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CPA Ontario thanks the Standing Committee on Finance for the opportunity to provide input into the 2026 Budget.

Canada is at a pivotal point and must respond decisively. Between the economic impact from the conflict in the Middle East to the tense relations with the United States, we face an uncertain world where the economic foundations that underpinned Canadian prosperity are fundamentally shifting.

Undoubtedly, the global environment is impacting economic performance. But Canada had been underperforming for many years before any of these external shocks occurred. Canada's living standards continue to fall relative to those in the United States, as does the level of investment per Canadian worker. The gap in our productivity continues to widen, with US productivity now about 40% higher than Canada's.¹

Budget 2026 must address these long-standing challenges alongside emerging pressures, such as trade uncertainty and rapid technological change driven by artificial intelligence (AI). CPA Ontario believes Budget 2026 needs to deliver targeted, practical reforms to strengthen productivity, enhance competitiveness and support long-term, sustainable growth.

CPA Ontario is the regulatory and professional body responsible for oversight of Ontario's Chartered Professional Accountants (CPAs) and firms. With more than 105,000 members and 19,000 students, CPA Ontario represents nearly half of Canada's CPAs.

CPAs are trusted financial experts and business leaders working across all sectors of the economy. They see firsthand how fiscal, tax and innovation policy shapes investment decisions, firm behaviour, productivity and the bottom line.

Recommendations 1, 2 and 3 build on proposals in *Tax Reform for Growth in Canada*², a report

¹ CPA Ontario, *Meeting the Moment: Mobilizing CPAs to Address Canada's Economic Challenge*, <https://www.cpaontario.ca/insights/blog/mobilizing-cpas-to-address-canada-economic-challenge>.

² CPA Ontario, *Tax Reform for Growth in Canada*, <https://www.cpaontario.ca/insights/thought-leadership/tax-reform-for-growth-in-canada>.



CPA Ontario issued in the Fall of 2025 setting out 20 bold, non-partisan, evidence-based tax policy recommendations to help solve the productivity crisis and drive economic growth in Canada.

Recommendation 1: *As Canada seeks to attract greater foreign investment and improve its competitiveness, amend the Income Tax Act (ITA) to introduce pro-growth business taxation reforms that support economic growth and the intangibles economy, including:*

- *Establishing a patent box regime, as committed to in the 2024 Fall Economic Statement;*
- *Eliminating the small business tax “cliff” in section 125 of the ITA; and*
- *Lowering corporate income tax rates.*

Investment in innovation and intangible assets is now the primary driver of growth in advanced economies.³ Yet on these growth measures, Canada continues to underperform OECD peers in business R&D, ICT investment and patents per capita.⁴ Seventy-five percent of CPA Ontario members agree Canada’s innovation economy is underperforming.⁵

As Canada seeks to attract greater investment to drive economic growth, CPA Ontario recommends **amending the ITA to introduce a suite of pro-growth business tax measures** to improve our international competitiveness.

In the 2024 Fall Economic Statement, Canada committed to creating a **patent box regime**.⁶ This measure, already in use in many OECD countries, creates a preferential tax rate on income derived from qualifying Canadian-developed intellectual property and is shown to encourage domestic innovation and IP retention.

Canada’s small business tax rate is competitive, but the sharp increase in tax liability once firms exceed the small business limit discourages growth. This **“tax cliff” in section 125 of the**

³ See CPA Ontario, *Tax Reform for Growth in Canada*.

⁴ CPA Ontario, *Meeting the Moment*.

⁵ CPA Ontario, *Shaping Tomorrow: Results from CPA Ontario’s Survey of Members on Public Policy*, <https://www.cpaontario.ca/insights/blog/members-on-public-policy-survey>.

⁶ Department of Finance Canada, *Fall Economic Statement 2024*, https://www.budget.canada.ca/update-miseajour/2024/home-accueil-en.html?utm_campaign=fin-fin-update-miseajour-24-25&utm_medium=vanity-url&utm_source=canada-ca-fall-economic-statement.



ITA incentivizes firms to remain small, as growing the business leads to much higher corporate income taxes. Smoothing this transition would support scale-up, capital accumulation and productivity growth.

Canada's combined corporate income tax rate exceeds both the OECD average and the U.S. rate.⁷ Tax changes made permanent in the US' *One Big Beautiful Bill Act* have further widened this gap,⁸ reducing Canada's attractiveness for mobile capital. **Lowering general corporate income tax rates** would help reverse weak investment trends and improve competitiveness.

Recommendation 2: *To build a stronger, more independent, resilient and prosperous Canada, amend the ITA to simplify the tax system, improving transparency and reducing compliance costs by:*

- *Eliminating niche and targeted tax expenditures that add complexity without clear economic benefit; and*
- *Reducing the number of personal income tax brackets and better aligning rates and thresholds with OECD peers to retain and attract talent.*

Eighty-four percent of CPA Ontario members believe Canada's income tax system is overly complex and must be simplified.⁹

Complexity increases compliance costs, creates uncertainty and encourages firms to hold cash rather than reinvest capital.¹⁰ Capital requires certainty; frequent, targeted and temporary legislative changes only further short-term planning and reduce capital investment.

CPA Ontario recommends a **systematic review and rationalization of tax expenditures**. Eliminate those that no longer address ongoing needs or achieve policy objectives efficiently. Reflecting the urgency of the moment, this systematic review must be concluded quickly (i.e. by the next Spring Economic Update).

⁷ CPA Ontario, *Tax Reform for Growth in Canada*.

