

# ECONOMIC ANALYSIS OF SMALL BUSINESS AND RESTAURANTS IN CANADA: ON THE PRECIPICE - HELP IS NEEDED



**LIFT  
THE  
STRAIN**



# INTRODUCTION

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In this empirical trend analysis study, we will examine the ecosystem of small businesses in Canada, using data from Statistics Canada, Innovation, Science and Economic Development Canada, Bank of Canada and Business Development Bank. In addition, empirical data from the CFIB and Restaurants Canada will be examined to document and analyze the importance of small business and restaurants to the Canadian economy and Canadian society.

First, we will analyze the state of small businesses in Canada to demonstrate the importance of this sector in terms of employment and GDP.

Then we will drill down to the independent restaurant subset of small businesses in Canada.

We will continue by examining the overall financial performance of small businesses and specifically independent restaurants in Canada, to reveal significant weaknesses with large numbers of restaurants losing money or barely breaking even.

Then we will examine past policy responses and specifically the freeze of EI premiums for small businesses by the Canadian Government in 2013.

We will conclude that contrary to past arguments for suspension or reduction of EI premiums to “stimulate job growth”, the logic and need in 2024 is to save thousands of firms on the precipice of bankruptcy and increase consumer confidence. Large numbers of small businesses and especially restaurants are losing money or breaking even with very little margin for error.

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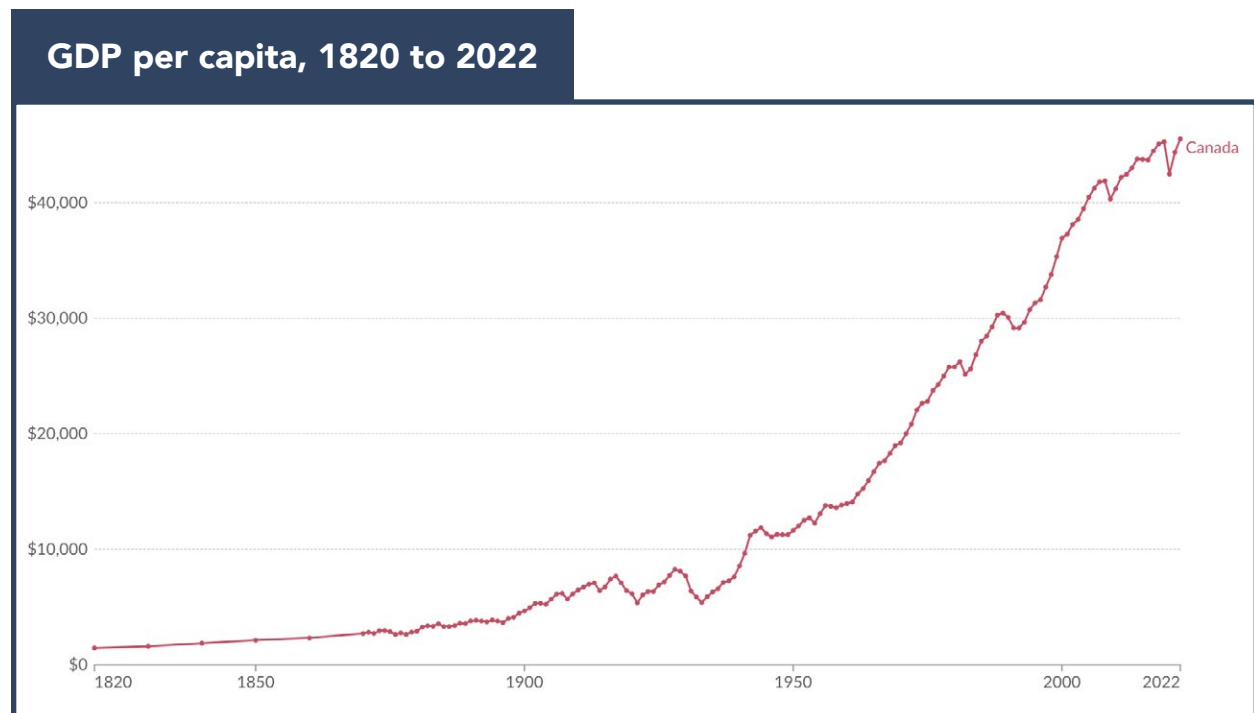
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# I. OVERVIEW

In the post second world war period in Canada, the economy has grown substantially. Indeed, Canada is one of the more prosperous countries in the world and within the high-income countries characterized as the OECD.

The graph below, from *Our World in Data*, reveals the remarkable real increase in average income per capita, after 1950 in Canada.



Source: <https://ourworldindata.org/grapher/gdp-per-capita-maddison?tab=chart&country=CAN>

*This data is adjusted for inflation and for differences in the cost of living between countries.*

The graph demonstrates the remarkable increase in prosperity for Canada – in real terms with inflation removed – from 1820 until 2022.

However, this prosperity is now at risk.

As we will reveal in the analysis that follows, prosperity is unevenly distributed, especially during and following the pandemic, when small businesses and restaurants experienced rapid increases in inputs due to inflation, dramatic increases in minimum wage laws and reduced demand as consumers reduced discretionary expenditures to cope with rising inflation.

## II. SMALL BUSINESS IN CANADA

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Small businesses are the economic backbone of Canada especially in terms of employment of large numbers of individuals and especially young people.

Innovation, Science and Economic Development Canada (ISED) produces an excellent annual report on small businesses in Canada.

ISED defines a small business as 1 to 99 paid employees while a medium sized business is defined as 100 to 499 employees.

Especially relevant to this report is the distribution of firms in Canada by size:

- 1.19 million or 97.8% were small business
- 23,395 or 1.9% were medium sized
- 3,128 or 0.3% were large business



As the graph below reveals, small business account for almost half of all private sector employment in Canada. And it must be restated that the private sector is the engine of employment in Canada, accounting for approximately 16 million of the 20 million employed. Public administration and the broader public sector of hospitals, education account for approximately 4 million employees.

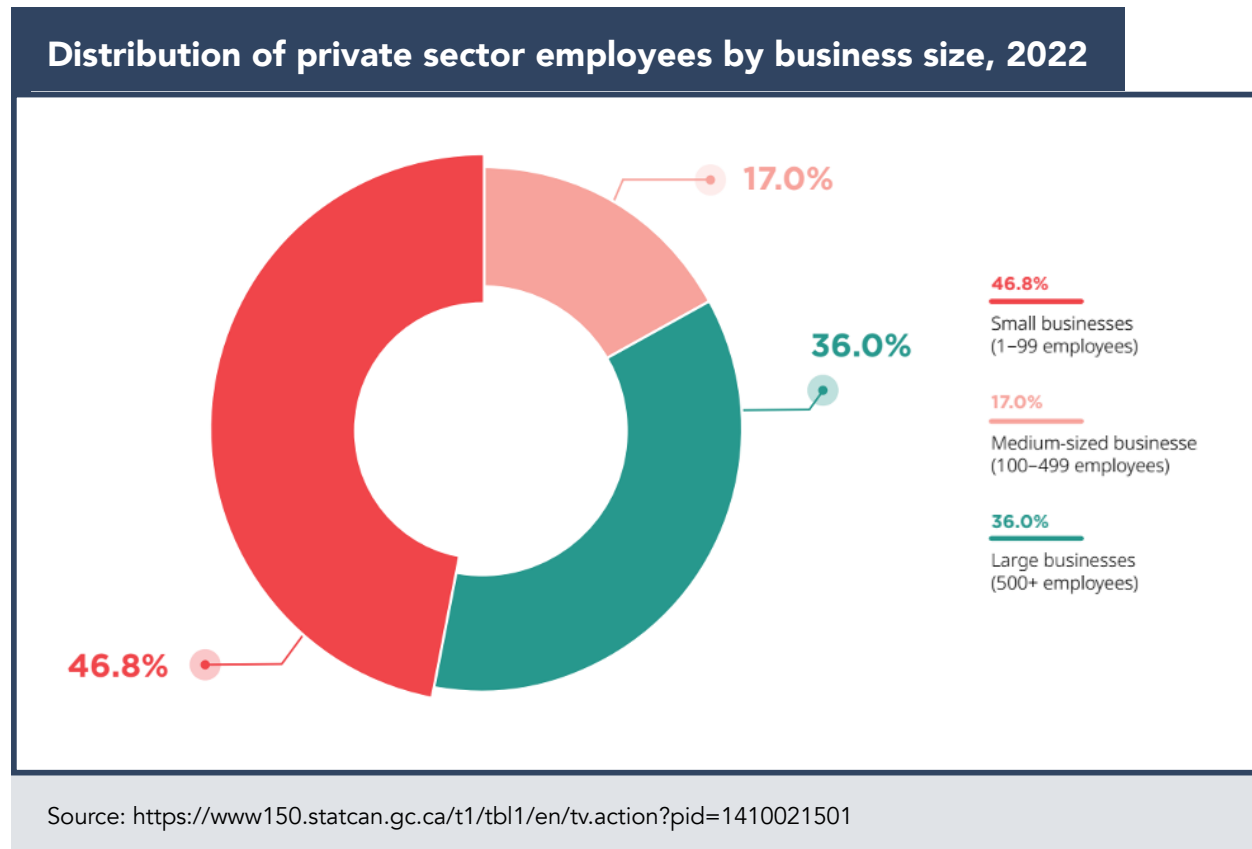
## Employment by industry, monthly, seasonally adjusted (x 1,000)

Geography <sup>5</sup>	Canada (map)						
Statistics	Estimate						
Data type	Seasonally adjusted						
North American Industry Classification System (NAICS) <sup>6</sup>	May 2023	April 2024	May 2024	May 2023 to May 2024	April 2024 to May 2024	April 2024 to May 2024	May 2023 to May 2024
	Persons						
Total employed, all industries <sup>7</sup>	20,115.5	20,491.1	20,517.8	402.3	26.7	0.1	2.0
Goods-producing sector <sup>8</sup>	4,154.8	4,118.0	4,097.3	-57.5	-20.7	-0.5	-1.4
Agriculture <sup>9</sup>	260.3	221.1	224.3	-36.0	3.2	1.4	-13.8
Forestry, fishing, mining, quarrying, oil and gas <sup>10, 11</sup>	323.5	345.8	348.8	25.3	3.0	0.9	7.8
Utilities	156.9	154.4	149.0	-7.9	-5.4	-3.5	-5.0
Construction	1,594.9	1,589.8	1,560.2	-34.7	-29.6	-1.9	-2.2
Manufacturing	1,819.2	1,806.9	1,815.0	-4.2	8.1	0.4	-0.2
Services-producing sector <sup>12</sup>	15,960.7	16,373.1	16,420.5	459.8	47.4	0.3	2.9
Wholesale and retail trade	2,960.5	2,929.6	2,923.3	-37.2	-6.3	-0.2	-1.3
Transportation and warehousing	1,020.2	1,088.3	1,067.7	47.5	-20.6	-1.9	4.7
Finance, insurance, real estate, rental and leasing	1,393.2	1,405.1	1,433.9	40.7	28.8	2.0	2.9
Professional, scientific and technical services	1,850.3	1,946.3	1,947.6	97.3	1.3	0.1	5.3
Business, building and other support services <sup>13</sup>	683.8	688.3	707.0	23.2	18.7	2.7	3.4
Educational services	1,492.2	1,533.6	1,521.5	29.3	-12.1	-0.8	2.0
Health care and social assistance	2,638.4	2,778.9	2,808.8	170.4	29.9	1.1	6.5
Information, culture and recreation	848.0	852.3	841.5	-6.5	-10.8	-1.3	-0.8
Accommodation and food services	1,131.3	1,128.3	1,141.2	9.9	12.9	1.1	0.9
Other services (except public administration)	758.6	804.1	806.3	47.7	2.2	0.3	6.3
Public administration	1,184.3	1,218.3	1,221.6	37.3	3.3	0.3	3.1

Source: <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410035502>

It is not well understood by the public or policy makers, due to the focus on large enterprises, that small businesses in Canada account for almost half of all private sector employment.

From both an economic perspective and a social policy perspective, small businesses are absolutely essential in providing opportunities for millions of Canadians.



In terms of the births and deaths of businesses, between 2016 and 2020, 100,000 small businesses were created annually. However, on average 96,000 firms disappeared annually through insolvency, bankruptcy or simple liquidation and closure.

This means that net-net, Canada is experiencing very small levels of net small business formation, notwithstanding the centrality of small businesses to employment in Canada.

When we turn to employment aggregates, we learn that as of 2022, small businesses employed 5.7 million or 46.8% of the private sector employment. Medium sized businesses employed 2.1 million or 17% of the private sector. And large businesses employed 4.4 million or 36% of the private sector employment. Finally, turning to contribution to the economy, SMEs accounted for almost 50% of GDP.



Below, the first table provides an overall summary of small, medium and large businesses by province and for the total of Canada, as of December 2022.

