

Removing roadblocks: Unlocking small business capital investment

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Key Takeaways

- **Canada faces stagnant productivity**, with 15 of the past 18 quarters showing negative productivity growth. This has led to declining living standards for Canadians.
- **Declining business investment in machinery and equipment (M&E)** has occurred across most Canadian provinces over the past decade, and even more so in Western provinces, where capital-intensive natural resource industries are more important.

- Only 18% of SMEs plan to **increase capital expenditures in the next two years** with only two out of five investing to **increase productivity**.
- Top factors impacting investment decisions are current economic conditions (71% of firms), the policy environment (63%), and ensuring the business's viability (55%).
- Top deterrents of M&E investment include equipment costs (69%), costs of doing business (56%), cash flow constraints (50%), and borrowing costs (47%).

- More than a third (37%) of Manitoba, Saskatchewan, and British Columbia small businesses cited the inability to **write off the Provincial Sales Tax** (PST) as a deterrent to investment. Exempting all capital purchases from the PST in these provinces will increase capital investment by nearly 17%, or $2.2 billion.
- CFIB recommends governments use the fiscal tools at their disposal to **lower the cost of capital** by lowering taxes, improving transparency, and making incentives permanent.

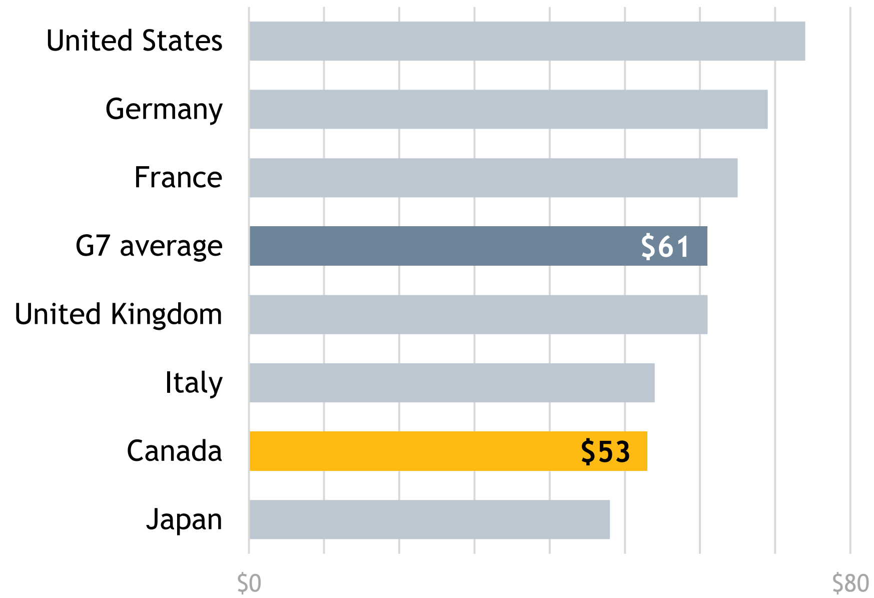
Introduction

Canada is struggling with stagnant productivity, with negative growth rates in 15 of the last 18 quarters.[i] The Bank of Canada recently described the country's productivity problem as a national emergency, highlighting lagging investment in machinery, equipment, and intellectual property.[ii] In fact, Canada has the second-lowest productivity among G7 countries (Figure 1).

Figure 1

Canada has lower productivity levels than most other G7 countries

G7 COUNTRIES BY GDP PER HOUR WORKED FOR 2022 (US DOLLARS)



Source: OECD, GDP per hour worked.

As a result of this underperformance, the Organisation for Economic Co-operation and Development (OECD) predicts Canada will have the lowest growth in Gross Domestic Product (GDP) per capita of all advanced economies from 2020 to 2060,[iii,iv] hindering our competitiveness and jeopardizing our future standard of living. In order to address this problem, governments need to ensure businesses are able to invest in the capital required to make their workers more productive.

Capital investment varies depending on the type of business. For example, farms might invest in tractors, homebuilders in construction equipment, or restaurants in ovens — all of which boost productivity. If a farm in Saskatchewan doubles its inputs by investing in more tractors so that the output of wheat bushels more than doubles, its productivity is increasing. When businesses can create more goods and services, prices fall due to higher supply while workers benefit from higher wages as the value of their labour increases. The result is a growing economy.

This report examines capital investment trends and projections in Canada. It identifies the key factors influencing small business capital investment decisions, highlights the main investment barriers small and medium-sized enterprises (SMEs) are facing, and estimates the investment surge resulting from a provincial sales tax (PST) exemption in British Columbia, Saskatchewan, and Manitoba. Additionally, it offers key recommendations for provincial and federal governments to encourage increased capital investment by using the fiscal tools at their disposal.

Declining business investment

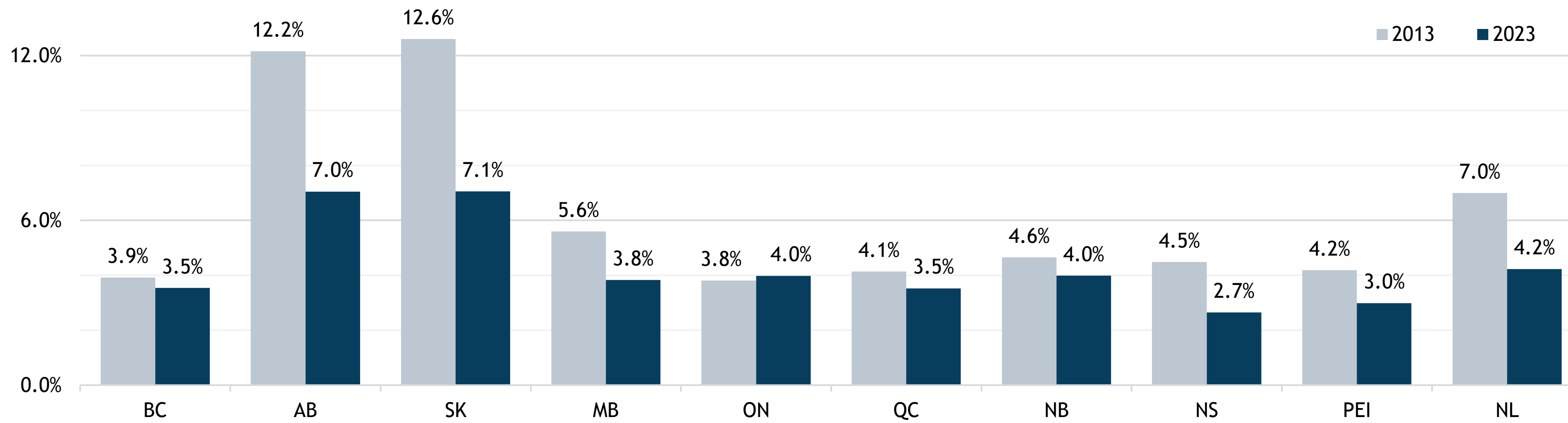
M&E investment as a share of Canada's GDP has declined from 5.5% in 2013 to 4.2% in 2023[v]. In 2013, M&E provincial investment was, on average, 6.3% of our economy. Provincially, the average share of M&E investment declined from 6.3% of GDP in 2013 to 4.4% in 2023. Nine provinces experienced reductions in M&E investment relative to the size of their economies during this period. The only province that has seen an increase in M & E investment as a share of their economy has been Ontario (3.8% in 2013 to 4.0% in 2023) (Figure 2).

This investment decline has been more pronounced in Saskatchewan and Alberta, largely amplified by the oil price crash of 2014-2016 (see page 6). Saskatchewan has seen the largest drop, with business investment in M&E relative to the size of its economy declining 5.5 percentage points since 2013. This is followed closely by Alberta with a 5.1 percentage point decline.

