

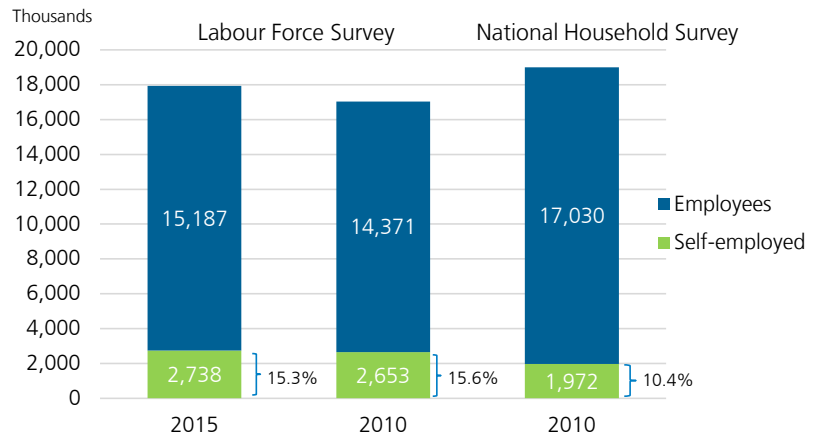
# Small Business Profile

*A look at small business and the self-employed in Canada*

## How Canadians earn a living

More and more Canadians are venturing out on their own, testing the entrepreneurial waters and looking to be their own boss. The monthly Labour Force Survey shows that roughly 15 per cent of Canadians are self-employed. The National Household Survey defines self-employment slightly differently--as the primary form of employment throughout the entire year--giving it a slightly lower proportion of the work force (about 10 per cent).

Figure 1: Employment and self-employment

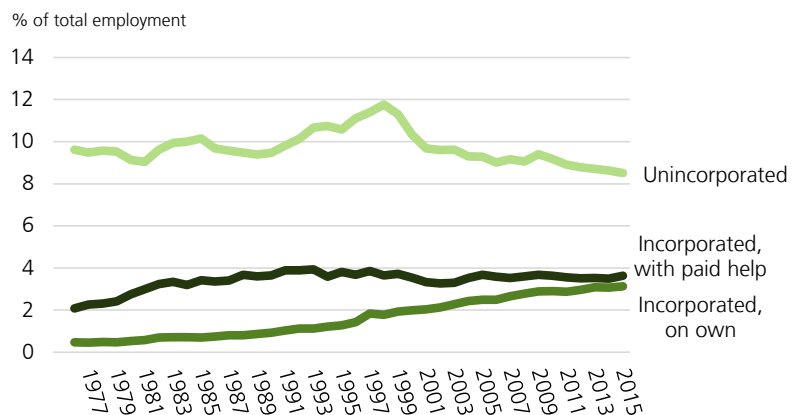


Source: Statistics Canada, Labour Force Survey, Table 282-0011, NHS microdata

## Differing growth patterns by form of business

Self-employment grew rapidly in past decades, but the pattern depends on the form of business. The share of incorporated self-employed with employees doubled through the 1970s and '80s. Growth in the numbers of those incorporated but on their own expanded more rapidly after 1990. Although still a sizable group, after a spurt of growth in the '90s, the presence of unincorporated businesses has tapered off.

Figure 2: Self-employment trends by form of business

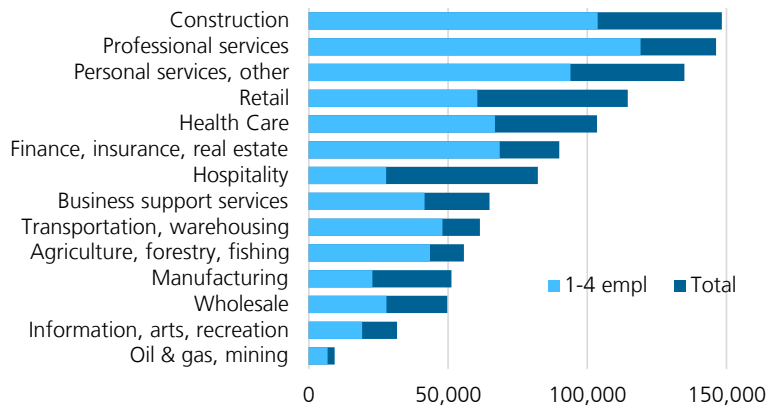


Source: Statistics Canada, Labour Force Survey, Table 282-0011

**Micro enterprises make up a large share of most industry sectors**

In most industry sectors, the business demographic is dominated by micro enterprises. Two-thirds of Canada's approximately 1.1 million private sector active enterprises employ fewer than 5 people. Construction and professional services--the sectors with the largest numbers of businesses also have the highest proportion of micro enterprises.

