



SMALL BUSINESS IS EVERYONE'S BUSINESS

CFIB'S 2019
FEDERAL SMALL BUSINESS PLATFORM



**CANADIAN FEDERATION
OF INDEPENDENT BUSINESS**

In business for your business™

“...small business owners will be looking to each party to take the lead in coming up with a solid plan that will help their business succeed now and into the future.”

—DAN KELLY
President & CEO



Running a small business is no easy feat: it means long hours, dealing with mountains of red tape and government departments, and no paid vacations or pension plan. But despite it all, many independent business owners love what they do and our communities are richer for it. Many of us cannot imagine our cities and neighbourhoods without the local businesses that create jobs and make each community truly unique.

In the coming federal election, small business owners will be looking to each party to take the lead in coming up with a solid plan that will help their business succeed now and into the future. While the national economy has been growing at a modest pace, many of our members are struggling or seeing clouds on the horizon. Some are facing economic uncertainties, especially those in the resource sector. In addition to CPP increases for the next seven years, many are also facing minimum wage hikes and new carbon taxes in many provinces – all of which make it harder to run and grow their business.

Ensuring small business success is a little bit like building a house. You cannot frame your walls before pouring your foundation. And in our case, small firms will struggle to be competitive, trade in global markets or become more innovative without first having a solid foundation in place. This foundation consists of three key elements: affordability, financing, and skilled labour.

Our platform sets out recommendations that aim to set small businesses up for success by addressing each of these elements.

As a non-partisan organization representing 110,000 small- and medium-sized businesses in all sectors across Canada, CFIB calls on all parties to help make Canada a place where entrepreneurs want to start and grow their business. We hope that our platform will guide you and your colleagues in forming your own small business platforms leading into the 2019 federal election. We stand ready to help all parties improve policies for small business, both before and after the election.

A handwritten signature in black ink, appearing to read 'Dan Kelly', with a stylized flourish at the end.

DAN KELLY



Only
18%

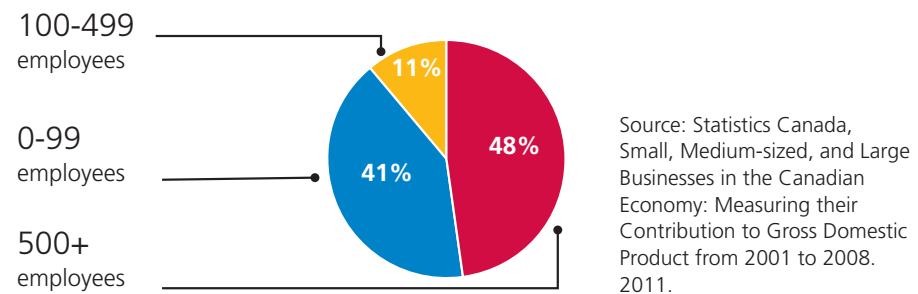
think the
government
has done a
good job of
developing
policies to
support the
middle class.

Source: CFIB, 2019 Federal
Budget and Election Survey,
October-November 2018,
n=6,615.

Why small businesses matter

Small businesses are not only a vital part of our communities, but they are an essential part of the Canadian economy as well. Among other things, small businesses generate jobs, deliver goods and services to meet the needs of consumers, spur innovation, and stimulate economic activity. Small businesses account for 52% of the business-sector GDP in Canada, truly making them the “backbone of the economy.”¹

