SUBMISSION
February 2020

CFIB
CANADIAN FEDERATION OF INDEPENDENT BUSINESS
In business for your business™

Affordability: the foundation of small business success

Recommendations for the 2020 federal budget

Federal budget 2020 provides the newly elected government with a renewed opportunity to tackle the most pressing issues for small business owners. Small- and medium sized enterprises (SMEs) are vital to the economy, meaning that policies that support them will benefit communities across Canada. This submission provides recommendations to the government that will help strengthen the foundations upon which small businesses can thrive, create jobs and become more productive.

Small businesses are vital to communities

Small businesses employ more than half of Canada's private sector workers and account for 52 percent of the business–sector GDP.[1] Furthermore, most Canadians (96%) recognize that small businesses are important to Canada's future, so government policies should reflect the essential role SMEs play in the economy.[2] In this upcoming Parliament, small business owners and Canadians will be looking for policymakers to work together on issues that are key to SME success.

It is important to understand that entrepreneurs face a variety of challenges when running a small business, including: managing roles within the business (64%), balancing their work and personal life (60%), accessing financing (51%) and finding the right staff (49%).[3] Over half (51%) said that they've had to stop paying themselves or family members in order to pay their employees, 36% have had to mortgage their house to finance their business, and a quarter have not taken a vacation in the past three years.[4] While running a small business is full of challenges, most small business owners would not give up their business for a 9–to–5 job. They value the independence and control (66%) that running a business offers them, and they are

[1] Statistics Canada, Small, Medium-sized, and Large Business in the Canadian Economy: Measuring Their Contribution to Gross Domestic Product from 2001 to 2008, 2011.
[2] Forum Angus Reid, September 2019, n=1,510.
[3] CFIB, Member Profile Survey, May-September 2018, n=3,151.
[4] Ibid.

also motivated by their commitment to their employees and customers (63%), as well as simply loving what they do (63%).[5]

It starts with affordability

Affordability is a top issue among small business owners. It is important to remember that small business owners earning less than $40,000 outnumber those making more than $250,000 by a ratio of 4 to 1. As outlined in our Small Business Platform for the federal election, affordability is the foundation upon which small business success can be built. Without the resources to keep the lights on, the doors open and the staff paid, small businesses cannot start thinking about increasing their productivity or growing their business. Increasing business costs, whether in the form of payroll taxes, carbon pricing, new small business tax rules, or unnecessary red tape, can make it more difficult for small businesses to afford even the basics. Business owners said that reducing taxation (86%), getting rid of red tape (75%) and keeping the costs of business inputs low (63%) are the measures that would most likely help their business grow over the next few years.[6]

The 2020 federal budget must prioritize policies that create an environment where entrepreneurs feel confident starting and growing their business. The following recommendations can help them get there.

Taxation

Business succession

Almost three quarters (72%) of business owners are planning to exit their business within the next 10 years.[7] This means that $1.5 trillion worth of assets will be transferred to a new generation of entrepreneurs. While this can bring new opportunities, it also brings challenges for business owners and for the Canadian economy as a whole. Almost half (46%) of small business owners want to have their children take over the family business.[8] However, Canada's tax laws discourage them from selling their business to family members as it is more advantageous from a tax perspective to sell to an unrelated third party. This is because the sale of assets to family members is considered to be a dividend, whereas selling to a third party is considered to be a capital gain. As a result, business owners who sell to their children cannot access the Lifetime Capital Gains Exemption (LCGE), meaning they face a higher tax bill. This is important because most small business owners rely on the sale of the business to fund their retirement; they do not have access to a pension plan, and if they paid themselves in dividends, most will have meagre RRSP savings. This is why 77% of businesses said it was the measure they most wanted to see addressed in the federal budget.[9]

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[5] CFIB, Member Profile Survey, May-September 2018, n=3,151.

[6] CFIB, 2019 Federal Budget and Election Survey, October-November 2018, n-6,615.

[7] CFIB, Getting the Transition Right, November 2018.

[8] Ibid.

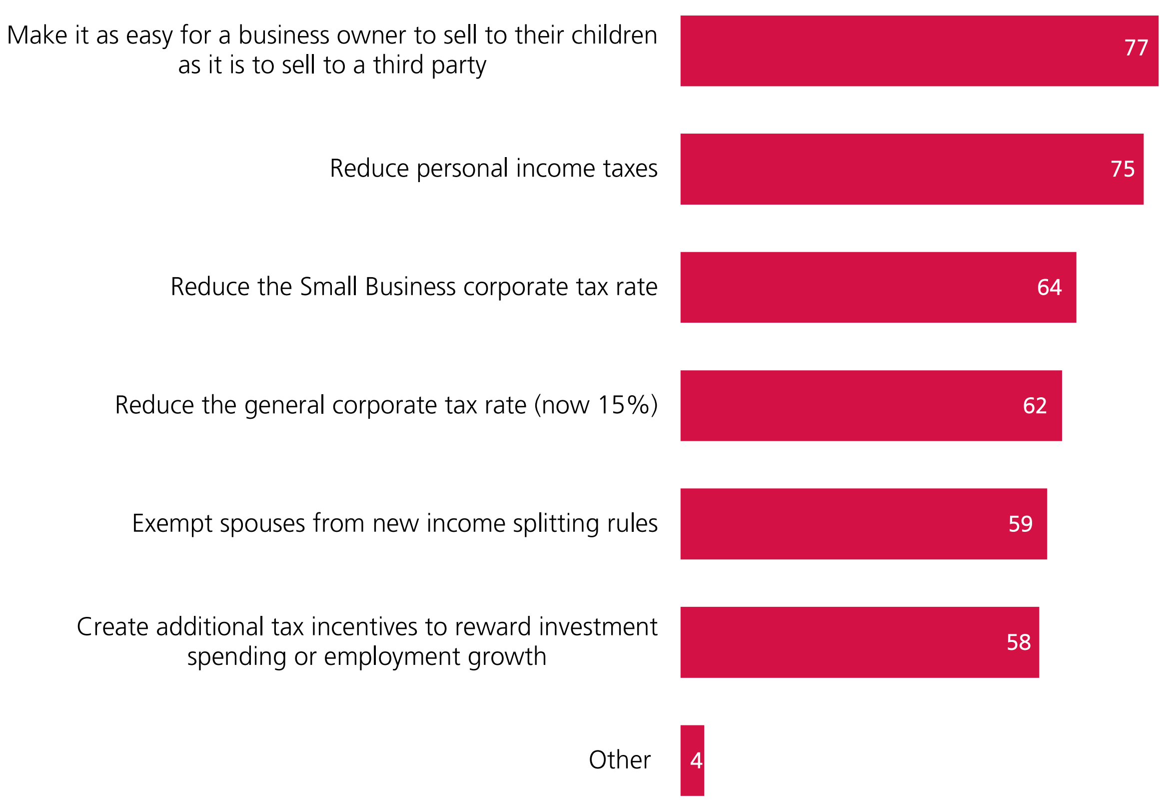
[9] CFIB, Getting the Transition Right, November 2018.

"We had a route laid out, after consulting with a tax accountant we were told that if selling to a family member we cannot use our capital gains exemption. When selling to a third party, we can. I find that quite unsettling, as a small business owner we sacrifice a lot of time and effort. The capital gains exemption is part of our retirement plan. Not to be able to make use of that when trying to keep the business in the family does not seem fair." - Dairy equipment manufacturer, British Columbia

In previous Parliaments, Private Members' Bills were put forward to address intergenerational sales and transfers by three different political parties (including Liberal NDP and Bloc Québécois) but none were adopted. During the federal election, we were pleased to see the Liberals and the Conservatives express support for a policy to fix this issue for family farms, and the NDP and Bloc Québécois supporting it for all small business. However, this is an issue beyond just those in the agriculture sector. **We recommend that the government change the tax rules to ensure that the sale of a small business to family members is treated in a similar manner as a sale to a third party.** This was the number one tax issue that small business owners want to see the government address (Figure 1).