Figure 2

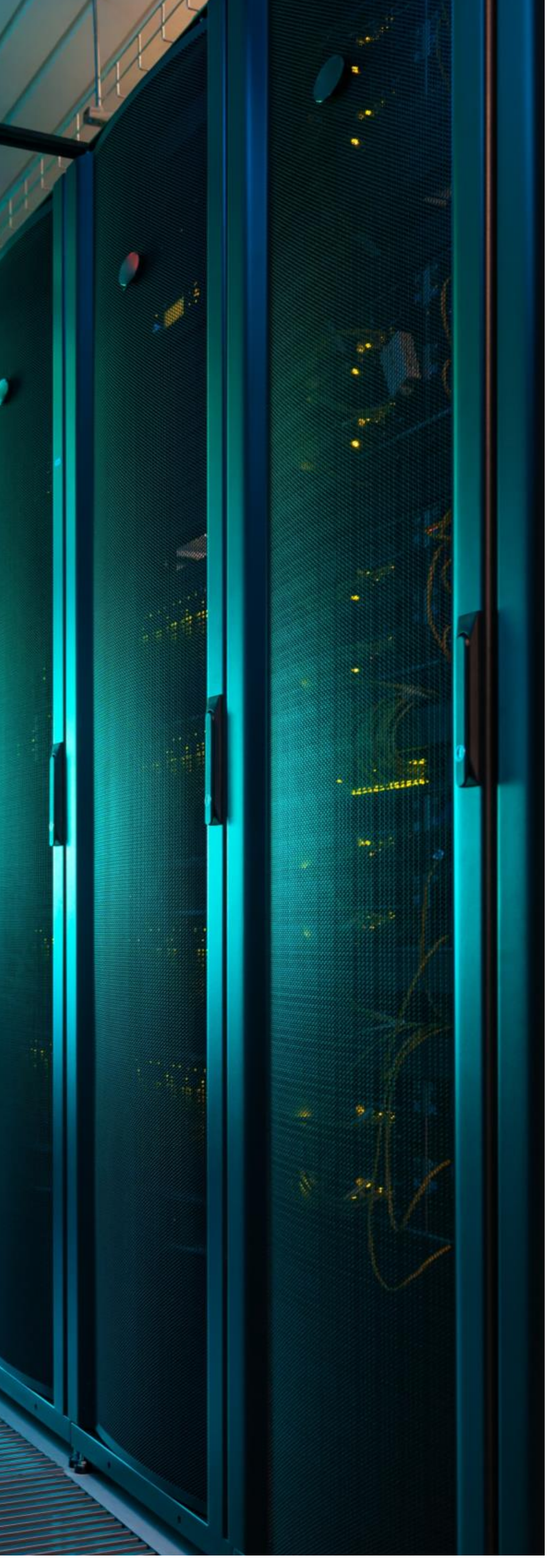
Over the last decade, M&E investment as a share of the economy has declined in nearly every Canadian province

Business investment in machinery and equipment as a share of GDP by province between 2013 and 2023 (thousands of $ 2017 dollars)



Source: CFIB analysis of Statistics Canada data. See appendix for more details.

Note: Business investment as a share of GDP = Business investment in machinery equipment ($)/Share of GDP.



To provide a clearer picture of this decline, we looked at business investment in M&E per private sector worker. This indicator accounts for the size of each province's private sector labour force.

On a per-private sector worker basis, all Canadian provinces—except Ontario and British Columbia —have seen declines in M&E investment since 2013 (Figure 3). Despite a decline in M&E investment as a share of British Columbia's economy, its growth has slightly outpaced the expansion of the private sector workforce, leading to an increase in M&E investment per private sector worker over the last decade, even though it remains below 2012 levels.

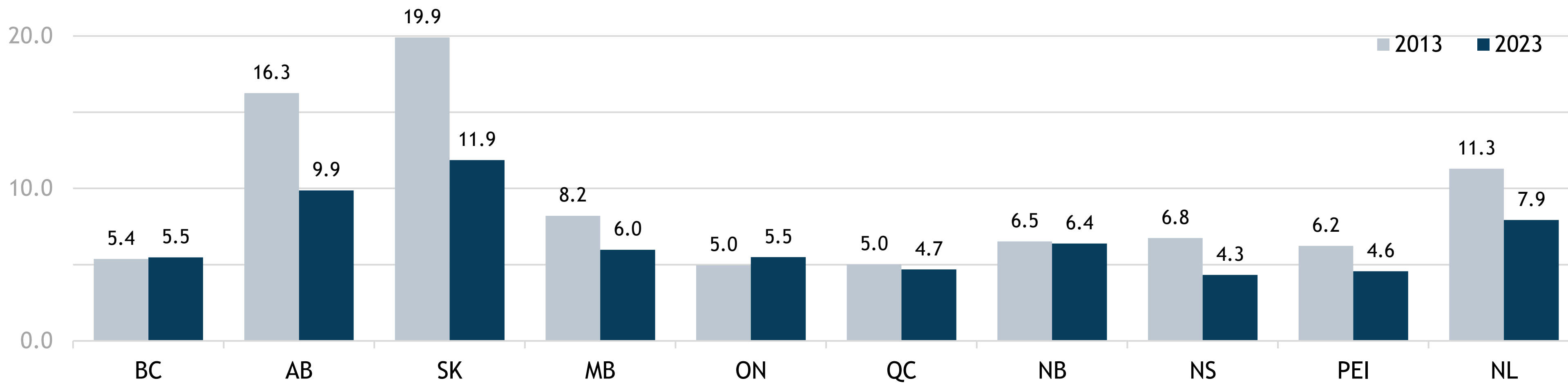
This decline means that private sector workers now have fewer tools to boost their productivity than they did a decade ago. Once again, Alberta and Saskatchewan have shown the most drastic decline in investment.

For instance, in 2013, the average worker in Saskatchewan had access to around $20,000 worth of machinery and equipment, such as computers, cash registers, and power drills. Today, that figure has dropped to about $12,000.

Figure 3

M&E investment per private sector worker has declined across most provinces over the last decade

BUSINESS INVESTMENT PER PRIVATE SECTOR WORKER BY PROVINCE BETWEEN 2013 AND 2023 (THOUSANDS OF $ 2017 DOLLARS)



Source: CFIB analysis of Statistics Canada data. See appendix for more details.

Note: Business investment per private worker = Business investment in machinery equipment ($)/Number of private sector workers.[vi]

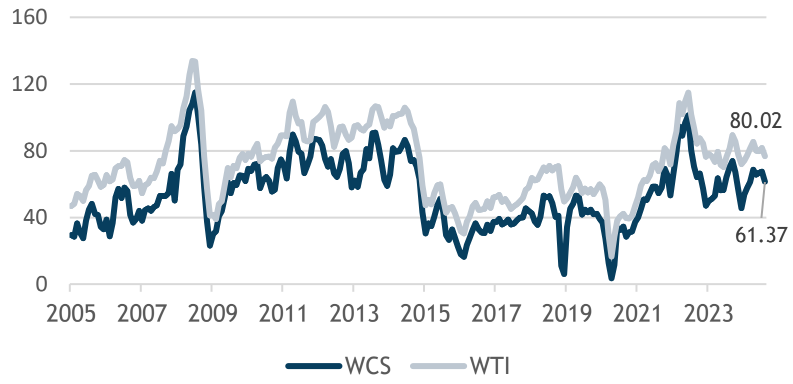
Factors influencing the decline in capital investment in Western Canada: The 2014-2016 oil price crash

The decline of overall capital investment in Western Canada can be partially attributed to the oil price crash of 2015 and 2016. Global oil prices plummeted from over $100 per barrel in June 2014 to almost $30 a barrel in January 2016, severely impacting the oil and gas industry, which is a cornerstone of Western Canada's economy.

This sharp decline led to substantial cutbacks in exploration and production, causing many projects to be postponed or cancelled, which resulted in a notable dip in investment levels. Although there was some recovery in oil prices, capital investment figures in Western Canada never fully rebounded to their pre-crash heights.

