14. Empowering Canadian SMEs: Streamline Regulations & Invest in Workforce Innovation

Description

Small- and medium-sized enterprises (SMEs) are the backbone of Canada's economy, representing over 98% of all businesses and employing nearly two-thirds of the private labour force.[78] Despite their central role in job creation and innovation, SMEs face systemic barriers — chief among them: excessive federal regulatory burdens and a lack of accessible workforce development support. These constraints threaten Canada's long-term economic competitiveness, particularly in high-growth sectors such as digital technology, clean energy, and advanced manufacturing.

To ensure Canada's SMEs remain agile and globally competitive, the federal government must commit to modernizing the regulatory environment and investing directly in workforce upskilling.

Background

Despite their critical role in Canada's economy, SMEs encounter outsized administrative and financial burdens when dealing with federal regulations. Between 2006 and 2021, the number of federal regulatory requirements increased by 37%, growing from 234,200 to more than 320,900.[79] This surge in red tape has had real economic consequences. Research links this regulatory accumulation to a 1.7% decline in GDP growth and a 1.3% drop in employment growth during that period.[80] In 2024, Canadian businesses spent an estimated 768 million hours complying with regulations — the equivalent of 394,000 full-time jobs dedicated entirely to paperwork.[81] The smallest firms are hit hardest: those with fewer than five employees paid an average of $10,208 per employee in compliance costs — more than five times what large firms paid per employee.[82]

The solution is not deregulation, but modernization. SMEs have made it clear that digitizing compliance — such as enabling HST/GST remittances or Records of Employment through commonly used accounting and payroll software — would save significant time and reduce frustration.[83] A centralized, fully digital "one-stop" portal could offer a seamless interface for licensing, tax services, compliance support, training programs, and funding opportunities. To ensure fairness and usability, the system should be bilingual, mobile-accessible, and interoperable with existing business tools. Further, the creation of a dedicated Federal Innovation and Small Business Ombudsperson would give SMEs a resource to navigate federal systems, appeal unreasonable decisions, and advocate for practical solutions within government.

In addition to regulatory challenges, SMEs also face structural barriers to workforce development. Canada is currently grappling with a shortage of skilled labour, particularly in high-growth sectors such as

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78 Innovation, Science and Economic Development Canada, "Key Small Business Statistics 2024," Government of Canada, last modified April 1, 2025, https://ised-isde.canada.ca/site/sme-research-statistics/en/key-small-business-statistics/key-small-business-statistics-2024.
79 Wulong Gu, "Regulatory Accumulation, Business Dynamism and Economic Growth in Canada," Statistics Canada, February 10, 2025, https://doi.org/10.25318/11f0019m2025002-eng.
80 Ibid.
81 Laure-Anna Bomal and Marvin Cruz, "Canada's Red Tape Report: The cost of regulation to small business," Red Tape Research, 2025, https://www.cfib-fcei.ca/hubfs/research/reports/2025/Canadas-Red-Tape-Report-2025.pdf.
82 Ibid.
83 Ibid.

digital technology, clean tech, AI and advanced manufacturing.[84] In 2022, 62 percent of manufacturers reported turning down or losing contracts due to a lack of qualified workers, resulting in an estimated $7.2 billion in lost sales.[85] By 2025, the Information and Communications Technology Council projects that Canada will need 250,000 additional workers to meet labour demand in the digital economy alone.[86]

Unfortunately, SMEs lack the financial and logistical resources to invest meaningfully in employee training. While larger firms often have internal HR departments and dedicated training budgets, most small businesses cannot afford the upfront costs or lost productivity. In contrast, other countries have introduced innovative approaches to support SME-led training. Singapore's SkillsFuture Enterprise Credit provides eligible SMEs with $10,000 SGD to cover up to 90% of training and transformation expenses.[87] Subsidies for course fees and payroll replacement make it easier for small firms to train employees without disrupting operations. Similar models in Germany and the United Kingdom have shown that co-funded training programs can strengthen SME competitiveness and reduce labour shortages.[88]

Canada must take a similarly bold approach. A national upskilling tax credit — refundable and tailored to SME realities — could unlock essential training in high-demand fields while promoting inclusive participation. Bonus credits for training programs that support Indigenous peoples, newcomers, women in STEM, and other underrepresented groups would ensure that workforce growth is equitable as well as effective. Combining financial support with simplified access through a centralized government portal would maximize the impact of public investment.

Canada's economic future depends on the vitality and adaptability of its SMEs. Regulatory modernization and a national commitment to workforce development are no longer optional — they are essential pillars of a resilient and competitive economy. The Government of Canada must take decisive action to level the playing field for small businesses and equip them to succeed in the economy of tomorrow.

Recommendations

That the Government of Canada:

1. Commit to working directly with SMEs to identify and remove prohibitive administrative burdens related to HST, GST remittances, ROE filing and CPP/EI Reporting; ; mandating full digitization of licensing and permitting within 24 months; and creating a Federal Innovation & Small Business Ombudsperson.
2. Introduce a National Upskilling Tax Credit offering a 50% refundable credit for accredited training in digital skills, clean tech, and advanced manufacturing, with bonus credits for training underrepresented groups.
3. Develop a centralized digital "One-Stop Portal" for SMEs to streamline access to regulatory services, tax credits, training resources, and compliance support—integrated with commonly used business platforms.

[84] Maryna Ivus and Akshay Kotak, "Onwards and Upwards: Digital Talent Outlook 2025," Information and Communications Technology Council (ICTC), 2025, https://staging.ictc-ctic.ca/ictc-admin/resources/admin/digital-talent-outlook-for-2025.pdf.
[85] Canadian Manufacturers & Exporters, "Canada Leaving Almost $13 Billion on the Table Due to Labour and Skills Shortages in Manufacturing," October 25, 2022, https://cme-mec.ca/blog/canada-leaving-almost-13-billion-on-the-table-due-to-labour-and-skills-shortages-in-manufacturing/.
[86] Ivus and Kotak, "Ontwards and Upwards."
[87] GoBusiness Singapore, "SkillsFuture Enterprise Credit (SFEC)," https://www.skillsfuture.gov.sg/sfec.
[88] OECD, "Incentives for SMEs to Invest in Skills: Lessons from European Good Practices," Getting Skills Right, OECD Publishing, 2021, https://doi.org/10.1787/1eb16dc7-en.