Figure 1

Which of the following tax measures would you most like to see addressed in the next federal budget? (Select as many as apply) (% response)

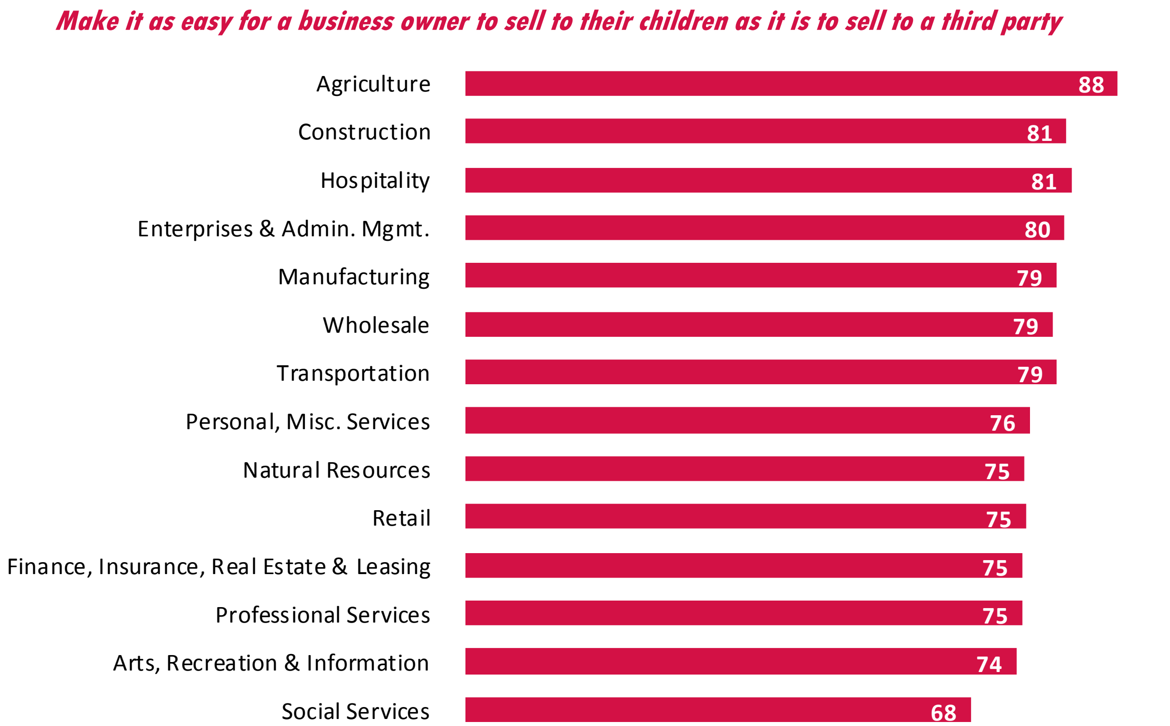


Source: CFIB, 2019 Federal Budget and Elections Survey, 6,615 responses, October to November 2018

As shown on Figure 2, business across all sectors strongly support the government taking action to address this issue in the next federal budget.

Figure 2

Which of the following tax measures would you most like to see addressed in the next federal budget? By sector (% response)



Source: CFIB, 2019 Federal Budget and Elections Survey, 6,615 responses, October to November 2018.

On a related tax matter, we noted that during the election, some parties wanted to increase the capital gains inclusion rate. We believe that this would be seriously damaging to small businesses, particularly those looking to sell or retire, and could discourage further investments. This is because increasing the rate would significantly decrease the retirement income of small business owners, many of whom rely on the Lifetime Capital Gains Exemption which would be directly affected by such an increase. **We strongly recommend that the government reject any proposals to increase the capital gains inclusion rate.**

Canada Pension Plan (CPP)

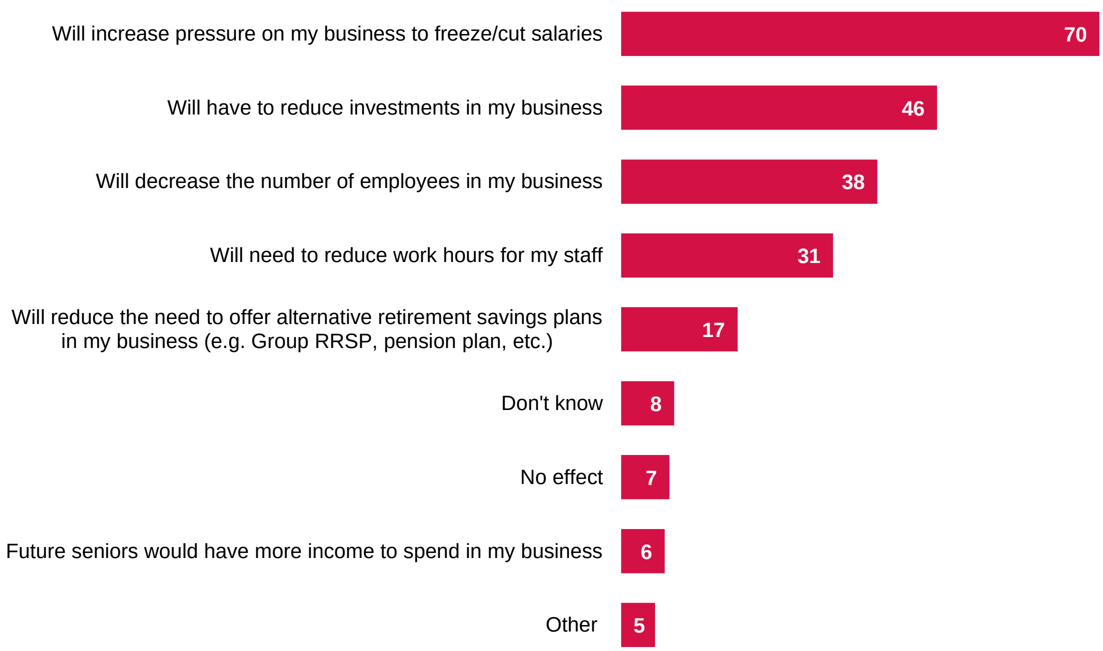
Payroll taxes, like CPP, are the most difficult for small businesses to absorb. They are profit-insensitive, meaning that a business must pay them regardless of whether they make any money or not. Additionally, as small businesses are more labour intensive, they are more sensitive to changes in payroll taxes as they make hiring new employees or increasing wages to retain current workers more difficult. While CPP may be deferred income for employees, it is a tax for employers, as they will never get that money back. As payroll taxes are levied on salaries, they can also make it more difficult to hire new workers or increase salaries. When many businesses, particularly in Quebec, Ontario and British Columbia, are facing labour shortages, the added pressures of payroll tax increases can make a bad situation worse. And in those regions with higher unemployment rates, such as Alberta, it is adding costs to hiring making it even more difficult for small firms to create needed jobs.

As of 2019, CPP rates went up by 15 cents per $100 of pensionable earnings, and will continue to increase for the next 4 years, with further increases being even larger (plus an additional two years of increases to the maximum pensionable earnings). As a result of these increases, 70% of small business owners have said that it will increase the pressure on their business to freeze or cut salaries and almost half (46%) said they will have to reduce investments in their business (see Figure 3).

Ideally, small business owners would like to see the government halt or slow down these increases, as they are difficult for their business to absorb. Alternatively, the government could take steps to offset these costs. One avenue to do so is by reducing Employment Insurance rates for small businesses. To offset CPP increases, **we recommend that the government 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.**

Figure 3

How will the increase in the Canada Pension Plan (CPP) affect your business? (Select as many as apply) (% response)



Source: CFIB, 2019 Federal Budget and Elections Survey, 6,615 responses, October to November 2018.

"As a result of minimum wage increase which also made the CPP, EI & WSIB go up so my business is suffering. My customer's wallets are also smaller for the same reason which means they SPEND LESS in my restaurant, as a result, causing an even larger issue of lost revenue. CPP going up might just be the nail in the coffin for my business which has the payroll sitting at 43% of sales as it stands now." – Restaurant, Ontario

Employment Insurance (EI)

The other federal payroll tax is EI. While unemployment rates have remained low, EI rates have been steadily decreasing over the past four years – which is good news for employers. That said, issues remain with the EI system itself and more can be done to ensure that it is fair for employers. Currently, employers pay 1.4 times the employee rate for EI. As suggested above, an EI credit could be applied for small businesses that effectively lowers the rate to 1.2 times the employee rate. **This could continue to be gradually reduced over time so that there is a 50/50 split in EI contributions between employees and employers.**

Further to this, to ensure that the EI system remains fair for employers, **we ask that the government ensure that EI-overcontributions are refunded to employers who hire workers who switch jobs and end up paying more than the maximum EI annual premiums.** Currently, only employees are able to receive this refund while the employer portion remains in the EI account. If nothing else, the over–contributions should be used to benefit employers such as helping to finance any of the EI credits outlined in this paper.

