October 31, 2025

To the Honourable Minister of Artificial Intelligence and Digital Innovation, Evan Solomon,

On behalf of CPA Ontario, we appreciate your leadership as you and your AI task force prepare to launch the federal government's new AI strategy. Canada's leadership in AI research is globally recognized. But sustaining and growing that position will require clear, timely and decisive action. The new AI strategy is not only pivotal in securing Canada's leadership in this regard, but also in driving Canada's future economic growth and prosperity in the face of global uncertainties and domestic challenges.

CPA Ontario is the province's regulatory body of over 105,000 Chartered Professional Accountants (CPAs), accounting for almost half of all CPAs in Canada. CPAs play a vital role in Canadian and global business and are at the heart of Canada's capital markets.

As experts in governance, data and risk management, CPAs have the skills and the ethical mindset to help implement the standards and develop the internal controls needed to strengthen trust in AI. Their deep expertise in tax can shape policy that will help attract the investment and talent the sector needs.

In support of your work, we are pleased to submit this response that was developed in consultation with leading CPAs active in tax, AI and innovation.

Tax Reform for Growth in Canada

CPAs can offer important insights into the tax reforms that are sorely needed to help support Canada's innovation start-ups and scale-ups, make Canada more competitive for investment, and help attract and retain top AI talent.

The following recommendations are included in *Tax Reform for Growth in Canada*, 20 bold, practical recommendations for tax reform in Canada developed in consultation with CPAs and leading tax experts, as well as academic and policy research.

Our submission is focused on opportunities within the realm of tax reform, but we acknowledge that coordinated action across multiple policy areas is needed. Reducing red tape, supporting AI adoption and education, as well as investing in digital infrastructure will all be required to transform Canada into an "AI nation".

What efforts are needed to attract, develop and retain top AI talent across research, industry and the public sector?

Canada's personal income tax rates are not competitive globally in a moment when top AI talent can command seven-figure signing bonuses. A substantial body of research shows that persistently high personal income tax rates contribute to brain drain, where highly skilled workers, professionals and entrepreneurs choose to leave Canada for jurisdictions with more competitive tax environments like the United States.[1]

Canada should reform its personal tax system with the aim of attracting and retaining top AI talent by:

> **Reducing top marginal personal income tax rates:** Federal and provincial governments should collaborate to more closely align Canada's rates with the U.S. and Organisation for Economic Co-operation and Development's (OECD) peers, improving competitiveness.

> **Increasing personal tax income thresholds:** Raise the income levels at which top rates apply. Align thresholds more closely with international norms, mitigating disincentives to attracting and retaining top talent while preserving Canada's tax progressivity.

> **Consider reducing the capital gains inclusion rate:** The government should consider lowering the inclusion rate to spur innovation, investment and attract top talent.

What needs to be put in place so Canada can grow globally competitive AI companies while retaining ownership, IP and economic sovereignty?

There are several tax reform measures that can be undertaken to incentivize competitive AI companies to stay in Canada, while retaining ownership, IP and economic sovereignty. These include:

> **Reform the Scientific Research and Experimental Development (SR&ED) Tax Credit:** The expenditure limit of the enhanced refundable tax credit should be significantly increased to reflect inflationary increases and the rising cost and importance of innovation. Additionally, eligibility of the enhanced refundable tax credit should be expanded to allow larger firms and public firms to qualify. In designing this expanded eligibility, consider prioritizing Canadian firms.

> **Introduce a patent box to incentivize commercialization:** A patent box regime offers a preferential corporate tax rate on income derived from intellectual property developed in

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[1] Taxation and the Allocation of Talent; Taxation and International Migration of Superstars: Evidence from the European Football Market; The Effect of State Taxes on the Geographical Location of Top Earners: Evidence from Star Scientists; Taxation and the International Mobility of Inventors

Canada, encouraging firms to retain their IP domestically rather than shifting them to lower-tax jurisdictions.

In designing the patent box, the government should draw on best practices from other countries, ensuring that qualifying income definitions are broad, and that income stems from innovation within Canada. Any IP eligible for the patent box should be directly linked to R&D activities conducted in Canada, ensuring that the benefit is tied to domestic economic activity.

Together with SR&ED reform, which would provide enhanced R&D support for companies as they scale, the patent box would create strong incentives for Canadian AI companies to retain IP domestically.

What changes to the Canadian business enabling environment are needed to unlock AI commercialization?

AI commercialization requires sustained capital investment, infrastructure deployment and the right talent. Canada's tax system creates friction at multiple points in this journey, diverting resources and locking capital in place. There are several tax reforms that can help transform Canada's best ideas into the next global success story.

Simplify and modernize the SR&ED tax credit: SR&ED is overly complex and costly to access. To address this, the federal government should streamline applications from both the basic and enhanced investment tax credit to make it easier for qualifying businesses to access and navigate the program. The federal government should also complete a full review of existing expenditure qualification rules to ensure they reflect the reality of R&D expenditures for AI firms (such as AI model training costs, data labeling and compute purchases). Additionally, eligibility should be restored for capital expenditures.

