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

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Subject: Small business priorities ahead of Council of Federation meeting

Dear Premiers:

As you know, the Canadian Federation of Independent Business (CFIB) is a non-profit, non-partisan organization representing the interests of 97,000 small- and medium-sized businesses across Canada. Ahead of the upcoming Council of the Federation meeting in Halifax this week, we urge you to include small business priorities in your discussions.

<u>State of Canadian Small Business</u>
According to CFIB's Monthly Business Barometer data, Canadian small businesses continue to fall short on confidence, reaching 56.3 points (compared to historical average of 60.0 points). Factors limiting sales and growth include insufficient demand, shortage of skilled labour, and shortage of working capital. Small businesses are also reporting insurance, wage, as well as taxes and regulatory costs as their major cost constraints.

Given these challenges, it is crucial for governments to prioritize policies that support small businesses rather than impose additional cost burdens. The following four areas present opportunities for Canadian premiers to collaborate and improve economic conditions for small business.

<u>Capital Gains</u>
The federal government recently announced significant changes to capital gains taxation. While CFIB commends the increase in the Lifetime Capital Gains Exemption (LCGE) to $1.25 million and we see some good potential with the new Canadian Entrepreneurs' Incentive (CEI), we are deeply concerned about the increase of the overall inclusion rate from 50% to 66.7%. The new rate applies to the first dollar of capital gains earned within a business, unlike for personal gains that have a $250,000 exemption to the new rate.

A recent CFIB survey found that 78% of Canadian small businesses oppose the inclusion rate increase, with 64% expecting to pay more in taxes as a result of the change. These changes will discourage investment and deter Canadians from starting or working hard to grow their small businesses. Furthermore, many businesses rely on other forms of investment or assets held by their company for retirement and/or hard times their business may face. A higher capital gains inclusion rate will make them more vulnerable during economic downturns. For example, during the pandemic, many business owners relied on income from other investments in their company to help them get through lockdowns.

If the federal government implements these changes to the capital gains tax, and provinces and territories gain revenue increases from small businesses due to the change, we ask that extra revenues be used to help small businesses, namely by decreasing the provincial small business tax rate and increasing the SBTR threshold.

CFIB also asks your government to join SMEs across the country in asking the federal government to:

1. **Scrap the planned increase in the general inclusion rate to 66.7%.** If government is unwilling to abandon this plan, it should:

- Grandfather all existing capital gains using a V-Day (valuation day) as was done in 1971.
- Allow corporations to benefit from $250,000 each year at 50% inclusion rate like individuals.
- Allow for 5-year income averaging to benefit from the $250,000 annual threshold for larger capital gains for irregular events, like selling a property.

2. **Expand the new Canadian Entrepreneurs' Incentive to include all entrepreneurs**:
    - Include all sectors, including farmers and fishers selling assets.
    - Include non-founders to encourage people to invest in small firms.
    - Cut the 10-year implementation schedule in half.

Internal Trade

CFIB urges all governments to prioritize eliminating internal trade barriers and improving labour mobility. Since the signing of the Canada Free Trade Agreement (CFTA), progress has been incredibly slow, with only 17 of the 30 items on the Regulatory Reconciliation and Cooperation Table (RCT) work plan ratified. Of these items, 16 were completed through reconciliation agreements, with five of these items fully implemented by all jurisdictions – representing a mere 17% of the RCT's work plan fully completed in six years.

When provinces and territories insist on having barriers, they insulate themselves from competition and new investment. This insulation does no favours for residents, inadvertently harming them by limiting their options for services, or on store shelves, reducing the variety and availability of products and services, and driving up prices. This is particularly problematic when the cost of living continues to rise, and while Canada is going through a productivity crisis.

CFIB recommends Canada's leaders move quickly to adopt a mutual recognition agreement encompassing all federal, provincial and territorial regulatory measures that impose requirements on the sale or use of all goods and services. In a true economic union, if a business meets standards in one province, those standards should be recognized by all other provinces and territories across Canada.

Instead of waiting for other governments to make the first move in letting down their walls, we urge your government to lead the country and take responsibility for the various barriers that still exist, recognize the problems, and eliminate them. To help governments prioritize internal trade, CFIB has included a bonus indicator grading government leadership in this year's Internal Trade Report Card, set to be released next week on July 23rd, 2024.

Federal Carbon Backstop

The federal carbon pricing backstop has disproportionately burdened small businesses, imposing significant financial strain. As of April 1, 2024, the tax increased from $65 to $80 per tonne and is set to rise once again to $95 per tonne in April 2025.

Feedback from our members indicates a continued strong disapproval of the current carbon pricing system, with 83% of Canadian small businesses expressing opposition. It is important to note that this dissatisfaction does not stem from a disregard for environment concerns. Rather, Canadian small businesses feel that the system is not effective in reducing emissions, it's unfair to small businesses which do not receive rebates like households, and the costs are too high. The tax has undoubtedly contributed to the rising cost of doing business in Canada and is greatly hurting small businesses, especially as small businesses bear an estimated 40% of the costs yet are only eligible for 5% (previously 9%) in rebates.

Given this, it is clear that the current carbon tax framework needs re-evaluation. **CFIB encourages all premiers to strongly advocate for the elimination of the federal carbon tax and work collaboratively with the federal government to explore alternative solutions that balance environmental sustainability with the viability of small businesses in Canada.**

Construction Mitigation

Major infrastructure projects are essential but can significantly disrupt small business operations. Recent CFIB data shows that small businesses continue to face challenges from local construction projects (e.g., relocating, borrowing money, and/or closing). CFIB estimates that Canadian small businesses lost 22% of revenues on average over the last five years and incurred over $54,000 per business in additional expenses due to public construction projects. It is not surprising that 68% of small businesses believe they should be financially compensated when lengthy public construction projects significantly impact their operations.

During this year's annual Federation of Canadian Municipalities conference, CFIB sent an open letter to mayors and councils, applauding cities such as Montreal, Quebec City, and Calgary for introducing construction mitigation plans, and urged other municipalities to follow suit. We ask your government to support your municipalities to adopt similar construction mitigations plans by ensuring they have the necessary capacity and authority to implement such plans. We also recommend all FPT governments introduce similar construction mitigation plans for provincial/territorial construction projects impacting small businesses.

We strongly recommend direct compensation be a part of any construction mitigation plans. If this is not feasible, we ask you to consider offering tax holidays for affected businesses. Additionally, these plans should include improved planning and communication with local businesses before and during construction projects, employing business liaison officers to inform businesses from project initiation to completion, addressing access changes, concerns about movement and parking of heavy equipment, utility and other service disruptions, and responsibly removing equipment and debris.

On behalf of our members, we kindly request that you raise these issues at the Council of the Federation meeting and engage in meaningful dialogue with your provincial and territorial counterparts to address them. **CFIB recommends all premiers use the upcoming meeting as an opportunity to discuss how to strengthen Canada's economy, with a particular focus on small and medium-sized business.**

Thank you for your attention to these priorities. We hope your upcoming meeting will be a productive one. Should you have any questions or wish to discuss these matters further, please do not hesitate to contact us.

Sincerely,

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