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Secrétariat

Secrétariat du Conseil du Trésor
du Canada

Canada

Reducing Paper Burden on Small Business - A Progress Report for 1995 by the President of the Treasury Board

Published: Apr 11, 1996

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Published by Treasury Board of Canada, Secretariat
90 Elgin, Ottawa, Ontario, K1A 0R5, Canada

Catalogue Number: BT1-43E-PDF
ISSN: 1486-9950

This document is available on the Government of Canada website, Canada.ca

This document is available in alternative formats upon request.

Aussi offert en français sous le titre : Réduire la paperasserie pour les PME - rapport d'étape du président
du Conseil du Trésor pour l'année 1995

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Foreword

How often have we heard that small businesses are the engines of growth in our economy? It is a well-earned reputation. Over the past decade, small businesses have accounted for over 80 per cent of the new jobs in Canada. Almost two-thirds of Canadians working in the private sector today, including the self-employed, work in small businesses. If Canada is to remain competitive in the global economy, we must create an environment where small businesses can thrive.

For too long, however, small businesses have been overwhelmed by requests for information from all levels of government. They have been forced to spend too much time filling in forms and shuffling paper - time better spent growing their businesses and creating employment.

While much of the information collected by governments is necessary to carry out their functions (for example, collecting taxes and minimizing overpayment of entitlements), and some of the information is useful to small businesses (for example, providing important information on economic performance, identifying emerging opportunities or furnishing information on new technologies) the cumulative information burden was simply too great.

In response to this problem, our government introduced the Paper Burden Reduction Initiative in December 1994. Now, one year later, I am pleased to report on its progress.

This is the first annual report as we move toward our goal of significantly reducing the paper burden on small businesses by 1998. It provides an overview of the initiative, reviews success stories to date and outlines where we are going from here.

While much work remains to be done, I am both proud of the achievements so far and excited by the prospects for further progress. I welcome your thoughts on how we're doing and how we might do even better.

Art Eggleton
President
Treasury Board of Canada

Acknowledgements

I would like to acknowledge the contributions of members of the Joint Forum on Paper Burden Reduction and the Interdepartmental Working Group, who continue to demonstrate dedication and commitment:

Joint Forum Members:

Brien Gray, Canadian Federation of Independent Business and Bernie Gorman, Treasury Board Secretariat (co-chairs).

From the private sector:

Ian Mise, The Canadian Payroll Association; Eric Owen, Canadian Manufacturers Association; Claire Boulanger, Service de Restaurant PHM Inc.; Jim Webster, Merak Projects Ltd.; John Morrison, Quality Cameras & Computer Limited/Taisbean Multimedia Productions; Mel Fruitman, Fruitman Consulting Group; Nancy Adamo, Hockley Valley Resort and Conference Centre; Irene D'Entremont, I.M.E. Electronics Inc.; Barbara Mowat, Impact Communications Ltd.; and Jim Harper, KPMG.

From the federal government:

K. M. Burpee, Revenue Canada; Jacob Ryten, Statistics Canada; Jim Stobbe, Public Works and Government Services Canada; Alan Nymark and Peter Sagar, Industry Canada; J.J. Verbruggen, Human Resources Development Canada; Mike Francino, Finance Canada and, Jim Martin, Richard Neville, David Brown, Pat Griffith and Cliff Fillion, Treasury Board Secretariat.

Interdepartmental Working Group Members:

Pat Griffith (chair) and Cliff Fillion (project manager), Treasury Board Secretariat.

Tony Prosia, Denis Meunier, Monica Jones-Kisil, Teresa Errett, Garth Teskey and Pam Lafrance, Revenue Canada; Michael Issa, Statistics Canada; Renee Harden, Industry Canada; Andrea Martin, Human Resources Development Canada; Guy Beaudry, Public Works and Government Services Canada; Florence Schwartz, Finance Canada; Gilles VÃ©zina, Louise Kebe, Janet Kiff-Macaluso, Alice Sturgeon, Diane Boland, Rachel Roy, Beate Schiffer-Graham, Mary Aitken and Daniel Lavoie, Treasury Board Secretariat.