As the government explores expanding EI sick leave benefits, we caution them to fully consider any potential impacts that this could have on EI rates. Expanded sick leave, in addition to new leave provisions through the Canada Training Benefit, will add extra costs to the overall system. **Should costs increase due to the expansion of sick leave benefits, the government should ensure that they are offset for small employers to avoid any negative impacts on hiring, especially at a time when other payroll taxes, such as CPP, are also going up.**

Climate action and carbon pricing

Helping small businesses go green

Small businesses recognize the importance of reducing their environmental footprint. Our research has shown that the top motivating factor for small businesses to implement environmentally friendly measures was their personal views (84%), followed by potential cost savings (50%).[10]

"What is the point of living if the environment is ruined. It is our responsibility to protect for future generations." - Retailer, Ontario

[10] CFIB, National Environment Survey, July-August 2016, n=5,982.

While small businesses often do not have the resources to implement large–scale environmental projects, they still do what they can to reduce their carbon footprint. We've heard from members that have installed geothermal in–floor heating, paid for recycling services that pick up everything from empty product containers to the hair cut off their client's heads, have gone paperless, or have encouraged their employees to walk, take public transit or bike. To help encourage even more action on climate change, **we recommend that the government introduce a green renovation tax credit for SMEs to help reduce the costs of implementing environmentally friendly measures. The government should also help 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.**

Bringing more fairness to carbon pricing

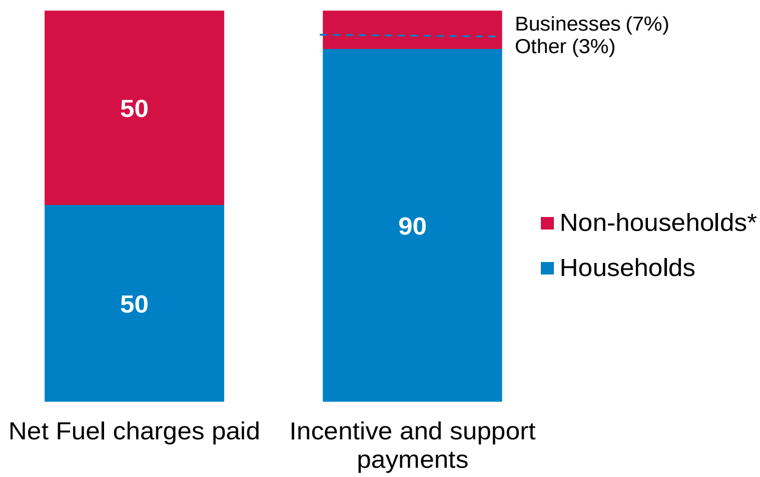
Like Canadians, views on carbon pricing are split regionally among small business owners. However, for those in provinces where the federal carbon backstop has been applied, the majority (68%) do not support the federal plan. While the government has said that small businesses can pass along the additional costs of the tax to consumers, this simply is not the case. Eighty percent of small business owners said that they could either pass along less than 25% of the cost, or none at all (55%). In agriculture, 77% of businesses said that they will not be able to pass on any of the additional costs to their customers.

While dyed fuel was exempted from the carbon tax, natural gas and propane used by farmers for drying grain or heating barns in the winter, as well as aviation fuel for spraying crops, were not. This means that farmers are still facing a significant hit from the new carbon tax. **As such, we recommend the government exempt natural gas, propane, and aviation fuel used by farmers for farming activities.**

Moreover, there is a perception that there is a lack of fairness with the federal plan among small business owners. Firstly, many larger emitters have been shielded from some of the costs of the new tax due to concerns around competitiveness, whereas small businesses who are also trade exposed have not seen any of the same protections. Secondly, while households could claim the Climate Action Rebate on their taxes, either getting all or more of their money back from the carbon tax, small businesses do not get the same rebates. CFIB estimated that the business sector and households each pay about 50% of the carbon tax, but households are getting back around 90% of the total revenue in automatic rebates, while small businesses are only getting back around 7% of the total revenues and then only in the form of grants/incentives for which they must apply (see Figure 4).

Figure 4

% distribution of federal fuel charges and support payments



Estimates combined for SK, MB, ON, NB, 2019-20 to 2022-23
* Includes businesses, municipal, education, healthcare, non-profit and indigenous communities sectors; excludes Output-Based Pricing System participants

Sources: CFIB estimates based on data from Federal Climate Plan, Finance Canada, University of Calgary School of Public Policy

Not only are they receiving less of their money back from the tax, but the incentive programs designed for small businesses have been largely inaccessible. The Project Stream of the Climate Action Incentive Fund (CAIF) has a minimum spend of $80,000, making it out of reach for many small businesses, and the application process can take up to 5 hours to complete, discouraging many from even applying. The second stream of the CAIF, the Rebate Stream, should be more accessible, but even nine months after implementation of the carbon tax, it has yet to be introduced.

In order to bring more fairness to the federal carbon tax, **we recommend:**

1. **The government allocates an equal share of the revenues between households and businesses to better reflect the share of taxes being paid by each.**

2. **That programs created to distribute incentives should be designed to better reflect the realities and needs of small businesses, ensuring that they do not include high minimum spend requirements, and complicated and lengthy paperwork in order to apply.**

Small business tax changes

In July 2017, small business owners faced a litany of proposed tax changes aimed at Canadian–Controlled Private Corporations (CCPCs) that the government put forward to address what it perceived as "unfair tax advantages" that were not available to employees. Many small business owners felt unfairly targeted by the changes, particularly since they take on more risks than employees in starting and running a business, do not have access to the same benefits (sick leave, paid vacations or pensions), and pay several other taxes that employees do not. As a result of the push back from entrepreneurs, the government modified its changes to income splitting and passive investment income, and entirely dropped the changes to capital gains. Despite these adjustments, many business owners will nevertheless be negatively affected by the changes to the Tax on Split Income (TOSI) and passive investment income rules.

Tax on split income

Around 68% of small businesses employ family members[11] and almost 60% pay their spouse in either wages or dividends.[12] Spouses play a vital role in the business, both in formal and informal ways, including sharing the risks with the business owner – especially for the 36% of business owners who have had to mortgage their house to finance their business.

While the new rules may not result in many SMEs paying a larger tax bill, they will cause administrative headaches. Determining which family members are exempt from the new rules is complex and the guidance provided by CRA is unclear and difficult for the average business owner to understand. Further to this, business owners will have to spend additional time tracking the hours worked by each family member in the business. **To help reduce the administrative burden and recognize the important informal and formal contributions of spouses, we recommend the government fully exempt them from the rules on income splitting.**

Passive investment income

While the new rules on passive investment income are simpler than those in the original proposals, many businesses with previous passive investments will be unfairly punished for following the rules over the past 40 years. Businesses rely on their passive investment income to save for emergencies, additional large investments (e.g. purchasing a new building or undertaking significant renovations), or for their retirement since they do not have access to a pension plan or have limited room in their RRSPs if they paid themselves in dividends. Business owners who have accumulated significant investments, even if they plan to use them to invest in their business, are facing higher tax bills as they will lose access to the Small Business Deduction (SBD).

One member in Newfoundland and Labrador who owns several franchise restaurant locations, told us he will be facing a tax bill of $80,000 more per year due to the changes. This is despite using his passive investment income to renovate his businesses; every five years the franchisor requires him to undertake minor renovations, and every ten years he must undergo major renovations. These cost upwards of several million dollars, therefore he uses the investments to fund the renovations, as well as help him secure additional loans from the bank by showing he has liquidity in his business.

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[11] CFIB, Employment Insurance Survey, March-April 2016, n=7,880.

[12] CFIB, Tax Changes on the Way Survey, September-October 2017, n=9,480.

Whereas the original proposals had promised that passive investments that were held previously to the legislation coming into place would be grandfathered, this was not included in the final legislation in Budget 2018. As such, **we recommend that the government grandfather passive investments that were held prior to the new rules coming into effect in 2019.**

Other tax increases

During the federal election, the Liberal Party proposed imposing a 10% "luxury tax" on cars, boats, and personal aircraft sold for more than $100,000. Small businesses who sell boat and water recreational equipment for example have raised significant concerns about the impacts this tax could have on their business and related sectors, including marinas and repair shops. Many of these businesses were hit by the retaliatory tariffs imposed by Canada on the United States which left them with overvalued inventory despite the tariffs being lifted. A new tax would hit them even more.

