PRE-BUDGET CONSULTATIONS IN ADVANCE OF THE FALL 2026 FEDERAL BUDGET

SUBMISSION BY: CANADIAN FRANCHISE ASSOCIATION

Canadian Franchise Association™

Growing Together

SEPTEMBER 2026

Recommendations

Recommendation 1: That the Government of Canada create a new program that would allow individuals to withdraw up to $100,000 from their RRSPs or 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 $750,000 and index the threshold to the CPI.

Recommendation 3: That the Government of Canada create a tax incentive for older Canadians (over 60) to earn additional income from part-time and flexible work without resulting in them moving into a higher tax bracket.

OVERVIEW

Over the past six years, Canadian small and medium-sized enterprises (SMEs) have demonstrated remarkable resilience in the face of successive economic shocks. Many businesses spent years recovering from the financial impacts of the COVID-19 pandemic, only to encounter a new set of challenges including persistent inflation, rising borrowing costs, labour shortages, and increasing regulatory and operating expenses.

More recently, trade uncertainty and the risk of new protectionist measures have made it increasingly difficult for many businesses to make long-term decisions regarding hiring, expansion, and investment. In light ofConsidering this persistent uncertainty, the Government of Canada must take targeted action to ensure that franchise and non-franchised small businesses can continue to support local communities across Canada.

Franchising is a unique licensing model that offers everyday Canadians interested in owning their own business the opportunity to do so with the backing of an established franchise system. While many franchise brands are recognized across Canada and around the world, the businesses behind those brands are overwhelmingly owned and operated by local entrepreneurs who live, work, employ people, and invest in the communities they serve. Franchisees are small business owners who are in business for themselves, but not by themselves.

The local impact of franchising on Canadian communities is often overlooked. The average Canadian will visit between three and five franchise businesses every day, whether purchasing a morning coffee, filling a prescription, buying groceries, dining at a local restaurant, accessing automotive services, or attending a fitness facility. In many communities, particularly in rural and small-town Canada, franchise businesses provide essential services, local employment opportunities, sponsorships for community organizations, and charitable support that help strengthen the social and economic fabric of the community. For many Canadians, a franchise business provides their first job, their first paycheque, and their first opportunity to develop the skills that support long-term career success.

Despite their importance, many franchisees and other small business owners (including start-up and emerging franchisors) are delaying investments, postponing expansion plans, and exercising greater caution as economic uncertainty persists. Without measures that improve access to capital, reduce barriers to growth, and help address labour shortages, Canada risks limiting the ability of these local entrepreneurs to continue contributing to economic growth and community prosperity.

As the Government of Canada prepares its next budget, the Canadian Franchise Association believes there is an opportunity to strengthen the foundations of small business growth by improving access to capital, enhancing tax competitiveness, and encouraging greater labour force participation among experienced workers.

Recommendation 1: The Government of Canada should establish a new program that would allow individuals to withdraw up to $100,000 from their RRSPs or RESPs to make a down payment on the purchase of a new or existing business without incurring immediate tax on the withdrawal.

Raising capital to purchase a new or existing business is a significant challenge that entrepreneurs face. Many Canadians have funds in their RRSPs or RESPs that could be used to help finance such purchases.

The CFA believes that permitting individuals to borrow up to $100,000 from their RRSPs or RESPs to assist in financing the purchase of a business, without facing immediate tax penalties associated with the withdrawal, would assist everyday Canadians in realizing the dream of owning their own business and would ultimately expand the pool of potential franchisees available to grow franchising across Canada.

These funds would provide a new source of capital for the business while requiring that the owner repay the amount through structured repayments. The Home Buyers' Plan (HBP) could serve as a model for such a program. The borrowed amount would need to be repaid to the RRSP or RESP on a non-deductible basis beginning in the second calendar year after the withdrawal.

This approach would enable those ready to start a business to unlock their retirement savings for the funding of a new or existing business.