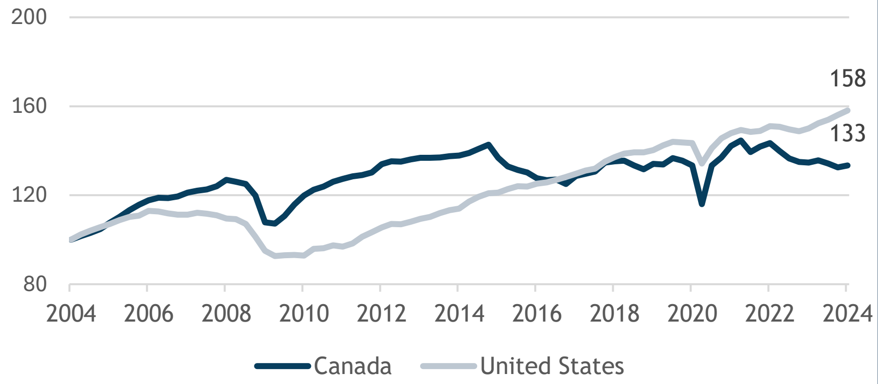
In contrast, the United States, with a strong oil and gas industry, saw a more robust recovery in investment after the oil price crash. This discrepancy suggests that differences in the factors influencing overall investment attractiveness, such as tax policies and the regulatory environment, are shaping capital investment decisions in Canada.

WESTERN CANADIAN SELECT (WCS) AND WEST TEXAS INTERMEDIATE (WTI), PRICE PER BARREL OF OIL ($)



Sources: 1) WTI Source: U.S. Energy Information Administration (Jan. 1986 to present). 2) WCS Source: Alberta Energy (Jan. 2009 to present), retrieved from Government of Alberta, Economic Dashboard, https://economicdashboard.alberta.ca/dashboard/wcs-oil-price, October 21, 2024.

GROSS FIXED CAPITAL FORMATION INDEX, CANADA AND THE UNITED STATES, 2004 = 100



Source: OECD Data Archive, Indicator: Investment (GFCF), retrieved from OECD Data Explorer, https://data-explorer.oecd.org/?lc=en, October 21, 2024.

"What is the point of investing in your business when the government wants to come in and take a huge portion through capital gains and other taxes? We are in a very discouraging time for small business!"

- NS, Retail

"I keep repeating myself. What's the point of investing in enhancing productivity when productivity gains are buried under red tape? Strangely enough, the drop in productivity in Canada has coincided with the rapid increase of the administrative burden on SMEs over the past few years. I'm increasingly reluctant to invest in my business."

- QC, Professional services

What is the small business investment outlook?

Given that small businesses are responsible for over two thirds (68%) of Canada's private sector employment,[vii] analyzing their investment plans is crucial to understand future trends in M&E investment.

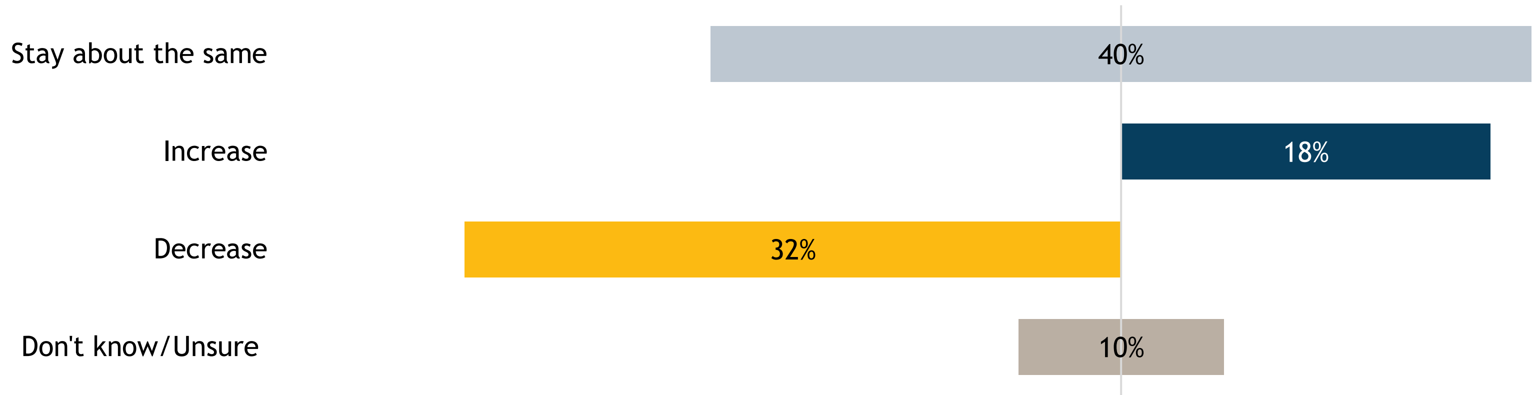
CFIB research finds that stagnating business investment is unlikely to improve over the next two years, with only 18% of small businesses anticipating they will increase their capital expenditures (Figure 4). Almost twice that number (32%) are anticipating they will reduce their investment, meaning that it is unlikely that the country's stagnating productivity will be reversed in the near future.

This trend is consistent across provinces, except in Quebec and Nova Scotia, where the decreases are less pronounced at 22% and 25%, respectively. Notably, Quebec shows more optimism, with over a quarter of respondents indicating they plan to increase their investments.

Figure 4

Small business investment in capital purchases is likely to decline over the next two years

EXPECTED CAPITAL PURCHASES IN NEXT TWO YEARS, COMPARED TO PAST TWO YEARS



Source: CFIB, Your Voice Survey – August 2024, final results, August 8–21, n = 2,213. Question: Compared to the past 2 years, how do you anticipate your capital purchases will change over the next 2 years? (Select one)

What factors are shaping small business investment decisions?

For 71% of SMEs:
Current economic conditions

Businesses are cautious about committing to large-scale investments when the economic outlook is unpredictable.

Factors such as inflation, fluctuating commodity prices, softening demand, and the potential for economic downturns contribute to this hesitancy. In such an environment, the risks associated with investing in capital assets—particularly those aimed at enhancing future productivity—are seen as too high.

Indeed, according to **71% of small businesses**, the current economic environment is a significant obstacle to capital investment.

For 63% of SMEs:
Restrictive policy environment

Tax policies can directly impact the availability of funds for investment. High corporate tax rates, sales taxes on equipment purchases, higher capital gains inclusion rates, and limited tax incentives for capital investments all contribute to a financial strain that discourages businesses from making investments. In addition, complex and frequently changing regulations add another layer of difficulty. Businesses often find themselves navigating a complex web of compliance requirements, which can be both time-consuming and costly, further disincentivizing investment.

Almost two out of three small businesses in Canada **(63%)** are signalling that taxes, regulatory requirements, and other policy-related constraints are making it increasingly difficult to invest in M&E.

For 55% of SMEs:
The need for operational stability

More than half of the respondents **(55%)** indicated that their investments are focused on ensuring the viability of their operations, such as repairing or replacing existing capital assets. The fact that only two out of five say their investments aim to increase productivity should raise the alarm.

This trend suggests that businesses are operating in a defensive mode, prioritizing survival over expansion. Investments aimed solely at stability do little to improve efficiency or productivity, limiting the potential for businesses to grow and adapt to changing market conditions.

"We need to change the policy environment in Canada, or we risk losing an entire generation of future business owners to other countries."