⁸ CPA Ontario, "What the 'One Big Beautiful Bill' Act Means for Canadian Tax Competitiveness," *CPA Ontario Insights*, August 5, 2025, <https://www.cpaontario.ca/insights/blog/what-the-one-big-beautiful-act-means-for-canadian-tax>

⁹ CPA Ontario, *Shaping Tomorrow*.

¹⁰ See CPA Ontario, *Tax Reform for Growth in Canada*.



Canada's **personal income tax system** has also become increasingly complex and uncompetitive. High combined marginal tax rates hinder Canada's ability to attract and retain skilled workers, entrepreneurs and innovators. CPA Ontario recommends reducing the number of brackets; aligning thresholds (the level of income at which particular tax rates apply) with peer jurisdictions; and working with provinces to maintain competitive combined rates of taxation.

Recommendation 3: *The tax system is in Canada's control and a major determinant of how our economy performs. Undertake a broad, independent review of Canada's tax system to enable a revenue-neutral shift in the tax mix away from economically harmful taxes on income and investment and toward consumption taxes, in line with OECD peers.*

There has not been a comprehensive tax system review since the 1960s. In the intervening decades, the economy has evolved dramatically and the system has grown increasingly fragmented.

CPA Ontario supports the tax expenditure review initiated in Budget 2025 and recommends building on it through a **broad, independent review of the tax system**.

Evidence shows income and profit-based taxes impose higher economic costs than consumption taxes.¹¹ Canada relies more heavily on income taxation and less on consumption taxes than many OECD peers.¹²

A comprehensive review should include a **revenue-neutral shift in the tax mix**, reducing reliance on economically harmful taxes while expanding the role of consumption taxes. Experience in other OECD countries shows such reforms can strengthen a country's investment and long-term economic growth.

¹¹ See CPA Ontario, *Tax Reform for Growth in Canada*.

¹² CPA Ontario, *Tax Reform for Growth in Canada*.



Recommendation 4: *Advance a strong, sovereign AI sector that promotes innovation while protecting the public interest by:*

- *Strengthening oversight frameworks that protect the public without impeding innovation, including targeted amendments to Personal Information Protection and Electronic Documents Act (PIPEDA) to mandate reporting of high-risk AI system incidents;*
- *Ensuring sensitive Canadian data remains sovereign while supporting innovation;*
- *Prioritizing that Canadian policy is interoperable with global AI governance frameworks; and*
- *Supporting AI literacy and adoption through training and education.*

AI is a significant opportunity to boost productivity and economic growth. Yet Canada lags global peers in AI adoption, literacy, and public trust. And Canadians are less likely than citizens in other countries to trust AI-generated information¹³, creating a key barrier to uptake. Building public trust requires clear governance frameworks, transparency and accountability.

CPA Ontario recommends:

- Amending **PIPEDA** to mandate reporting of high-risk AI system incidents, similar to existing data breach reporting requirements. In establishing this reporting requirement, the government should align with common reporting frameworks, such as one being developed by the OECD for the reporting of AI incidents;
- Ensuring **sensitive Canadian data remains sovereign**; and
- **Prioritizing interoperability of Canadian policy with global AI governance frameworks**, including OECD principles, UNESCO’s recommendations and National Institute of Standards and Technology frameworks.¹⁴

Independent verification through assurance engagements, impact assessments and public reporting will be essential. Existing Canadian assurance standards provide a strong foundation for “**rolling trust mechanisms**” that support continuous oversight without unduly impeding

¹³ See CPA Ontario, “CPA Ontario’s Submission to Canada’s Minister of AI and Digital Innovation,” (October 2025), <https://www.cpaontario.ca/insights/blog/submission-to-canada-minister-of-ai-and-digital-innovation>.

¹⁴ *Ibid.*



innovation. Canada can draw on the professional ethics, risk management and governance expertise of CPAs in developing these mechanisms.

AI literacy is also a barrier to its adoption in Canada.¹⁵ To help CPA Ontario members better understand AI and its potential, CPA Ontario has developed a suite of professional development programs that build the skills members need to use AI effectively, ethically, and responsibly. CPA Ontario recommends the government **work with high schools and post-secondary institutions to develop interdisciplinary AI literacy and training programs** to help workers and organizations build overall AI literacy, as well as oversight and governance, to support its adoption in Canada.

Recommendation 5: Commit to deficit containment and articulate a medium-term path back to budget balance.

Persistent structural deficits reduce Canada’s fiscal flexibility and increase Canada’s vulnerability to future shocks.

Eighty-eight percent of CPA Ontario members emphasized the importance of prudent fiscal policy and sustainable debt.¹⁶ CPA Ontario recommends the government commit to deficit containment and include a **credible, transparent roadmap to return to budget balance within a medium-term horizon.**

Achieving a balanced budget should protect growth-enhancing investments, such as in innovation and infrastructure, and avoid blunt, across-the-board cuts. Savings and revenue measures should be targeted, balanced and equitable.

¹⁵ *Ibid.*

¹⁶ CPA Ontario, *Shaping Tomorrow*.



Conclusion

Budget 2026 comes at an uncertain time.

What *is* certain, unfortunately, is that Canada's economic competitiveness and prosperity will continue to deteriorate without bold reforms.

The measures CPA Ontario recommends – modernizing business taxation, simplifying the tax system, reviewing the overall tax mix, advancing a strong, sovereign AI sector and establishing a path back to budget balance – are within Canada's control and lay the groundwork for stronger productivity, greater competitiveness and sustainable prosperity.

CPA Ontario is pleased to offer our members' expertise to support the federal government in designing and implementing reforms that position Canada's economy for long-term success.