### Total number of employer businesses by business size and number of SMEs per 1000 individuals by province, December 2022

Province/Territory	Small business (1-99 employees)		Medium-sized businesses (100-499 employees)		Large businesses (500+ employees)		Total	Number of businesses per 1,000 individuals (18+ years)
	Number	%	Number	%	Number	%		
Newfoundland and Labrador	15,255	98.0	275	1.8	33	0.2	15,563	35.2
Prince Edward Island	5,971	98.0	111	1.8	8	0.1	6,090	43.5
Nova Scotia	28,550	97.8	566	1.9	72	0.2	29,188	34.3
New Brunswick	23,541	97.9	463	1.9	47	0.2	24,051	35.7
Quebec	248,924	97.6	5,329	2.1	713	0.3	254,966	36.0
Ontario	444,702	97.7	9,047	2.0	1,314	0.3	455,063	36.9
Manitoba	38,538	97.6	813	2.1	124	0.3	39,475	36.0
Saskatchewan	39,104	98.3	589	1.5	74	0.2	39,767	43.2
Alberta	153,938	97.9	2,980	1.9	366	0.2	157,284	44.3
British Columbia	187,741	98.2	3,131	1.6	371	0.2	191,243	43.2
Territories	3,763	97.5	91	2.4	6	0.2	3,860	40.1
<b>Canada</b>	<b>1,190,027</b>	<b>97.8</b>	<b>23,395</b>	<b>1.9</b>	<b>3,128</b>	<b>0.3</b>	<b>1,216,550</b>	<b>38.5</b>

Source: <https://ised-isde.canada.ca/site/sme-research-statistics/en/key-small-business-statistics/key-small-business-statistics-2022#t1>

However, when we examine disaggregated data, in the following table the trends become more obvious. Over half of all small business employment is very small for they employ 1 to 4 employees.

When we increase the filter to identify the aggregate employment for firms with less than 20 employees, we find that these micro businesses represent 85% of all small businesses.

These remarkable numbers demonstrate the sensitivity and correlation between employment and very small businesses. Indeed, this was demonstrated in real time during the pandemic, for it was not large corporations that experienced the greatest contractions. The Statistics Canada data reveal it was small businesses.

## Number of employer businesses by sector and business size (number of employees) December 2022

Number of employees	Goods		Services		Total	
	Number	% Cumulative	Number	% Cumulative	Number	% Cumulative
1-4 employees	149,686	57.1	522,916	54.8	672,602	55.3
5-9 employees	50,443	76.3	175,341	73.2	225,784	73.8
10-19 employees	28,731	87.3	122,428	86.0	151,159	86.3
20-49 employees	19,873	94.9	85,321	94.9	105,194	94.9
50-99 employees	7,444	97.7	27,844	97.8	35,288	97.8
<b>Small businesses 1-99 employees</b>	<b>256,177</b>	<b>97.7</b>	<b>933,850</b>	<b>97.8</b>	<b>1,190,027</b>	<b>97.8</b>
100-199 employees	3,619	99.1	12,022	99.1	15,641	99.1
200-499 employees	1,853	99.8	5,901	99.7	7,754	99.7
500 employees or more	530	100.0	2,598	100.0	3,128	100.0
<b>Total</b>	<b>262,179</b>	<b>21.6</b>	<b>954,371</b>	<b>78.4</b>	<b>1,216,550</b>	<b>-</b>

Source: <https://ised-isde.canada.ca/site/sme-research-statistics/en/key-small-business-statistics/key-small-business-statistics-2022#t1>

In the next table, we can see the data disaggregated by industry. This data are important for it reveals the dominance of the services sector accounting for 953,000 businesses while the goods manufacturing sector only accounted for 256,000 businesses.

Even more importantly, it reveals that Accommodation and food services is the fourth largest service sector with 80,000 businesses.

## Number of employer businesses by industry and number of employees, December 2022

Industry	Small business (1-99 employees)		Medium-sized businesses (100-499 employees)		Large businesses (500+ employees)		Total Number
	Number	%	Number	%	Number	%	
<b>Goods-Producing Sector</b>	<b>256,177</b>	<b>97.7</b>	<b>5,472</b>	<b>2.1</b>	<b>530</b>	<b>0.2</b>	<b>262,179</b>
Agriculture, forestry, fishing and hunting	48,630	99.3	335	0.7	14	0.0	48,979
Mining, quarrying, and oil and gas extraction	6,989	94.9	295	4.0	83	1.1	7,367
Utilities	1,204	89.3	108	8.0	37	2.7	1,349
Construction	151,344	98.9	1,520	1.0	97	0.1	152,961
Manufacturing	48,010	93.2	3,214	6.2	299	0.6	51,523
<b>Services-Producing Sector</b>	<b>933,850</b>	<b>97.8</b>	<b>17,923</b>	<b>1.9</b>	<b>2,598</b>	<b>0.3</b>	<b>954,371</b>
Wholesale trade	52,226	97.6	1,208	2.3	79	0.1	53,513
Retail trade	131,515	97.4	3,423	2.5	113	0.1	135,051
Transportation and warehousing	71,813	98.4	994	1.4	153	0.2	72,960
Information and cultural industries	17,014	96.9	455	2.6	85	0.5	17,554
Finance and insurance	38,912	97.9	700	1.8	151	0.4	39,763
Real estate and rental and leasing	58,287	99.4	346	0.6	23	0.0	58,656
Professional, scientific and technical services	153,879	98.9	1,471	0.9	182	0.1	155,532
Management of companies and enterprises	5,387	85.4	666	10.6	256	4.1	6,309
Administrative and support, waste management and remediation services	50,869	96.7	1,484	2.8	230	0.4	52,583
Educational services	13,865	92.9	586	3.9	472	3.2	14,923
Health care and social assistance	128,017	97.3	3,089	2.3	452	0.3	131,558
Arts, entertainment and recreation	17,704	96.6	553	3.0	73	0.4	18,330
Accommodation and food services	80,150	98.3	1,371	1.7	49	0.1	81,570
Other services (except public administration)	107,704	99.4	590	0.5	26	0.0	108,320
Public administration	6,508	84.0	987	12.7	254	3.3	7,749
<b>All Industries</b>	<b>1,190,027</b>	<b>97.8</b>	<b>23,395</b>	<b>1.9</b>	<b>3,128</b>	<b>0.3</b>	<b>1,216,550</b>

Sources: Business Register, and ISED calculations.

### III. RESTAURANT INDUSTRY IN CANADA

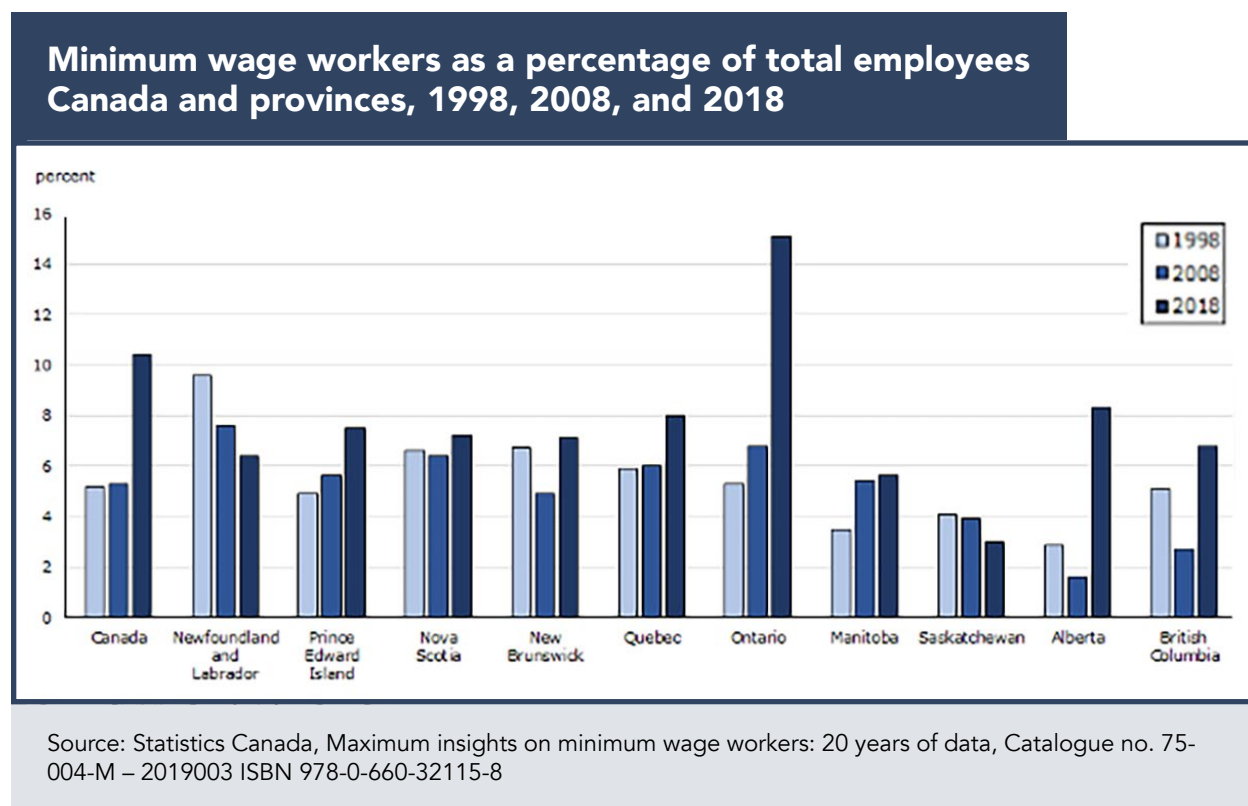
We now turn to a very important subset of small businesses in Canada.

The infographic below provides a big picture overview of the restaurant industry.

The key number of significance is that the industry employs over 1.1 million people accounting for 5.8% of the labour force (See infographic on page 14). However, very importantly, it accounts for the employment of 19.6% of young people between 15-25 years of age. This key statistic reveals the dependency of young people on this industry to finance schooling and provide a foothold as an entry level job to launch their careers as young adults.

In recent years, policy makers have aggressively increased minimum wages to alleviate poverty (notwithstanding research that reveals a small percentage of minimum wage workers are below the poverty line as the preponderance of minimum wage workers are young people living at home).

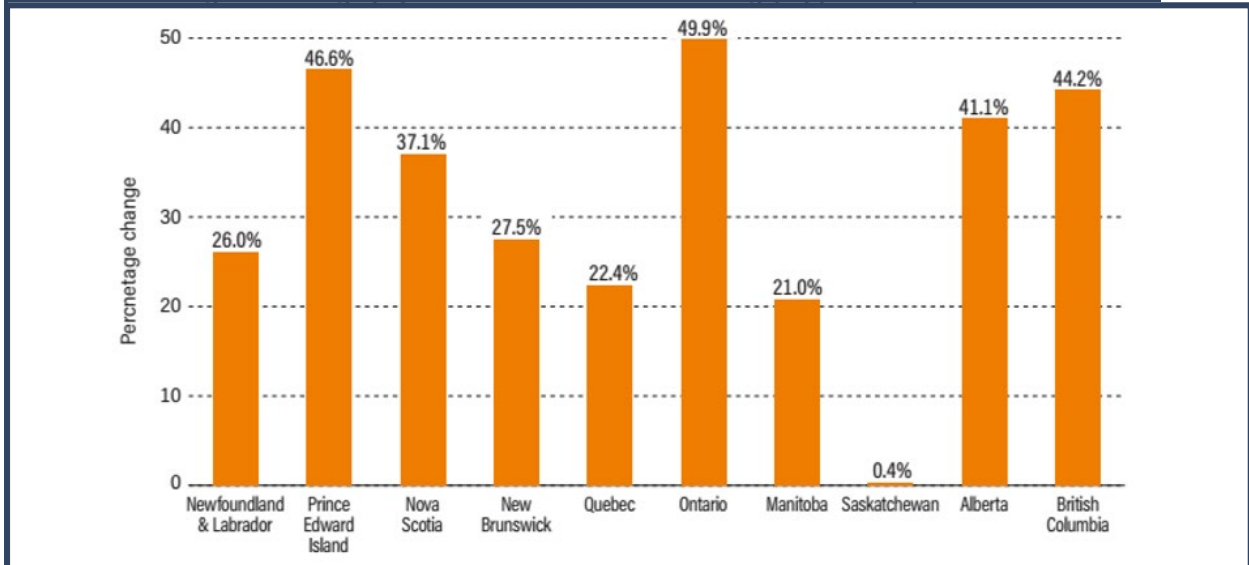
Statistics Canada has debunked the claim of large numbers employed at minimum wage. The table below reveals that approximately 10% of workers are employed at minimum wage.



The second important finding, concerning minimum wage increases, was identified by Philip Cross, former senior statistician at Statistics Canada.