- ON, Enterprises & management

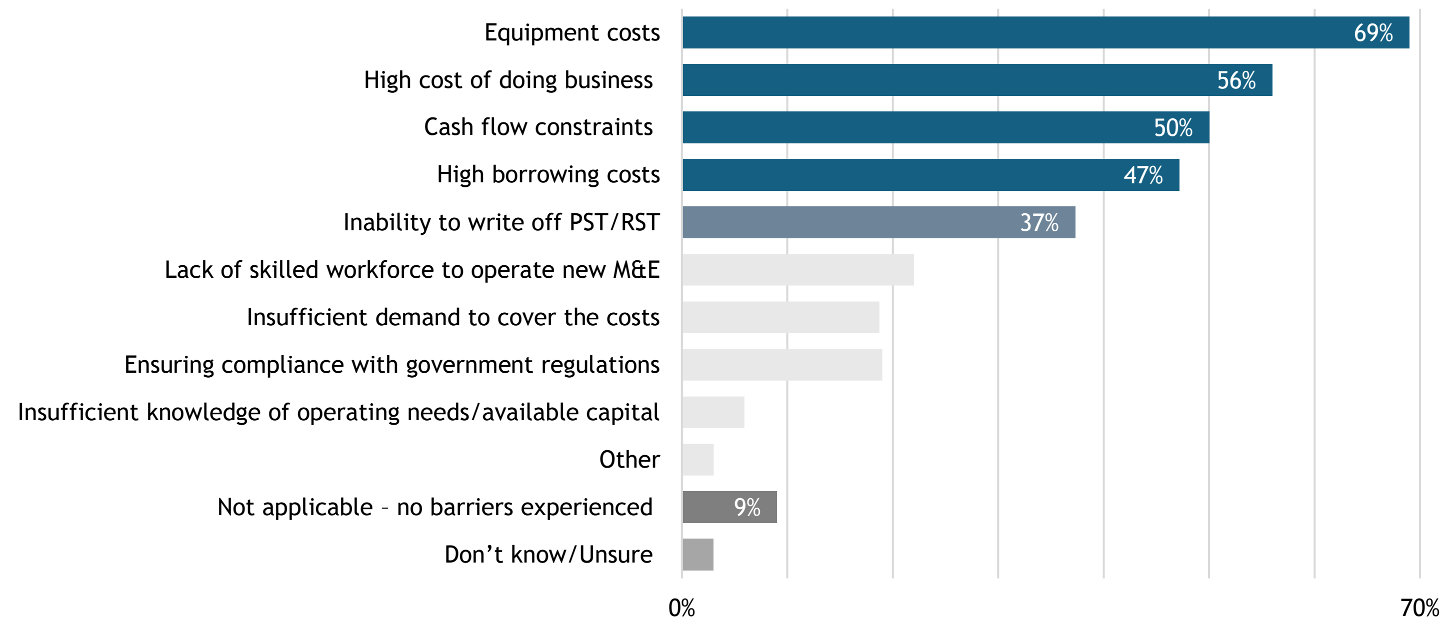
What are the main barriers to machinery and equipment investment?

The top challenges deterring small businesses from investing in machinery and equipment are cost related rather than any shortcomings in the workforce or the business itself (Figure 5). These include equipment costs (69%), the high cost of doing business (56%), cash flow constraints (50%), and high borrowing costs (47%). Only 9% experienced no barriers. Furthermore, for 37% of small businesses in Manitoba, Saskatchewan, and British Columbia, provincial sales tax treatment of capital investment is deterring them from investing.

Figure 5

Costs are deterring small businesses from investing in capital

CHALLENGES ENCOUNTERED BY SMEs WHEN DECIDING TO INVEST IN MACHINERY AND EQUIPMENT



Source: CFIB, Your Voice Survey - August 2024, final results, August 8-9, n = 2,035.
Question: What challenges does your business encounter when deciding to invest in new machinery and equipment? (Select all that apply)
Note: Only respondents in SK, MB, and BC responded to “Inability to write off PST/RST”; n = 488.

Impact of sales taxes on capital investment

Taxes play a key role in shaping business decisions around labour, savings, and investments. For small businesses, taxes have consistently ranked top of mind, with 74% indicating they want governments to prioritize reducing the overall tax burden in 2024.[viii] Table 1 gives a brief overview of provincial sales taxes.

Currently, four Canadian provinces—British Columbia, Manitoba, Saskatchewan, and Quebec[ix]—operate retail sales tax systems (RSTs), commonly known as Provincial Sales Taxes (PSTs). These are administered independently from the federal Goods and Services Tax (GST). In these provinces, buyers pay a percentage of the purchase to their provincial government and a separate percentage to the federal government.

Conversely, five provinces—Ontario, New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island—use a VAT (Value-Added Tax) system called the Harmonized Sales Tax (HST). The HST is administered by the federal government, with buyers paying a single percentage of the purchase cost, split between the federal and provincial governments.[x]

Notably, Alberta levies no general taxes on consumption and legislation prevents the introduction of a sales tax without a referendum.

Table 1

Applicable sales taxes and their rates, 2024, by province

Province/Territory	Province-Specific Tax	Goods and Services Tax (GST)	Harmonized Sales Tax (HST)
British Columbia	7% Provincial Sales Tax (PST)[xi]	5%	--
Alberta	--	5%	--
Saskatchewan	6% Provincial Sales Tax (PST)[xii]	5%	--
Manitoba	7% Retail Sales Tax (RST)	5%	--
Ontario	--	--	13%
Quebec	9.975% Quebec Sales Tax (QST)	5%	--
New Brunswick	--	--	15%
Nova Scotia	--	--	15%
Prince Edward Island	--	--	15%
Newfoundland and Labrador	--	--	15%

Source: Canada Revenue Agency. (n.d.). *GST/HST calculator (and rates)*. Government of Canada. Retrieved from https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/gst-hst-businesses/charge-collect-which-rate/calculator.html

“With all the taxes in BC (PST, EHT, sick pay, etc.), doing business in BC is like 'death by a thousand cuts.' In the future, we will invest in other provinces.”

- BC, Hospitality

Under an HST system, businesses can claim Input Tax Credits (ITCs) for HST paid on business purchases. This allows businesses to recover up to 100% of the tax when the purchase is used for commercial activities,[xiii] effectively exempting capital expenses from the HST. This approach incentivizes savings, thereby allowing businesses to channel funds into productive avenues like machinery and equipment, new technologies, and research and development (R&D).

Unlike the GST/HST, a PST system does not offer input tax credits for capital investments made by businesses.[xiv,xv] This treatment deters investment in productive assets, which is a major barrier for small businesses looking to invest. In fact, almost 40% of small businesses in BC, Manitoba, and Saskatchewan suggest that the inability to “write off” PST is a top challenge for SMEs when deciding to invest in new M&E.[xvi]

For instance, despite certain exemptions[xvii] for production machinery and equipment in British Columbia, approximately 81% of M&E purchases are subject to the PST, while only about 7% are taxable under the GST.[xviii] Furthermore, while the PST provides exemptions for certain operational expenses like goods bought for resale and materials used in manufacturing, it still affects roughly 20% of business inputs, in contrast to 9% under the GST.

The differences in sales tax models carry significant implications for economic growth and investment attractiveness. PST systems, by taxing production inputs, penalize activities geared towards increasing economic output. By increasing operating costs,[xix] imposing compliance costs (i.e., red tape) on businesses, and creating market distortions, PST systems result in fewer investments, less innovation, and reduced technological advancements.

BC PST rebate sets a precedent for provincial sales tax exemptions

The BC government has previously recognized that charging PST on capital investment has a deterring effect.

To help businesses recover from the pandemic, the BC government offered a rebate for the PST costs of machinery and equipment purchases made between September 17, 2020, and March 31, 2022.

This rebate effectively removed the PST cost applied to investment in machinery and equipment at a time when many small businesses were struggling financially. While the rebate is over, small businesses’ financial struggles have continued, resulting in the dwindling investment seen in provinces like BC today.

This barrier raises the cost of otherwise affordable resources, making it more expensive for businesses to equip their workers with tools that enhance productivity. As a result, companies across all industries are more hesitant to make these investments. For example, construction companies in BC, Saskatchewan, and Manitoba face higher prices for bulldozers that could help employees complete projects more efficiently, simply due to provincial sales taxes (Table 2).

Similarly, a restaurant looking to buy a pizza conveyor oven to boost production or a construction firm wanting to speed up housing blueprints with a tablet also face increased costs, making these investments harder to justify.

Table 2

Net 2024 business cost of a tablet, pizza oven, and bulldozer, by province

Machinery and Equipment	Tablet[xx]	Pizza Conveyor Oven[xxi]	Construction Bulldozer[xxii]
Purchase Price (Before Sales Tax)	$800	$20,000	$499,000
Province	**Net Cost (After Tax Write-Offs*)**		
AB, ON, NB, NS, PEI, NL, QC	$800	$20,000	$499,000
BC, MB	**$856**	**$21,400**	**$533,930**
SK	**$848**	**$21,200**	**$528,940**

Exempting machinery and equipment purchases from PST/RST would boost these investments in BC, Saskatchewan, and Manitoba by

17%, or over $2 billion

CFIB estimates of the investment impact of a PST/RST exemption on machinery and equipment

CFIB estimates that exempting purchases of machinery and equipment from the PST in British Columbia, Saskatchewan, and Manitoba would boost small business investment in M&E by nearly $2.2 billion (Table 3). Investment in the three provinces would be nearly 17% higher than the $12.8 billion already planned.