Figure 3: Number of active enterprises, by industry and size, 2013

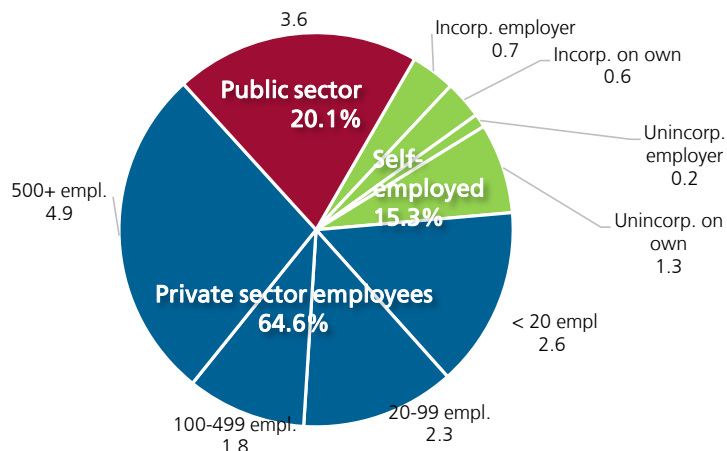


Source: Statistics Canada, Canadian Business Counts, Table 529-0001

**One-in-three people own or work in a small business**

Looking at the size distribution of enterprises by the number of people they employ, small businesses account about one worker in three--split evenly between the self-employed and paid employees. Mid-size and large private enterprises account for almost half of total employment while about one person in five works for the public sector.

Figure 4: Employment by type and size of enterprise, 2015, (Millions)

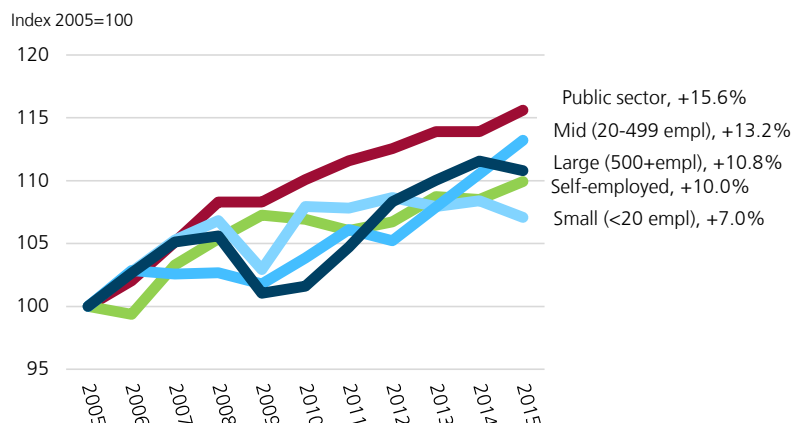


Source: Statistics Canada, Labour Force Survey, custom tabulation

**The business cycle affects growth trends by size of enterprise**

Relative rates of employment growth by type and size of enterprise have varied widely in the past decade. Growth of the public sector has been strongest and steadiest at 15.6 per cent. As a result of post-recession gains, employment in mid-sized enterprises has been almost as strong at 13.2 per cent. Employment growth among large businesses has been somewhat less (10.8 per cent), but also most highly sensitive to business cycles.

