

Budget 2018 Recommendations
Fairness for Small Business

1. **Tax Fairness:** Conduct an economic impact assessment on all proposed small business tax changes and provide an additional period of consultation with stakeholders before moving forward.
 - a. **Income sharing/sprinkling:**
 - i. Implement a full exemption for spousal income (shares and dividends) from the new sprinkling rules.
 - ii. Postpone the enforcement of the changes until, at the very least, January 1, 2019
 - b. **Passive investment:**
 - i. Drop the proposed passive investment rules until an impact assessment can be completed to ensure there will be no unintended consequences.
 - ii. If government is committed to moving forward quickly with changes to passive investment, it should:
 1. Raise the annual threshold from \$50,000 to \$250,000;
 2. Index the passive investment threshold to inflation and ensure that it is cumulative over time, as TFSA/RRSP rules are, and;
 3. Ensure there are no scenarios in which passive investment would be taxed higher than the highest marginal tax rate.
 - c. **Small Business Tax Rate (SBTR):**
 - i. Review taxable capital limits and increase it to \$50 million to better reflect current realities of many smaller businesses that sell high-value goods or firms growing to become medium-sized.
 - d. **Intergenerational transfers:**
 - i. Make changes to ensure the costs of selling one's business to family members is the same as selling to a third party.
 - e. **Sales tax on foreign versus domestic businesses**
 - i. The federal government should require foreign-owned businesses to collect and remit Canadian sales tax (GST) when selling to Canadian residents.
 - ii. There should be no increase to the *de minimis* in Canada until foreign firms are also required to charge and remit the same sales taxes as Canadian businesses.
 - f. **Tax measures to promote innovation and productivity**
 - i. Allow businesses to claim up to \$100,000 per year spent on new equipment or technology, in the year of purchase, similar to the Section 179 Deduction in the U.S.
 - ii. Introduce a 100 percent Capital Cost Allowance (CCA) rate for technology purchases to allow new investments by businesses.
2. **Payroll Taxes:** With increases to minimum wage in several provinces, the cost of labour has become a bigger burden for small businesses with recent EI premium increases and CPP premiums set to also increase in 2019 for the next five years. Therefore, the government must think about how they might offset some of these additional costs and minimize the impact on employment.
 - a. **Employment Insurance (EI):**
 - i. Implement a 50:50 split in EI premiums between employers and employees, or, implement a permanently lower rate for small business.
 - ii. Introduce an EI holiday for hiring youth to help offset the increasing cost of labour and provide further incentives for small businesses to hire youth.

3. **Employee Training:**

- a. Introduce a training tax credit that recognizes the ongoing investments that SMEs make in hiring and training their employees.
- b. Reinforce and simplify government support for training in order to recognize the role of informal training in the workplace.

4. **Government Debt:**

- a. The federal government should implement a clear plan to balance the budget within the next three to five years.

5. **Government regulations and paperburden:**

a. **Government Red Tape:**

- i. Broaden the one-for-one rule to include not only regulations but also guidelines, policies and legislation (i.e. the Income Tax Act), which can have an equally significant burden on small business.
- ii. Implement a more comprehensive baseline measure of the total number of rules (including those that stem from legislation, policies and guidelines) that could be tracked over time in order to understand the total amount of red tape SMEs deal with.
- iii. Establish a working group that includes representation from small business to consult broadly with Canadians to gather ideas for both simplifying rules and improve government customer service.

b. **Ensure tax rules reflect the changing nature of the workplace in Canada:**

- i. Modify current rules so that self-storage facility and campground owners operating active businesses are not denied benefits provided to other types of legitimate small businesses.
- ii. Update the rules on personal services business (PSBs) to recognize the often transitory nature of modern work which would encourage innovation rather than stifle it.

c. **Canada Revenue Agency:**

- i. Simplify the Record of Employment (ROE) requirements. Service Canada and Employment and Social Development Canada should allow employers to use actual payroll data rather than requiring this information to be recalculated and transferred to an antiquated forms-based process.
- ii. Ease the regulatory burden on small business owners with the creation of a standard tax deduction for small business owners with less than \$300,000 in revenue.
- iii. Waive interest charges that are less than \$100.
- iv. Update thresholds for GST and source deductions on a more regular basis to account for inflation.
- v. Implement a simplified straight-line deduction for capital and technology purchases as has been implemented in the U.S. (see section on tax measures to promote innovation and productivity above).

d. **Canadian Free Trade Agreement (CFTA):**

- i. The Regulatory Reconciliation and Cooperation Table (RCT) should be required to include regular input from stakeholders, like CFIB.
- ii. We encourage the federal government to work constructively with their provincial and territorial counterparts on the RCT to address at least three key areas of concern to small business by the end of 2018, starting with:
 1. Simplifying corporate registration so businesses only need to register once.
 2. Mutually recognizing food inspections so that businesses do not need to meet two sets of requirements for the same product.
 3. Aligning transportation regulations to make it easier and less expensive to transport products.
 4. Creating common professional and trade licensing standards to enable workers to easily work in more than one province.
 5. Improving mutual recognition of Worker's Compensation and Occupational Health and Safety to eliminate contradictory or confusing regulations.