Statistics Canada’s research found that increases in the minimum wage - inflation removed – over a 40 year period substantially increased the REAL or effective minimum wage. Restated, successive governments outsourced social policy by increasing minimum wages significantly above inflation rates, rather than increases in government social benefits to low income individuals. In turn, this produced serious issues of sustainability for small businesses, that will be discussed below.

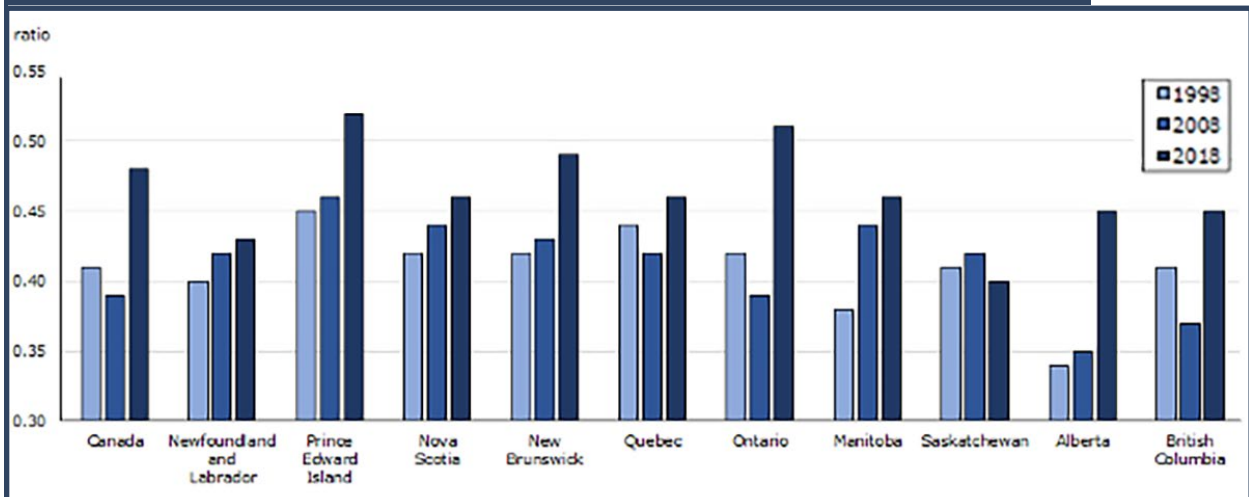
### Change in constant-dollar minimum wage, by province, 1981-2019



Source: Statistics Canada, Maximum insights on minimum wage workers: 20 years of data, Catalogue no. 75-004-M – 2019003 ISBN 978-0-660-32115-8

This was further confirmed by Statistics Canada:

### Ratio of average minimum wage to average nominal wage for all employees, Canada and provinces, 1998, 2008, and 2018

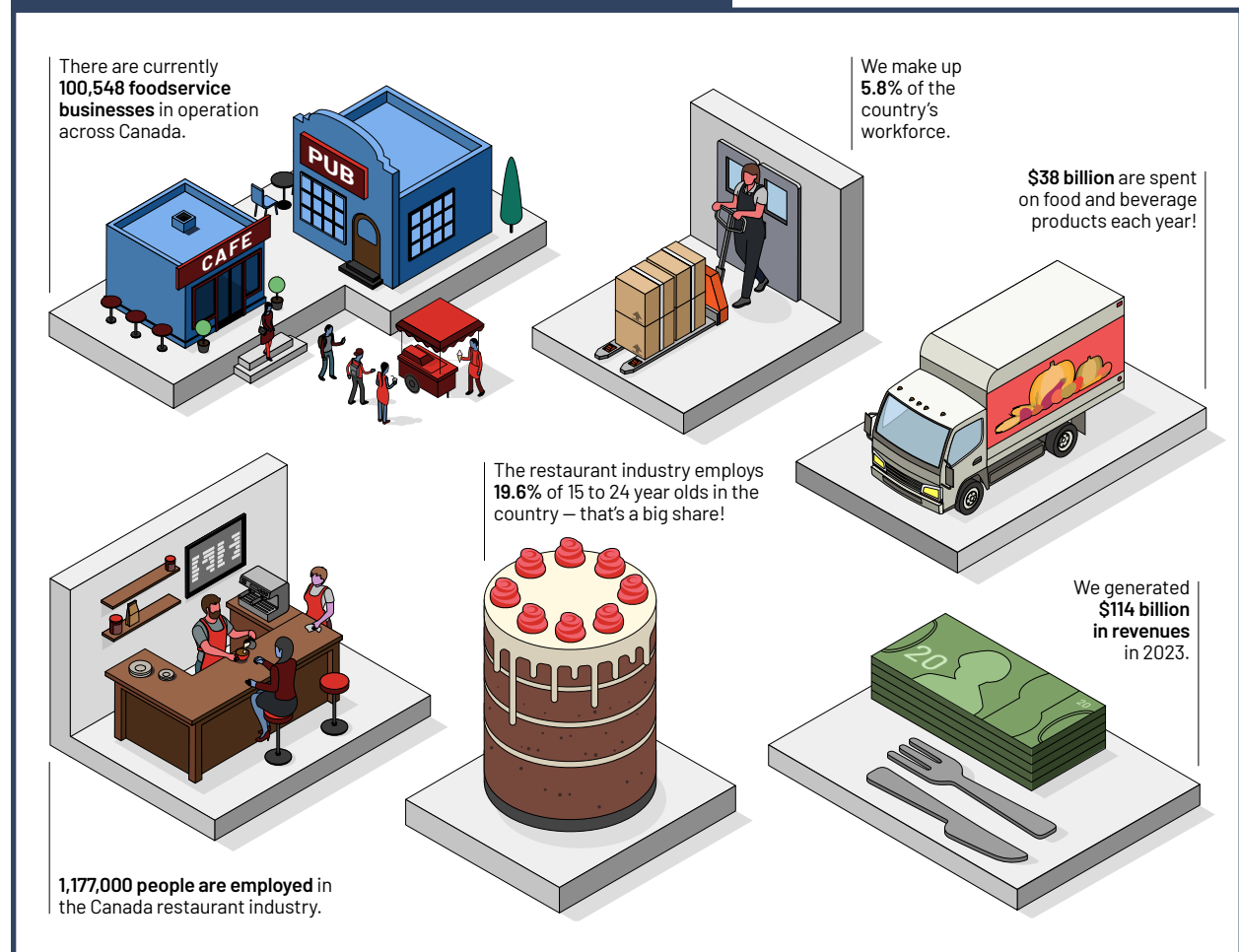


Source: Statistics Canada, Maximum insights on minimum wage workers: 20 years of data, Catalogue no. 75-004-M – 2019003 ISBN 978-0-660-32115-8

A mandated increase in minimum wage costs, drives firms to economize as much as possible on labour costs using automation and reductions in head count. This has led to the reduction of entire shifts eliminating employment opportunities and hours. This has been extensively examined over many years by scholars and think tanks, including a comprehensive review by the 2014 Minimum Wage Ontario Advisory Panel for the provincial Government.

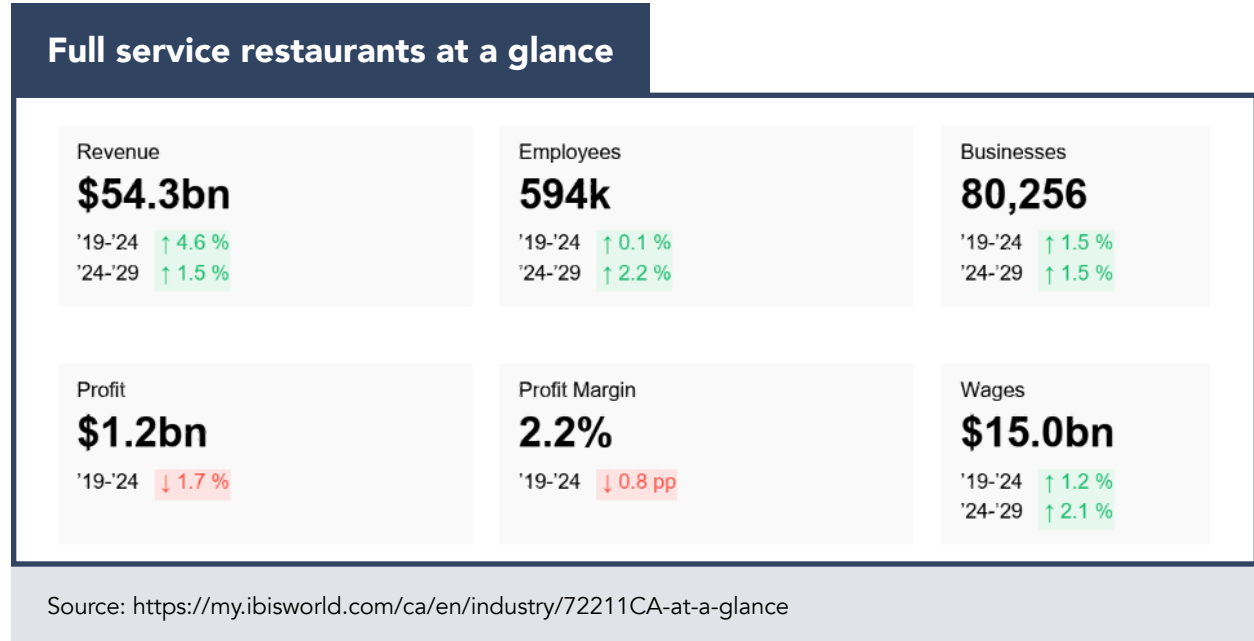
The author of this report suggests that policy makers do not realize the unanticipated consequences for young people of driving up minimum wage costs that leads firms to economize as much as possible on increased labour costs. This is the “Pigou” effect that if you make something more expensive (e.g. carbon), individuals and businesses use less of it. The reduction in entry level jobs that socialize very young, inexperienced individuals to the world of employment, contributed to those young people that “fail to launch”. Restated, the dramatic increase in minimum wage acts as a “Pigou tax” that discourages employment of young, inexperienced individuals.

## Canada’s restaurant industry in numbers

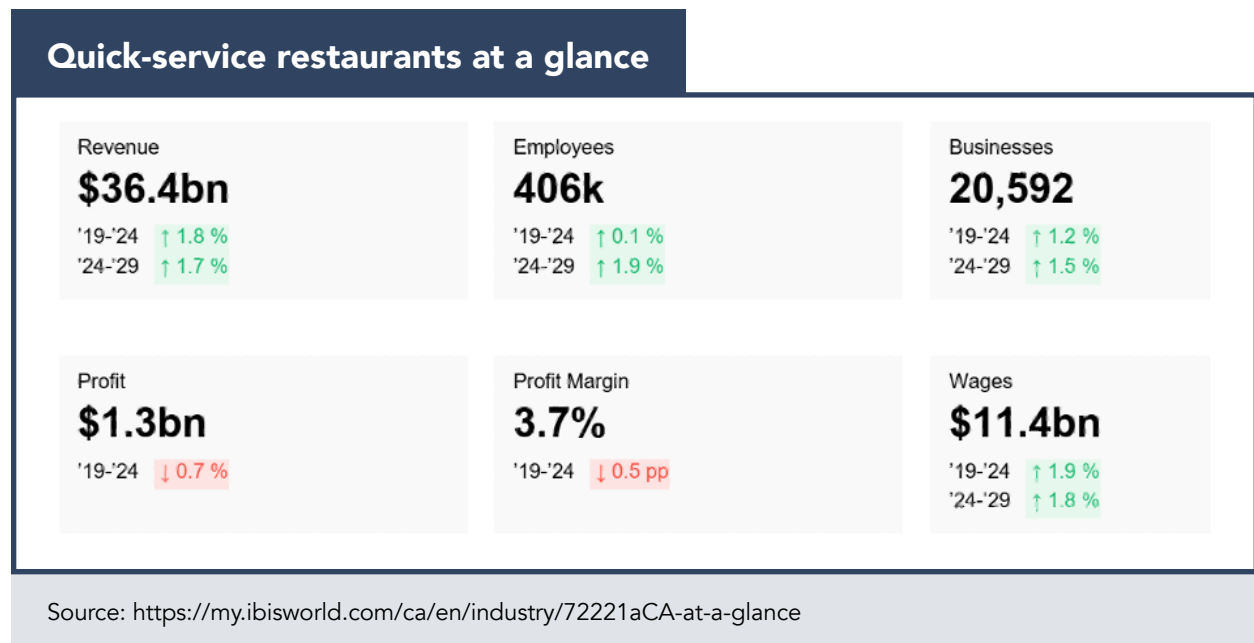


Source: Restaurants Canada, 2024

The restaurant industry is often segmented into two categories: full-service and quick-service. Immediately following, first, we will analyze full-service restaurants.