Figure 5: Employment growth by type and size of organization

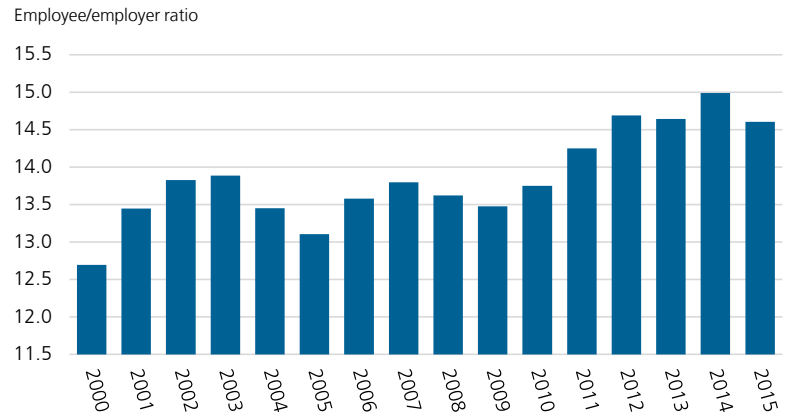


Source: Statistics Canada, Labour Force Survey, custom tabulation

**Average business size is increasing**

Overall, these trends suggest that private sector employment is becoming more concentrated. A measure derived by dividing the number of private sector employees by the number of self-employed employers (both incorporated and unincorporated) show the average size rising from about 12.5 employees per business in 2000 to 14.5 by 2015--a size gain of 16 per cent.

Figure 6: Imputed private sector business size

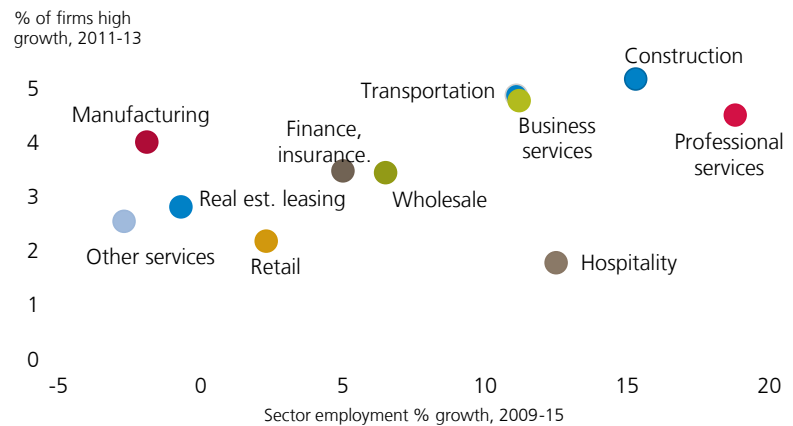


Source: CFB estimates based on Statistics Canada, Labour Force Survey, custom tabulation

**Sector-level growth is largely independent of firm-level growth**

Total employment growth over time only gives us partial information on the dynamics of change in the economy. Even in slow-growth sectors, for example, we can still find large numbers of high-growth businesses. Since the recession, for example, total manufacturing employment has fallen, but about 4 per cent of manufacturing businesses are high growth.

Figure 7: Employment growth and presence of high-growth businesses by sector

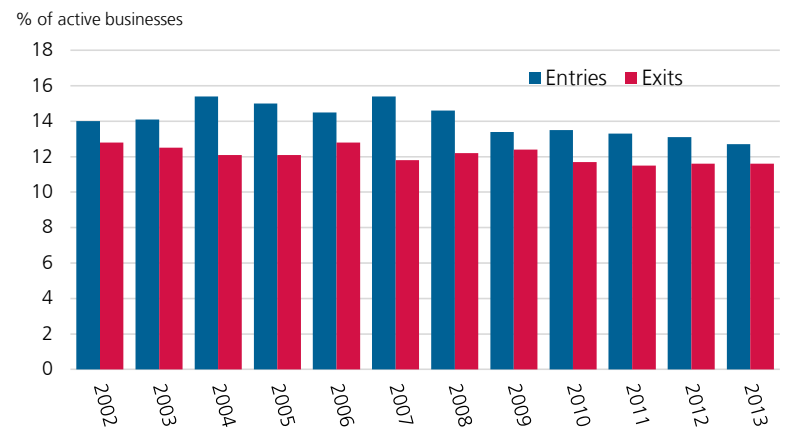


Source: Statistics Canada, Tables 529-0008, 282-0008

**Business churn is slowing**

Business entries and exits also play a big part in shifting employment patterns. Churn rates can rapidly transform the business environment. In any given year, between 11 and 16 per cent of businesses either come into existence or leave the marketplace. Entry rates have been gradually declining after the recession, but they remain just above the exit rates--which mean the stock of businesses is still increasing.