We recommend some restrictions on the proposal, similar to those included in the HBP, so as not to allow abuse, including disallowing the use of RRSP or RESP funds for refinancing an existing business. Canada's banking system already provides multiple avenues to support this goal.

Furthermore, a comparable program exists in the United States, where individuals are allowed to borrow from their 401(k) accounts to finance a new business venture. The IRS allows individuals to borrow up to $50,000 or half of their vested balance, whichever is less.

Recommendation 2: That the Government of Canada increase the Small Business Deduction threshold to $750,000 and index it to the Consumer Price Index (CPI).

The Small Business Deduction (SBD) threshold has long been a tool to promote the growth of Canadian small businesses by allowing more capital to be reinvested into the business. Small businesses are well-known for being key drivers of employment and economic growth in Canada. Accordingly, both the Government of Canada and provincial governments have recognized the sector's importance and provided the benefit of the SBD to support the sector's health and encourage growth. However, the SBD threshold has remained static and has failed to keep pace with the current economic reality.

To account for the impacts of inflation, the federal government and most provincial governments have indexed their personal income tax systems. However, this is not the case for the business tax system. As a result, businesses face hidden tax increases each year because the deduction threshold has remained static.

The SBD threshold has remained unchanged at $500,000 for the last 17 years. During that period, the CPI has increased by nearly 47%. 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 over $234,000. The CFA believes that increasing the threshold to $750,000 in the upcoming budget is a reasonable first step in ensuring small businesses are able to continue reinvesting in their businesses. Furthermore, by indexing the threshold to the CPI, the Government of Canada would ensure its value is not eroded over time.

For context, most franchised small businesses work on narrow margins where every penny counts. They are local small businesses run by local franchisees who live, work, and contribute to their communities. The CFA is concerned that expenses for those small businesses have increased dramatically recently, leaving less money for salaries and capital investments. In fact, this has led to a reduction in discretionary spending on local community projects and sponsorships as well.

Recommendation 3: That the Government of Canada create a tax incentive for older Canadians (over 60) to earn additional income from part-time and flexible work without resulting in them moving into a higher tax bracket.

Canada is entering a period of sustained labour force pressure driven by demographic change and a deliberate shift to slow the growth of temporary residents. Temporary residents, particularly international students and temporary foreign workers, have played an increasingly important role in sustaining Canada's labour supply over the past decade, especially in service-intensive and consumer-facing sectors.

Federal policy changes introduced in 2024 and reinforced in subsequent immigration planning documents materially reduce this source of labour supply. According to Immigration, Refugees and Citizenship Canada (IRCC), 516,275 individuals held study permits in Canada in 2024, following the introduction of a national cap on new study permit applications of approximately 485,000. Administrative data show that the number of newly issued study permits declined by approximately 24% between 2023 and 2024, marking a significant slowdown after several years of rapid growth.

This policy direction is not temporary. Under the federal 2026-2028 Immigration Levels Plan, Canada has set progressively lower targets for new temporary resident arrivals, which decline to 385,000 in 2026, then hold at 370,000 in 2027 and 2028. These targets are substantially below recent historical levels and reflect an explicit federal objective to reduce the temporary resident share of Canada's population to below 5% by the end of 2027. Within these totals, new international student admissions are projected at approximately 155,000 in 2026, with further moderation in subsequent years, alongside reduced work-permit admissions.

The impact of this shift is already visible. Statistics Canada reports that the number of non-permanent residents in Canada declined by a record amount in the third quarter of 2025, falling from 3.02 million on July 1, 2025, to 2.85 million on October 1, 2025. The decline was driven primarily by reductions in study permit holders and individuals holding both work and study permits. As temporary resident inflows continue to moderate over the next three years, employers across Canada will face tighter labour market conditions, with fewer new entrants available to offset retirements and workforce exits.

