partners in Prosperity: How the Canada-U.S. Trade Relationship Goes Beyond Buying and Selling - Business Data Lab](https://www.canadachamber.com/partners-in-prosperity-how-the-canada-u.s.-trade-relationship-goes-beyond-buying-and-selling-business-data-lab)
- 15.** Statistics Canada, Population estimates, July 1, by census metropolitan area and census agglomeration, 2021 boundaries, January 2025. Accessed April 2025. <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710014801>
- 16.** Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence, 50-state property tax comparison study, for taxes paid in 2024, July 2025. Accessed July 2025. <https://www.lincolninst.edu/publications/other/50-state-property-tax-comparison-study-2024>
- 17.** Franchise taxes are unique to certain U.S. states and are levied at the entity level rather than on the business owner(s). Although they apply earlier in the operational lifecycle, they are grouped with income taxes because they usually reflect the amount of money flowing through the business and, in many cases, are used in states that have no income tax as a substitute.
- 18.** Numerous U.S. cities, including New York City, Los Angeles, and Seattle, have additional taxes on income or revenues beyond common municipal property taxes, which do not exist in any Canadian city. These were included in the tax burden for any applicable states. See Supplementary Information on Methodology document for more details.
- 19.** CFIB, Your Voice Survey, January 2025, n = 2,345.
- 20.** The Council of Economic Advisors, The Economic Impact of Extending Expiring Provisions of the Tax Cuts and Jobs Act. Accessed April 2025. <https://www.whitehouse.gov/wp-content/uploads/2025/03/Economic-Impactof-Extending-TCJA-Provisions.pdf>
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- 22.** Revenu Québec. Corporate Income Tax Return Guide. Accessed June 2025. <https://www.revenuquebec.ca/fr/services-en-ligne/formulaires-et-publications/co-17-g/guide-de-ladeclaration-de-revenus-des-societes/#441311-tauximposition>
- 23.** Gougeon, Philippe, Ornella Wadji, and Zachary Martel (APPECO). Analyse des retombées économiques potentielles d'élargir l'accès à la DPE: Rapport final. Submitted to François Vincent, Canadian Federation of Independent Business. Québec: Ministère de l'Emploi et de la Solidarité sociale, January 2024. Accessed June 2025. [https://www.cubiq.ribg.gouv.qc.ca/notice?id=p%3A%3Ausmarcdef\\_0001315079&locale=fr](https://www.cubiq.ribg.gouv.qc.ca/notice?id=p%3A%3Ausmarcdef_0001315079&locale=fr)
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- 25.** Based on T2 tax return lines 405 (taxable income), 430 (SBD claim), and 750 (taxation jurisdiction). Counts rounded; suppressed where necessary for confidentiality.



## Endnotes

26. CFIB, Your Voice Survey, June 2024, n = 1997.
27. Department of Health and Human Services, How the Affordable Care Act affects small businesses. Accessed March 2025. <https://www.healthcare.gov/small-businesses/learn-more/explore-coverage/>
28. Around half (53%) of U.S. small firms (those with fewer than 200 employees) offer health benefits to their employees, with smaller firms being less likely to provide coverage. <https://www.kff.org/healthcosts/report/2023-employer-health-benefits-survey/>
29. Department of Health and Human Services, The Small Business Health Care Tax Credit. Accessed March 2025. <https://www.healthcare.gov/small-businesses/provide-shop-coverage/small-business-tax-credits/>
30. Almost all Canadian provinces levy a provincial property tax, often designed to fund education systems.
31. Tax Policy Center, How do state and local property taxes work? Accessed May 2025. <https://taxpolicycenter.org/briefing-book/how-do-state-and-local-property-taxes-work?>
32. CFIB, Special CFIB survey on the impact of U.S.-Canada tariffs, February 2025, n = 2,298.
33. CFIB, Your Voice Survey, October 2024, n = 3,003.
34. CFIB, Budget 2025-2026 is good news for small businesses, delivers on small business tax cut, February 2025.
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## Endnotes

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