Figure 8: Annual business entry and exit rates

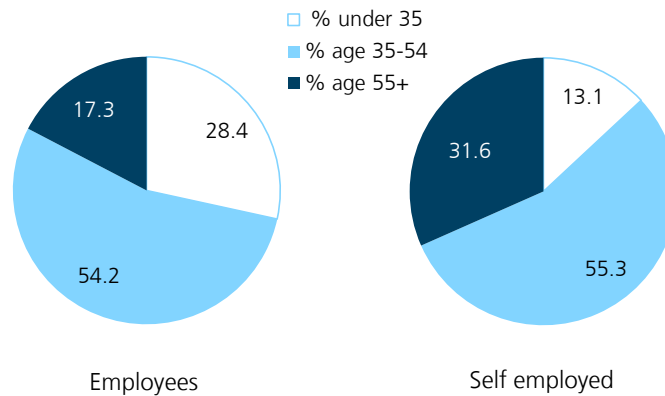


Source: Statistics Canada, Table 527-0001

### Business ownership is a maturing process

Self-employment is generally something started in mid life--after one acquires work experience, capital and contacts. Among the self-employed only 13.1 per cent are under the age of 35, compared to 28.4 per cent of employees. At the other end of the scale, 31.6 per cent of self-employed are age 55 or over, compared to just 17.3 per cent of employees.

Figure 9: Age profile of employees and the self-employed, 2010

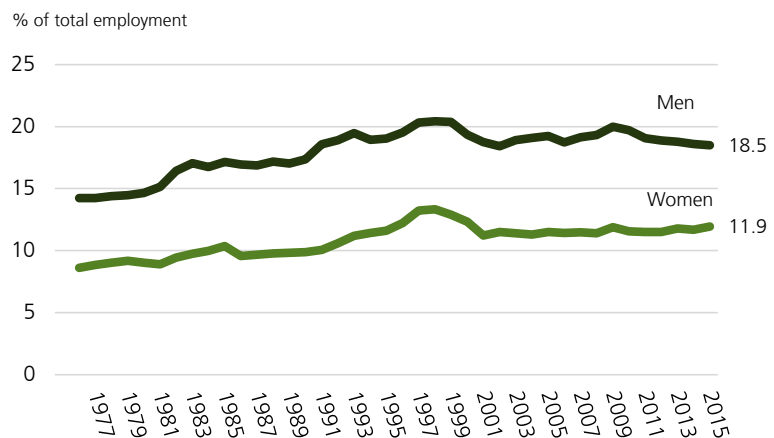


Source: Statistics Canada, 2011 National Household Survey Microdata

### Trends in men- and women-owned businesses: different and equal

Men are more likely to own businesses than women, but the trends over time have followed similar paths. After significant gains through to the late '90s, the proportion of both men and women who are self-employed has leveled off.

Figure 10: Self-employment trends by owner

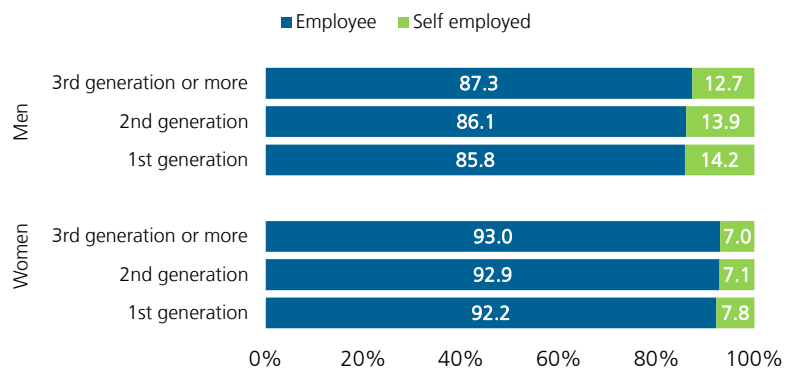


Source: Statistics Canada, Labour Force Survey, Table 282-0011

### The positive influence of immigration

To a small but consistent extent, first-generation new Canadians are more likely to be self-employed compared to native born. Some of this entrepreneurial influence is preserved through to the second generation.