Broaden rollover provisions for reinvested gains: Capital gains rollovers facilitate the dynamic allocation of capital, which is vital in a rapidly changing innovation economy. Properly designed, a capital gains rollover regime would facilitate more robust capital formation, reduce liquidity traps, and enhance Canada's attractiveness as a destination for long-term investment – all things that can support AI commercialization.

We recommend broadening the rollover framework to more classes of shares and securities and avoid arbitrary firm-size and asset caps. Additionally, the government should consider making the rollover provisions preferential to Canadian firms and investments.

Make accelerated capital costs allowances permanent and consider full and immediate expensing: AI commercialization requires significant investment in infrastructure. Canada's Accelerated Capital Cost Allowance provisions, notably the Accelerated Investment

Incentive, were introduced to boost business investment by allowing faster depreciation of capital assets.

To support the infrastructure needs of AI firms, including data centre construction, the federal government should fully restore accelerated capital cost allowances and make them permanent. The government should also consider moving to full and immediate expensing, allowing businesses to deduct 100% of qualifying capital investments in the year of purchase, rather than over multiple years.

What changes to Canada's landscape of business incentives would accelerate sustainable scaling of AI ventures?

Small businesses make up roughly 98% of all businesses in Canada. In the professional, scientific, and technical services category, which includes most tech and innovation firms, 99.1% employ fewer than 100 people. As a result, small business tax policy directly influences the majority of Canada's AI innovators. As it stands, Canada's corporate tax system includes a large gap between the general and small business corporate income tax rates.

There are two things that can be done to address this tax wedge:

Mitigate disincentives to small business firm growth: Raise the threshold where the general business tax rate applies, allowing smaller firms to grow their income more before hitting the tax wall.

Lower the federal and provincial general corporate income tax rates: Cutting the combined general corporate tax rate would improve Canada's international competitiveness and narrow the gap with the small business rate.

Government should also **consider distributed profits taxation:** Under distributed profits taxation, currently used in Estonia and Latvia, corporations don't pay income tax when they earn profits. Instead, taxes are paid only when those profits are distributed to shareholders as dividends. Retained earnings – profits that are reinvested back into the business – are not taxed. This creates a powerful incentive for businesses to reinvest earnings into growth, innovation and productivity. One possibility could be piloting a distributed profits taxation model in the AI sector enhancing capital expenditures rather than distributing them immediately could especially support the acceleration of scaling AI ventures.

<u>Building Trust in AI</u>

Trust has become one of the key barriers to the widespread adoption of AI by Canadians. Just 34% of Canadians say that they would trust information generated by AI, which is below the global

average of 46%. Three quarters of Canadians want AI regulation, five percentage points higher than the global average.[2]

A careful balance needs to be struck to ensure that regulation of AI in Canada does not hamper innovation and adoption. At the same time, striking the right regulatory balance will help build the trust that business and the public are looking for.

As experts in transparency, ethics, disclosure and data, CPAs can play a vital role in establishing that trust. The following perspectives are informed by *Trust in New Frontiers: Putting AI Governance into Practice*, a research paper published by CPA Ontario, and by the insights of CPAs who are playing a leadership role in driving AI leadership forward.

How can Canada build public trust in AI technologies while addressing the risks they present? What are the most important things to do to build confidence?

From privacy concerns to data hallucinations to the spread of misinformation, there are significant risks associated with the widespread adoption and everyday use of AI. Those risks are weighing on the minds of Canadians with 75% looking to government and industry to collaborate on effective standards.[3]

CPAs, especially those with experience in audit and assurance and risk management, can play an important role in helping to adapt standards into organizational guardrails to help manage technical risks and prevent misuse.

Governance is key to building public trust, including continuous monitoring, transparency, the protection of privacy, accountability and measures to reduce potential bias. Government, businesses and regulatory bodies should work together to establish effective guardrails that protect the public interest, without creating unnecessary hurdles for AI ventures looking to innovate and grow. CPAs can adapt existing standards of the CPA profession into the governance required to help manage technical and ethical risks and prevent misuse.

> **Mandatory high-risk AI incident reporting:** Under the Personal Information Protection and Electronic Documents Act (PIPEDA), businesses are required to report breaches of security safeguards involving personal information that pose a real risk of significant risks to individuals.[4]
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> The government should explore a mechanism to establish a similar requirement for businesses to report when an AI system (for example, a Large Language Model (LLM), AI agent(s) or AI powered search engine) behaves in a way that is counter to its purpose and

[2] Canada is lagging global peers in AI trust and literacy
[3] Canada is lagging global peers in AI trust and literacy
[4] What you need to know about mandatory reporting of breaches of security safeguards

poses a risk to the public. In establishing this reporting requirement, the government should also consider building from established common reporting frameworks – for example, the OECD is in the process of developing a common reporting framework for AI incidents and hazards that could serve as the base for this requirement.[5]

Sovereign data under Canadian oversight: Data is a strategic asset. But like all strategic assets sensitive data, such as healthcare, defence and other government data, are a matter of sovereignty. Requiring Canadian companies to ensure specific sensitive data is stored in Canadian data centres and subject to Canadian regulations would help build trust among Canadians that their data is being protected.

