

# Employee Share Ownership Plans: Harnessing Alberta's Entrepreneurial Spirit

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## Issue

Alberta's small businesses are struggling to recover from both rising supply chain costs and increasing overhead costs including utilities, leasing, and wages. Compounding this problem for some businesses is their inability to pay back CEBA and other Covid-19 business assistance loans before interest began to accrue. There is a unique opportunity to have Albertans, and the many thousands of newcomers to the province, invest in their employers and stabilize businesses. However, unlike other provinces, no personal tax incentives exist in Alberta for employees looking to invest in their employers.

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## Background

The lingering effects of the Covid-19 crisis have unevenly impacted Alberta's small businesses. Statistics Canada's Impact of COVID-19 on Small Businesses in Canada, Third Quarter 2020 shows that small businesses were more likely to experience a decrease in revenue and have less liquidity, and were more likely to be unable to take on more debt and to be considering bankruptcy in the current economic environment.<sup>1</sup> And, while half of all Canadian businesses reported a revenue decrease, it was more likely for smaller businesses to report a revenue decrease of 40% or more.<sup>2</sup>

Despite an end to Covid restrictions, businesses face rising operating costs as inflation soars and lease rates increase. Inflation in Canada reached a high of 8.1 percent in June of 2022<sup>3</sup>, the highest in forty years, and the national inflation rate isn't expected to reach the Bank of Canada's target rate until sometime in 2025<sup>4</sup>. In particular, Edmonton and Calgary suffer from inflation rates that are the highest in Canada. In January 2024, the Consumer Price Index for these two cities sat at 3.4 percent, well above the national rate of just 2.8 percent<sup>5</sup>. This increase is due in large part to rising electricity prices, which jumped 119.9 percent in January 2024 over December 2023<sup>6</sup>. These operating costs are strongly impacting Alberta employers' bottom lines.

With declining revenues, and the CEBA loan now due, some small businesses are being forced to borrow. However, small businesses are less likely to have the ability to take on debt<sup>7</sup>. In fact,

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<sup>1</sup> Impact of COVID-19 on small businesses in Canada, third quarter 2020. Statistics Canada: <https://www150.statcan.gc.ca/n1/pub/45-28-0001/2020001/article/00088-eng.htm>

<sup>2</sup> Ibid.

<sup>3</sup> <https://www.theglobeandmail.com/topics/inflation/#:~:text=What%20is%20the%20inflation%20rate,highest%20in%20nearly%20four%20decades.>

<sup>4</sup> Impact of COVID-19 on small businesses in Canada, third quarter 2020. Statistics Canada: <https://www150.statcan.gc.ca/n1/pub/45-28-0001/2020001/article/00088-eng.htm>

<sup>5</sup> <https://www150.statcan.gc.ca/n1/daily-quotidien/240220/dq240220a-eng.htm>

<sup>6</sup> Ibid

<sup>7</sup> Impact of COVID-19 on small businesses in Canada, third quarter 2020. Statistics Canada: <https://www150.statcan.gc.ca/n1/pub/45-28-0001/2020001/article/00088-eng.htm>

close to half of businesses with 1 to 4 employees (47.2%), and around two-fifths of businesses with 5 to 19 employees (43.4%), do not have the ability to take on more debt<sup>1</sup>.

This decline in revenues combined with difficulties in borrowing inevitably leads to employment reduction. While small businesses are less likely to lay off staff, when layoffs are made, small businesses are more likely to layoff all of their staff<sup>2</sup>.

Of note, however, these businesses are also most likely to rehire all staff back<sup>3</sup>.

Yet, despite these layoffs, in large part due to government programs like the Canadian Emergency Response Benefit (CERB), Canadians' household savings were \$90 billion more than expected in the second quarter of 2020 and household savings are the highest in our country's history<sup>4</sup>.

Additionally, as newcomers come to the province, they bring with them the opportunity to invest in their employers. In the past 12 months, more than 180,000 people moved to Alberta<sup>5</sup>.

There exists now a unique opportunity to have household savings and newcomer capital invested in Alberta's businesses to help them overcome rising costs and loan repayments.

Employee Share Ownership Plans (ESOP) are an effective way of helping small businesses access the liquidity they need to survive while providing employees with short- and long-term investment benefits from their substantial savings.

According to the ESOP Association of Canada, ESOPs are also an excellent tool to help recruit and retain talent, improve productivity and employee engagement, assist with succession planning, and allow participating employees to build long term wealth while acting as a source of capital for the company<sup>6</sup>.

Only two provinces in Canada offer government programs that incentive employees to participate in share ownership plans, however. The province of British Columbia offers a 20 percent tax credit for employees making investments in their employers' businesses<sup>7</sup> and Manitoba offers employees a partially refundable 45 percent tax credit<sup>8</sup>.

By providing personal tax incentives to Albertan's looking to invest in their employers, the Government of Alberta can support its small businesses while unlocking Albertan's savings to speed up our economic recovery.

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<sup>1</sup> Ibid

<sup>2</sup> Ibid

<sup>3</sup> Ibid

<sup>4</sup> Household savings in Canada skyrocket during pandemic as Ottawa doles out billions in emergency benefits. National Post: <https://nationalpost.com/news/politics/household-savings-in-canada-skyrocket-during-pandemic-as-ottawa-doles-out-billions-in-emergency-benefits>

<sup>5</sup> <https://globalnews.ca/news/10305854/alberta-calgary-inflation-rates-jan-2024/>

<sup>6</sup> ESOP Association of Canada: [https://www.esopcanada.ca/content.aspx?page\\_id=22&club\\_id=925161&module\\_id=409825](https://www.esopcanada.ca/content.aspx?page_id=22&club_id=925161&module_id=409825)

<sup>7</sup> Government of British Columbia: <https://www2.gov.bc.ca/gov/content/employment-business/investment-capital/employee-share-ownership-program>

<sup>8</sup> Government of Manitoba: <https://www.gov.mb.ca/finance/tao/esop.html>

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**The Alberta Chambers of Commerce recommends the Government of Alberta:**

1. Offer a personal income tax incentive to employees participating in Employee Share Ownership Plans; and,
2. Give preferred tax treatment to the corporation offering an Employee Share Ownership Plan to help with the cost of administering the program.