Background

Small businesses consistently demonstrate themselves to be the most innovative, energetic and successful creators of employment and opportunity. However, too much paperwork and too many regulations can reduce their competitiveness. For too long, government departments have failed to effectively coordinate their requests for information, producing a cumulative burden which makes it difficult to simply run a business.

In the 1994 federal Budget, the government committed to creating a task force to help Canadian businesses become more competitive. Thus, the Small Business Working Committee was formed of representatives from across Canada.

In November 1994, the Committee released *Breaking Through Barriers - Forging Our Future*. This report identified several areas in which government could relieve the burden of paper and regulations on small businesses. That same month, the Honourable John Manley released *Building a More Innovative Economy*, which also discussed this issue.

I agreed to work closely with my colleagues to address the concerns identified in the Committee's report and announced, in December 1994, the creation of a Joint Forum on Paper Burden Reduction. This is a joint public-private forum comprised of assistant deputy ministers of key departments, private sector senior executives and small business owners and it is designed to coordinate our efforts in reducing the information burden. The Joint Forum is co-chaired by Brien Gray, Senior Vice-President of the Canadian Federation of Independent Business (CFIB) and by Bernie Gorman, Assistant Secretary of the Information Management Systems and Technology Sector of the Treasury Board Secretariat.

The Joint Forum is supported by a working group of senior departmental representatives from Revenue Canada, Industry Canada, Statistics Canada, Human Resources Development Canada, Public Works and Government Services Canada, Finance Canada and Treasury Board Secretariat.

The Joint Forum began by looking at recommendations from the *Breaking Through Barriers - Forging our Future* report, together with a 1994 survey from the Canadian Federation of Independent Business which identified approximately 100 specific "irritants" small businesses consider to be the major causes of paper burden. To date, about 75 per cent of those irritants have been investigated and of these, fully one-third will be remedied this fiscal year. While it will not be possible to eliminate all irritants, solutions to another third will be found over the next two years.

Paper burden (or "information burden") refers to the time and cost involved in complying with government requirements and in supplying information to government. It includes the collection, processing and reporting of information, as well as the cost of retaining records.

To resolve a major irritant of the Record of Employment (ROE) reporting requirements the Joint Forum recommended simplifying and streamlining the ROE system, which collects the wage and employment history of employees to determine eligibility for Unemployment Insurance (UI) benefits. The private sector members of the Joint Forum further recommended that ROE simplification result in the same or lower payroll taxes. I am happy to report that my colleague, the Minister of Human Resources Development Canada, tabled on December 1, 1995 a Bill that proposes changes to Unemployment Insurance. One of the effects of this Bill's passing would be the implementation of a number of the recommended changes to the Record of Employment system and significant savings to business with regard to UI administrative costs.

[Text version: Composition of the burden for businesses surveyed by common information requirement](#)

The Joint Forum has also called for the simplification of government procurement and payment procedures. In this regard, the Treasury Board has recently approved changes to the payment on due date policy to:

- eliminate the 15-day interest-free grace period in place for government payments so as to encourage faster payment of invoices to small businesses; and
- increase the interest paid on late government payments to three per cent above the Bank of Canada rate.

These measures will apply to all new or revised contracts beginning with the 1996-97 contract year.

A number of other steps towards achieving that goal are under consideration, including:

- increasing the use of credit cards for government purchases;
- easing the security requirements for contracts under \$50,000; and
- making publicly available the monthly reports on late-paying departments.
- **Canada has about two million small businesses.**
- **Ninety-nine per cent of all businesses have fewer than 100 employees.**
- **Almost all net job creation comes from small businesses.**
- **Small businesses account for about 37 per cent of our economic output.**
- **In a recent survey of 710 businesses, firms with fewer than 50 employees reported spending, on average, between \$10,000 and \$15,500 each year, to meet major federal government information requirements.**

Finally, the Joint Forum has called for continuing efforts towards harmonizing provincial sales taxes and the GST.