What is important to note is the extremely low profit margin of full-service restaurants at 2.2%. Full-service restaurants have larger number of independent owners compared to quick-service restaurants. Based on my career lending money to small businesses for 9 years followed by analyzing firms and industries for over 35 years in the strategy capstone course in the School of Business, these profit margins are abysmally low.



To summarize, while there are large numbers of restaurants, quick-service establishments dominated by chains albeit with franchises who are independent, full-service restaurants are represented by a larger number of independent restaurants.

## IV. BUSINESS INSOLVENCIES AND INCREASED RISK OF INSOLVENCY

Many years ago, as a consumer and commercial lender in the Canadian banking system, I discovered what can be observed by an examination of the statistics of small business sector provided by Statistics Canada and ISED.

Namely, there is significant risk involved in small businesses with the highest failure rates of any type of businesses. Large and medium sized businesses have much lower failure rates than small businesses.

There are multiple reasons that have been studied extensively. One important factor is the reduced levels of competition in industries that are oligopolistic or concentrated with only a handful of large firms. However, as will be discussed below, policy decisions of government have also negatively impacted small businesses.

The exit rates below show that accommodation and food services are in the top four industries for exit of firms from the industry. This data includes both bankruptcy and voluntary liquidation and closure.

### Statistics Canada, Exit Rates and Bankruptcy Rates by industry, 2004-2020

Industry	2004 to 2009	2010 to 2019	2020	2004 to 2009	2010 to 2019	2020
	Exit rates			Bankruptcy rates		
	percent					
Agriculture, forestry, fishing and hunting	7.3	5.7	5.5	0.16	0.08	0.03
Mining, quarrying, and oil and gas extraction	10.5	12.0	13.2	X	X	X
Utilities	9.2	7.9	7.2	X	X	X
Construction	8.0	8.7	10.2	0.20	0.23	0.13
Manufacturing	7.1	6.3	6.6	0.64	0.45	0.28
Wholesale trade	8.0	7.1	7.9	0.33	0.26	0.20
Retail trade	8.6	7.8	8.9	0.31	0.27	0.21
Transportation and warehousing	9.7	8.6	12.8	0.29	0.15	0.09
Information and cultural industries	12.1	11.7	12.0	0.22	0.18	0.07
Real estate and rental and leasing	10.5	10.7	12.0	0.11	0.09	0.07
Professional, scientific and technical services	11.0	11.0	12.3	0.11	0.09	0.07
Administrative and support, waste management and remediation services	8.8	8.5	10.2	0.20	0.20	0.18
Finance and insurance, and management of companies and enterprises	11.4	12.1	12.0	0.08	0.08	0.08
Arts, entertainment and recreation	9.0	8.3	10.6	0.21	0.20	0.25
Accommodation and food services	10.9	9.3	10.3	0.46	0.48	0.42
Other services (except public administration)	7.1	6.8	8.3	0.15	0.13	0.08

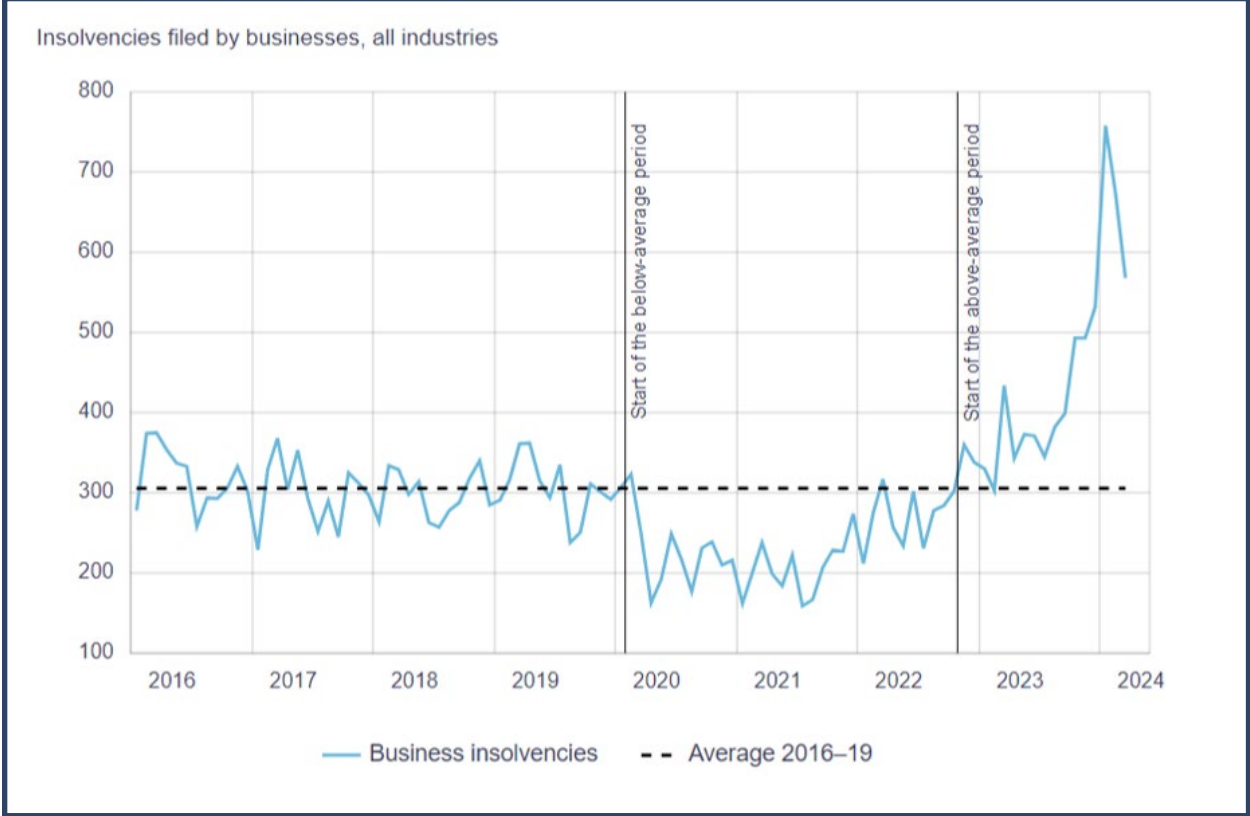
X suppressed to meet the confidentiality requirements of the Statistics Act

Source: <https://www150.statcan.gc.ca/n1/en/pub/36-28-0001/2023010/article/00005-eng.pdf?st=LJaC-vxr>



While the graphic below does not distinguish between small or medium or large businesses, the trend in business insolvencies is very clearly on an upward trend, due to the pandemic, subsequent cost increases, and public policies that disproportionately harm small businesses.

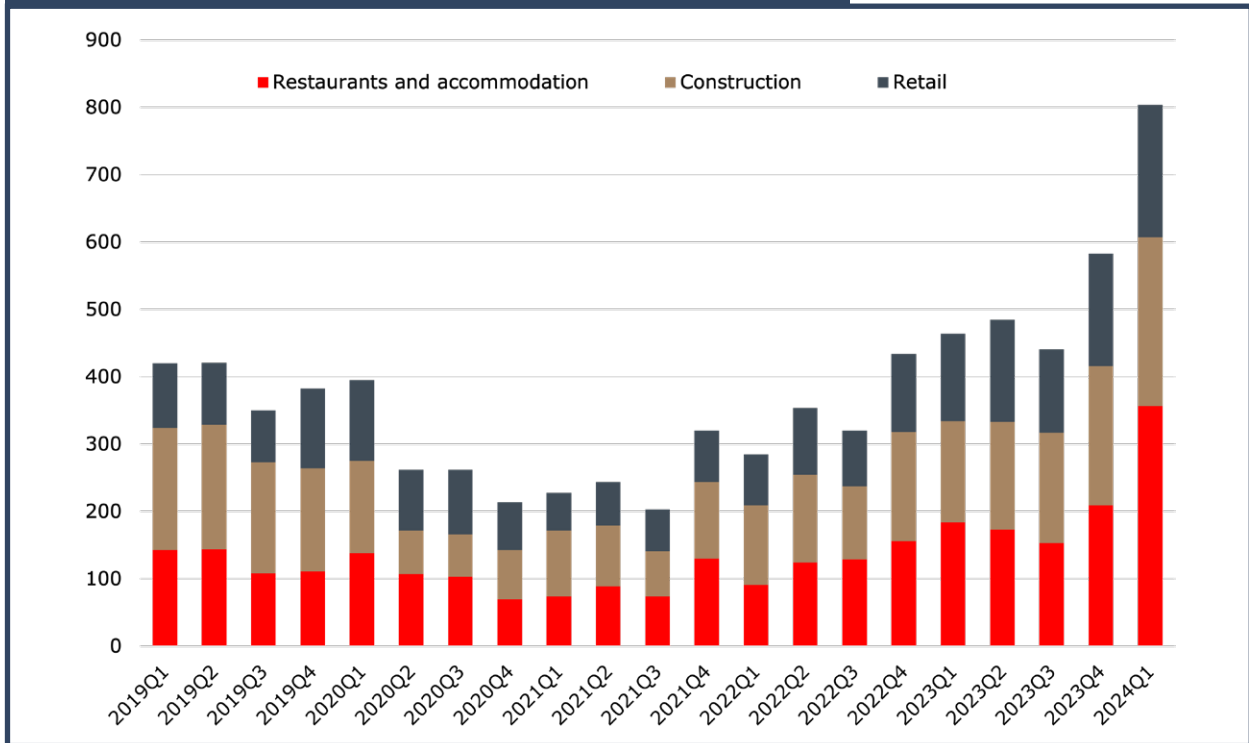
**Business insolvencies have increased steadily since early 2022 and more sharply since the middle of 2023**



Source: Bank of Canada, Financial Stability Report, 2024

According to the Office of the Superintendent of Bankruptcy, bankruptcies among restaurants, construction and retail doubled from Q1 2019 to Q1 2024.

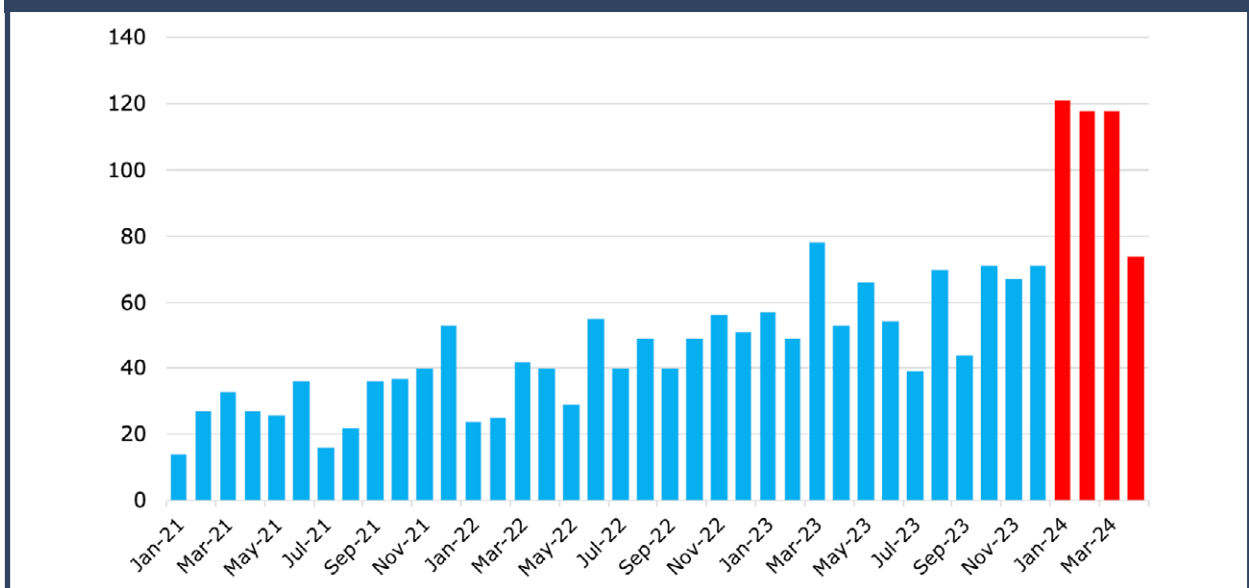
## Small business insolvencies by quarter in Canada