BC would benefit from the largest increase, owing to its greater number of small businesses. These businesses indicated they would increase their investment by 17.2% if these investments were exempted from the PST, similar to Manitoba's 18%, the highest of the three provinces. Saskatchewan's small businesses, which pay the lowest PST among the three provinces, would increase their investment by 13.4%, the lowest among the analyzed provinces. On average, the typical investing business would increase its investment by $14,917 in Manitoba, $15,930 in BC, and $9,980 in Saskatchewan.

This $2.2 billion boost in investment, accounting for about 13% of total machinery and equipment (M&E) spending in these provinces in 2023, would raise the amount invested per private sector worker. That number would rise from $5,482 to $6,402 in BC; from $11,865 to $12,427 in Saskatchewan; and from $5,981 to $6,731 in Manitoba. As a result, private sector workers in these provinces will have access to more tools and resources, enabling them to become more productive.

Table 3

Exempting purchases of machinery and equipment (M&E) from PST/RST would boost SME investment plans

Province	Number of SMEs	Current Projected M&E Investment by SMEs, Next 12 Months ($M)	M&E Investment Increase Following PST/RST Exemption		
			y/y change	$M	$ per private sector worker
British Columbia	215,894	$9,489	17.2%	$1,635	$920
Saskatchewan	42,932	$1,465	13.4%	$197	$562
Manitoba	43,722	$1,847	18.0%	$332	$751
Total	**302,548**	**$12,800**	**16.8%**	**$2,164**	**$842**

Source: CFIB analysis of Statistics Canada data on small business counts, CFIB survey responses (third column: BC n = 467, SK n = 111, MB n = 171; fourth column: BC n = 350, SK n = 89, MB n = 133), own calculations. See Appendix for more details.

Impacts of federal changes on capital investment

Federal policies significantly influence capital investment decisions and the conditions that support business growth and innovation. Recent changes, such as adjustments to capital gains and the gradual phaseout of expensing incentives, reflect a complex balancing of priorities. While some measures aim to support small business growth, these recent decisions may ultimately increase costs and discourage investment, particularly amid economic uncertainty.

Capital gains changes

The federal government's recent capital gains changes, including a hike in the inclusion rate from 50% to 66.7%, may discourage investment and make businesses more vulnerable during economic downturns. While the increase in the Lifetime Capital Gains Exemption (LCGE) to $1.25 million and the new Canadian Entrepreneurs' Incentive (CEI) aim to support small businesses, the overall higher capital gains tax could deter entrepreneurship and growth. Furthermore, future election outcomes could bring changes, adding uncertainty that complicates long-term investment planning and undermines business confidence. For more information, see: cfib.ca/site/capital-gains

Immediate expensing (IE) and Accelerated Investment Incentive (AII) phaseout

Immediate expensing allows businesses to claim the capital cost allowance (CCA)—a tax deduction based on depreciation—for certain machinery and equipment in the year they are put into use before 2025, rather than spreading the deduction over multiple years. This reduces the cost of investing by lowering payable taxes based on depreciation. The Accelerated Investment Incentive does something similar. While it does not allow an immediate write-off of the costs to maintain property, it does allow businesses to benefit from the CCA for certain types of machinery and equipment (and other types of eligible property) on a shorter timeline. However, they began to be phased out last year, increasing costs and discouraging investment.

Recommendations

In order to tackle Canada's stagnating business investment, and increase investment in the country as a whole, CFIB recommends governments do the following:

1. **All governments:** Reduce corporate income tax rates as they reduce the amount of business income that is available for reinvestment in the business. For example, Canadian small business owners state they would increase employee compensation (56%), expand their business (46%), invest in employee training (28%), and invest in automation (25%) if governments reduced their tax burden.[xxiii] These are productivity-enhancing investments that would help the economy become more productive.

2. **All governments:** Prioritize faster permitting, processing, and impact assessments for large infrastructure projects, especially in capital-intensive sectors like energy. Streamlining these processes will reduce barriers to much-needed investment.

3. **British Columbia, Saskatchewan, and Manitoba provincial governments:** Exempt the purchase of all capital expenditures, including machinery and equipment, from provincial sales taxes (PST). Exempting these purchases would boost investment in these provinces by $1.6 billion, $197 million, and $332 million, respectively.

4. **British Columbia, Saskatchewan, and Manitoba provincial governments:** Increase transparency and reduce red tape by ensuring all exemptions to provincial sales taxes are listed comprehensively. Current exceptions, while provided, can be difficult for small business owners to follow. This can prevent or impede many from taking advantage of them, blocking the increased investments these exceptions were designed to facilitate.

5. **Federal government:** Broaden, simplify and make the Accelerated Investment Incentive and Immediate Expensing Incentive permanent. The government's decision to phase out these measures means businesses will not be able to benefit from the government's capital cost allowance tax deduction earlier, leading to less ability for them to repair or replace aging productivity-enhancing equipment. This will decrease Canada's competitiveness by discouraging investment.

6. **Federal government:** Keep the inclusion rate for capital gains at 50% instead of raising it to 66.7%. Increasing the taxes paid on capital gains discourages investment in business assets that enhance productivity by limiting the financial return on these valuable investments. Business owners will be more reluctant to expand their business by making it more productive or prospective business owners may forgo starting a productivity-enhancing business altogether due to more limited potential financial success in the future.

Conclusion

Canada's investment and productivity crisis is not just a challenge—it is a growing risk to the country's future economic potential. Without a change in course, the country risks falling further behind its global competitors, weakening our economic potential and reducing the standard of living for future generations.

One of the most alarming trends is the country's declining GDP per capita, signalling that while Canada's population is growing, the economic output per individual is stagnating. This is a direct reflection of our sluggish productivity and weak levels of business investment, particularly among SMEs. As the report highlights, SMEs face significant barriers to investing in capital, which directly limits their ability to innovate, grow, and increase productivity. Without pro-growth policies that incentivize investment, Canada risks entrenching these downward trends, resulting in fewer opportunities, lower wages, and declining competitiveness in the global market.

Governments must act swiftly and strategically. While broader global forces play a role, there are fiscal policies within the reach of provincial and federal leaders that can jump-start investment. Allowing businesses to fully write off capital purchases, exempting them from sales taxes, expanding and making deductions permanent, and lowering corporate income taxes can reduce the cost of capital, lower investment risks, and empower small businesses to invest in productivity-enhancing tools. The time to implement these changes is now as delays will only compound the problem, making it harder for Canada to regain its economic momentum. A failure to act risks not just stagnating productivity, but a long-term decline in living standards for Canadians.

Appendix 1

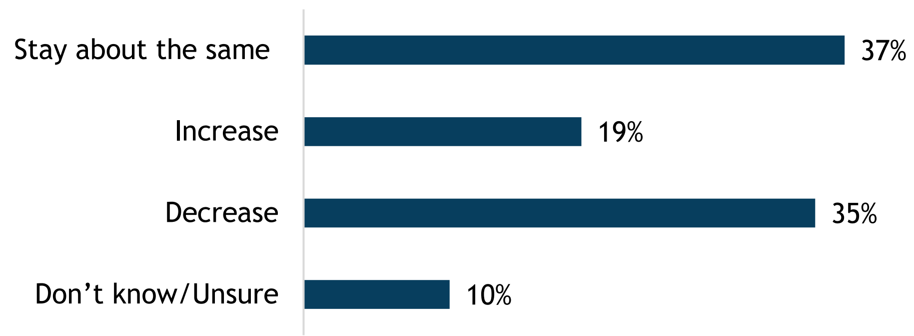
Western Canada

Provincial breakouts for small business investment plans

Question: Compared to the past 2 years, how do you anticipate your capital purchases will change over the next 2 years? (Select one)

Figure A1

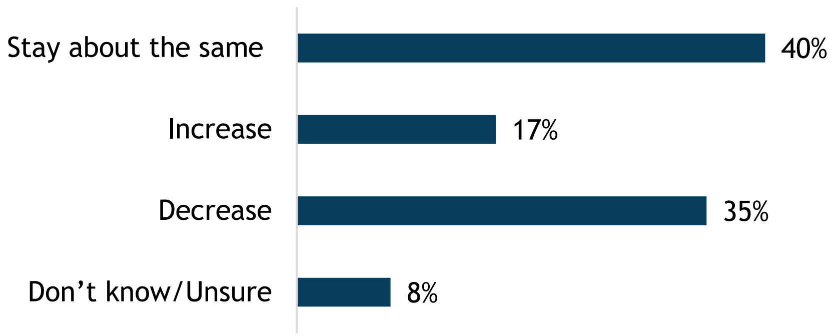
Investment plans of BC small businesses



Source: CFIB, Your Voice Survey - August 2024, August 8-21, n = 330.