In addition, a tax increase could also mean consumers may decide to spend their recreational money elsewhere increasing potential job losses for manufacturers and dealerships. A similar tax was imposed in the United States in 1991 but was withdrawn within just two years due to the negative impacts on jobs and the low amount of revenue it generated. Based on a study done for the United States Joint Economic Committee, 1,470 jobs were lost in the aircraft industry in addition to 7,600 in the boating industry due to the tax.[13] **We ask that the government not move forward with a new excise tax of 10% on boats and other vehicles valued over $100,000.**

"This [tax] will result in a decrease in sales in our industry. As a result, job losses in many small businesses will be expected across the country. A decline in boat sales will also mean a decrease in GST/HST (or QST in Quebec) revenues, not to mention that the revenues from a so-called "luxury" added tax will necessarily be less than projected." – Marine sport retailer, New Brunswick

Ensuring tax fairness for small businesses

As Canadian small businesses are competing with businesses across the world, including global giants like Amazon and Netflix, it is important to ensure that the playing field remains fair. International online service providers are not currently subject to Canadian sales taxes, yet Canadian–based online providers are. **As such, we encourage the government to apply sales taxes to international online service providers who sell to Canadian consumers.** Brick and mortar retailers are also facing increased competition as Canadian consumers continue to shop more and more online. However, many times, the required sales taxes and duties are not being applied to goods purchased online and imported via Canada Post. A study by Copenhagen Economics found that while sales taxes were collected at customs for private couriers such as

[13] George F. Will, "When a luxury tax took wind out of yacht sales," *The Baltimore Sun*, Original publication October 1999 https://www.baltimoresun.com/news/bs-xpm-1999-10-31-9910300436-story.html. (accessed December 11, 2019.)

UPS or Fedex 100% of the time, this was only the case for 25% of Canada Post shipments.[14] There should not be a tax incentive to import online goods from overseas relative to purchasing an item from a Canadian retailer. **The government should work to ensure that the Canada Border Services Agency properly collects sales taxes and import duties from all couriers, including Canada Post, to keep the playing field level between international and Canadian companies.**

Self–storage facilities and campgrounds are still being subjected to unfair rules that limit their access to the small business tax rate. Small businesses such as these 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. As a result, many have faced audits and have found to be owing up to tens of thousands of dollars as CRA has determined they are not an active business. Some of these businesses have been forced to close their operations entirely as a result. We believe that this is deeply unfair, and the **government should review the rules used to define passive versus active business income and eliminate the five employee rule.**

Government finances

Ensuring a balanced budget is necessary in ensuring affordability in the long term. Small business owners do their best to keep their businesses in the black and expect the same from their government. With the federal deficit now projected to reach more than $26.6 billion in 2020[15], they are concerned that continued deficits and growing debts will lead to a higher tax bill in the future, particularly if spending is not restrained. Balancing the budget was the third–highest priority for small business owners during the election with 60% saying it was very important and would influence their vote.[16]

To address growing deficits, the majority of business owners (63%) want to see the budget balanced within the next five years, mainly through spending restraint (Figure 5). **We recommend that the government put in place a plan to return to balanced budgets within the next five years.**

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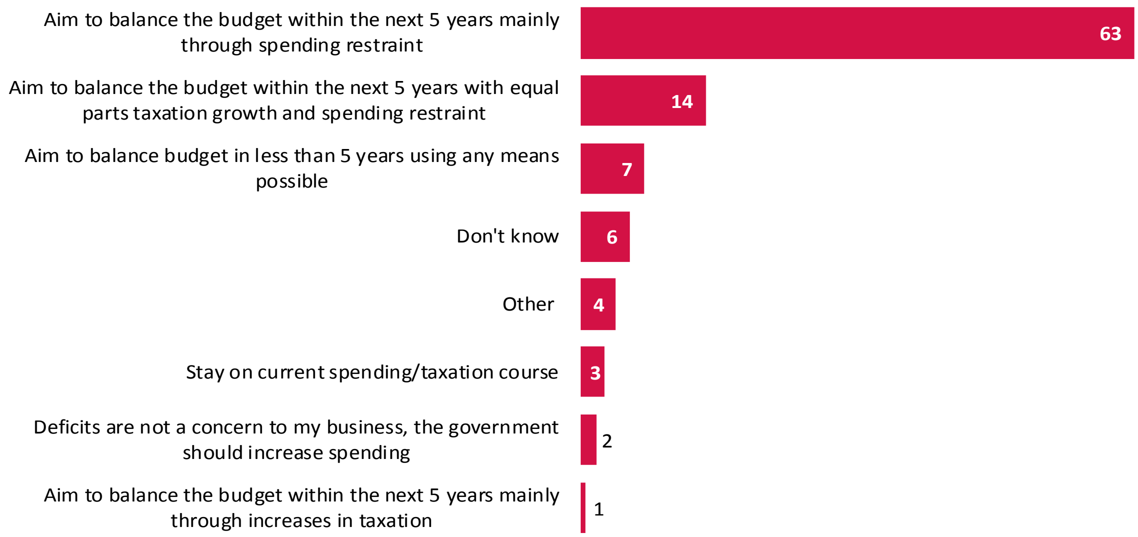
[14] Copenhagen Economics, E-Commerce Imports into Canada: Sales Tax and Customs Treatment, March 2017, https://www.copenhageneconomics.com/dyn/resources/Publication/publicationPDF/9/379/1488463673/copenhagen-economics-2017-e-commerce-imports-into-canada-sales-tax-and-customs-treatment.pdf

[15] Government of Canada, Economic and Fiscal Update 2019, https://www.budget.gc.ca/efu-meb/2019/docs/statement-enonce/toc-tdm-en.html (accessed December 20, 2019).

[16] CFIB, 2019 Federal Budget and Election Survey, October-November 2018, n-6,615.

Figure 5

How should the federal government be dealing with deficits? (Select one answer only) (% response)



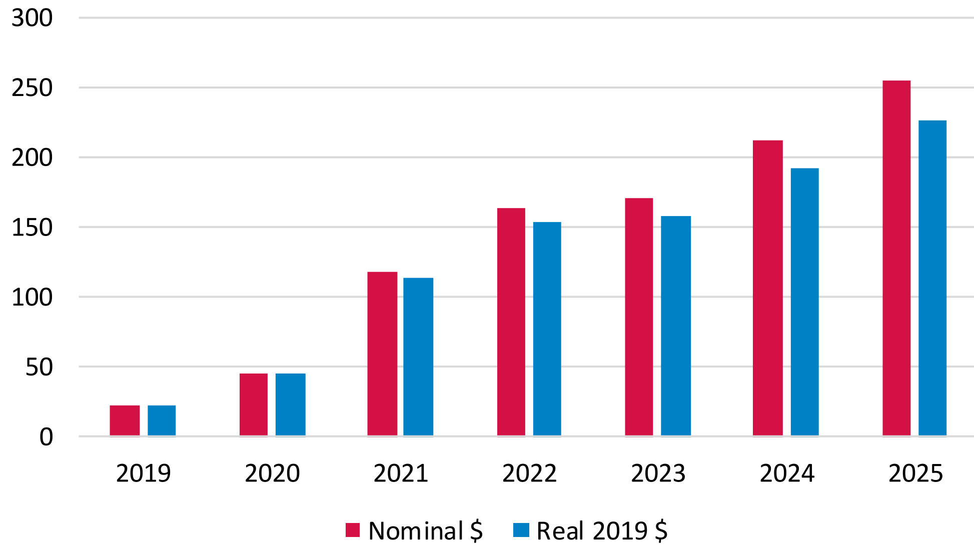
Source: CFIB, 2019 Federal Budget and Election Survey, October-November 2018, n-6,615.

CPP Integration

The fall Economic and Fiscal Update revealed that the cost of public sector pensions is contributing to a large part of the increasing deficit due to low interest rates and the costs of the fund increasing. While the CPP enhancements started in 2019, CPP integration of defined benefit pension plans has yet to happen. Integrating CPP with public sector pensions would ensure that pension compensation for employees remains the same but with a larger portion of the funding coming from CPP and a smaller portion coming from the workplace. If the government does not act to ensure CPP integration, it could cost an additional $22 million in 2019, rising to $255 million by 2025 when the CPP and QPP enhancements are fully phased in (see Figure 6).

Figure 6

Additional federal government employer contributions to CPP/QPP because of non-integration with pension plans (in millions of $)



Source: Estimates based on OSFI, 28th Annual Actuarial report, Table 6, http://www.osfi-bsif.gc.ca/Eng/Docs/cpp28.pdf

We urge the government and public sector unions to negotiate CPP integration through collective bargaining or ensure that it is imposed for all federal public sector defined benefit pension plans.

