

## 2.4 Allocate resources to focus support on high growth firms and those with high growth potential, by delaying taxation on corporate income growth to overcome Ontario's scale-up challenge

### HIGHLIGHTS:

- While Ontario currently offers a number of business growth programs, they are not necessarily focused on the factors that have been demonstrated to increase growth.
- The OCC is calling on the newly elected government to focus support on businesses with high growth potential, by delaying taxation, to help Ontario overcome the scale-up problem.

A firm can be described as “scaling up” if they are experiencing sustained periods of rapid growth. Research has indicated that businesses in Ontario struggle to scale up, limiting potential economic growth as high-growth firms are responsible for a large proportion of economic growth and job creation.<sup>1</sup>

The more high-growth firms that exist, the greater the likelihood that a number of those firms will break the SME barrier and reach a large size. Large firms tend to contribute a disproportionately greater amount to overall economic activity. In Canada, large companies account for less than one percent of all businesses, but produce nearly 46 percent of total Gross Domestic Product (GDP).<sup>2</sup>

To encourage more firms to scale up in Ontario—and to reap the economic benefits of this activity as a province—a concerted effort must be made to reassess how the government can allocate resources and align incentives to encourage scaling.

Although the Ontario government currently offers 127 programs to support business growth, they are not necessarily oriented towards those factors that influence growth. Presently, 53 percent of programs provide firms with resources to increase their general inputs (such as the Strategic Jobs and the Ontario Venture Capital Fund), while fewer initiatives support international trade or other specific factors that experts have identified as increasing firm size and productivity.<sup>3</sup>

The OCC recommends that government exempt firms' incremental income from corporate income tax in a given year. With this exemption, firms that are growing can reinvest their retained income into their business. Conditions to qualify for the exemption could be set to target higher-growth firms; for example, it could require a minimum rate of income growth over the previous year.

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1 Boutillier, Scott. *Breaking Barriers; Ontario's Scale up Challenge*. Ontario Chamber of Commerce, 2016. <http://www.occ.ca/wp-content/uploads/Breaking-Barriers-Ontarios-Scale-Up-Challenge.pdf>

2 Ibid.

3 Institute for Competitiveness & Prosperity (ICP). *A Place to Grow: Scaling up Ontario's Firms*. 2016. <https://www.competeprosper.ca/work/working-papers/a-place-to-grow-scaling-up-ontarios-firms>