Figure A2

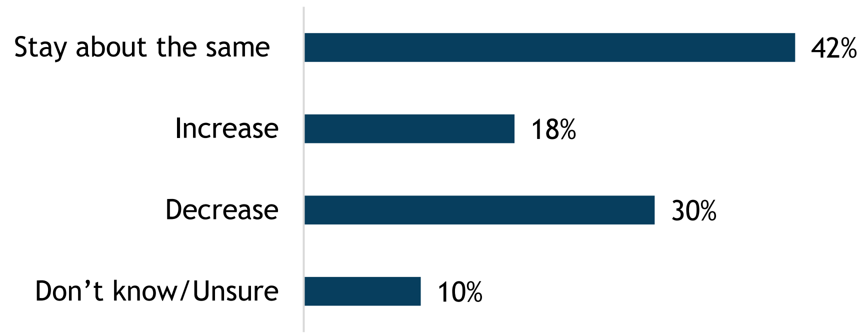
Investment plans of Alberta small businesses



Source: CFIB, Your Voice Survey - August 2024, August 8-21, n = 276.

Figure A3

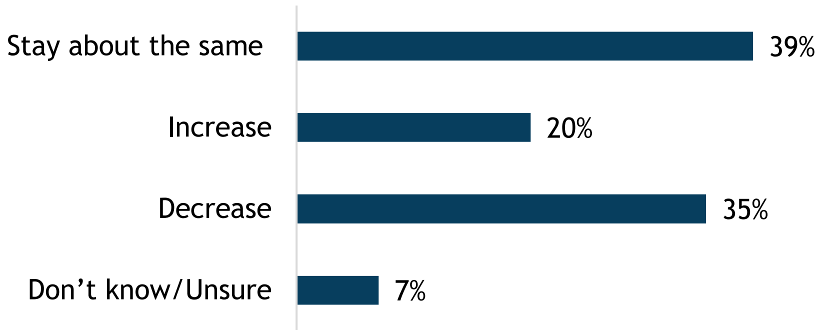
Investment plans of Saskatchewan small businesses



Source: CFIB, Your Voice Survey - August 2024, August 8-21, n = 79.

Figure A4

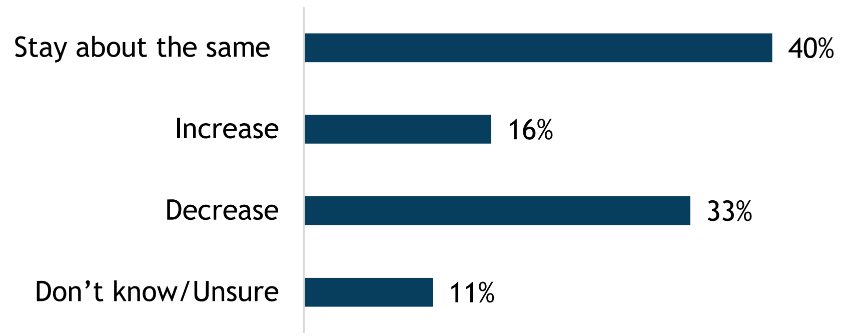
Investment plans of Manitoba small businesses



Source: CFIB, Your Voice Survey - August 2024, August 8-21, n = 130.

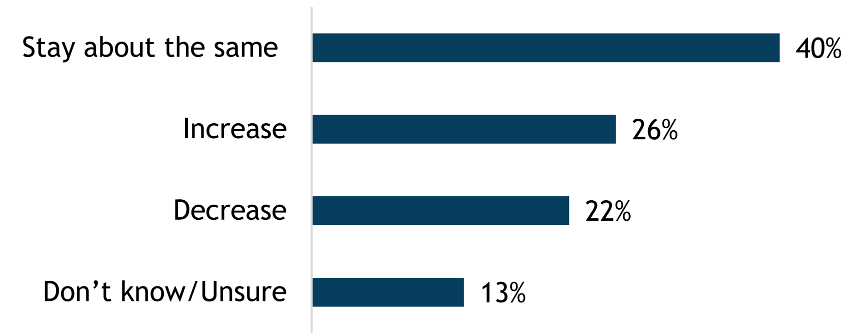
Appendix 1
Eastern Canada

Figure A5
Investment plans of Ontario small businesses



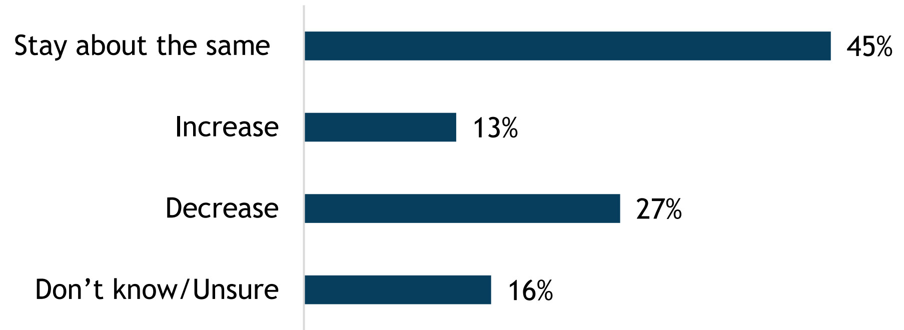
Source: CFIB, Your Voice Survey – August 2024, August 8-21, n = 837.

Figure A6
Investment plans of Quebec small businesses



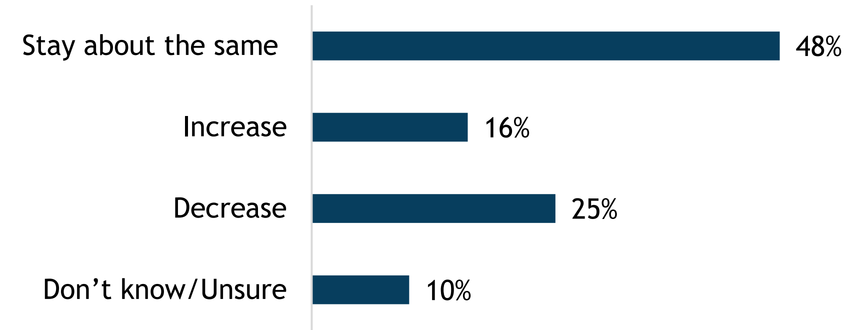
Source: CFIB, Your Voice Survey – August 2024, August 8-21, n = 328.

Figure A7
Investment plans of New Brunswick small businesses



Source: CFIB, Your Voice Survey – August 2024, August 8-21, n = 71.

Figure A8
Investment plans of Nova Scotia small businesses



Source: CFIB, Your Voice Survey – August 2024, August 8-21, n = 67.

Note: Prince Edward Island and Newfoundland and Labrador are not included in this breakout due to low response rates.

Appendix 2

Methodology

Methodology

Definitions

Capital purchases are defined as investments in machinery and equipment, software, and buildings.

Investments in machinery and equipment refers to funds used by a business to acquire, upgrade, and maintain physical assets with an expected service life of one year or more (e.g., furniture, office or industrial machinery and equipment, manufacturing or construction equipment, motor vehicles).