Business-sector GDP in Canada

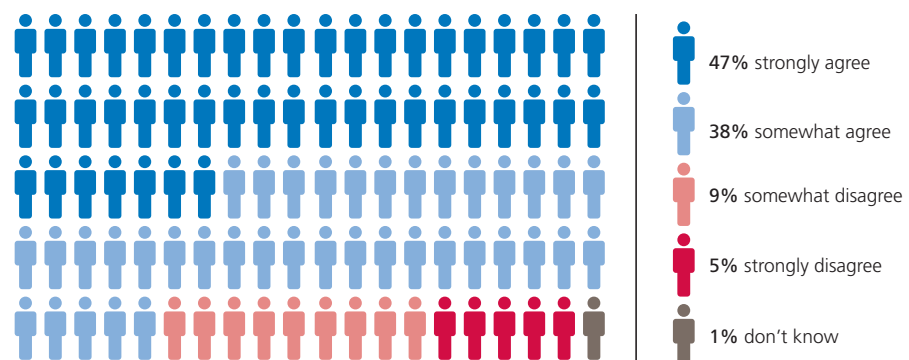


Small businesses are one of the biggest job creators, employing 57% (8.4 million) of total private sector workers in Canada.² On top of this, 2.9 million Canadians are self-employed. Between 2005 and 2015, small businesses contributed 96% of 1.2 million net new jobs.³

While there may be some perceptions that small business owners are wealthy one percenters, this could not be further from the truth. Small business owners not only employ the middle class, **they are the middle class.**

That said, only 15% of our members think the government’s vision of the middle class includes them. Data from Statistics Canada shows that two thirds of Canadian small business owners are earning less than \$73,000, and employers earning less than \$40,000 outnumber those earning more than \$250,000 by four to one. When you take into account working hours, almost one-in-three business owners are earning effectively \$15/hr or less.⁴

85% say they are middle class



Source: CFIB, 2019 Federal Budget and Election Survey, October-November 2018, n=6,615.

Top 3

priorities for small business

1

More competitive tax environment

2

Reducing red tape

3

Balancing the budget

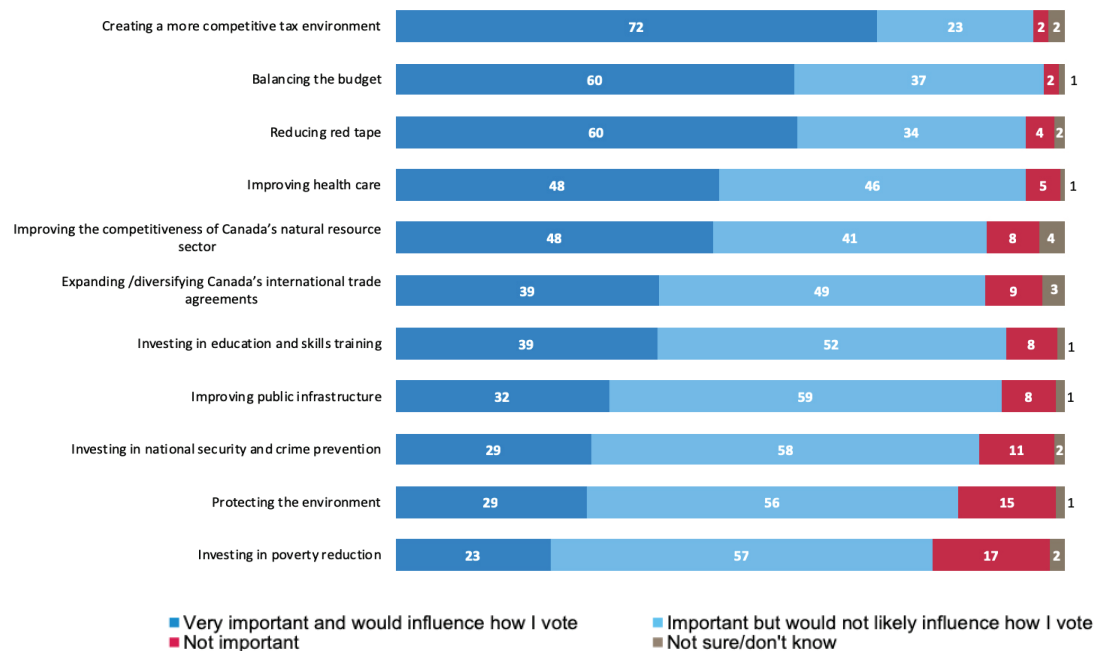
Source: CFIB, 2019 Federal Budget and Election Survey, October-November 2018, n=6,615.

Supporting the middle class has been a main focus of the government for the past four years. And our members agree that this is important: 86% somewhat (43%) or strongly (43%) agree that supporting the middle class is the right vision for Canada. However, only 18% think that the government has done a good job developing policies to support the middle class.⁵

The upcoming election provides an opportunity for all parties to put forward a more inclusive vision of the middle class which takes into account the needs of the small business community.