At the same time, Canada is not fully harnessing one of its most experienced and immediately available labour pools: workers aged 60 and over. This population grew by more than one million people between 2021 and 2025, reaching roughly 10.8 million. Statistics Canada projects that Canadians aged 55 and over, who numbered 6 million in the mid-1990s and 11 million in 2016, will reach 17 million by 2036; older adults already outnumber children under 15. A federal-provincial-territorial report on the labour force participation of older Canadians finds that, despite record participation rates, disincentives embedded in the retirement income system keep many older adults from remaining in or re-entering the workforce.

Tax policy plays a meaningful role in shaping older workers' participation decisions. In 2022, single seniors not in an economic family had a median market income of $14,500 and median government transfers of $21,400, for pre-tax income of roughly $35,900. Much of seniors' income derives from retirement benefits such as CPP, OAS, RRSPs, RRIFs, and TFSAs. When considering staying in or re-entering the labour force, employment income added to these sources can push individuals into higher marginal federal tax brackets, reducing the net financial benefit of part-time or flexible work. This creates a clear disincentive to continued labour force participation, even where individuals are willing and able to work.

The proposed Career Extension Tax Credit would eliminate this disincentive for Canadians aged 60 and older who workdo part-time or in flexible roleswork. Under the 2026 federal tax schedule, income up to $58,523 is taxed at 14%, and income from $58,523 to $117,045 is taxed at 20.5%. The credit would allow eligible workers to earn employment income plus other pre-tax income up to $65,000 before beginning to phase out, shielding the $6,477 of income between $58,523 and $65,000 from the 20.5% rate. For a median-income single senior, this permits about $29,100 in additional employment income before the credit's limit applies: $22,623 remains taxed at 14%, while $6,477 would benefit from the credit. To ensure fiscal responsibility, the credit phases out at 15 cents per dollar of income above $65,000 and is fully exhausted at roughly $67,800.

By reducing federal income tax payable, the credit would directly improve after-tax earnings for continued employment, particularly in the part-time and flexible roles that align well with the experience and preferences of older workers. A median-income single senior claiming the credit could realize up to $421 in federal tax relief, the value of shielding the $6,477 income band from the higher 20.5% rate.

As Canada faces slower immigration-driven labour force growth over the foreseeable future, persistent talent shortages across multiple sectors, and increasing operational pressures on small businesses, enabling more older Canadians to remain in or return to the workforce is both practical and necessary. A Career Extension Tax Credit would provide a targeted, fiscally efficient tool to help stabilize labour supply and retain workforce experience during a period of structural labour market transition.

Conclusion

The Government of Canada is well placed to use the current trade-related uncertainties as an opportunity for Canadian small businesses to contribute to building a strong, resilient, and unified economy. While Canada has a proud history of innovation and diligent effort, recent years have seen this entrepreneurial drive dampened by instability and excessive regulation.

Members of the Canadian Franchise Association actively serve every community from coast to coast to coast. They are small business owners who live, work, and invest in their local communities.

Today, small businesses face ongoing economic challenges such as labour shortages, inflation, and rising borrowing costs. All of these issues have caused many to cut hours, raise prices, and delay investments needed for growth.

Canada has made great strides in reducing internal trade barriers over the past year and a half, but uncoordinatedu increases in business expenses across all levels of government continue to place strain on small businesses' profitability. For instance, a typical small business might encounter annual hikes in minimum wage, CPP, EI, workers' compensation, employer health taxes, and property taxes. It is crucial for governments to collaborate in supporting small businesses to develop a stronger, resilient, and more unified Canadian economy.

The CFA believes these straightforward recommendations can promote economic growth and encourage everyday Canadians to realize their dream of owning a business through the power of franchising.

We welcome the opportunity to discuss these recommendations and are available at your convenience. For more information, please contact Derek Robertson, Head of Government Relations & Strategic Partnerships, at drobertson@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 nearly 71,000 franchise establishments.

Each year, Canadian franchises:

- Contribute nearly $150 billion per year to the Canadian economy.
- Create nearly 2 million jobs.
- Pay nearly $73 billion in wages.
- Enable 7,000 Canadians to be their own boss.
- Contribute over $36 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.