Data source

This report presents findings from the CFIB *Your Voice* survey that was conducted from August 8 to 20, 2024, and is based on responses from 2,331 small business owners across Canada. For comparison purposes, a probability sample with the same number of respondents would have a margin of error of plus or minus 2.03 per cent, 19 times out of 20.

To estimate the increase in machinery and equipment investment across the Western provinces, if exempted from provincial sales taxes (PST), survey data was collected from small businesses in each province for **two questions**. First, small businesses were asked what they projected their value of investment in machinery and equipment to be over the next two years (Figure B1).

Figure B1

Average value of investment in M&E in the next two years for investing SMEs, by province

Source: CFIB, Your Voice Survey – August 2024, August 8-21 & Your Voice Survey – September 2024, September 5-23, BC n = 467, SK n = 111, MB n = 171.

Question: Over the next 2 years, how much is your business planning to invest in the following capital purchases? (enter an approximate $ amount): Machinery and equipment (M&E).

Note: Share of respondents planning to invest in M&E over the next two years: BC = 48%, West (excl. AB) = 48%, MB = 51%, SK = 46%.

Appendix 2
(continued)

Respondents also had an option to answer "don't know/not applicable" for this question, to account for those that are not planning on investing in machinery and equipment over the next two years.

Investment impact estimates – current SME investment plans in M&E

A. From the data above, an average expected level of investment over the next two years is obtained for all those that are planning to invest (48% of all respondents in the three provinces).

   The expected investment over one year is calculated by halving (averaging) this figure.

B. This number is then multiplied by the number of SMEs in each province expected to invest in machinery and equipment, based on the share of respondents who provided an expected value of investment above zero. The share of respondents planning to invest in M&E is multiplied by the total number of SMEs, based on the assumption that the respondents' investment intentions reflect those of the broader SME community.

C. This calculation results in the total expected SME investment in M&E for the next year, as shown by the formula below:

$$\frac{\text{A: Average expected investment in M\&E over two years, province } y}{2}$$
$$* \text{ B: (Number of SMEs, province } y * \text{ Share (\%) of respondents who are expecting to invest in M\&E, province } y)$$
$$= \text{ C: Total expected SME investment in M\&E over one year for province } y$$

(See Table 3, Column 3 for results)

Appendix 2

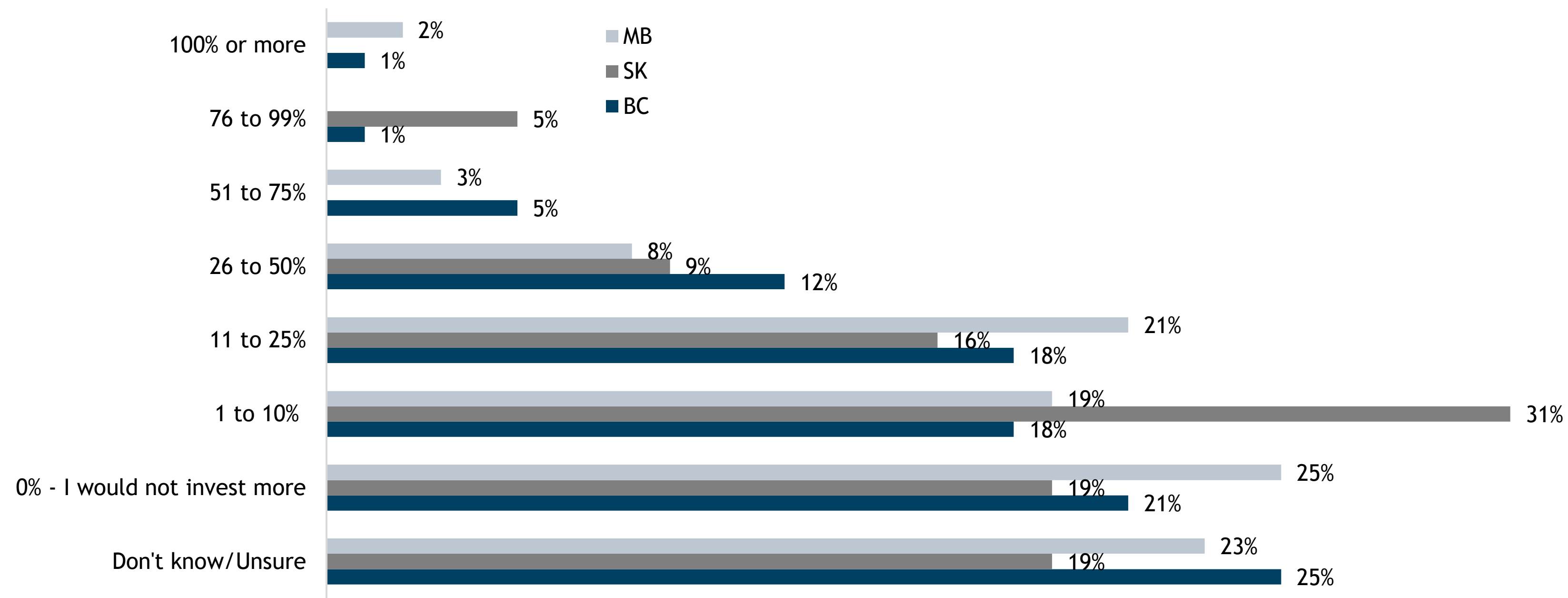
(continued)

Investment impact estimates – investment increase following a PST exemption on M&E purchases

D. Survey respondents were also asked how much they would increase their investment if provinces exempted these investments from their provincial sales taxes (Figure B2).

Figure B2

Share of SMEs that would increase their investments in M&E if they were exempted from PST/RST



Source: CFIB, Your Voice Survey – August 2024, August 8-21, BC n = 296, SK n = 67, MB n = 120.
Question: If your business were able to fully write off the provincial sales tax on capital purchases, by how much would your financial investments in machinery and equipment increase over the next 2 years? (Select one)

Appendix 2

(continued)

These responses were consolidated into a categorical average increase for each province using the respondents who provided a percentage (Table 3, Column 4).

This average was multiplied by the total expected small business investment over one year (see step C above).

E. This calculation results in the absolute value of increased investment in M&E by province if such investments were exempted from the PST, as shown in the formula below:

$$\text{C: Total expected SME investment in M\&E over one year, province y}$$
$$* \text{ D: Categorical average of increase (\%) in investment in M\&E if exempted from the PST, province y}$$
$$= \text{E: Increase in absolute SME investment in M\&E if such investments were exempted from the PST, province y} =$$

(See Table 3, Column 5 for results)

Investment impact estimates – investment increase by worker

F. Lastly, this value is divided by the number of private sector workers.[xxiv]

G. This calculation gives the increase in investment in M&E per private sector worker by province as shown in the formula below:

$$\frac{\text{E. Increase in small business investment in M\&E if such investments were exempted from the PST, province y}}{\text{F: Number of private sector workers, province y}}$$
$$= \text{ G: Increase in SME investment in M\&E per private worker if such investments were exempted from the PST, province y}$$

(See Table 3, Column 6 for results)

Appendix 3

PST Exemptions: BC

Existing PST and RST exemptions

British Columbia

Existing PST exemptions in British Columbia:

The British Columbia Provincial Sales Tax (PST) is a 7% tax on the purchase of taxable goods, software, or services for personal or business use, unless an exemption applies.[xxv]

BC offers PST exemptions for Production Machinery and Equipment[xxvi] for specific businesses, including manufacturers, software developers, B2B service providers, and those in the logging, mining, and oil and gas industries. To qualify, businesses must engage in qualifying activities at a qualifying location and meet certain sales, manufacturing (for goods) or development cost (for software) thresholds.

For example, BC exempts machinery and equipment used exclusively in the production process by manufacturers from its PST. However, this exemption does not cover office equipment, vehicles, or building materials purchased by the manufacturing sector.

Other exemptions apply to business inputs like raw materials for manufacturing, goods for resale, and specific machinery used for designated purposes. There are also consumer exemptions for items such as food, medical expenses, school supplies, restaurant meals, children's clothing, and bicycles.

For a detailed list and specific conditions, you can refer to BC's Ministry of Finance's resources on PST exemptions.