When we asked small business owners to tell us which policy areas they feel are the most important for the government and all political parties to focus on, it is no surprise that issues related to taxation and red tape came out on top. Additionally, a large number also want a focus on balancing the budget as small business owners know that today's deficits are tomorrow's taxes. More focus is needed on policies that help improve the overall business environment. These priorities must be the foundation upon which small business policies are built.

Policy areas small businesses want the government and all political parties to focus on



Source: CFIB, 2019 Federal Budget and Election Survey, October-November 2018, n=6,615.

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Affordability: the foundation of running a small business

While many small business owners may aspire to eventually grow their business, they first have to worry about how they will afford to keep the doors open, the lights on and the staff paid. However, government-imposed costs such as payroll tax hikes, the federal tax changes, the federal carbon backstop in several provinces and unnecessary red tape are making it more and more difficult to afford even the basics.

As a result, many business owners do not believe the government is doing enough to lay a solid foundation upon which they can build their business.



85% of small business owners think the government is doing a somewhat or very poor job of improving their overall business climate

83% of SMEs think the government is doing a somewhat or very poor job of improving their tax environment

Source: CFIB, 2019 Federal Budget and Election Survey, October–November 2018, n=6,615.



“CPP is a large concern and I can’t find labour as it is. Increased CPP just adds to the issue that my labour is costing more and I can’t charge more to compensate.”

—CONSTRUCTION COMPANY,
ONTARIO

When asked which measures would help their business grow in the next few years, our members listed reducing taxes (86%), getting rid of unnecessary red tape (75%) and keeping the costs of business inputs low (63%) as the most helpful.⁶ This is why we’re asking for the support of all parties to help make it more affordable to run a small business by addressing these key areas.

Payroll taxes

Small businesses are more labour-intensive than larger firms and are therefore more sensitive to payroll tax increases. Plus, they have to pay these taxes whether or not their business makes any money.

While EI rates went down in 2019, this was not enough to offset the increase in Canada Pension Plan (CPP). In fact, CPP premiums will continue to rise for another four years, followed by two additional years of increases to the maximum pensionable earnings limit. While CPP may be deferred income for the employee, for the employer it is an additional cost to hiring. And small business owners must pay double the rate of CPP on any salary they draw from the business themselves. As a result, our members have told us CPP hikes will increase pressure on their business to freeze or cut salaries, as well as force them to reduce investments and hiring.

We recommend the next government help small businesses grow their business by implementing the following measures:

- ✓ **Halt or slow down additional CPP increases after 2019.**
 - The Canada Pension Plan Investment Board (CPIB) has confirmed that the CPP is sustainable and secure, even prior to the enhancement.⁷ In addition to increasing the tax burden on SMEs, the CPP hike will reduce the take-home pay of employees—many of whom will see little to no benefit when they retire as increased benefits will be phased in over 40 years.
- ✓ **Only apply CPP increases to employees**, as it is deferred income for them but a tax for employers.
 - 56% of business owners would be supportive of this approach.⁸
- ✓ **Implement an EI credit** which effectively lowers the rate for small businesses and is automatically applied by CRA to businesses under a certain payroll threshold.
 - Currently, employers pay 1.4 times the employee rate. This credit could be set to effectively lower the rate to 1.2 times the employee rate, gradually moving to a 50/50 split over time.
- ✓ **Create a permanently lower EI rate on the first \$800,000 in payroll.** Just as there is a lower rate of corporate tax on the first \$500,000 in business income, a small firm could pay the same rate as employees on the first \$800,000 in payroll.



Almost
60%
of small
business
owners
want the
government
to exempt
spouses
from the
new income
splitting rules

Source: CFIB, 2019 Federal
Budget and Election Survey,
October– November 2018,
n=6,615.