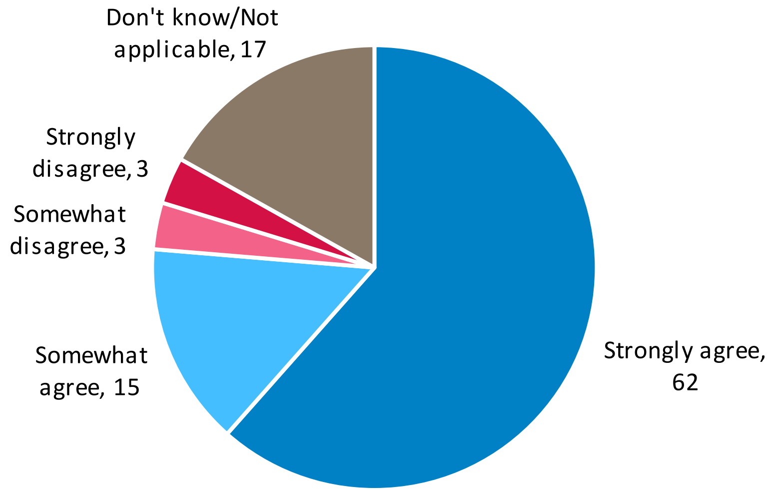
Credit cards

For small business owners dealing with big banks and credit card companies, it can often feel like David versus Goliath. As such, CFIB is seeking to bring more fairness to the credit card industry. The Code of Conduct for the Credit and Debit Card Industry has been significant in helping to reduce the power imbalance. However, as new players in the industry appear such as Apple Pay and Google Pay, **it is important that the Code of Conduct is regularly updated to keep pace with emerging technologies and new industry players**.

For small businesses who accept credit cards, merchant fees can quickly add up, adding significant costs to their business. We were very pleased to see the pledge from the Liberal Party during the election to end processing fees (also known as "swipe fees") on GST and HST. This promise has strong support from small business owners: 77% agree that fees should not be applied on sales tax collected in their business (see Figure 7).

Figure 7

To what extent do you agree or disagree with the following statements? Credit card processing fees should not be applied on sales tax (GST/PST/HST) collected in my business (Select one for each line) (% response)



Source: CFIB, Banking, Financing and Payments Survey, April-July 2019, n=11,599.

We urge the government to act on ending these unfair fees, as well as ending processing fees on returns. CFIB will be happy to work with government officials to determine the best way that this could be done.

"Not only do we collect it [HST] and do the work involved for the paperwork, another 13% of our fees through our Point of Sale provider for credit card fees are completely tied to the HST going through it." – Auto mechanic, Ontario

Red tape

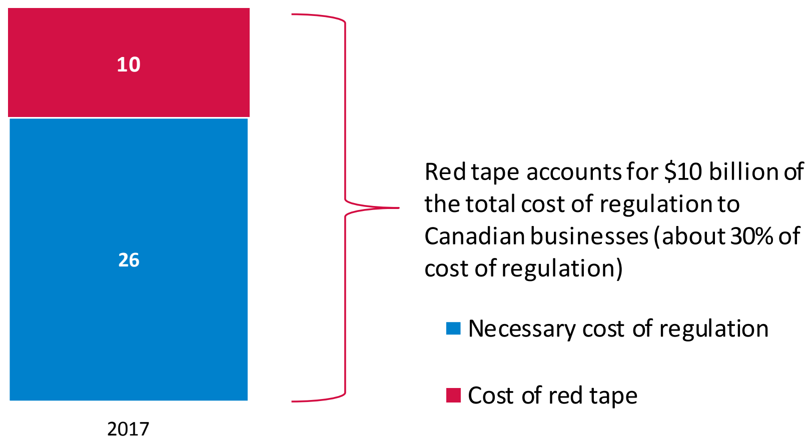
Regulatory modernization and reducing red tape are key to ensuring affordability for business owners. In 2017, the overall cost of regulation for Canadian businesses was over $36 billion, $10 billion of which was red tape.[17] (see Figure 8) In a recent survey, 93% indicated that reducing red tape would help Canada become more competitive and innovative and 90% agreed it is possible to significantly reduce the regulatory burden while also improving health, safety and environmental objectives.[18] Business owners said reducing red tape would have a host of positive impacts on them and their business, such as allowing them to spend more time

[17] CFIB, the Cost of Government Regulation on Canadian Businesses, January 2018.

[18] CFIB, Government Regulation and Red Tape Survey, August-September 2019, n = 5,764.

running their business (81%), reducing their stress (76%) and allowing them to spend more time serving their customers (68%).[19] .

Figure 8
Cost of red tape (in billion 2017 dollars, Canada)



Source: Calculations based on CFIB's Regulation and Paperburden Survey, 2017, n = 7,823

Measuring and reducing red tape

The *Red Tape Reduction Act*, which includes the One-for-One Rule (for every new regulation added for businesses, one of equal burden must be removed), is a step in the right direction, but more needs to be done to ensure that the impacts can be felt on the ground by small business owners. **We recommend that the government broaden the scope of the Act by:**

(1) **Applying it to all departments and government agencies, including regulations related to tax and tax administration which are currently exempt.** This exemption does not make sense in light of the large administrative burden that tax compliance represents.

(2) **Expanding it to include costs imposed on all citizens, not just business.** This is an artificial distinction as "non-business" regulations affect business owners, their families and their employees. More importantly, why wouldn't Canada want to reduce red tape for all its citizens?

(3) **Applying it broadly to government requirements, wherever they may be found.** There are, for example, requirements found in legislation that are not required to be offset (e.g. the Income Tax Act) and, more frequently, in government guidelines and policies that could be included. There are many touch-points businesses and citizens have with government and we need to ensure they are all reviewed to holistically take on the problem.

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[19] CFIB, Government Regulation and Red Tape Survey, August-September 2019, n = 5,764.

(4) Expanding the scope of the law to apply more generally to all regulatory compliance costs as opposed to those specifically associated with the administrative burden. The Red Tape Reduction Act should apply regardless of where requirements are found.

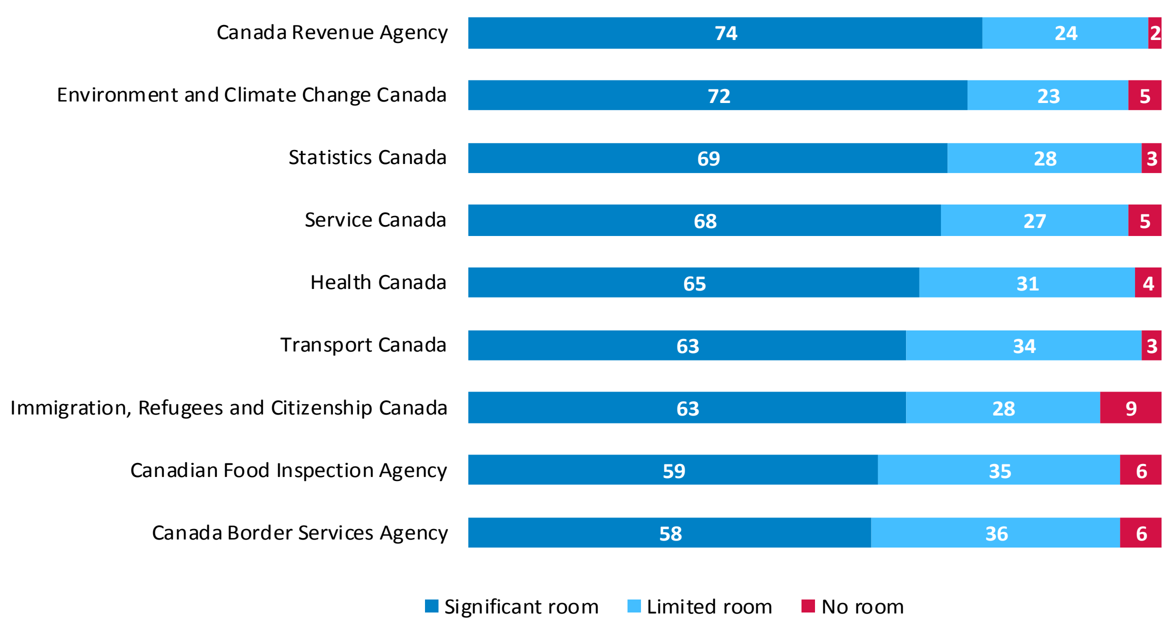
An important element of any plan to reduce the regulatory burden is ensuring that the government is fully aware of the overall number of regulations. **We recommend that the government develop a simple measure (such as regulatory requirements) to assess how many rules there are in legislation, regulation, policy, and guidance documents and report it publicly on a regular basis (e.g. annually).** The measure can be used to complement other initiatives by creating a baseline to give a sense of how the total burden is changing over time, as well as what is happening within specific government departments and agencies.