Figure 11: Class of full-time, full-year worker and generation of immigration

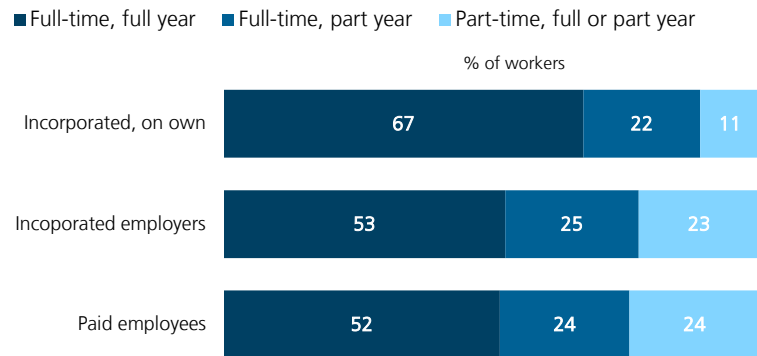


Source: Statistics Canada, 2011 National Household Survey Microdata

### Owning a business is most often a full-time activity

The amount of time spent working through the year depends on the nature of employment. Compared to employees in general, the incorporated self-employed, particularly those employing others are most likely to be working full time and for the full year.

Figure 12: Annual work activity, 2010

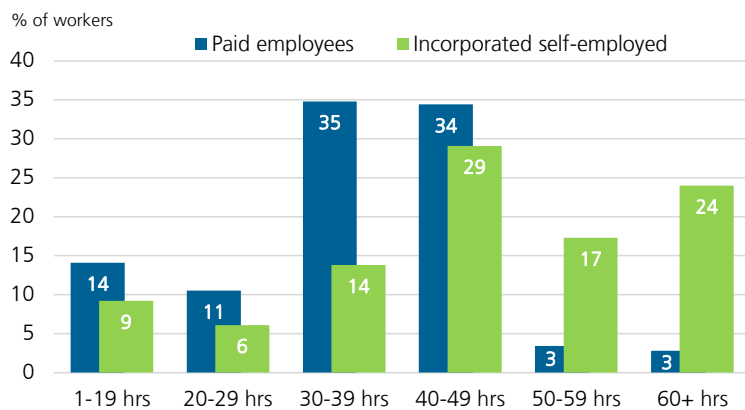


Source: Statistics Canada, 2011 National Household Survey Microdata

### Typical work weeks are long

The work week is also typically far more intense for business owners. Among those between the ages of 25 and 64, more than 40 per cent of owners work 50 or more hours per week--compared to only 6 per cent of employees. Business owners are about half as likely as employees to be working part time.

Figure 13: Average effective work week\*, adults aged 25-64



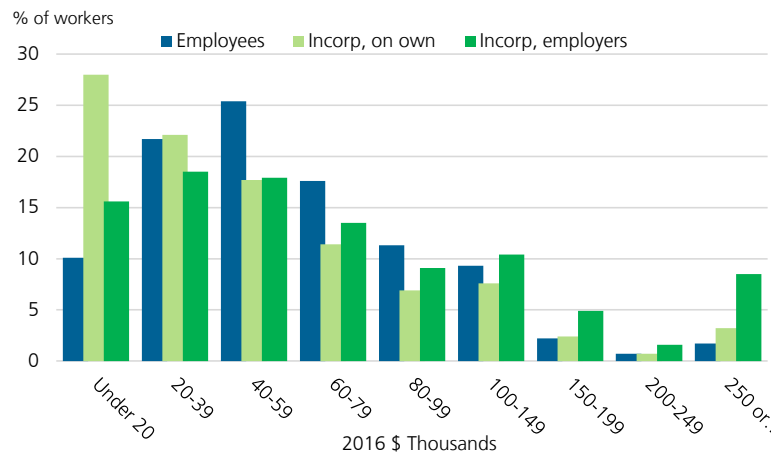
\*Total hours worked in 2010 divided by 52 weeks

Source: Statistics Canada, 2010 Survey of Labour and Income Dynamics microdata

### Incomes: small business owners are firmly in the middle class...

Owning a business does not guarantee an express trip to the One-per-cent. In fact, roughly two-thirds of small and medium-sized business owners fall directly into the middle class. Employers are about four-times more likely to be earning less than \$40,000 than more than \$250,000.