- ✓ **Introduce an EI holiday for hiring youth** between the ages of 15 to 24.
 - It is often more costly to hire youth with less work experience as training costs are as much as double that of a hire with previous experience. Research also shows that small firms hire far more inexperienced workers than their larger counterparts. This credit would help offset some of these costs and could encourage small- and medium-sized enterprises (SMEs) to hire more youth who face unemployment rates that are twice as high as adults. (Note: this remains an outstanding election promise from the Liberal Party from the 2015 campaign)
- ✓ **Refund EI over-contributions** back to employers who hire workers who switch jobs and end up paying more than the maximum EI annual premiums.
 - While employees are refunded their over-contributions as part of their annual income tax return, the employer portion remains in the EI account. At the very least, these funds should be reallocated to a training or job credit for employers.
- ✓ **Ensure taxes do not need to rise as a result of a new national pharmacare program**, particularly if consideration is given to a federal or provincial payroll tax to fund prescription drugs.
 - While we understand the need to fill gaps in prescription drug coverage across Canada, great care should be taken to not shift the cost burden to small business owners.

Small business tax changes

In July 2017, small business owners were faced with several proposals that targeted what the government saw as “unfair tax advantages” available to them but not available to employees. CFIB maintains that it is unfair to compare employees to small business owners who take on more risks to start a business, pay a multitude of other taxes that employees do not, and have no access to benefits such as paid vacation, sick days or pensions.

As a result of immense push back from SMEs across the country, the government backed down on moving forward with changes to capital gains, and made some changes to its proposals on family income splitting and passive investment income. Despite the adjustments to the new rules on income splitting and passive investment income, many business owners will still be negatively affected.



77%

want the government to make it as easy for a business owner to sell their business to their children as it is to a third party

The government should work to mitigate the impact of the tax changes by making the following amendments:

- ✓ **Fully exempt spouses from the rules on income splitting** to recognize the important formal and informal contributions they make to the business.
 - Even those who may not end up paying more as a result of new income splitting rules will face more red tape. Spouses often share the risks with the business owner, regardless of any formal involvement.
- ✓ **Fully roll back the small business tax changes on passive investment income.**
- ✓ **Grandfather passive investments** that were held prior to the rules coming into effect in 2019.
 - Although the new rules on passive investments are simpler than the original proposals, many business owners with previous investments will be unfairly punished for following the rules over the past 40 years.

Tax policies that help affordability

The lowering of the Small Business Deduction (SBD) and the introduction of new accelerated depreciation rates for equipment and technology will certainly be helpful in addressing some SME's affordability concerns. However, with the introduction of a federal carbon tax in several provinces, as well as increases in CPP, there are still measures the government can take to ensure that small businesses have the necessary financing they need now and into the future. The top tax concerns small business owners want to see addressed are measures to make it easier to sell a business to their children and a reduction of the personal income tax. As such, we recommend that the government:

- ✓ **Ensure that intergenerational transfers of small businesses to family members** are treated in a similar manner as those to a third party.
 - Currently, business transfers to a family member are treated as a dividend rather than a capital gain (as they are when selling to a third party) meaning that business owners cannot access the lifetime capital gains exemption (LCGE) if they decide to sell to their children.
- ✓ **Increase the LCGE to \$1 million for all types of small businesses, as well as simplify it and expand it to include at least some assets** such as business property, rather than only shares.

\$10 billion

The estimated cost of small business red tape in 2017



- ✓ Instead of creating a federal minimum wage, either **increase the basic personal exemption, or introduce a tax credit** that exempts low-income earners from paying income taxes.
- ✓ Work with the provinces to ensure that **the combined federal-provincial top marginal personal income tax rate does not exceed 50%**.
 - 71% of our members believe that personal income tax rates should be limited to no more than 50%.⁹
- ✓ **Increase the taxable capital limit** to benefit from the Small Business Deduction (SBD) to \$50 million.
 - Currently the SBD is phased out on a straight-line basis for companies having between \$10 million and \$15 million of taxable capital employed in Canada.

Top 5 tax measures SMEs want addressed

- 77%** Make it as easy for a business owner to sell their business to their children as it is to a third party
- 75%** Reduce personal income tax
- 67%** Allow businesses to expense capital purchases in the year of purchase
- 64%** Reduce the Small Business Corporate Tax Rate
- 62%** Reduce the general corporate tax rate

Source: CFIB, 2019 Federal Budget and Election Survey, October-November 2018, n=6,615.