Improving government customer service

There are opportunities for regulatory modernization across all government departments and agencies. A recent survey asked how much room there was to reduce red tape in a number of government departments that small business owners deal with (see Figure 9). In order to present a clear picture, we took out the “don’t know” answers so the graph shows only business owners who deal with the departments or agencies and have an opinion. CRA was identified as the agency with the most room for improvement.

Figure 9

In thinking about the federal government, how much room is there to reduce red tape within the following agencies (e.g. streamline rules, simplify language, shorten forms) without negatively affecting health, safety and environmental outcomes? (% response)



Source: CFIB, Government Regulation and Red Tape Survey, August-September 2019, n = 5,764.

Government customer service is an important area of regulatory modernization. Red tape is not simply the number of forms and rules, but also includes the availability of information and service provided by government front–line agents. It can be frustrating for a small business owner to have to spend hours online trying to find a form or information about compliance when they could be spending that time running their business. Further to this, they could even face fines if they are not properly complying with the rules as a result of receiving incorrect or out–of–date information from front line agents or government webpages. **We recommend the government focus on improving the quality of the interactions between government and citizens by targeting three service areas:**

1) **Making it a priority to consistently treat citizens as "clients" who deserve helpful respectful service;**

2) **Ensuring government information is in plain and accessible language; and,**

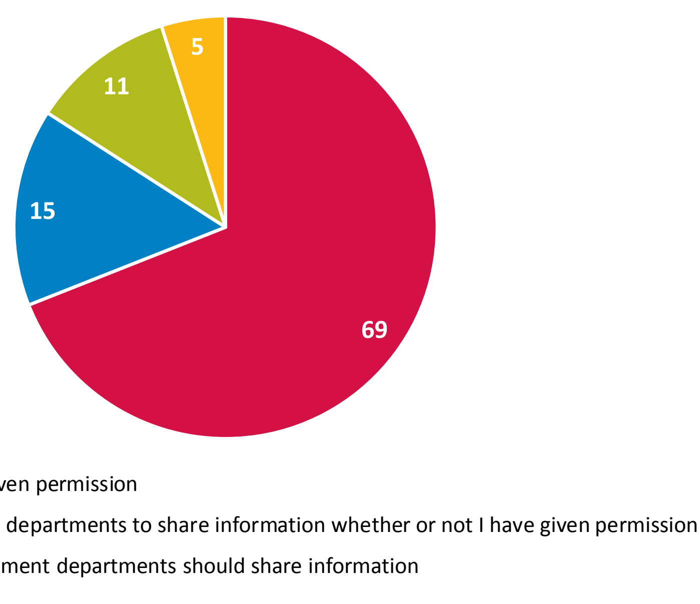
3) **Ensuring information is consistent and reliable.**

New digital tools can help governments better serve small business owners and Canadians, particularly as more people are turning to resources online as their go–to source of information. As such, it is essential that **the government make it a priority to:**

1. **Improve the user-friendliness and design of the federal government website, Canada.ca,**
2. **Provide ways to communicate online with government (e.g. live chat functions, call back numbers),**
3. **Conduct transactions online (e.g. submitting forms, making payments), and**
4. **Utilize digital technology to ensure better information sharing between departments in order to reduce duplication** (see Figure 10)

Figure 10

Should more business information be shared between government departments to reduce duplication? (% response)



Source: CFIB, Government Regulation and Red Tape Survey, August-September 2019, n = 5,764. Data may not sum to 100% due to rounding.

Improving services at CRA

As CRA is the government agency with which small business owners interact the most, it is no surprise that they believed it had the most room to reduce red tape (see Figure 9). Complying with tax rules is consistently cited as one of the most challenging and time–consuming responsibilities for business owners,[20] therefore ensuring that CRA provides them with good customer service can go a long way to help to reduce their red tape burden.

Submitting lengthy forms and documents can be onerous for small businesses. To help reduce this burden, **CRA should work to simplify forms and utilize digital technologies by moving certain forms online, while providing assurance to business owners by confirming that documents have been properly received.** For example, business owners who hire subcontractors or contract employees are required to fill out a T5–108 (in the construction industry) or T4A form for each payment over $500. Some business owners may end up having to fill out over 50 forms in one year. By moving forms online, and potentially providing an auto–fill option using information from previously used contractors that has been saved, could help reduce the burden on employers and encourage better compliance. Otherwise, employers are forced to scan and send each form to CRA, or pay a fine of $250.00 if they mail them in.

It should also be noted that not all business owners have access, or are able to use, online services. Therefore, it is important that CRA ensures that traditional, non–electronic tools remain available to SMEs. This is particularly true in remote or rural areas that can have limited access to broadband internet, where making online payments, or submitting documents electronically can be difficult. As a result, many of our members still prefer to make payments using cheques or be able to file forms using other methods.

CRA should also look to simplify processes and eliminate additional paperwork wherever possible. In particular, small business owners find it time–consuming and onerous to have to fill out motor vehicle records in a logbook. **We recommend that CRA consider allowing a reasonable amount of car expenses without a logbook, which would reduce the red tape around tracking these kinds of business expenses.**

Small business owners often find that the audit process can be intimidating. When they are found to be owing money to CRA, the collections process can be equally stressful, and many business owners have reported feeling intimidated by collections agents. To help make this process fair and transparent for businesses, **CRA must ensure better communications within its collections branch, as well as between other branches within CRA.** For example, if a new collections agent is assigned to a file where a payment plan was previously agreed to, **CRA should ensure that these terms remain in place. Business owners should also be notified when a new agent is assigned to their file to make sure they are aware of who they can contact.**

The CRA call centre remains an important source of information for business owners. Therefore, it is essential that SMEs are able to quickly access agents and that answers are

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[20] CFIB, Regulation and Paperburden survey, 7,823 responses, September 2017.

consistent and accurate so that business owners feel like they can rely on the information they receive. While CRA continues to make improvements to this service, there is still work to do – particularly around reducing wait times (see CFIB's 2019 CRA Call Centre Report Card for a full list of recommendations).

To help reduce call volumes and wait times**, CRA should ensure better awareness of online services such as My Business Account as well as expand specialised services such as the Dedicated Telephone Service (DTS) for tax providers.** My Business Account is particularly valuable as CRA will honour the guidance they provided in writing to businesses even if this is later proven to be incorrect in an audit so the business will not be penalized. **We recommend that CRA reduce its target response time for enquiries received through My Business Account from 10 days to 3 days. CRA should also consider expanding the mandate of the Dedicated Telephone Service (DTS) for tax providers to allow for a wider variety of questions that can be answered.**

New technologies, such as artificial intelligence, can also provide new and innovative ways for the government to provide customer service and for small businesses to interact with the government in a much more efficient way, notably on issues and concerns related to compliance, business practices and taxes. **We recommend that the government allow business owners to easily access tools that use artificial intelligence that can enable them to make educated determinations about whether or not they are in compliance and ensure that CRA officially recognizes and honours these determinations.** For example, there are organizations, such as Blue J Legal, that have developed programs which utilize AI technology to help determine tax compliance based on previous cases that have been decided in tax court. These types of innovations will help reduce the regulatory burden, helping businesses find the answers they need, while also reducing pressure and call volume on agents.

Breaking down barriers to interprovincial trade

Taking action on ensuring free trade between the provinces is an issue that we were pleased to see in the Liberal Party's election platform, as well as that of several other parties. Reducing barriers to interprovincial trade was the top regulatory barrier that small businesses want addressed, with 86% saying they support the government taking action.[21] Not only do barriers to internal trade cost the Canadian economy billions of dollars per year, but it also discourages businesses from growing their business and expanding to new markets. If a small business struggles getting their products to market in a neighbouring province, it is unlikely that they will even attempt to trade with a foreign country. As the Regulatory Reconciliation and Cooperation Table (RCT) continues to work on reducing regulatory barriers, **we recommend that the federal government continue to play a leadership role by encouraging the provinces to move faster on addressing interprovincial trade barriers including recommending that they look at mutual recognition rather than regulatory harmonization in order to progress more quickly.**

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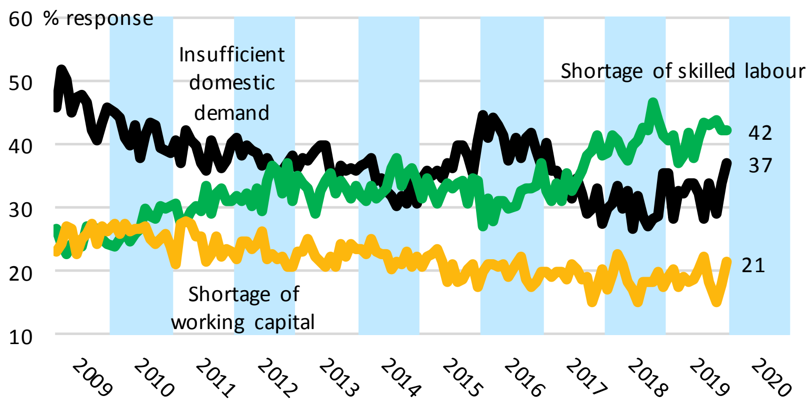
[21] CFIB, 2019 Federal Budget and Election Survey, October-November 2018, n-6,615.