Figure 14: 2010 Market income by class of full-time, full-year worker



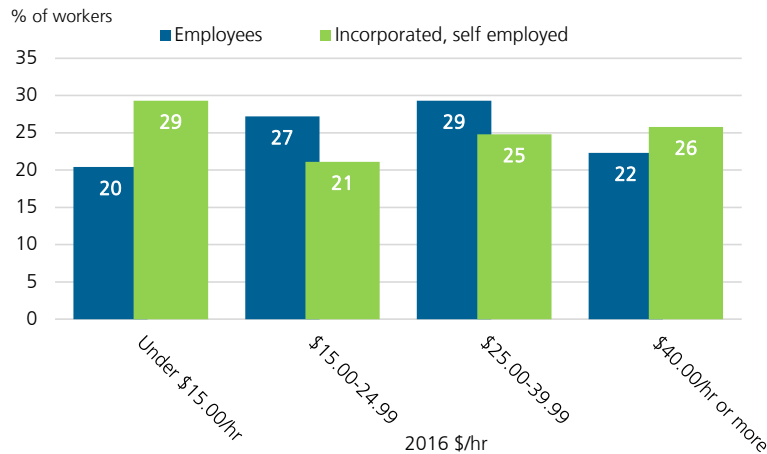
Source: Statistics Canada, 2011 National Household Survey Microdata, adjusted to 2016 consumer prices

**...more so when one includes work effort**

Adding hours worked into the earnings equation tilts self-employment further into modest earnings categories. Among adult workers, almost one-in-three business owners are earning effectively \$15/hr or less, compared to one-in-five paid employees. Note that this market income definition also includes dividends and investment earnings.

Correspondingly, the proportion of business owners earning effectively more than \$40/hr (26 per cent) is much closer to that of paid employees (22 per cent).

Figure 15: 2010 Effective hourly market income distributions for adult workers

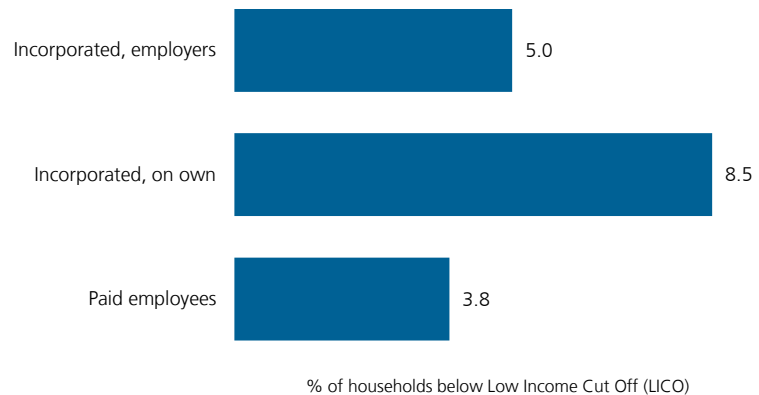


Source: Statistics Canada, 2010 Survey of Labour and Income Dynamics Microdata, adjusted to 2016 prices

**Self-employment is a more common definition of 'working poor'**

The large numbers of low-income self-employed workers translates to a higher proportion of them being in low-income households compared to full-time paid employees. Uncertain and highly variable earnings may be part of it, but many business owners also choose to pay themselves less in order to re-invest in their business and their employees.

Figure 16: Low-income households, by full-time employment type, 2010

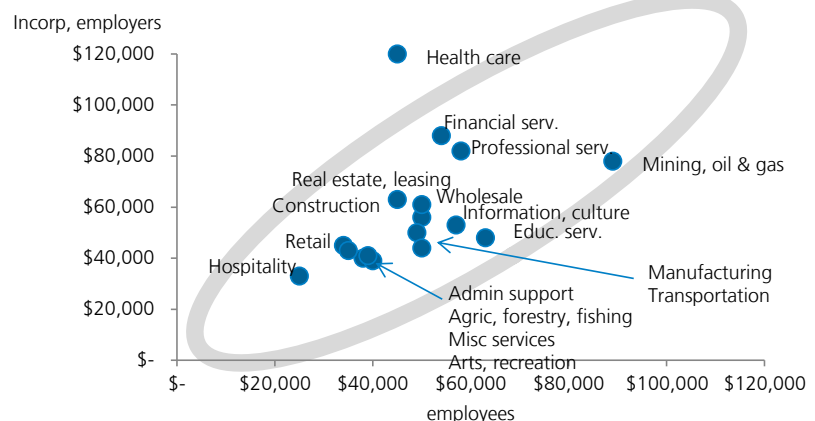


Source: Statistics Canada, 2011 National Household Survey Microdata

**Low-wage sectors are also low-profit sectors for owners**

Industries with low (high) employee wages also generate lower (higher) incomes for employers. Generally, median earnings of employers are proportionally in line with employees in the same industries. It suggests that the competitive profile and profit capacity of the industry sector determines the market wage/earnings levels for all participants.