[Text version: Annual federal information costs for businesses surveyed, by size of business](#)

Progress

The government has moved quickly to address many of the major sources of frustration and complaint. We have adopted an across-the-government approach to address problems of duplication and to bring a more comprehensive solution to these problems. By working together, departments have been able to realize several significant achievements.

For example, by adding two simple questions dealing with employment and payroll to Revenue Canada's remittance forms, Statistics Canada has reduced the number of contacts with small businesses (mail or telephone surveys) by 330,000 per year - a reduction of over 82 per cent in the number of businesses contacted. These two questions replaced a complex questionnaire on employment,

payroll and hours of work.

In January of 1996, a second phase, involving more frequent remitters (mostly medium-sized businesses) will result in a further reduction of 180,000 contacts per year. A third phase, planned for 1997, will involve large employers and is expected to reduce contacts by a further 180,000 per year.

Other Statistics Canada initiatives include shortening its questionnaires, substituting administrative records for statistical questionnaires, using clearer language and avoiding duplicate requests by cooperating with other government departments. These and other efforts have allowed Statistics Canada to reduce the burden of information on small businesses by eight per cent in the last year alone. As of this year, questionnaires on manufacturing have been customized to suit particular businesses - no more massive, all encompassing questionnaires which take hours to plough through and often don't even apply to your business.

The Farm Net Income Stabilization Account (NISA) is a voluntary program initiated by Agriculture Canada. It is designed to give farmers better long-term income stability. Currently, both Agriculture Canada and Revenue Canada collect farm-related income and expense information from farmers. During 1996, changes will be made to harmonize the NISA application with the income tax process so that the information is collected only once. This initiative will save the government and the farming community time and money.

One of the frustrations for small businesses was the difficulty in learning about, or gaining access to, government procurement opportunities. To reduce paperwork and create easier access to this type of information, Public Works and Government Services Canada established the Open Bidding Service. Through this on-line service, subscribers can gain access to a wealth of information on government procurement opportunities. Over 75 per cent of the subscribers are small businesses. The Standing Committee on Government Operations is presently studying ways to improve this service.

Public Works and Government Services Canada has also promoted the use of direct deposit. Businesses can choose this option for their GST refund or rebates, as well as for corporate income tax refunds. Direct deposit helps with cash flow, a common problem for small businesses.

Revenue Canada has undertaken a wide range of initiatives in an effort to reduce the information burden and lower costs for small businesses. Among them:

- The Business Number was implemented in 1995, in an effort to streamline and simplify business dealings with the department. The single number saves time for business by eliminating the need for multiple registration or account numbers when dealing with Revenue Canada. The department is currently engaged in discussions with other government departments and with the Province of Ontario to expand the use of the Business Number.
- The Business Number also made it possible for Revenue Canada to introduce the Business Window in its offices in 1995. This is a one-stop service for business clients, which helps reduce the time they must spend dealing with the department.
- Tables on Diskette is an electronic version of the payroll deduction tables used by employers to determine employee deductions of income tax, Canada Pension Plan contributions, and Unemployment Insurance premiums. This diskette helps businesses cut the time spent calculating employee payroll deductions by at least one-third. Based on consultations with the business community, additional functionality will be added in 1996.
- Electronic filing and remitting options for the GST return have been introduced. This complements the electronic payment of payroll source deductions and corporate income tax installments.
- Revenue Canada continues to offer individuals the option of electronically filing their tax return, which will benefit the self-employed business person. This year, almost four million people chose this option, and received their refund in less than two weeks. Beginning in 1996, individuals will be able to remit their personal income tax amounts electronically, through participating financial institutions.