Labour

Although private sector job vacancy rates have stabilized, they remain historically high, with around 433,000 jobs sitting vacant for at least four months.[22] Industries such as construction, personal services (e.g. hairdressers, plumbers, mechanics), as well as Quebec, Ontario and British Columbia are facing even higher than average vacancy rates. CFIB's monthly Business Barometer shows that concerns over the shortage of skilled labour have steadily risen over the past ten years, with 42% of business owners reporting that it limits their productivity and ability to grow (see Figure 11).

Figure 11

Trends: limitations on growth



Source: CFIB, Business Barometer, December 2019, n=770.

With an aging population and many set to retire within the next ten years, there is no sign that this trend will slow down. While there is no one-size-fits all solution to this issue, there are several key policy areas that the government can target.

Training

Support for training is key to ensuring that workers are equipped with the right skills and are adequately prepared for the labour market. This not only includes those entering the workforce for the first time, but also those wanting to change careers or upskill. Small businesses see the value in training and already invest around $5 billion per year in formal training and $9 billion in informal training. In fact, the smaller the business, the more they tend to invest in training per employee.[23] Informal training is often essential in a small business, but current government training programs do not recognize these types of investments. As such, **we recommend that the government create an EI training tax credit which can help to recognize small business investments in informal training.**

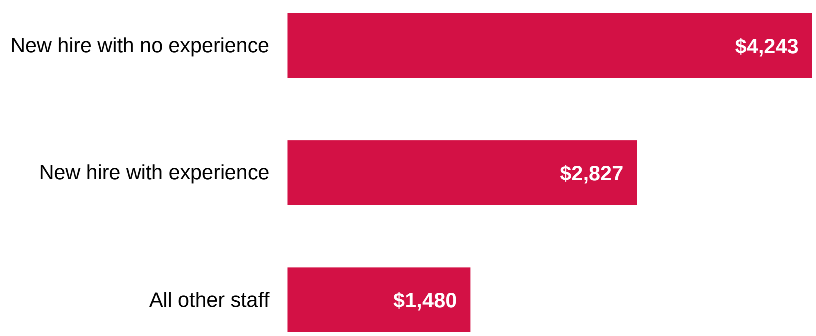
[22] CFIB, Help Wanted, Q3 2019.

[23] CFIB, Small Business, Big Investment: Improving training for tomorrow's workforce, September 2015.

Training youth can often be an expensive endeavour for a small business, though small businesses are often where young people get their first jobs, providing them with important work experience. On average, the cost for a small business to train a new hire with no experience is almost double ($4,243) the cost of hiring someone with experience ($2,827) (see Figure 12). To help offset these costs and encourage more small businesses to hire youth, **we recommend that the government implement an EI holiday for hiring youth between the ages of 15 to 24.** While the employer would not pay the employer portion of EI, the worker would still be paying their portion so they could still access EI if needed.

Figure 12

Average training cost per employee, by type of employee, 2014

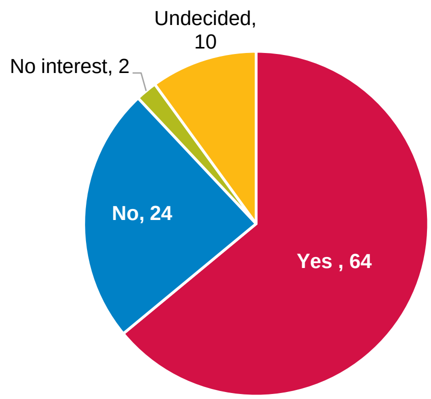


Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

Close to half (47%) of small businesses have hired a co-op student or intern. This can be a valuable way for SMEs to find workers with the skills they need and for youth to gain experience in the workplace. However, cost can be a barrier to businesses interested in participating in Work-Integrated Learning (WIL) opportunities. To help offset the cost of hiring and training, as well as provide an incentive to hire students, **we recommend that the government introduce a federal tax credit for employers who engage in WIL.** In a previous survey of our members, 64% said that they would be supportive of a tax credit for employers who hire a co-op student or an intern (see Figure 13).

Figure 13

Should the federal government introduce a tax credit for employers who hire a student enrolled in a co-operative education program? (% response)



Source: CFIB, Mandate 252, 8,929 responses, September 2013.

As many businesses in the skilled trades are facing historically high labour shortages, it is essential that the government ensure that careers in the trades are promoted as a viable path for youth and that businesses can train workers with the skills they need. Programs such as the Ontario Youth Apprenticeship Program (OYAP) can help expose students to careers in the skilled trades that they may not have considered before, while giving them on-the-job experience that they can carry forward. However, under the current rules, businesses who take on young apprentices through unpaid, credited high school programs such as the OYAP are unable to access the apprenticeship tax credit if the keep that student on as a full-time paid apprentice after graduation.

To encourage businesses to keep participating in these programs, **we recommend that the government ensure that the eligibility for the apprenticeship tax credit starts the month the apprentice begins their paid apprenticeship, not the month in which they are registered as an apprentice.** Another way to achieve this would be to have the MTCU classify an unpaid co-op student apprentice differently than a paid apprentice, and that CRA review eligibility for paid registered apprentices only. **We also recommend that this be applied retroactively for businesses who may have previously been denied the credit.**

The Red Seal program requires workers to complete an apprenticeship and meet certain standards in order to become certified in that field. Small employers are essential in helping to train apprentices, usually with the goal of keeping them on as long-term employees. While the government provides tax credits to employers to help offset the costs of training, these supports are limited to those in designated Red Seal trades. In order to ensure more small employers can hire apprentices, **we recommend the government expand the list of officially recognized Red Seal trades to include a broader group of skilled trades, such as computer technicians, locksmiths, tailors, equipment mechanics and dressmakers**.

While we support the ideas behind the Canada Training Benefit, the government must ensure that it also meets the needs of employers. Especially as employees are able to take a leave from their job to pursue training, which can be very disruptive to a small business, it is important that employers and employees are on the same page when it comes to training. **CFIB calls on government to ensure that employers have a say in the type of training associated with the Canada Training Benefit and in the timing of the leave. The same should apply at the provincial level.** To ensure minimal disruptions to employers and other employees, should an employee take time off to train **we recommend that anyone requesting training requiring a leave must have had a minimum of 12 months of continuous employment with the same employer and provide the employer with at least three months' notice**.

Immigration

The immigration system can play a key role in helping to address skills and labour shortages. However, navigating the immigration system can be confusing and expensive for a small business owner, so it is often a last resort, as it is easier and cheaper to hire a local worker. Despite this, the government must still ensure that the immigration system meets the needs of the labour market. While there is often a focus on bringing in higher-skilled workers, workers at lower-skilled levels are still essential for many small businesses. While only around 10% of SMEs use the temporary foreign worker (TFW) program, those that do find it essential to their business.

To get a TFW, most businesses have to fill out a Labour Market Impact Assessment (LMIA) which can be a complex and frustrating process for small businesses. Recently, many small business owners have reported significant delays in processing applications. These delays can be detrimental for seasonal businesses such as those in the tourism sector or in agriculture. Some have reported having to delay their harvests or reduce their business hours due to lack of employees. **We recommend that the government conduct a full review of the LMIA process to reduce the complexity of applications, improve government customer service, and significantly reduce delays in processing applications.**

Often, TFWs who are hired are filling permanent vacancies in the business; however, there is currently no federal pathway to permanent residency for lower-skilled workers (outside of the provincial nominee program). As such, we were pleased to see the government announce the Agri-food Immigration Pilot to be launched in March 2020. Employer-led programs such as this one and the Atlantic Immigration Pilot (AIP) can be helpful in ensuring that foreign workers are equipped with the skills most sought by employers. However, some members who have used the AIP have expressed concerns around the ability to retain employees in their business and in their region once they have received permanent residence.

