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Canada needs an investment strategy for small business

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Someone once said that running a small business means learning 10 jobs you never wanted just to do the one you really love. That sums it up pretty well.

The month Carolyn and I were married, I left my role as a partner in a local accounting firm to start my own business. Carolyn quit her job to join me. She did the invoicing – something that she wasn’t born to do. I had to explain that the dots next to the cents on the invoice should all line up. But that business evolved into another, then another, and was the precursor to my business today. We employ 21 amazing people – and growing. I like to think we’re doing our part to help the economy.

While the federal government is working to attract investment in major projects, it also needs to recognize the significance of Canada’s small businesses and develop a targeted strategy with incentives to benefit them.

The importance

First, a definition: Innovation, Science and Economic Development Canada defines a small business as having between one and 99 paid employees. The truth is that small businesses aren’t just a segment of our economy – they’re the backbone. Of the roughly 1.1 million employer businesses in Canada at the end of 2024, 98.2 per cent were small.

They’re also where Canadians work. Small businesses employed 5.8 million people in this country in 2024, or 46.6 per cent of the private-sector work force. If you add medium-sized businesses (100 to 499 employees), the figure climbs to 63.6 per cent.

Then there’s economic output. Small businesses generated 33.2 per cent of private-sector GDP in 2022, and small and medium-sized enterprises together produced nearly half.

The incentives

At the Canada Investment Summit last week, Prime Minister Mark Carney unveiled the Productivity Mega Deduction, which will allow businesses to immediately write off the full cost of about 65 per cent of capital assets, up from roughly 15 per cent.

It's a good idea. But a deduction is worth less to a small corporation paying between 9-per-cent and 12-per-cent tax (the small-business rate, which varies by province or territory) than to a large one paying much more.

We should also recognize that small enterprises that are in services industries, not capital-intensive ones, don't benefit much from the PMD. Between 2017 and 2021, an average of 18,480 small businesses were created annually in the goods-producing sector, compared with 62,550 in the services-producing sector. And nothing announced to date helps a small entrepreneur raise equity or gives an investor a reason to back one.

The goal shouldn't solely be to support large corporations undertaking major projects including pipelines, mines and airports – as good as those are. Some companies may enjoy spinoff benefits from these projects, but most small businesses won't even benefit indirectly. Small enterprises could benefit from tax measures such as these:

Defer tax on reinvestment. In the last election, the Conservatives proposed allowing taxpayers to defer capital-gains tax when sale proceeds are reinvested in Canada, with tax owing only when they cash out for good or move the money abroad. A version targeted at shares of small Canadian-controlled private corporations would unlock gains sitting in old investments and steer them to growing businesses.

Reward the risk. Offer a tax credit, say 30 per cent, to arm's-length investors who buy newly issued shares of small Canadian companies and hold them for five years. Britain has done this for decades through its Enterprise Investment Scheme.

Compete with the U.S. Americans can now exclude up to US$15-million in capital gains on qualifying small-business stock. Our lifetime capital-gains exemption is $1.275-million. That gap is an invitation to relocate. Raise the exemption meaningfully for shares of businesses headquartered here.

Update the small-business limit. The first $500,000 of active business income for a Canadian-controlled private corporation is eligible for the small-business rate (it's that 9 per cent to 12 per cent I talked about earlier). But this threshold hasn't changed since 2009. Raise it, and index it to inflation, for companies whose head office remains in Canada.

Keep the business Canadian at sale time. Many owners are nearing retirement, and a foreign buyer can often pay more. Offer an enhanced capital-gains exemption to owners who sell to Canadian buyers, including their own employees, so that keeping the company here doesn't cost the founder. A sale is often the moment a head office leaves the country – and our tax system doesn't help.

Offer a tax holiday. Canada could offer a time-limited tax holiday, perhaps five years of reduced tax, to companies that move their head office and operations here, along with a similar incentive for Canadian entrepreneurs who come home. Israel gives new immigrants, and citizens returning after 10 years abroad, a 10-year exemption on foreign-source income, and those arriving in 2026 will pay no tax on Israeli employment income for two years.

Big projects matter. But Canada's prosperity will be built one small business at a time.

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