Changes affecting importers include:

- Regulations increasing the low value shipment threshold from \$1,200 to \$1,600 in the customs commercial stream have been introduced, thus allowing simpler clearance procedures for a larger volume of commercial goods.
- An increase in the allowable limit for uncertified cheques, from \$500 to \$2,500, if certain conditions are met.
- Regulations allowing the use of credit cards for payments up to \$500 in the commercial stream will be introduced by the end of February 1996. Revenue Canada is also examining the feasibility of other payment options to provide more flexibility for small business importers.
- Automated Customs Information Service (ACIS) makes customs information more easily accessible to business and has reduced the need for a paper copy of the information. The service assists small business in getting it right the first time, thereby reducing the number of corrections to import documents. It provides clients with recorded information on a variety of customs-related topics, including travellers' and personal exemptions, commercial importations, postal importations, the North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT). During office hours, the service can transfer callers to a customs officer should more specific information be required, or to the nearest customs postal refund centre for account enquiries on postal importations. Callers can also receive a fax copy of the information.

In addition to these improvements, Revenue Canada is working with the Joint Forum to further alleviate the information burden:

- Members of the Joint Forum are providing practical advice on Revenue Canada's redesign of the corporate income tax system. The new system will replace the current 20-year-old one with a modern, efficient process that will provide faster, more accurate processing of returns at a lower cost. This will improve the service to business clients and will eliminate paper returns for those filing through Electronic Data Interchange.
- Small business has indicated that completing T4 slips is not an easy process and an internal working group at Revenue Canada is searching for ways to simplify this form. Some of the private sector members of the Joint Forum are also participating in this working group. Results are expected by February 1996.
- Small business has also indicated that remitting payroll payments monthly is too onerous. A working group within Revenue

Canada is looking at reducing the frequency of these remittances for some small businesses. This review will involve the participation of Joint Forum members, and other affected departments.

The Forum is working extremely well, and I would like to thank the private sector representatives for their invaluable contribution in seeking effective solutions to some of the concerns raised by small businesses. With the participation of small businesses and other key departmental partners, we have succeeded in turning our agenda into action.

Measuring the Burden: How Much Does It Cost?

One method of monitoring how effective our efforts will be in the day-to-day lives of small businesses is to measure the time spent on the various requests for information and the perceived costs to different types and sizes of small businesses. By measuring these costs now, we will have a point of reference by which to judge the initiative's impact on the efficiency of small businesses. We also wanted to see if what we did would make a noticeable difference to the small business owner. Information Management and Economics, Inc. (IME) was hired to conduct a study of the burden.

In preparing its report, IME interviewed a panel of 710 businesses, from across Canada in a variety of industry sectors, to ascertain their compliance costs for meeting federal requirements in areas such as payroll remittances, GST, income tax, Records of Employment, Revenue Canada audits, Statistics Canada surveys and preparing tenders and proposals. The study also looked at miscellaneous costs such as customs, federal inspections and licensing. The time spent on these activities was multiplied by the appropriate hourly wage rate to determine the cost to business. Of the 710 companies surveyed, 600 had fewer than 50 employees while the rest had between 50 and 99 employees. The study did not measure the added costs of provincial and municipal burden.

While costs varied widely among the businesses surveyed, several patterns emerged. Companies with fewer than five employees, for example, reported average annual costs of about \$10,000. Half the firms in this category indicated spending more than \$3,000 per year, while half reported spending less than \$3,000 per year in meeting information requirements. Companies in the survey with 5 to 19 employees spent an average of \$13,000 yearly. Companies employing between 20 and 49 employees spend about \$15,000 each year dealing with government information requests. On the other hand, companies with 50 to 99 employees averaged \$27,600 annually.

There is also a difference in the nature of federal information costs depending on the size of the firm. The major parts of the burden for firms in the panel with fewer than 20 employees were remittances of income tax and preparation of their annual income tax return. For those firms with fewer than 5 employees, fully 45 per cent of their total federal information costs is related to income tax requirements. For firms with 5 to 19 employees this requirement accounted for 39 per cent of their federal information costs. Payroll and GST were their next largest expenses.