Improving AI literacy: Closing the trust gap will also require closing the education gap. Canada is lagging far behind many other countries in AI training and literacy.[6]

In response, many professional bodies, including CPA Ontario, have developed a suite of professional development programs to help their members build the skills they need to use AI effectively, ethically and responsibly.

Government should work with regulatory bodies, professional associations, business leaders and post-secondary institutions to build similar interdisciplinary offerings for other professions who are playing important oversight and governance roles in the adoption of AI, as well as programs that promote overall AI literacy for Canadians.

In addition, Canada should work with provinces to build AI literacy into every level of education and consider how AI is used as a teaching tool. For example, in the past year, CPA Ontario joined our provincial and territorial counterparts to launch the New CPA Professional Program, which blends essential technical excellence in accounting and a strong foundation in ethics with future-focused skills to prepare tomorrow's CPAs for an AI-powered world.

What frameworks, standards, regulations and norms are needed to ensure AI products in Canada are trustworthy and responsibly deployed?

Closing the trust gap in AI will require a regulatory framework that balances the need for innovation to grow strong, sovereign AI ventures here in Canada, and robust protections for the public that focus on transparency, confidentiality and due care.

Prioritizing interoperability with global frameworks: Canada cannot be an island and should look to the areas where there is broad, international consensus as a foundation for developing our national approach to AI governance.

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[5] Towards a common reporting framework for AI incidents
[6] Canada is lagging global peers in AI trust and literacy

Canada's decision to sign UNESCO's 2021 "Recommendations on the Ethics of Artificial Intelligence," [7] and the OECD AI principles,[8] which promote innovation while emphasizing trustworthiness, human rights and democratic values, was an important step. Canada should continue with this approach and continue to leverage globally recognized frameworks. For example, the National Institute of Standards and Technology (NIST) AI Risk Management Framework[9] and Cybersecurity Framework[10] have been used broadly as models for identifying and managing the risks associated with AI.

Furthermore, the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC) released ISO/IEC 42001 in December 2023, the first international standard for establishing an Artificial Intelligence Management System (AIMS). The standard is sector agnostic and includes key guidance on a wide range of subjects, including lifecycle management, transparency, accountability and bias mitigation, as well as security and safety.

Continuous monitoring and "rolling trust mechanisms": In addition to leveraging international frameworks, Canada should consider requiring "three lines of defence" of continuous internal monitoring, internal and external audit. Independent verification of AI systems through assurance engagements, impact assessments and public reporting will help support ethical compliance, technical reliability and public trust. These mechanisms can be informed by the Canadian Standard on Assurance Engagement (CSAE) 3000 and 3416, which are used for independent assurance engagements in Canada.

The breakneck pace of AI innovation and the evolution of AI systems may also require new approaches. The federal government should consider exploring "rolling trust mechanisms" of more frequent monitoring, auditing and disclosure of AI systems and their operations to keep pace with the development of the technology.

The role of CPAs: Canada can draw on the professional ethics, risk management and governance expertise of CPAs, whose principles of integrity, objectivity, confidentiality and due care align closely with both UNESCO's ethical framework and ISO/IEC 42001. Furthermore, CPAs are also trained to apply assurance standards that can be adapted to evaluate high-risk AI use-cases, including but not limited to financial decision-making, regulatory compliance, healthcare and government services.

This balanced approach, built on internationally recognized frameworks, assurance standards and a commitment to ethical practice, would support the goal of building a strong, sovereign AI sector in Canada, while helping to ensure the public interest is protected.

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[7] Recommendation on the Ethics of Artificial Intelligence
[8] AI principles
[9] AI Risk Management Framework
[10] Cybersecurity Framework

Conclusion:

The meteoric rise of AI has the potential to transform every sector of the Canadian economy, and Canadian society. The technology has the potential to fuel Canada's future productivity, prosperity and growth. But Canada cannot drive innovation, scale up our success stories, and take steps to protect privacy, data and sovereignty unless we close the AI trust gap. CPAs are ready to contribute to the design of an AI strategy for Canada that provides the right mix of innovation and regulation to drive our economy forward, while protecting the public interest.

I would welcome the opportunity to meet with you and your senior officials to further discuss these recommendations and to convene CPAs who have the insight and experience to contribute to this critical work.

Sincerely,

Carol Wilding, FCPA, FCA, ICD.D
President & CEO
CPA Ontario