Source: Office of the Superintendent of Bankruptcy

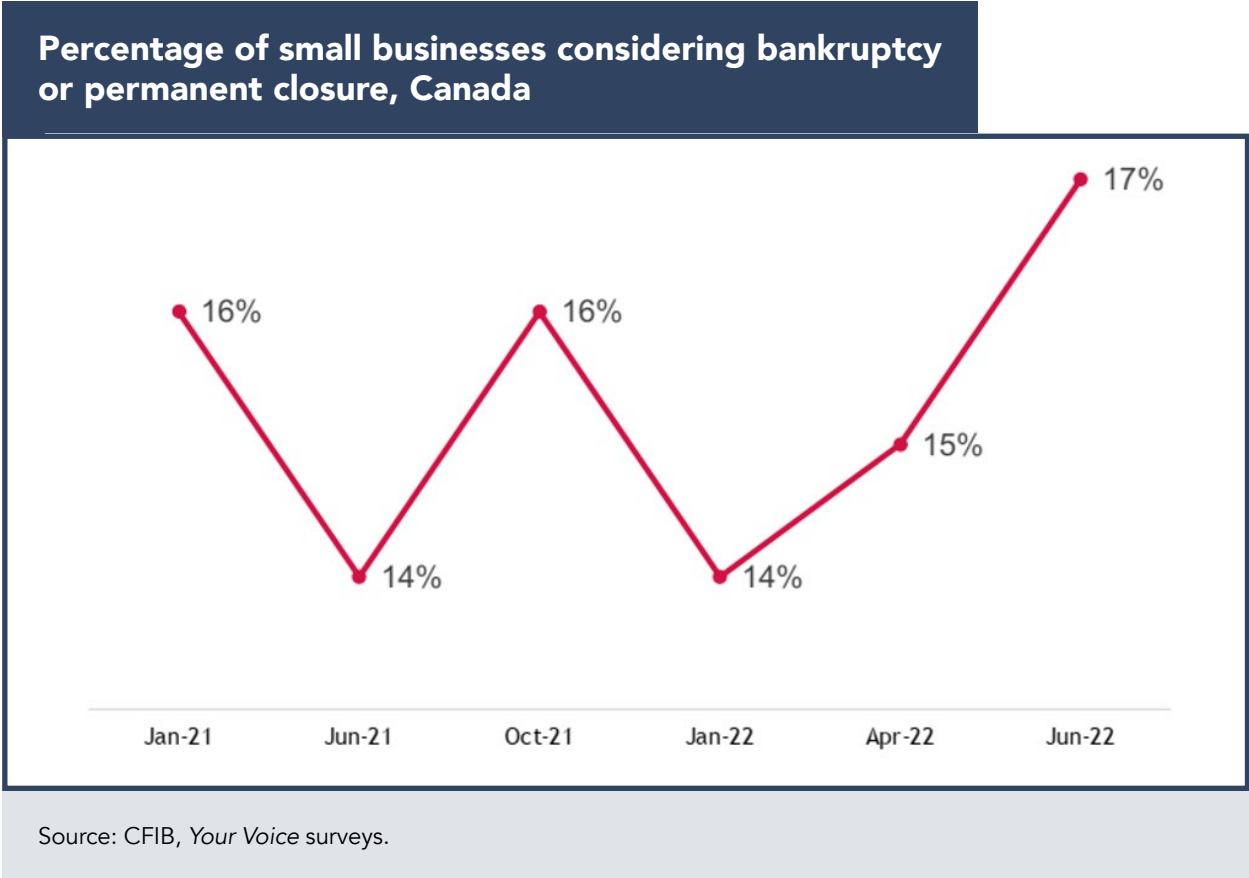
As the graph below reveals, the trend line becomes even worse in 2024, as bankruptcies soared in 2024 for the food service and accommodation.

## Monthly number of restaurants and accommodation bankruptcies soar 2024



Source: Office of the Superintendent of Bankruptcy

The CFIB survey of members, bankruptcies and insolvencies, suggest this is the “tip of the iceberg”. Source: <https://gem.cbc.ca/about-that-with-andrew-chang>

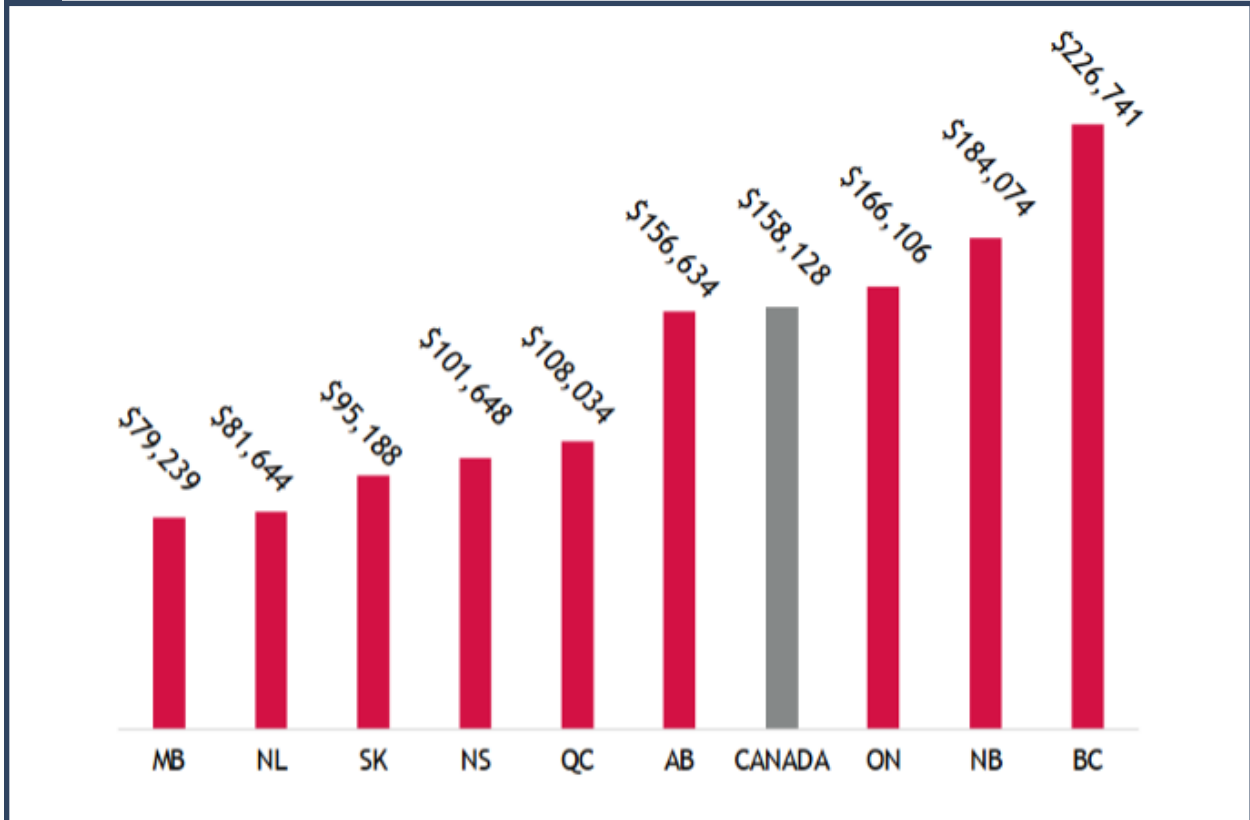


The question asked was: “Please indicate the extent to which you agree or disagree with the following statement; We are actively considering bankruptcy/winding down our business”. The percentages represent the businesses that strongly agreed or somewhat agreed with the statement.

Finally, the following graph shows that there are significant problems facing small businesses in the months ahead.

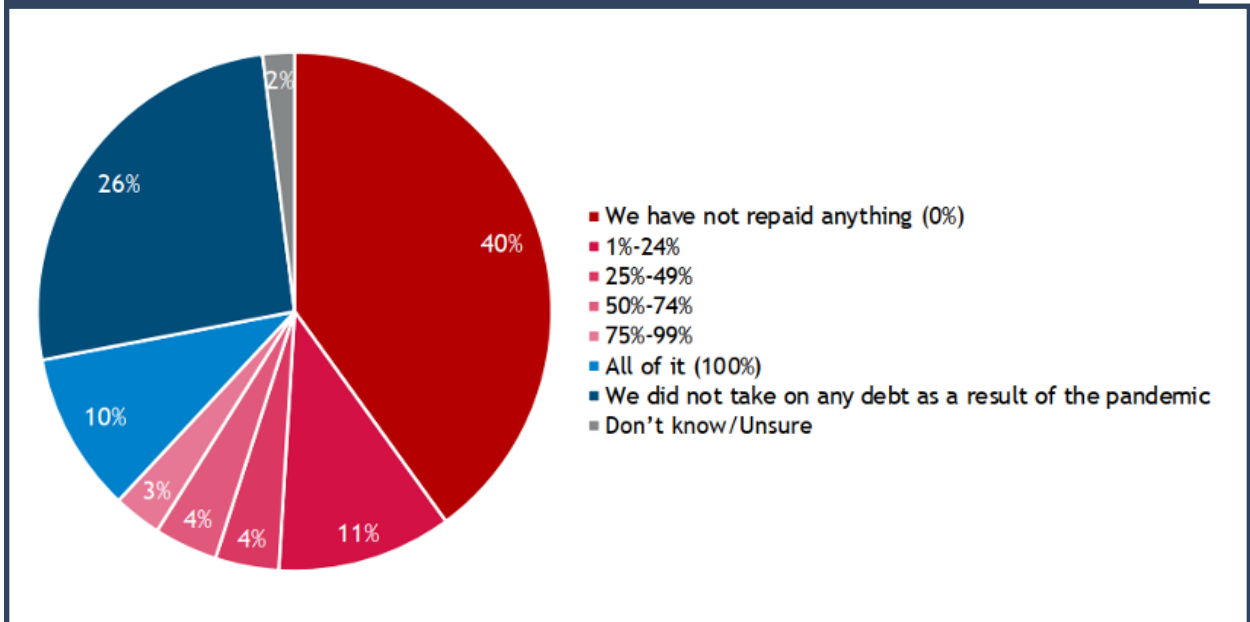
The data reveals a common phenomenon with small businesses – heavy reliance on debt (with inadequate levels of capitalization not shown in this graph). But it must be stated that higher debt levels are a symptom of underlying structural issues of hyper competition and legislated wage increases in real terms that are far in excess of inflation.

## Average debt of small businesses by province



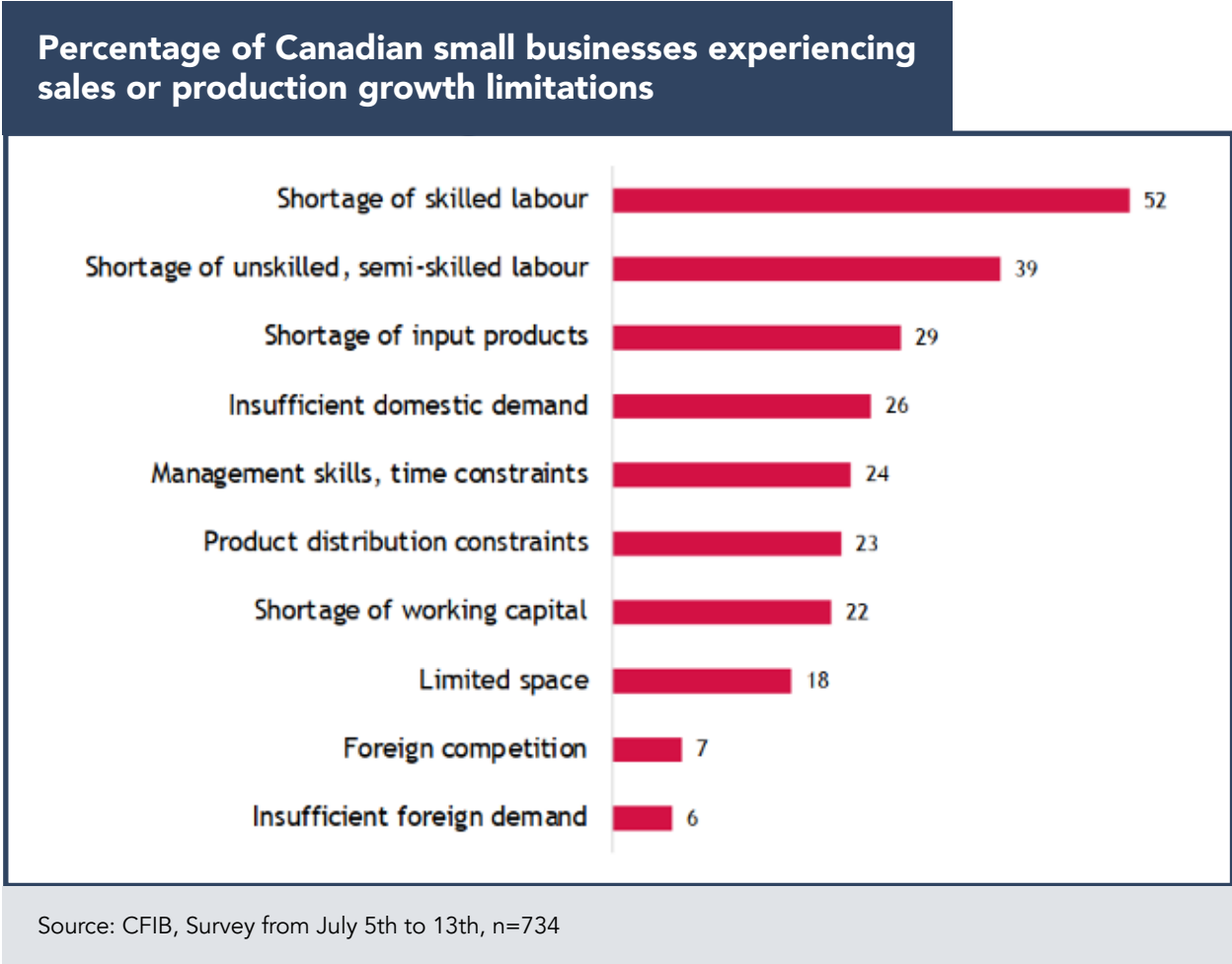
Source: CFIB, small Business Insolvency, 2022

## Canadian small businesses, by share of pandemic debt repaid to date



Source: CFIB, Your Voice - June 2022 survey, June 9-30, 2022, n=2,275

As noted, the problems facing small businesses and restaurants are not only high debt levels. Small businesses often faces labour shortages as they cannot offer the higher wages and benefits paid by government or by larger firms.