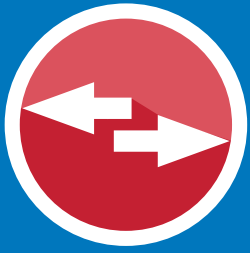
Red tape

Along with taxation, red tape is the top constraint for small businesses in Canada. Red tape limits productivity as business owners have less money to invest in their business and less time to manage their business.

For SMEs, red tape not only includes all the paperwork and rules they must follow, but also the level of customer service provided by the government. Not being able to get answers quickly from a government website or call centre or not being able to understand the language on forms or guidance documents can be equally frustrating and costly for small business owners. In 2017, the overall cost of regulation for Canadian businesses was \$36.2 billion, \$10 billion of which can be considered red tape.¹⁰

The government should take the following actions to reduce the red tape burden on SMEs:

- ✓ **Introduce a simple, comprehensive measure for red tape** that goes beyond the current regulatory count and includes policies, guidelines and legislation.
 - In order to understand the full impact of the regulatory burden on small businesses, governments must first



86%

of small business owners want the government to take action on reducing barriers to internal trade

measure it. However, the count currently does not include some of the most burdensome regulatory requirements such as the Income Tax Act.

- ✓ **Expand the one-for-one rule to include other types of administrative burdens** found in policies, guidelines and legislation.
- ✓ **Meaningfully address federal barriers to internal trade** and continue to play a leadership role on the Regulatory Reconciliation and Cooperation Table (RCT).
 - This was the top regulatory measure for small business owners, with 86% saying they strongly (56%) or somewhat (30%) support the federal government taking action on this issue.¹¹
- ✓ **Create a regulatory advisory council of small business representatives** to provide government with recommendations on how to reduce red tape.
- ✓ **Improve government customer service** by ensuring that websites are easy to navigate and that the content of web pages, bulletins, letters and other guidance documents is in plain language.
- ✓ **Continue to improve government call centre services**, including the Canada Revenue Agency (CRA) and the Service Canada call centres.
 - It is essential that call centre agents receive the proper training so they can provide SMEs with information that is accurate and consistent.
- ✓ **Make the CRA audit process less intimidating** by informing small business owners of what they should expect when being audited, their rights as business owners, as well as the contact information of the supervisor of the auditor should they face problems during the auditing process.
 - Small business owners often feel as though they are guilty until proven innocent by the CRA, especially when being audited. Ensuring audits do not drag on for months and years is also important to provide business owners some peace of mind.
- ✓ **Review the rules used to define passive versus active business income** and eliminate the five employee rule.
 - Small businesses that run self-storage facilities and campgrounds often operate active businesses from which they draw their principal income and many also have employees. However, they are denied access to small business tax incentives simply because they have chosen a specific type of business and have fewer than five employees.



Federal Fuel Charges



Businesses pay almost 50% of the carbon tax

Households pay 50%



Federal Support Payments



Businesses get 7% (other 3%)

Households get 90% in rebate cheques

Source: CFIB, Research Snapshot: The Federal Carbon Pricing Backstop, February 2019.

The federal carbon tax

Small business owners care about the environment and have already been taking steps to reduce their carbon footprint: 96 % of our members have reported implementing environmentally friendly measures in their business.¹² However, 87% of businesses in the four provinces where the federal carbon pricing backstop is in place say they are opposed to a carbon tax and the majority of these business owners will not be able to pass on the costs to their consumers.¹³

While the federal government has allocated \$1.5 billion of the carbon tax revenues over five years to SMEs in through a dedicated fund, this amount only accounts for approximately 7% of the total revenues the government will be earning through the tax. It appears that businesses will bear about half of the direct burden of paying the new fuel charges, yet will receive less than 10% of the adjustment incentives. As a result, we recommend that the next government:

