

**PRE-BUDGET CONSULTATIONS IN ADVANCE OF THE 2025
FEDERAL BUDGET**

SUBMISSION BY: CANADIAN FRANCHISE ASSOCIATION



**Canadian
Franchise
Association™**

Growing Together

AUGUST 2024

Recommendations

Recommendation 1: That the Government of Canada create a new program that would allow individuals to withdraw up to \$100,000 from their RRSP/RESPs to make a down payment on the purchase of a new or existing business without having to pay tax on the withdrawal.

Recommendation 2: That the Government of Canada increase the Small Business Deduction (SBD) threshold to \$725,000 and index the threshold to the CPI.

Recommendation 3: That the Government of Canada create a tax incentive that allows older workers (over 60) to earn up to \$20,000 from part-time work without resulting in them moving into a higher tax bracket.

OVERVIEW

Franchising is a unique licensing model that allows everyday Canadians interested in owning their own business the opportunity to do so with the support of an existing franchise system. Many franchise brands that are recognized across Canada and throughout the world are owned and operated by franchisees who live and work in their local communities. Franchise business owners are small business owners who are in business for themselves, but not by themselves.

While the COVID-19 pandemic is now in the past, the ripples experienced in its immediate aftermath continue to make their way through the economy. Small businesses from coast to coast to coast have experienced significant shock over the past four years, and it's imperative for the government, in contemplating its next budget, to take decisive steps to allow these businesses to rebuild to where they were at the start of 2020.

Over the past year, hundreds of thousands of small businesses have faced additional stress due to the expiration of the interest-free loan forgiveness portion of the Canada Emergency Business Account (CEBA) loan. The confusion and uncertainty that surrounded relief from the government left small businesses unable to plan for the future.

According to a recent poll conducted by another small business industry association, approximately 200,000 small businesses sought assistance from Canadian financial institutions to retain access to the forgivable portion of the loan. Ongoing labour shortages, inflationary pressures, the cost of borrowing, and the additional cost of goods and services have only exacerbated the financial strain.

While it is promising to see the Bank of Canada begin to lower the interest rate, small businesses are bracing for the continued effects of its monetary policies as it works through the economy over the next 12 to 18 months.

The Canadian Franchise Association (CFA) recognizes that two of the biggest obstacles to starting a new business are access to capital and access to labour. As the Government of Canada sets out to develop its 2025 budget, clearing these obstacles will be vital in supporting the success of small businesses across the country.

Recommendation 1: That the Government of Canada create a new program that would allow individuals to withdraw up to \$100,000 from their RRSP/RESPs to make a down payment on the purchase of a new or existing business without having to pay tax on the withdrawal.

Raising capital to purchase a new or existing business is one of the biggest hurdles that entrepreneurs need to overcome. Many Canadians have available capital in their RRSP/RESPs that could be used to help them finance the purchase of a new or existing business.

The CFA believes that allowing individuals to withdraw up to \$100,000 from their RRSP/RESPs to help finance the purchase of a new or existing business, without having to pay the immediate tax penalties associated with the withdrawal, would assist everyday Canadians in realizing the dream of owning their own business.

These funds would provide a new source of capital for the business while requiring the owner to repay the funds through structured repayments. We believe the Home Buyers' Plan (HBP) could serve as a model for such a program. The amount withdrawn under the program would have to be repaid on a non-deductible basis to the RRSP/RESP, beginning the second calendar year following the calendar year in which the withdrawal was made. It will allow individuals who are ready to start a business to unlock their retirement savings to buy a new or existing business.

Like the HBP, we recommend some restrictions on the proposal so as not to allow abuse,

including the refinancing of an existing business. Canada's banking system already has multiple sources to support this endeavour.

It should also be noted that a similar program already exists in the United States, where individuals are allowed to borrow from their 401(k) accounts to help capitalize a new business endeavour. The IRS allows individuals to borrow the lesser amount of \$50,000 or half of their vested balance.

Recommendation 2: That the Government of Canada increase the Small Business Deduction threshold to \$725,000 and index it to the CPI.

While the CFA appreciates that government has reduced the tax rates on small businesses to keep them competitive and that the government was there to support small businesses through the pandemic's toughest days, the Small Business Deduction (SBD) threshold has remained static and failed to keep pace with our economic reality.

The SBD has been a long-standing tool to promote the growth of Canadian small businesses by allowing for more capital to be reinvested into the business. Small businesses are well-known drivers of employment and economic growth in Canada. Accordingly, both the Government of Canada and the provinces have recognized the sector's importance and have provided the benefit of the SBD to support the sector's health and encourage growth.

To adjust for the impacts of inflation, the federal government and most provincial governments have indexed their personal income tax systems. This is not the case for the business tax system. As such, businesses are being subject to hidden tax increases every year because the deduction threshold has remained static.

The SBD threshold has remained unchanged at \$500,000 for the last 15 years. Over that same period, the CPI has increased by more than 35%. To put that in perspective, for the SBD threshold to have the same financial impact as it did in 2009, it would need to increase by more than \$200,000. We believe that an initial increase to \$725,000 in Budget 2025 is realistic. It can then be indexed annually.