Note: Respondents could choose more than one answer, so the chart total may exceed 100%.

## V. IMPACT OF PAYROLL TAXES AND EI PREMIUMS

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Finally, we turn to the core of the study concerning the impact of payroll taxes and more specifically EI premiums on businesses.

The impact of payroll taxes has been extensively analyzed by economists in the US and Europe but less so in Canada.

Before examining the Canadian data, it is illuminating to examine payroll taxes in a comparative context. Drawing on the OECD publication, Revenue Statistics, 2022, shows that Canada comparatively relies more heavily on payroll taxes as a percentage of taxes collected at 2.3% of all taxes collected. Canada is a major outlier amongst OECD outliers.



## Taxes on payroll and workforce 3000 as percentage of GDP and a percentage of total tax revenue

	% of GDP					% of total tax revenue				
	1990	2000	2010	2019	2020	1990	2000	2010	2019	2020
Australia	1.7	1.4	1.3	1.3	1.3	6.1	4.5	5.2	4.7	4.5
Austria <sup>1</sup>	2.4	2.7	2.8	2.7	2.8	6.0	6.4	6.9	6.4	6.5
Belgium <sup>1</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Canada	0.8	0.7	0.6	0.8	0.8	2.3	2.1	2.1	2.3	2.3
Chile	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Colombia	0.0	0.7	0.7	0.3	0.4	0.0	4.2	4.1	1.7	2.0
Costa Rica	1.4	1.3	1.3	1.4	1.5	6.4	6.3	5.9	5.9	6.5
Czech Republic	..	0.0	0.0	0.0	0.0	..	0.0	0.0	0.0	0.0
Denmark <sup>1</sup>	0.3	0.2	0.2	0.3	0.2	0.7	0.4	0.5	0.6	0.4
Estonia	..	0.0	0.0	0.0	0.0	..	0.0	0.0	0.0	0.0
Finland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
France <sup>1</sup>	0.8	1.0	1.3	1.8	1.9	1.9	2.3	3.2	4.0	4.1
Germany	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Greece	0.2	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0
Hungary	..	1.4	0.4	1.0	1.0	..	3.6	1.1	2.9	2.9
Iceland	1.1	0.0	0.2	0.3	0.3	3.5	0.1	0.5	0.9	0.9
Ireland	0.4	0.0	0.2	0.2	0.2	1.3	0.0	0.7	1.0	1.0
Israel	..	1.2	1.2	1.1	1.1	..	3.6	3.8	3.8	3.8
Italy	0.1	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Japan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Korea	0.1	0.0	0.1	0.1	0.1	0.4	0.2	0.2	0.3	0.3
Latvia	..	0.0	0.0	0.0	0.0	..	0.0	0.1	0.0	0.0
Lithuania <sup>1</sup>	..	0.0	0.0	0.0	0.0	..	0.0	0.0	0.0	0.0
Luxembourg <sup>1</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mexico	0.2	0.2	0.3	0.4	0.5	1.8	1.5	2.2	2.5	2.5
Netherlands	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New Zealand	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Norway	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.1	0.2
Poland <sup>1</sup>	..	0.2	0.3	0.3	0.3	..	0.7	0.8	0.7	0.9
Portugal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Slovak Republic	..	0.0	0.0	0.0	0.0	..	0.0	0.0	0.0	0.0
Slovenia <sup>1</sup>	..	1.5	0.1	0.0	0.0	..	4.1	0.2	0.1	0.1
Spain	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sweden	1.2	2.1	3.0	5.3	5.1	2.5	4.2	7.0	12.4	12.0
Switzerland <sup>1</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Türkiye	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
United Kingdom	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.4	0.4
United States	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1
<i>Unweighted average</i>										
<b>OECD Average</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.3</b>	<b>1.4</b>

[https://www.oecd-ilibrary.org/taxation/taxes-on-payroll-and-workforce-3000-as-of-gdp-and-as-of-total-tax-revenue\\_c4d2d66a-en](https://www.oecd-ilibrary.org/taxation/taxes-on-payroll-and-workforce-3000-as-of-gdp-and-as-of-total-tax-revenue_c4d2d66a-en)

In Canada, the small business community has long complained of the disproportionate impact of payroll taxes on small businesses.

Before reviewing the literature, it is important to step back and examine the cost structure of small businesses and restaurants strategically, as this is rarely done in any economic or policy analysis.

As reviewed in the strategy capstone course concerning firm competitiveness and industry competitiveness, firms face FOUR broad categories of expenditures:

- Cost of goods sold (COGS) set in commodity and manufacturing markets
- Property, plant and equipment (PPE) set in manufacturing markets
- Wages set in labour markets for wages above minimum wage rates
- Taxes: payroll and corporate taxes – set by discretion of Parliament and government

A strategic empirical analysis of cost of goods sold and plant and equipment reveal significant inelasticities facing small businesses, for this sector lacks the economies of scale to demand discounts and reductions in prices from suppliers of goods. Restated, it is very difficult for small businesses to economize on COGS or PPE – because small businesses are PRICE TAKERS – not price makers - as are large oligopolistic firms upstream in natural resources and manufacturing and processing industries.

However, small businesses can economize on wages through the strategy of “self-exploitation” first identified by the Canadian Harvard University economist, John Kenneth Galbraith. As wage costs increase, small business owners typically reduce head count by insourcing family members.

This brings us to taxes. Taxation rates and types of taxation are set by public policy - and not by markets – unlike COGS or PPE or wages (above the minimum wage rate). Restated, Parliament and government possesses the discretion to establish and set specific rates of taxation on, for example, small business.

In a stunning new study by ESDC, payroll taxes are disproportionately larger for small businesses relative to medium and large businesses. This empirical trend raises profound questions of fairness and unfairness in the relative treatment of small businesses.

Turning to the research literature, surprisingly, there have been astonishingly few scholarly studies. And there is no consensus in the literature. Professor Gunderson found in 2008 that payroll taxes were “killers of jobs, killers of wages”.

However, in 2021, Deslauriers et al (UQAM), found, “no impact on average employment and sales, but significant impacts on wages, implying that payroll taxes are passed almost entirely to workers in the form of lower wages”.



Most recently, in a new empirical study, EI Monitoring and Assessment Supplemental Study: Identifying Firms that are Potentially Most Sensitive to EI Premium Changes, 2023, (ESDC), the research found extremely important trends:

Smaller sized firms tend to have higher Employment Insurance Premium Ratios, which is the ratio of EI premiums paid by employers to their total payroll.

- Between 2015 – 2020, the average employer premiums paid was \$13.9 billion annually and this produced an average EIPR of 1.3% over this period.
- Excluding micro firms (firms with less than 5 employees), the EIPR declined with firm size with the highest EIPR being observed among firms with 5-50 employees (1.5%).
- Accommodation and food services had the highest EIPR (1.9%), whereas mining, quarrying, and oil and gas extraction had the lowest EIPR (0.8%)
- Accommodation and food services had the highest EIPR (1.9%), whereas mining, quarrying, and oil and gas extraction had the lowest EIPR (0.8%)
- In general, Atlantic provinces had higher EIPRs than the rest of Canada excluding Quebec. Alberta had the lowest EIPR (1.2%), whereas Newfoundland had the highest (1.6%).
- In 2018-2019, accommodation and food services had the highest proportion of workers near minimum wage (35.5%), whereas construction had the lowest (2.1%).

Smaller firms tend to have a higher proportion of workers at or near minimum wage, which suggests more sensitivity to any potential EI premium increases.

It could be argued that higher relative rates are appropriate for small businesses as they have higher failure rates and in some industries such as accommodation and food services, seasonality ensures higher rates of EI claimants.

However, government is not a private for-profit insurance firm. It is well understood there are substantial social benefits embedded in the EI program for compelling social reasons. Restated, the EI fund is not a simple, actuarial private insurance fund.

A comprehensive study is long overdue of the EI program and fund to identify the insurance components of EI versus the social benefits embedded over time within EI, to identify and disentangle cross subsidization. Restated, it appears that, as with minimum wage, government is unfairly using small business with higher than necessary rates, to achieve social policy objectives beyond “mere insurance”.

The ESDC analysis is a very important empirical and very recent study, for it confirms what has been long suspected by some analysts (including this author).

To wit, that small business is impacted by payroll taxes and specifically EI premiums to a much greater degree than larger businesses.

Moreover, there is variation and sensitivity to EI premiums WITHIN small business industries. Specifically, Accommodation and Food Services is more sensitive to EI premiums.

### Share of workers at minimum wage by firm size, Canada



Source: Statistics Canada, Labour Force Survey

Before examining the impact of payroll taxes specifically on Accommodation and Food Services, we must examine the actual EI premiums set for the past 15 years, which inter alia reveal the discretion of government to revise EI premiums annually:

### Federal EI premium rates and maximums

Year	Maximum annual insurable earnings	Rate (%)	Maximum annual employee premium	Maximum annual employer premium
2024	\$63,200	1.66	\$1,049.12	\$1,468.77
2023	\$61,500	1.63	\$1,002.45	\$1,403.43
2022	\$60,300	1.58	\$952.74	\$1,333.84
2021	\$56,300	1.58	\$889.54	\$1,245.36
2020	\$54,200	1.58	\$856.36	\$1,198.90
2019	\$53,100	1.62	\$860.22	\$1,204.31
2018	\$51,700	1.66	\$858.22	\$1,201.51
2017	\$51,300	1.63	\$836.19	\$1,170.67
2016	\$50,800	1.88	\$955.04	\$1,337.06
2015	\$49,500	1.88	\$930.60	\$1,302.84
2014	\$48,600	1.88	\$913.68	\$1,279.15
2013	\$47,400	1.88	\$891.12	\$1,247.57
2012	\$45,900	1.83	\$839.97	\$1,175.96
2011	\$44,200	1.78	\$786.76	\$1,101.46
2010	\$43,200	1.73	\$747.36	\$1,046.30
2009	\$42,300	1.73	\$731.79	\$1,024.51
2008	\$41,100	1.73	\$711.03	\$995.44
2007	\$40,000	1.80	\$720.00	\$1,008.00
2006	\$39,000	1.87	\$729.30	\$1,021.02
2005	\$39,000	1.95	\$760.50	\$1,064.70
2004	\$39,000	1.98	\$772.20	\$1,081.08
2003	\$39,000	2.10	\$819.00	\$1,146.60
2002	\$39,000	2.20	\$858.00	\$1,201.20
2001	\$39,000	2.25	\$877.50	\$1,228.50
2000	\$39,000	2.40	\$936.00	\$1,310.49
1999	\$39,000	2.55	\$994.50	\$1,392.30
1998	\$39,000	2.70	\$1,053.00	\$1,474.20

<https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/payroll-deductions-contributions/employment-insurance-ei/ei-premium-rates-maximums.html>