A different picture emerges for companies of more than 20 employees. There, the major federal information costs related to the Record of Employment - over 40 per cent of their total federal information burden. Payroll and income tax costs were the next largest expenses for these firms.

A recent survey of 710 businesses indicated that those with fewer than 20 employees spend proportionately more on meeting federal information requirements. Businesses in the survey with fewer than five employees spend, on average, just over 8 per cent of revenue on federal information requirements, while those with 5 to 19 employees spend about 3.8 per cent of their revenue. The proportion further declines as the size of the company increases.

The study also found a wide variation in costs between companies in different sectors. For example, firms in mining, agriculture, fishing and transportation reported higher average costs. Frequency of reporting (for example, payroll) also increased the cost of doing business as did the use of manual, as opposed to automated, systems for tax and payroll information. Clearly, these costs constitute a major impediment to the productivity and bottom line results of small businesses. Significantly, a high proportion of small firms continue to use manual systems. As a result, the need for simplification is vital.

[Text version: Annual federal information costs for businesses surveyed as a percentage of their annual revenue](#)

Next Steps

While a good start has been made on reducing the paper burden, much remains to be done. We are particularly sensitive to the fact that new laws are being passed every day, laws which can create their own demands on small businesses. It is of little use to stamp out fires in one area, only to light others somewhere else. We have, therefore, initiated a number of steps to ensure that future legislation does not impose any undue burden.

Permanent mechanisms, consisting of policy guidelines and a communications program, will ensure that any information burden arising from new or revised legislation, regulation, policy or procedure is challenged *before* it is placed upon business. These permanent mechanisms will be invaluable in the continuing battle to reduce the amount of time and money business spends on government information requirements.

In November 1995, Treasury Board approved a new Regulatory Policy which applies to all federal regulatory authorities. It states that no unnecessary information burden should be imposed by regulations and that the special circumstances of small business should be kept in mind. The policy also encourages regulators to allow companies to meet regulatory objectives by equivalent means.

As a result of proposed changes to the government's information management policy, departments will be asked to consider a number of questions before imposing any new information requirements. Questions like -

- "Do we really need this information?"
- "Can we get it from any other source?"
- "What is the cost to businesses of gathering, retaining and reporting this information?"
- "Is this cost justified?"

By imposing this kind of challenge, only essential information requirements will be introduced. We are also preparing an awareness program so that everyone in government is sensitized to the impact of information requirements on small businesses.

While the permanent mechanisms will eventually apply to every department, I am pleased to note that some departments such as Statistics Canada have already put measures in place to keep information burden in check.

I will be asking my Cabinet colleagues to establish reduction targets for each of their departments, based on the results of the study and other information. We will be periodically assessing progress in achieving those targets.

One of the things that has become clear as we have proceeded with this Paper Burden Reduction Initiative, is that there are many areas where we have not communicated very well with small businesses. In particular, we have not done a good enough job of communicating service improvements and advertising the resources which might be available to them.

One of our government's major initiatives has been to use technology in order to make it easier for Canadians to deal with their government. Whether it is filing income taxes electronically or one-stop Business Service Centres, our goal is to allow Canadians, wherever possible, to deal on-line with government instead of waiting in line for government. In order to understand if this is appropriate for small business, we must first understand their technological capability. We will be conducting this assessment over the coming year.

From the outset, the Paper Burden Reduction Initiative has been driven by the concerns of small businesses. We have listened to their concerns and tried to remove the specific hassles and headaches of the past. We recognize that we must listen more and that we must do more. Only then will these businesses be free to do what they do best: create jobs and produce economic growth.

We have made substantial progress to date, but we are under no illusion that the task is complete. We will continue to work with small businesses to find solutions to as many of the irritants as possible and maintain the strong momentum which has been created.