Most franchised businesses operate on small margins where pennies still matter. They are local businesses, run by local franchisees who are often deeply engaged members of their local communities. We are concerned that expenses for those small businesses have drastically increased due to inflation, which means there is less money to be spent on salaries and capital investments. In fact, and most noticeably, these decreases also lead to a reduction of discretionary spending on local community projects and sponsorships.

Recommendation 3: That the Government of Canada create a tax incentive that allows older workers (over 60) to earn up to \$20,000 from part-time work without resulting in them moving into a higher tax bracket.

Following the COVID-19 pandemic, franchised small businesses have had significant issues filling jobs at all wage levels. As a result of the ongoing labour shortage, many franchise establishments have been unable to fully reopen their businesses, preventing them from regaining pre-pandemic revenues.

The federal government has had a mixed response to what the then Minister of Citizenship, Refugees and Immigration called "unprecedented challenges in finding and retaining the workers employers need during this period of economic recovery and growth"¹ in 2022. The federal government announced that international students, who previously had been able to work up to 20 hours a week off campus, would be

¹ Government of Canada. (2022). International students to help address Canada's labour shortage. Immigration, Refugees and Citizenship Canada. <https://www.canada.ca/en/immigration-refugees-citizenship/news/2022/10/international-students-to-help-address-canadas-labour-shortage.html>

permitted to work beyond the cap up until December 31, 2023. Considering the continued challenges that businesses faced in finding and retaining workers, this policy was further extended until April 30, 2024².

Additionally, on January 22, 2024, the Minister of Immigration, Refugees and Citizenship announced a two-year cap on new international student visas as well as the removal of the post-graduation work permit associated with many of those visas. The cap will result in a 35% reduction in the number of international student visas awarded and is estimated to affect 100,000 jobs in Ontario alone.

Canadians aged 60-plus have vast experience that could be harnessed to lessen the blow caused by persistent labour shortages. However, older Canadians often face tax challenges that disincentivize them from rejoining the workforce. Many older Canadians who go back to work are often penalized by higher taxation as their retirement income (RRSP, RRIF, investment income, etc.), combined with the income from a modest part-time job, can push them into a higher tax bracket. This negates the benefits of returning to the workforce, even on a part-time basis.

The CFA believes that the non-refundable tax credit for career extension that Quebec currently offers to encourage workers aged 60 or older to continue working or rejoin the workforce is a model for a federal equivalent. It reduces the income tax payable on the part of their [eligible work income](#) that exceeds \$5,000.

Under the Quebec program the maximum tax credit is:

- \$1,400 if you were between 60 and 64 on December 31, 2023
- \$1,450 if you were 65 or older on December 31, 2023

The credit is reduced based on eligible work income. If one's eligible work income for 2023 was over \$38,945, the credit is reduced by 5% of the excess income. However, there is no reduction if you were born before January 1, 1951, and your credit is \$560 or less.

Conclusion

Members of the CFA are vibrant and active members of the communities they call home. They are also small business owners who create local jobs while working to support their families. During the COVID-19 pandemic, governments at all levels implemented policies to ensure that small businesses were able to survive. As the economy continues to recover, it is necessary to recognize that many small businesses have not returned to pre-pandemic revenues.

Currently, small businesses are facing continued economic stress through ongoing labour shortages, inflationary pressures, and the increased cost of borrowing. These pressures have caused many small businesses to reduce operating hours, raise prices due to the increased cost of goods and services, and fail to make investments in their businesses that would allow them to expand.

Uncoordinated business cost increases by all levels of government are making it more difficult for small businesses to remain profitable. For example, in any given year, a small business could see increases to the minimum wage, CPP, EI, Workers' Compensation fees, Employer Health Taxes, property tax, and the carbon tax. Governments need to work together to support small businesses so that they can fully recover from the pandemic.

² Government of Canada. (n.d.). Work off campus. Immigration, Refugees and Citizenship Canada. Retrieved February 1, 2024, from <https://www.canada.ca/en/immigration-refugees-citizenship/services/study-canada/work/work-off-campus.html>

The CFA believes that the recommendations in this submission are straightforward steps that will foster economic growth and encourage everyday Canadians to realize the dream of owning their own business through the power of franchising.

We appreciate the opportunity to provide this submission and are available to discuss the recommendations at your convenience. For further information, please contact Derek Robertson, Senior Manager, Government Relations, at [drobertson@cfa.ca](mailto:d Robertson@cfa.ca) or Sherry McNeil, President & CEO, at smcneil@cfa.ca.

About the CFA

The Canadian Franchise Association (CFA) is the national, not-for-profit association of more than 600 corporate members representing over 78,000 franchise small business owners of more than 66,000 franchise establishments.

Each year Canadian franchises:

- Contribute more than \$120 billion per year to the Canadian economy.
- Create nearly 2 million jobs.
- Pay nearly \$62 billion in wages.
- Enable 78,000 Canadians to be their own boss.
- Contribute nearly \$30 billion in federal and provincial taxation.

CFA members represent a diverse cross-section of businesses and over 60 sectors in Canada. Our members range from large, established franchise systems, to smaller or emerging franchise brands. Members share the conviction that their commitment to excellence improves franchising for everyone involved, including franchisors, franchisees, suppliers, and customers.