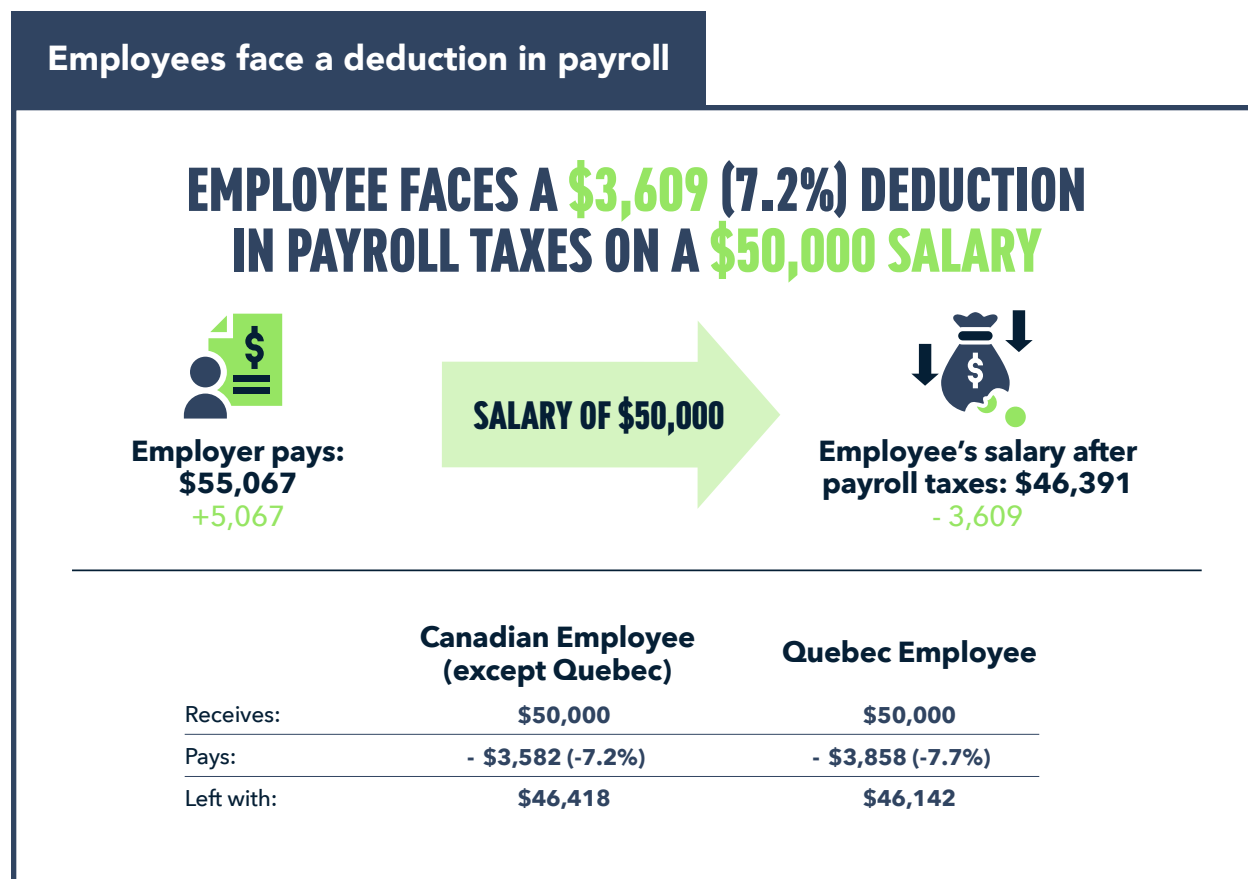
Restaurants Canada provides the following analysis that provides background information that illuminates these issues:

### CANADA PENSION PLAN AND EMPLOYMENT INSURANCE BURDEN:

All employers are required to deduct Canada Pension Plan (CPP) contributions and Employment Insurance (EI) premiums from the salary paid to their employees. The employer is then expected to match these deductions with their own share of CPP contributions and EI premiums (for EI, the employers contribute at a rate of 1.4 of the employees' contribution).

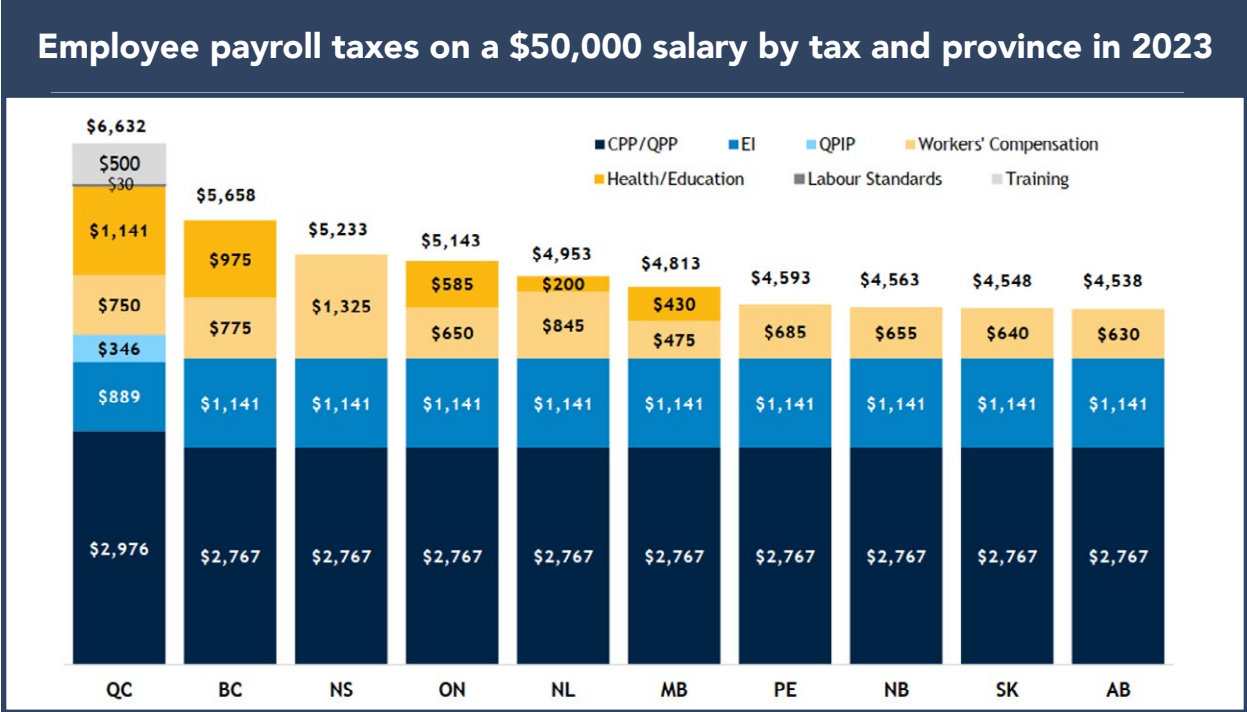
In the past four years, the maximum CPP contribution payable has gone up by over \$1,000 per employee, increasing from \$2,704 in 2019 to \$3,754 in 2023. An increase of 37 percent. As of January 2024, a second earnings ceiling was introduced, with an additional 4 percent tax at a further cost to employers and employees. Since 2019, the maximum EI contribution has increased by \$200 per employee, from \$1,204 in 2019 to \$1,403 in 2023.

These calculations are captured in the following Restaurants Canada infographic summary:



Note: These pictograms do not depict the effects of applicable federal and provincial income taxes deducted at source, which further decrease take-home pay.

Notes: CFIB calculation, based on a small business with a payroll of \$2.5 million, 2019 vs. 2023. Displayed are the effective payroll contribution (nominal \$) and tax rate (%) difference and % change on a \$50,000 employee salary for 2019 and 2023, by province.



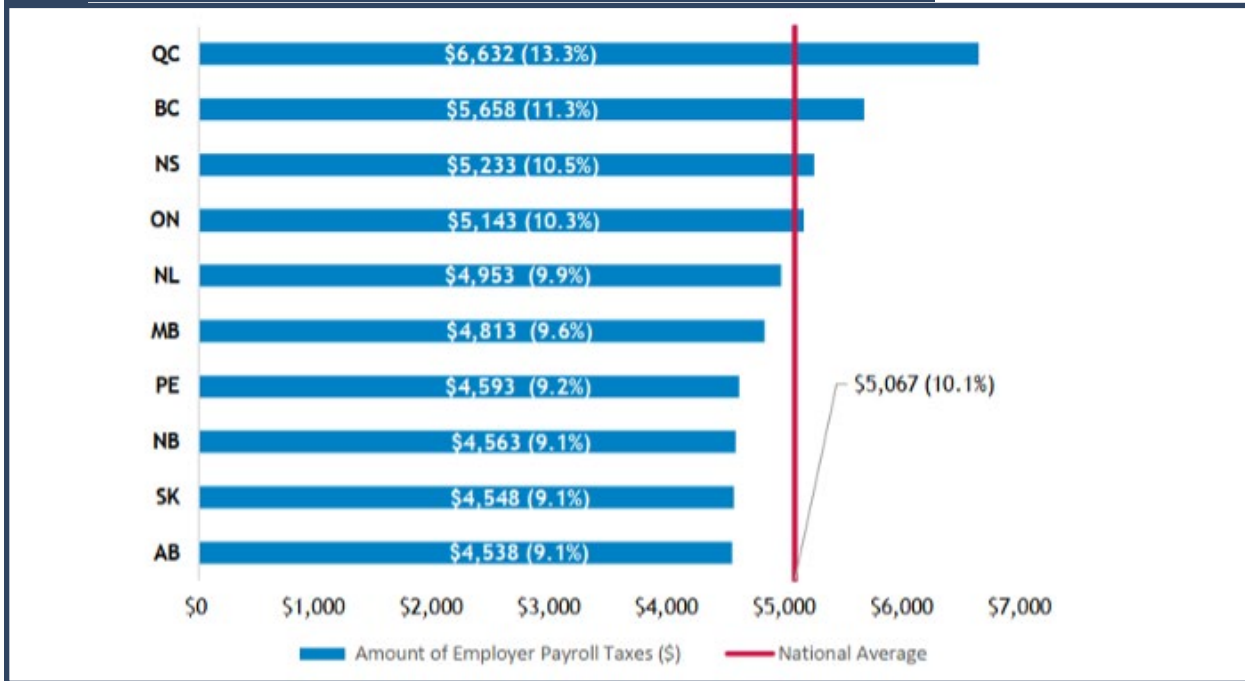
Source: CFIB, The weight of payroll taxes, 2023

### Effective payroll tax rate percentage change, 2029 vs 2023

Province	2019	2023	2019 vs. 2023 difference	2019 vs. 2023 % change
AB	8.1%	9.1%	1.0%	12.3% ↑
SK	8.2%	9.1%	0.9%	11.0% ↑
NS	9.7%	10.5%	0.8%	8.2% ↑
BC	10.5%	11.3%	0.8%	7.6% ↑
PE	8.6%	9.2%	0.6%	7.0% ↑
CA	9.8%	10.1%	0.3%	3.1% ↑
NL	9.7%	9.9%	0.2%	2.1% ↑
QC	13.0%	13.3%	0.3%	2.3% ↑
ON	10.2%	10.3%	0.1%	1.0% ↑
MB	10.1%	9.6%	-0.5%	-5.0% ↓
NB	9.7%	9.1%	-0.6%	-6.2% ↓

Source: CFIB, The weight of payroll taxes, 2023

## Overall payroll taxes increase employer labour costs by 9.1% to 13.3% on top of a \$50,000 salary

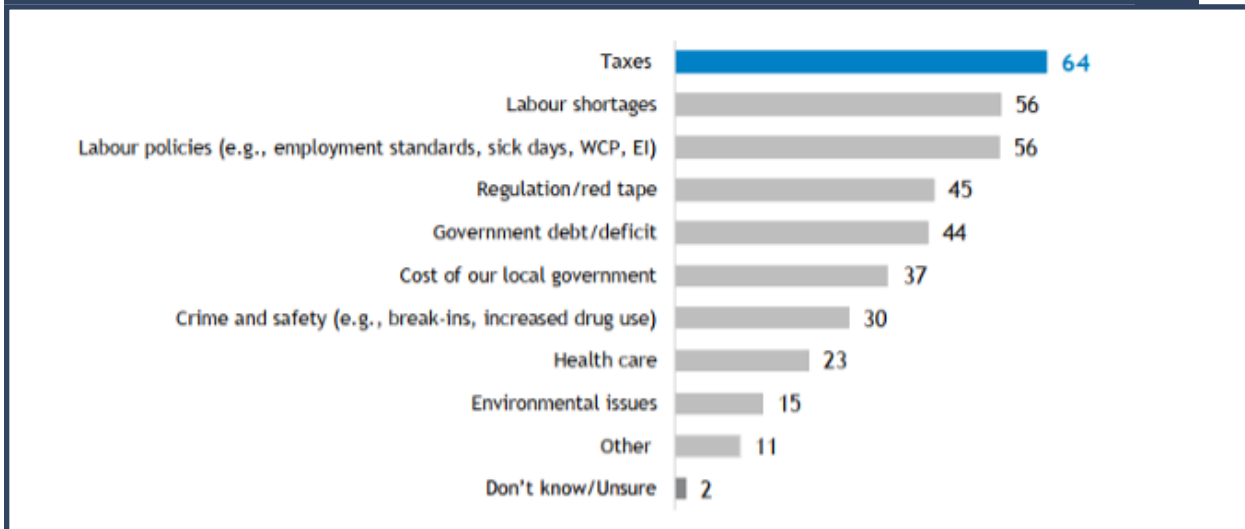


Source: CFIB, The weight of payroll taxes, 2023

Note: CFIB calculation, based on a small business with a payroll of \$2.5 million.