- ✓ **Repeal the federal carbon backstop** in these provinces and look to work with each province on customized approaches to address climate change that will minimize the negative impacts on small business.
- ✓ Should the federal government proceed with a carbon tax plan, we recommend the following measures:
 - **Fairly allocate the revenues collected from the carbon tax back to SMEs** in those provinces where the federal carbon backstop applies.
 - **Ensure that the same proportion of revenues collected from SMEs is reallocated back to them** so that they are not subsidizing rebates to households.
 - **Implement offsetting measures to help reduce the overall tax burden on SMEs** so they are able to continue making investments to reduce their emissions and remain competitive.
- ✓ **Introduce a green renovation tax credit for SMEs**, to help reduce the costs of implementing environmentally friendly measures.
- ✓ **Further educate business owners about other actions or steps they can take to reduce their carbon footprint** through websites and social media, as well as industry associations and publications.



86%

of small business owners want the government to aim to balance the budget within the next 5 years

Source: CFIB, 2019 Federal Budget and Election Survey, October-November 2018, n=6,615.

Government debt and deficit

The federal deficit is projected to reach \$19.8 billion in 2019-20, with no concrete plan to return to balance in the near future. Small business owners do their best to keep their business in the black and expect the same from their government.

There are signs of an economic slow down on the horizon, which means that deficits should be addressed now prior to any economic downturns. Small business owners are concerned that continued deficits and growing government debt levels will mean a higher tax bill in the future and less room for governments to manoeuvre when facing an economic downturn.

The next government should make addressing the deficit a priority by ensuring that they:

- ✓ **Put in place a plan that aims to balance the budget within the next five years.**
 - 63% of SMEs want to see this done mainly through spending restraint.



Financing: the key to growing an SME

While the focus by governments is often placed on encouraging innovation or figuring out how we can get SMEs to “scale up,” being able to access financing is often a key consideration for small business owners aspiring to these goals. However, small businesses frequently have a harder time accessing financing than larger firms. While crowdfunding is often featured in the media, only 0.1% of small businesses said they’ve relied on this source of financing.¹⁴ Most often, small businesses use their own assets (49%) and credit cards (30%). This suggests SME financing needs are not being met by traditional sources of financing through banks, especially among smaller businesses.

The government can take steps to address some of the major barriers to accessing financing, as well as ensure that SMEs are treated fairly by the financial industry, including credit card companies.

Top 5

sources of financing for SMEs

49%

Business equity, funds, assets

30%

Credit card

19%

Personal loan or line of credit from financial institution

14%

Leasing

13%

Personal loan or equity from friends and family

Source: CFIB, Banking Survey, September-November 2015, n=11,400.

Access to financing through banks

According to CFIB research, small businesses face the biggest barriers getting bank financing. For example, the smallest firms (those with fewer than five employees) are nearly six times as likely to be rejected for a loan as mid-sized firms (50-499 employees).¹⁵ Ensuring that SMEs have access to the financing they need can help with the creation of jobs and in keeping the Canadian economy stable. As new technologies such as online lending and fintechs emerge, the financing industry is rapidly changing and the government must ensure that it keeps up. As such, the government should:

- ✓ **Ensure that an entity outside the Canadian Banker's Association**, such as the Financial Consumer Agency of Canada (FCAC), **monitors the banking industry's compliance** with the Small Business Banking Code of Conduct so that the interests of SMEs are served.
- ✓ **Ensure banks actively promote alternative sources of financing besides bank financing** (e.g. Business Development Bank of Canada, credit unions) as per the Small Business Banking Code of Conduct. Ensure the policy environment is encouraging of alternatives to traditional banks.
- ✓ **Monitor use of new online SME lending technology (i.e. fintechs)** to ensure that they do not displace traditional lending and are fully transparent so that small businesses are aware of whether they charge usurious rates of interest.

Transparency and customer service

Enhancing transparency can help ensure that financial institutions keep providing the needed services and financing for small businesses at a reasonable cost. We recommend the following actions:

- ✓ **Introduce an independent authority to monitor bank fees for SMEs** and to provide advice on bank fees (i.e. similar to Financial Consumer Agency of Canada for consumers) or **expand the mandate of the Financial Consumer Agency of Canada to include SME bank fees and financing issues** (e.g. ensuring banks provide reasons for why a business is declined for financing).
- ✓ **Ensure that the dispute resolution system is fair and transparent**, and implemented by an independent, not-for-profit entity that has the authority and mandate to resolve complaints.
- ✓ **Ensure that new types of payments and online lending are not designed to only benefit banks and fintech companies** but also benefit the clients they are serving including small businesses.