Appendix 3 (continued)

RST and PST Exemptions: Manitoba and Saskatchewan

Manitoba

Existing RST exemptions in Manitoba

Manitoba's 7% Retail Sales Tax, commonly known as the RST, is applied to the retail sale or lease of most products and services. It is calculated based on the selling price prior to the application of the GST. Small businesses with annual taxable sales below $10,000 are exempt from the obligation to register for and collect RST. However, out-of-province enterprises selling taxable goods and services to Manitoba consumers must register with Manitoba Finance under specific conditions.[xxvii]

Manitoba charges RST on the installation and/or repair of machinery and equipment, but the materials used for these installations or repairs are exempt from the RST.[xxviii] Additionally, the province offers exemptions for the agriculture industry for machinery used "principally for farming."[xxix] This exemption includes purchases such as tractors, fencing, and storage bins, but does not apply to trucks, electrical and plumbing supplies, or construction materials. A tax credit is also available for qualified property used for manufacturing or processing goods. For more information on RST exemptions, see the *Retail Sales Act* and relevant information bulletins.

Saskatchewan

Existing PST exemptions in Saskatchewan:

The Provincial Sales Tax (PST) in Saskatchewan is a 6% levy imposed on taxable goods and services consumed or utilized in the province. It encompasses purchases made in Saskatchewan as well as goods and services imported for consumption or use within its borders. It applies to both new and used items.

Saskatchewan offers PST exemptions for certain goods and services, but these are not readily available in any single government document, creating issues for business owners seeking clarity about costs. A tax credit is also available for qualified property used for manufacturing or processing goods. For more information on Saskatchewan's PST, see the web page on the Provincial Sales Tax and relevant bulletins.

Endnotes

[i] Statistics Canada. Table 36-10-0206-01 Indexes of business sector labour productivity, unit labour cost and related measures, seasonally adjusted. As of Q3, 2024. Retrieved December 12, 2024.

[ii] Bank of Canada (2024), *Time to break the glass: Fixing Canada's productivity problem*. https://www.bankofcanada.ca/2024/03/time-to-break-the-glass-fixing-canadas-productivity-problem/

[iii] Business Council of British Columbia (2021), "OECD predicts Canada will be the worst performing advanced economy over the next decade… and the three decades after that." https://www.bcbc.com/insight/oecd-predicts-canada-will-be-the-worst-performing-advanced-economy-over-the-next-decade-and-the-three-decades-after-that/

[iv] Guillemette, Y., & Turner, D. (2021), *The long game: Fiscal outlooks to 2060 underline need for structural reform* (OECD Economic Policy Paper No. 29), OECD Publishing. https://www.oecd-ilibrary.org/docserver/a112307e-en.pdf?expires=1719889705&id=id&accname=guest&checksum=D1F26553F4A00B3557FD80B34D84D7B0

[v] Statistics Canada. Table 36-10-0222-01 Gross Domestic product, expenditure based, provincial and territorial, annual (x1,000,000)

[vi] Statistics Canada, Labour Force Survey, custom tabulation for CFIB, annualized data, 2013 to 2023.

[vii] Innovation, Science and Economic Development Canada. (2022). *Key small business statistics*. Government of Canada. https://publications.gc.ca/site/eng/9.505096/publication.html

[viii] Your Voice December 2023, Question: "Heading into 2024, please indicate the level of priority you would like governments to place on the following issues."

[ix] While Quebec has a provincial sales tax, under the QST system, a business can claim an Input Tax Refund (ITR) for the QST portion of purchases in machinery and equipment (9.975%), along with the ITC under the GST system (subtracting the ITR). Thereby, the net cost of the machinery and equipment, after claiming these credits/refunds, would simply be the original purchase price. For more information, see: https://www.revenuquebec.ca/en/businesses/consumption-taxes/gsthst-and-qst/itcs-and-itrs/simplified-method-for-calculating-itcs-and-itrs/calculating-itcs-and-itrs/

[x] Quebec operates its distinctive modified VAT system (QST), harmonized with the federal GST. In Smart, Michael and Richard M. Bird. "The Impact on Investment of Replacing a Retail Sales Tax with a Value-Added Tax: Evidence from Canadian Experience." *National Tax Journal*. Vol. LXII, No. 4, December 2009.

About CFIB

CFIB is a non-partisan organization exclusively representing the interests of 97,000 small and medium-sized businesses in Canada. CFIB's research capacity is second-to-none because it is able to gather timely and concrete information from members about business issues that affect their day-to-day operation and bottom line. In this capacity, CFIB is an excellent source of up-to-date information for governments to consider when developing policies impacting Canada's small business community.

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[xi] As of April 2013. (HST came into effect July 1, 2010.)

[xii] The 6% rate is effective for goods and services as of March 23, 2017.

[xiii] A CRA Input Tax Credit (the "ITC") is the sum or the allowable portion of the GST or HST paid on business-related expenses. In Canada Revenue Agency. (n.d.). *Calculate the ITC eligibility percentage*. Government of Canada. https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/gst-hst-businesses/complete-file-input-tax-credit/calculate-eligibility-percentage.html#realproperty. Not all purchases and expenses are eligible to claim an ITC, consult CRA.

[xiv] British Columbia Ministry of Finance. (n.d.). *PST FAQs - Business Goods*. Government of British Columbia. https://www2.gov.bc.ca/gov/content/taxes/sales-taxes/pst/faqs#BusinessGoods

[xv] Generally, the PST is paid by a business when it purchases or leases taxable goods from a supplier. If the supplier does not charge a business PST, the business must self-assess the PST due.

[xvi] Palacios, Milagros and Lammam, Charles. "Leadership Needed to Reduce PST's Impact." Fraser Institute, appeared in *The Vancouver Sun*. https://www.fraserinstitute.org/article/leadership-needed-reduce-psts-impact-appeared-vancouver-sun

[xvii] This is only applicable to the manufacturing, forestry, mining, and oil and gas industries.

[xviii] British Columbia Commission on Tax Competitiveness [BCCTC] (2016). Improving British Columbia's Business Tax Competitiveness. https://engage.gov.bc.ca/app/uploads/sites/121/2017/03/4637_CommissionOnTaxCompetitiveness_Final_Report_Nov-2016.pdf

[xix] *Ibid*.

[xx] Apple Inc. (n.d.). iPad Air (11-inch, 128 GB). Apple Store. Price: $799.00. Retrieved from https://www.apple.com

[xxi] 18" XLT Single Deck Pizza Conveyor Oven NG/LP/Electric XLT-1832-1. Sinco Food Equipment. Retrieved from https://www.sinco.ca/collections/brand-new-pizza-oven?srsltid=AfmBOorpyZ_5it87fX1edCbru2sGY3N59tl6xyoxcW-UPFue5F1SG540

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[xxiii] CFIB, Your Voice Survey – June 2024, June 6–19, final results, n = 2,033.

[xxiv] Statistics Canada, Labour Force Survey, custom tabulation for CFIB, annualized data, 2013 to 2023.

[xxv] British Columbia Ministry of Finance. Small Business Guide to PST. https://www2.gov.bc.ca/gov/content/taxes/sales-taxes/pst/publications/small-business-guide

[xxvi] British Columbia Ministry of Finance. PST Bulletin 110 – Production Machinery and Equipment Exemption (Provincial Sales Tax Act). Revised February 2023. https://www2.gov.bc.ca/assets/gov/taxes/sales-taxes/publications/pst-110-production-machinery-equipment-exemption.pdf

[xxvii] Manitoba Finance. Retail Sales Tax (RST). https://www.gov.mb.ca/finance/taxation/taxes/retail.html

[xxviii] Manitoba Finance. Information Bulletin – RST 030 Summary of Taxable and Exempt Goods and Services (The Retail Sales Tax Act). Issued April 1998, Revised July 2024. https://www.gov.mb.ca/finance/taxation/pubs/bulletins/030.pdf

[xxix] Manitoba Finance. Information Bulletin – RST 018 Farm-use Equipment and other items (The Retail Sales Tax Act). Issued May 2000, Revised July 2019. https://www.gov.mb.ca/finance/taxation/pubs/bulletins/018.pdf

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