Figure 17: Full-time, full-year median market earnings of employees and incorporated employers, 2010

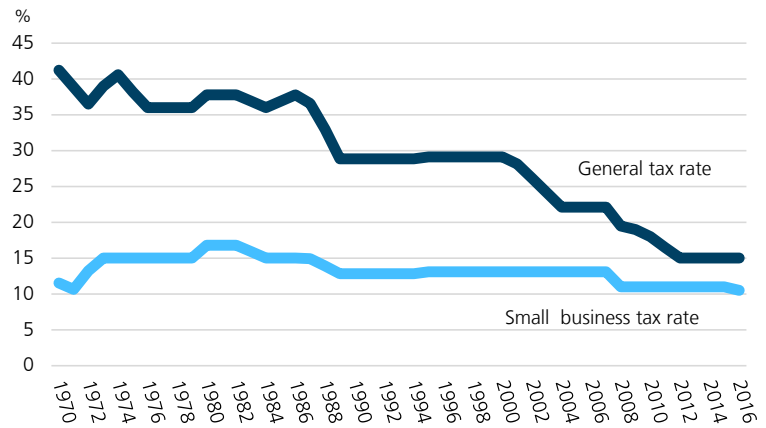


Source: Statistics Canada, 2011 National Household Survey Microdata

**Fewer advantages to small business corporate taxation**

Because of the Small Business Deduction (SBD), effective corporate income tax rates on small businesses are lower than the general corporate rate. The lower rate is meant to assist small firms to retain more earnings for growth capital. Reductions in the general rates in past decades, however, have narrowed the gap substantially. Currently, corporations pay 10.5 per cent on the first \$500,000 of net earnings compared to 15 per cent on higher amounts.

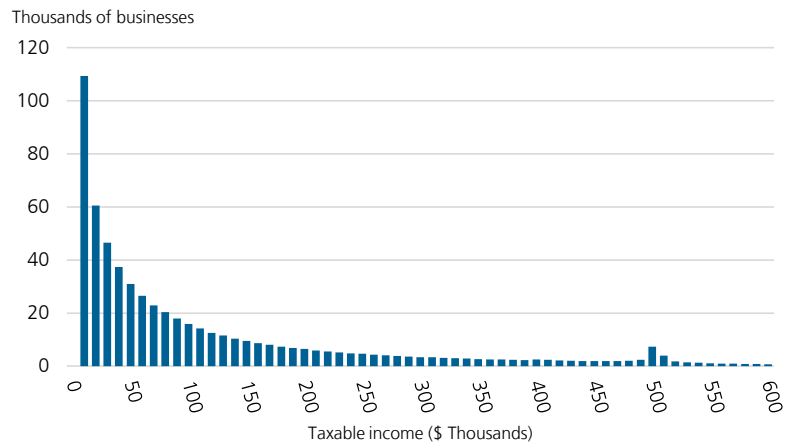
Figure 18: Effective federal corporate income tax rates



**Barriers to small business growth not due to tax structure**

Some have said the 500,000 net income limit for the Small Business Deduction (SBD) creates a disincentive to grow. The reality is very few small firms earn even close to that limit. In fact, 85 per cent of businesses could double their net earnings and still not be exposed to the higher general tax rate. The cluster of 8,000 or so businesses near the \$500,000 mark represent only a small fraction of the 390,000 businesses netting less than \$100,000 per year.

Figure 19: Number of corporations claiming the Small Business Deduction, 2011



Source: Canada, Department of Finance, Tax Expenditures and Evaluations 2013

Ted Mallett, vice-president & chief economist, 416 222-8022  
 Simon Gaudreault, senior economist, 514 861-3234  
 Andreea Bourgeois, senior analyst, 506 855-2526