“The charging
of **fees**
by credit card
companies
on purchase
returns is
a thorn in
my side.”

—Automotive repair shop,
Alberta

Credit cards

In addition to financial institutions such as banks and credit unions, small businesses often deal with many players in the payments industry. However, they often find themselves in a power imbalance in their dealings with the industry itself.

CFIB welcomed the announcement by the government of new measures to reduce Visa, Mastercard and American Express processing fees for merchants. Despite this progress, there is still a long way to go in order to bring more fairness to the credit card industry for small businesses. Therefore, the government must:

- ✓ **End processing fees on taxes, prepaid cards and returns.**
- ✓ **Work with the payments industry to close the gap** between the rates small businesses pay and those available to large firms.
- ✓ **Ensure that the Code of Conduct for the Credit and Debit Card Industry is updated to include new players**, such as Apple Pay.
- ✓ **Provide more oversight of Independent Sales Organizations (ISOs).** This can be done through existing bodies such as the Financial Consumer Agency of Canada (FCAC).
- ✓ **Expand the mandate of the FCAC to help resolve disputes between merchants and payment service providers**, including credit card companies and ISOs, and ensure that there is a mechanism to inform complainants that their issue has been dealt with or resolved.



Labour: having the right people for the job

Private sector job vacancy rates remain high



409,000
jobs were left
unfilled in Q4
of 2018

Source: CFIB, Help Wanted
2018 Q4, February 2019.

Not having enough staff, or staff with the right skills, can keep a business from growing or becoming more productive. According to our monthly Business Barometer®, the shortage of skilled labour is the biggest limitation on sales or production growth for small businesses. Many small business owners are currently struggling to hire and retain staff. Across the country, as of the last quarter of 2018, there were roughly 409,000 jobs left vacant for four months or longer. Vacancy rates are particularly high in Quebec, Ontario and British Columbia, and have hit the personal services and construction industries hardest.¹⁶

Coupled with an aging population, vacancy rates will only become a bigger issue for small businesses. For example, according to BuildForce Canada, the construction industry alone is projected to lose 250,000 workers over the next decade. Governments must therefore look at solutions that address labour shortages now, but also look at ways of ensuring that skilled workers are available into the future.



In 2014, small businesses spent:

\$5 billion
in formal training

\$9 billion
in informal training

Source: CFIB, Small businesses, big investment: Improving training for tomorrow's workforce, 2015.

Training

Training is an essential and significant investment SMEs make to grow their business and ensure their employees are equipped with the right skills. In 2014, SMEs invested \$14 billion annually in formal and informal training. On-the-job informal training is the primary training method for SMEs, yet many government programs and grants only recognize and support formal training.

In order to reduce the growing skills shortage affecting Canada, governments can do more to encourage all forms of training, including on-the-job training. This means better aligning their training investments with the training needs and processes of small businesses. We urge the government to:

- ✓ **Introduce a training tax credit** which recognizes the investments made by SMEs in both formal and informal, on-the-job training.
 - This credit could either be an EI credit, or a refundable income tax credit for employers.
- ✓ **Ensure better access to the federal Apprenticeship Job Creation Tax Credit**, as well as supports for apprentices themselves, by increasing awareness and expanding the list of Red Seal trades.
 - This list should include a broader group of skilled trades such as computer technicians, locksmiths, tailors, small equipment mechanics and dressmakers.
- ✓ **Enhance the accessibility and effectiveness of government training programs and grants**, such as the Canada Job Grant by recognizing informal training and including soft skills.
- ✓ **Improve communications with small business owners on government programs that may be able to assist with training in their business.**

Immigration

Welcoming new Canadians with the skills employers need is part of the solution to addressing the labour shortage. Often, priority is given to highly skilled workers in specific industries such as high-tech and STEM. However, there is a growing need for workers in the trades and in more modest-skilled occupations as well. Employer-led programs such as the Atlantic Immigration Pilot, where the business owner is involved in the selection of a foreign worker to come work in Canada, can be a solution in ensuring that employers can access workers with the right skills by taking these steps:

- ✓ **Make the Atlantic Immigration Pilot (AIP) a permanent program and expand it across the country.**
 - The AIP helps reduce the paperwork involved in hiring foreign workers and allows employers to select employees with the skills their business needs the most.