While pilots such as these are a good step, more needs to be done to ensure that SMEs can access the labour they need and fill permanent job vacancies. **We encourage the government to build on this initiative in order to create a federal pathway to permanent residency for workers of all skill levels, including Temporary Foreign Workers, such as an "Introduction to Canada Visa."** This could involve an initial two-year working visa with the possibility to apply for permanent residency after two years of working with that employer or expanding the Canadian Experience Class to allow lower-skilled workers to apply. Alternately, **the government should look to improve and expand pilot programs that promote employer-led**

immigration, specifically working to address the issues around retention. One solution may be to require the new immigrant to remain with that employer for a defined period of time (i.e. 24 months) prior to them getting permanent residency.

"Many businesses in our sector could simply not operate without access to the foreign worker program, Government needs to streamline the program, remove the red tape and take a zero tolerance position with those employers and recruiters who are operating outside the law and rules of the program in order to protect the migrant workers who wish to come to Canada for legitimate jobs." – Consultant, Alberta

Further to this, **the government should ensure all economic immigration categories, such as the Canadian Experience Class, are accessible to workers at all skills level, including trades and semi-skilled occupational categories.** In February 2020, CFIB will be releasing a new report on immigration with more detailed recommendations on improving the immigration system to ensure that it meets the needs of small employers.

Conclusion and summary of recommendations

Budget 2020 provides the government with an opportunity to focus on priorities identified by small business owners. This is not only important to small businesses, but it is important to Canadians. A survey conducted by Angus Reid this past September showed that 89% of Canadians admire entrepreneurs and 95% have tremendous respect for small business owners.[24] In the same survey, 96% said small businesses are important to Canada's future and vital to their community. However, many Canadians believe that government needs to do more to help small businesses. Indeed, 79% of respondents think governments undervalue the contributions of entrepreneurs and 88% believe that small businesses should be subject to a lower tax rate than larger businesses. These results show that Canadians significantly value small businesses and expect governments to act and adopt policies that foster entrepreneurship.

Here is a summary of our recommendations for Budget 2020:

Taxation

- Ensure that the sale of a small business to family members is treated in a similar manner as a sale to a third party.
- Reject any proposals to increase the capital gains inclusion rate.
- Pause planned CPP premium hikes

[24] Forum Angus Reid, September 2019, n=1,510.

- 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. This could be funded from EI over contributions from employers.
- Gradually reduce EI rates over time until a 50/50 split in EI contributions is reached between employees and employers.
- Ensure that EI–overcontributions are refunded to employers who hire workers who switch jobs and end up paying more than the maximum EI annual premiums.
- Ensure that any additional costs to the EI system that increase EI rates are offset for small employers to avoid any negative impacts on hiring.
- Introduce a green renovation tax credit for SMEs to help reduce the costs of implementing environmentally friendly measures.
- The government should help educate business owners about actions or steps they can take to reduce their carbon footprint through websites and social media, as well as industry associations and publications.
- Exempt natural gas, propane, and aviation fuel used by farmers for farming activities such as fuel using for drying grain, spraying fields or heating barns from the federal carbon tax.
- Allocate an equal share of carbon tax revenues between households and businesses to better reflect the share of carbon taxes being paid by each.
- Ensure the programs created to distribute carbon tax funded incentives are designed to better reflect the realities and needs of small businesses (e.g. do not include high minimum spend requirements and complicated and lengthy paperwork in order to apply).
- Fully exempt spouses from the rules on income splitting.
- Grandfather passive investments that were held prior to the rules coming into effect in 2019.
- Do not move forward with a new excise tax of 10% on boats, cars and personal aircraft sold for over $100,000.
- Apply sales taxes to international online service providers who sell to Canadian consumers.
- Ensure that the Canada Border Services Agency properly collects sales taxes and import duties from all couriers, including Canada Post, to keep the playing field level between international and Canadian companies.

Government finances

- Put in place a plan to return to balanced budgets within the next five years.
- Negotiate CPP integration through collective bargaining with public sector unions or ensure that it is imposed for all federal public sector defined benefit pension plans.

Credit cards

- Eliminate credit card processing fees on taxes, prepaid cards and returns.
- Ensure that the Code of Conduct for the Credit and Debit Card Industry is regularly updated to keep pace with emerging technologies and new industry players.

Red tape

- Broaden the scope of the Red Tape Reduction Act by:
    - Applying it to all departments and government agencies, including regulations related to tax and tax administration which are currently exempt.
    - Expanding it to include costs imposed on all citizens, not just business.
    - Applying it broadly to government requirements, wherever they may be found. There are, for example, requirements found in legislation that are not required to be offset (e.g. the Income Tax Act) and, more frequently, in government guidelines and policies that could be included.
    - Expanding the scope of the law to apply more generally to all regulatory compliance costs as opposed to those specifically associated with the administrative burden.
- Develop a simple measure (such as regulatory requirements) to assess how many rules there are in legislation, regulation, policy, and guidance documents.
- Focus on improving the quality of the interactions between government and citizens by targeting three service areas:
    - Making it a priority to consistently treat citizens as "clients" who deserve helpful respectful service;
    - Ensuring government information is in plain and accessible language; and,
    - Ensuring information is consistent and reliable.
- Improve the user–friendliness and design of the federal government website, Canada.ca, and provide ways to communicate and conduct transactions online with government.
- Utilize digital technology to ensure better information sharing between departments in order to reduce duplication.
- Continue to play a leadership role by encouraging the provinces to move faster on addressing interprovincial trade barriers, including recommending that they look at mutual recognition rather than regulatory harmonization in order to progress more quickly.
- Reduce red tape and improve customer service at CRA by:
    - Simplifying forms and utilizing digital technologies by moving certain forms online, while providing assurance to business owners by confirming that documents have been properly received.

- Simplifying processes and eliminate additional paperwork wherever possible.
    - Consider allowing a reasonable amount of car expenses without a logbook, which would reduce the red tape around tracking these kinds of business expense.
- Ensuring better communications within the collections branch, as well as between other branches within CRA.
    - Notify business owners when a new agent is assigned to their file and ensure that previously agreed on terms for payment plans remain in place if a new collections agent is assigned to a new file.
- Ensuring better awareness of online services such as My Business Account as well as expanding specialised services such as the Dedicated Telephone Service (DTS) for tax providers.
    - Reduce the target response time for enquiries received through My Business Account from 10 days to 3 days.
    - Consider expanding the mandate of the Dedicated Telephone Service (DTS) for tax providers to allow for a wider variety of questions that can be answered.
- Allow business owners to easily access tools that use artificial intelligence that can enable them to make educated determinations about whether or not they are in compliance and ensure that CRA officially recognizes and honours these determinations.

Labour

- Create an EI training tax credit that also recognizes investments in informal training.
- Implement EI holiday for hiring youth between the ages of 15 to 24.
- Ensure that the eligibility for the apprenticeship tax credit starts the month the apprentice begins their paid apprenticeship, not the month in which they are registered as an apprentice. Apply the credit retroactively for businesses who may have previously been denied the credit.
- Expand the list of officially recognized Red Seal trades to include a broader group of skilled trades, such as computer technicians, locksmiths, tailors, equipment mechanics and dressmakers.
- Introduce a federal tax credit for employers who engage in work–integrated learning.
- Ensure that the Canada Training Benefit meets the needs of both employees and employers by:

  - Ensuring that employers have a say in the type of training and in the timing of the leave; and,
  - Requiring that anyone requesting training requiring a leave must have had a minimum of 12 months of continuous employment with the same employer and provides the employer with at least three months' notice.

- Conduct a full review of the Labour Market Impact Assessment process to reduce the complexity of applications, improve government customer service, and significantly reduce delays in processing applications.
- Create a federal pathway to permanent residency for workers of all skill levels, including Temporary Foreign Workers, such as an "Introduction to Canada Visa."
- Improve and expand pilot programs that promote employer-led immigration, such as the Atlantic Immigration Pilot and the Agri-Food Immigration Pilot, specifically working to address the issues around retention. One solution may be to require the new immigrant to remain with that employer for a defined period of time (i.e. 24 months) prior to them getting permanent residency.
- Ensure all economic immigration categories, such as the Canadian Experience Class, are accessible to workers at all skills level, including trades and semi-skilled occupational categories.