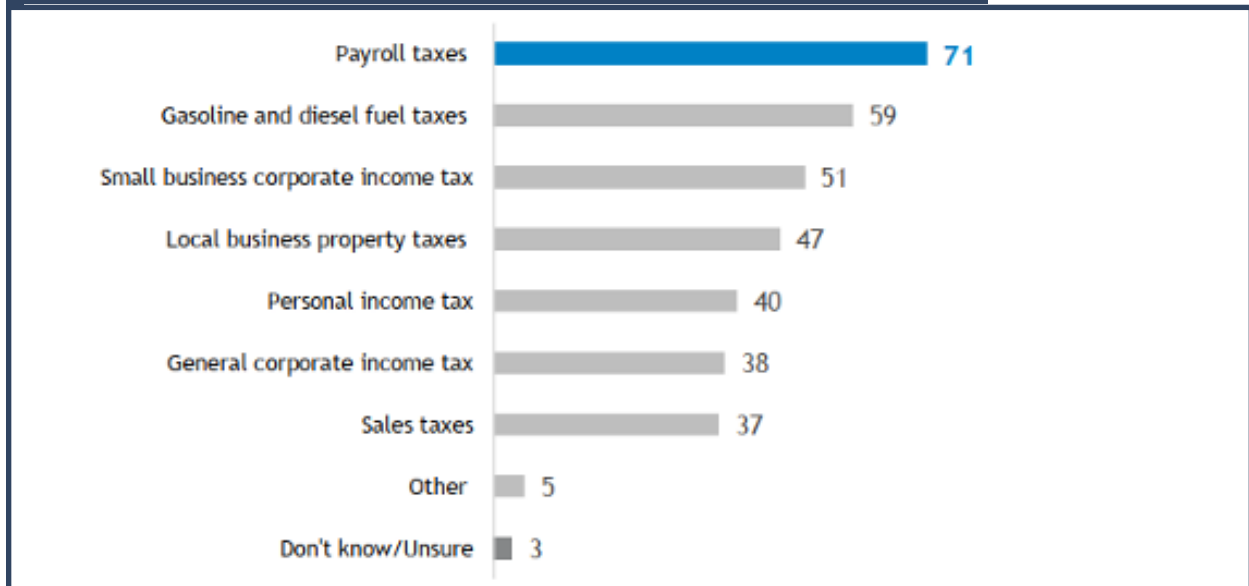
A 2023 survey completed by the CFIB confirms these concerns in identifying taxes as the largest and single most important issue.

## Issues of most serious concern to small businesses (% of respondents)



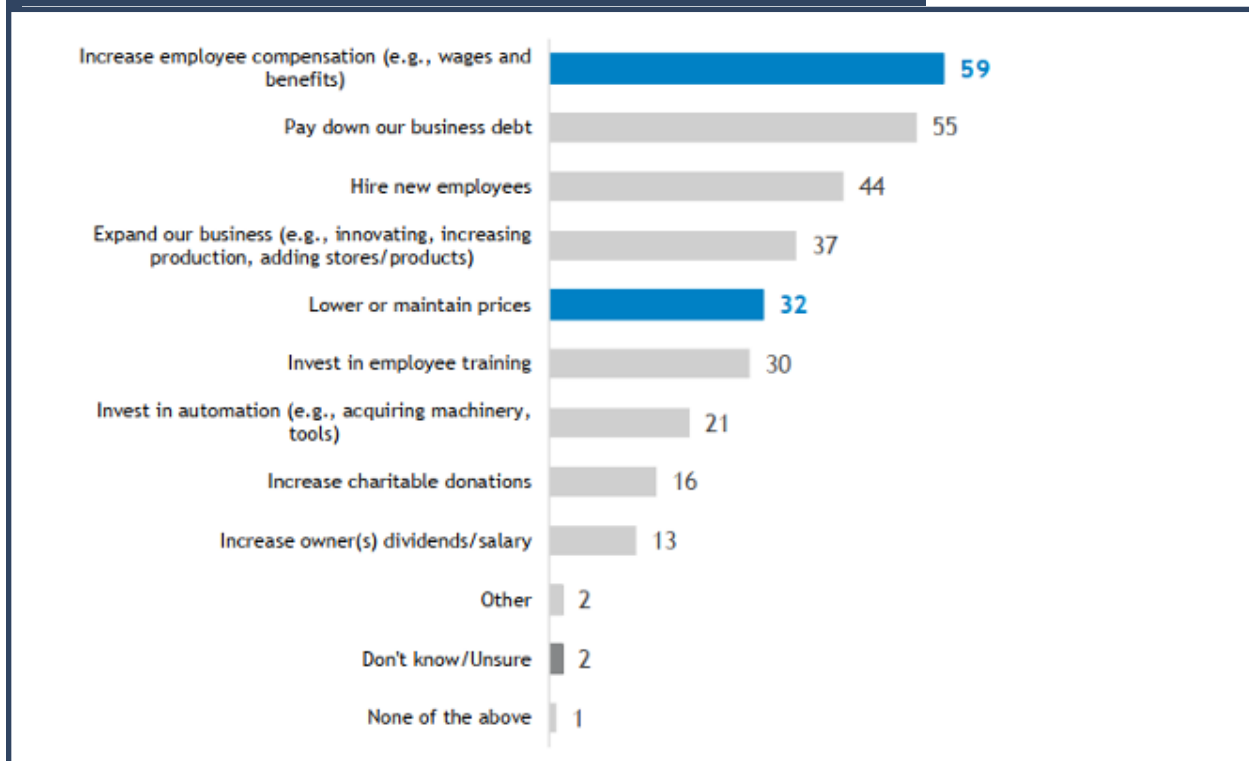
Source: CFIB, The weight of payroll taxes, 2023

## Businesses say payroll taxes are the most detrimental form of taxation to their operations (% of respondents)



Source: CFIB, The weight of payroll taxes, 2023

## Business owners intended use of generated savings if the tax burden were reduced (% of respondents)



Source: CFIB, The weight of payroll taxes, 2023

# VI. RESTAURANTS CANADA RECOMMENDATIONS

## RATE REDUCTION

*Restaurants Canada suggests that the EI Premium rate be reduced to 1.58%, based on the rationale provided by the federal government in 2021 and the downward trending 7-year break-even rate calculated by OSFI.*

## RATE FREEZE

In 2020, the government made the decision to freeze EI Premiums at 1.58%, even though OSFI's actuarial report found that the seven year break-even rate was at 1.93%. The decision was made to "freeze the EI insurance premium rates for two years, so Canadian workers and businesses will not face immediate increases to costs and payroll deductions due to the additional expenses resulting from the pandemic." (link: <https://www.canada.ca/en/employment-social-development/news/2020/08/government-of-canada-announces-plan-to-help-support-canadians-through-the-next-phase-of-the-recovery.html>)

Businesses are still feeling the impact of Covid, the aftershocks. It is reasonable to provide small businesses with more time to adjust to the post-pandemic economy.

Furthermore, OSFI's forecasted 7-year break-even rate has steadily declined (2021: 1.93, 2022: 1.88 in 2022; 1.74 in 2023; 1.66 in 2024). Following the average rate between forecasted rates since 2001, we arrived at a rounded rate of 1.58.

YEAR	7-YEAR FORECAST BREAK EVEN RATE	REDUCTION OF THE FORECAST
2021	1.93%	0%
2022	1.88%	0.05%
2023	1.74%	0.14%
2024	1.66%	0.08%
<b>Proposed</b>	<b>1.58%</b>	<b>0.08%</b>

Our proposal is prudent, and key to assist small businesses to maintain jobs and to leave more money in the pockets of employees.

In light of the evidence reviewed in this report, the author agrees with and supports the recommendation of Restaurants Canada concerning EI premium reduction, until a more comprehensive analysis can be undertaken by the House of Commons Finance Committee or Finance Canada, to determine a more fair and just system of taxation concerning CPP and EI premiums for small business.

One possibility could involve balancing premiums to a 50:50 share between employers and employees. A second possibility for research concerns the percentage of CPP and EI premiums borne by small business.



## VII. CONCLUSIONS

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A review of the Canadian ecosystem of small business and the subset of restaurants revealed the major importance of this sector, especially to young people, who are heavily dependent on restaurant employment to finance high school and post secondary education.

### **JOBS THAT LAUNCH YOUR PROFESSIONAL FUTURE**

But even more importantly, it is not well understood by policy makers of the importance of that first job – to provide a toehold to “launch” - and develop that first experience and tacit knowledge that can only develop through real world, on the ground employment.

### **1 OUT OF 2 RESTAURANTS IN NEED OF HELP**

A review of the insolvency and exit trend data revealed a sharp increase in restaurant failures. The survey of members revealed over half of restaurant companies in Canada are in deep financial difficulty.

The Restaurants Canada data showed the stunning increase in the payroll taxes of CPP and EI in the last four years.

The remarkable new empirical study of ESDC revealed the much greater burden of payroll taxes on small business writ large and more specifically on food and accommodation.

The extensive review of this trend data reveals that the Government of Canada must re-evaluate the unfairness of the disproportionate impact of payroll taxation of small business in Canada.

The rebalancing of payroll taxes will reduce the burden that disproportionately falls on small business and restaurants according to the ESDC study.

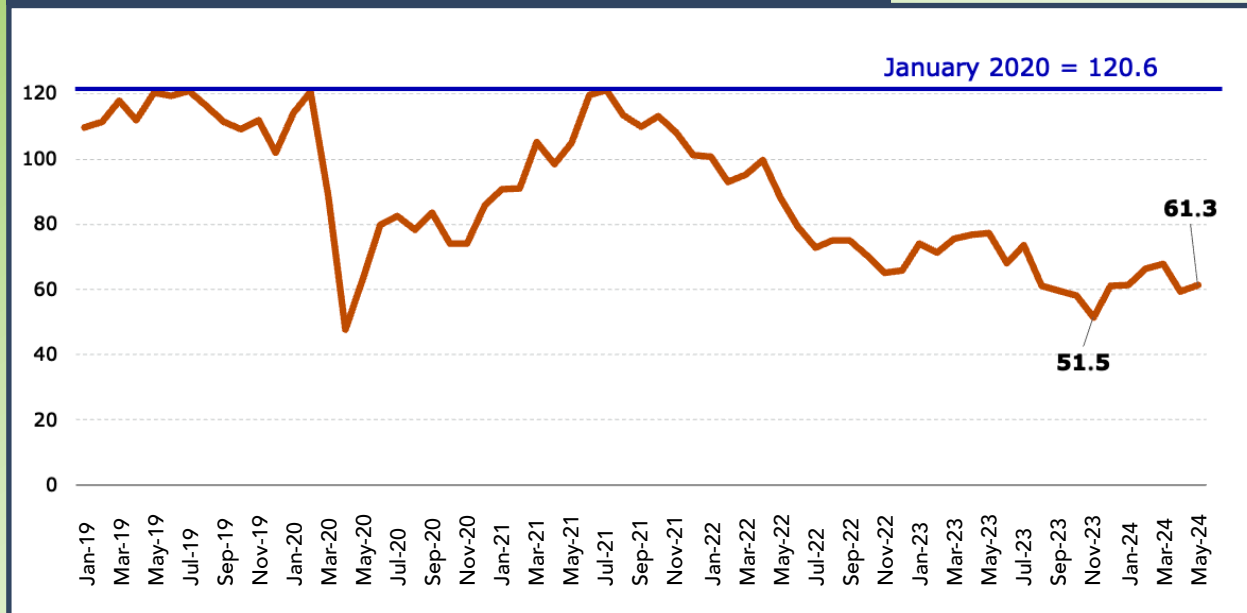
### **IT'S ALL ABOUT THE MARGINS**

Equally important, will be the impact of reduced premiums to an industry with very low profit margins and higher risks of insolvency and failure for the entrepreneurs. At the same time, reduced premiums will put more monies in the pockets of the overwhelmingly number of young people employed especially in accommodation and food service.

Canada is still recovering from the economic downturn caused by the pandemic and the high inflation that followed. Affordability in 2024 is a major concern for all Canadians. Not only do citizens have less disposable income, but consumers are much less optimistic about their future finances and job prospects. Conference Board of Canada's Consumer Confidence Index report shows a significant decline in confidence, from 120.6 in January 2020 to 61.3 in May 2024.

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## Consumer Confidence Index - Canada (2014=100)



Source: Conference Board of Canada

Lowering EI premiums increases disposable income for both employers and employees. For consumers, it means more money remains in their pockets which helps boost consumer confidence. For those living from paycheck to paycheck, this reduction and increase in disposable income will help individuals cope with daily living expenses.

For businesses, lowering EI premiums will reduce operating costs, enabling small, business to invest in growth, maintain their employees and even hire more staff, and enhance their resilience against future economic shocks.

In summary, the timing is favorable for reducing Employment Insurance premiums for small business and to provide much needed liquidity support for the community that accounts for approximately 50% of all private sector jobs. This policy move will provide a multifaceted boost to the Canadian economy, benefiting businesses as well as workers.





**LIFT  
THE  
STRAIN**