“Skilled labour is in critical short supply and not able to meet our demands. We’ve turned away close to \$800,000 in work in the last 4 months as a result.”

—Blacksmith, British Columbia

✓ **Create a pathway to permanent residency for Temporary Foreign Workers (TFWs).**

- Often, TFWs are hired to fill permanent labour shortages. CFIB proposes a new “Introduction to Canada Visa” to give foreign workers at all skill levels the opportunity to work with an employer for two years as a defined step towards permanent residency.

✓ **Review the process for submitting Labour Market Impact Assessments** to make it less complex and costly for business owners, and ensure the turnaround time is faster.

- In some cases, business owners have had to wait as long as nine months before receiving an answer.

Youth

Youth unemployment rates have been persistently higher than those of the general population. While the focus of the government is often on preparing youth for the “jobs of tomorrow,” small business owners need skilled workers today. There is a golden opportunity for governments to play a role in helping to connect youth with SMEs through the following actions:

✓ **Introduce a federal co-op and internship tax credit for small businesses.**

✓ **Expand the availability of the Canada Summer Job Grant to other times of the year,** and extend the application period so more youth and businesses can apply.

✓ **Ensure that SMEs are included in the development of a national Work Integrated Learning (WIL) strategy.**

✓ **Better communicate with small business owners** on the government programs, grants, and funding that is available to them for hiring youth.

COST/BENEFIT ANALYSIS OF SOME EI MEASURES

While many of the suggested policy measures are not free, we believe the benefits far outweigh the costs as they will have a net positive impact on the economy. In order to provide policy-makers with a more detailed assessment of certain policies, we analyzed the costs and benefits of implementing the below EI measures which we outlined in our section on affordability.

EI training credit or lower EI rate for SMEs

DETAILS:

- This tax credit would effectively lower the EI rate for smaller firms to 1.2 times the employee rate from the current 1.4 times.
- This credit could be designed in a similar way to the Small Business Job Credit, which was in place between 2015 and 2016 for eligible businesses that paid less than \$15,000 in total EI premiums.
- CRA could automatically calculate the amount of the credit using a reduced premium rate and refund the amount to businesses that qualified.
- To implement the credit, the government could put in a threshold to determine eligibility (such as up to \$15,000 in EI premiums or up to \$800,000 in employee payroll).

BENEFITS:

- Facilitates the development of small businesses, including start-ups, by lowering labour costs.
- Encourages smaller businesses to create more jobs.
- Makes SMEs more competitive in attracting employees by enabling them to offer higher salaries.
- Recognizes the efforts that SMEs make in training their employees.
- When this credit was previously in place, 31% of business owners said they planned to use the savings to pay down their debt, 28% would increase employee compensation, 26% would invest in new equipment, and 19% would invest in additional training for their employees.¹⁷

COST:

- The cost of a credit that would allow eligible employers to pay only 1.2 times the employees' contributions instead of 1.4 times would be approximately \$400 million, and would have a positive effect on over 1 million businesses and 3 million workers.

EI holiday for hiring youth

DETAILS:

- This would be a one-year EI holiday for employers hiring young workers between the ages of 15 and 24.

BENEFITS:

- Lowers the cost of labour of younger workers and helps to offset the lower productivity of this group.
- Encourages businesses to invest in young people, offering them work experience.
- Could help lower the unemployment rate among youth which is significantly and consistently higher than among the rest of the population.

COST:

- Assuming that eligible employers would not be required to pay EI contributions during the first year following the hiring of a worker between 15 and 24 years old, the estimated cost would be around \$650 million and would affect close to 2 million workers a year. The young worker would still pay their share of EI contributions so that they would be eligible for EI if needed in the future.

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