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August 26, 2025

To the Honourable Minister of Finance, François-Philippe Champagne,

On behalf of CPA Ontario, we extend our best wishes as you prepare to deliver your first federal budget. This budget is of significant consequence, poised to shape Canada's economic trajectory in the face of global uncertainties and domestic challenges. In support of your work, we are pleased to submit practical tax policy recommendations that will help catalyze investment and economic growth across Canada.

CPA Ontario is the province's regulatory body of over 105,000 Chartered Professional Accountant (CPAs), including almost half of all CPAs across Canada. Ontario CPAs bring foundational training in tax and deep experience as tax practitioners across every sector of the economy. They also play a vital role in Canadian and global business, and are at the heart of Canada's capital markets. Their unique vantage point – shaped by engagement with business leaders, the financial system, and regulatory frameworks – provides them with critical insight into the challenges and opportunities for economic growth, including tax policy.

In a recent survey, a resounding 88% of Ontario CPAs emphasized the importance of reforming the personal and corporate income tax system, with 84% describing it as overly complex. Nearly two-thirds of Ontario CPAs believe the tax system inhibits economic growth.

As you prepare your budget, we are highlighting five key tax policy recommendations that align with your government's priorities – as outlined in past fiscal documents and your recent election platform – including the Prime Minister's commitment to "conduct an expert review of the corporate tax system with a view to transparency, simplicity, sustainability and competitiveness." These five recommendations are part of CPA Ontario's upcoming report, entitled *Tax Reform for Growth in Canada*, outlining 20 tax policy recommendations for the federal and provincial governments.

1. **Make Accelerated Capital Cost Allowances Permanent:** The federal government should fully restore the Accelerated Investment Incentive and make it permanent. But, in light of recent tax changes in the U.S.'s *One Big Beautiful Bill Act*, we believe the government should also consider going a step further to reduce the cost of investment in Canada. We recommend moving to full and immediate expensing, allowing businesses to deduct 100% of qualifying capital investments in the year of purchase. This would significantly lower the marginal effective tax rate on investment and improve incentives for capital formation here in Canada. It could be considered as part of a wider corporate tax review.

2. **Introduce a Patent Box System to Incentivize Commercialization:** As economies shift from traditional production to knowledge-based industries, investments in innovation and intangible assets are increasingly key drivers of economic growth. The federal government should move forward on previous commitments to create a domestic patent box regime, offering a preferential corporate tax rate on income derived from intellectual property developed in Canada. This would encourage firms to retain IP, scale operations, and create jobs domestically, helping to strengthen Canada's innovation and intangible economy, while minimizing the outflow of Canadian-developed ideas to the U.S.

3. **Reform the Scientific Research and Experimental Development (SR&ED) Tax Credit:** The SR&ED program, while central to the innovation economy, is overly complex and costly to access. We recommend streamlining the application process, conducting a full review of expenditure qualification rules, increasing the expenditure limit of the enhanced refundable tax credit, and expanding eligibility to public and larger firms, with consideration given to prioritizing Canadian firms. We believe the expenditure and threshold limits should be much higher than those proposed in the 2024 Fall Economic Statement.

4. **Broaden Rollover Provisions for Reinvested Gains:** We are encouraged by the federal government's decision to reverse the planned increase to the capital gains inclusion – this was the right choice for Canada's innovators, builders, and risk-takers. However, Canada should introduce a broad capital gains tax rollover provision. This policy lever would drive growth by allowing investors to defer taxation on realized capital gains if proceeds are reinvested in another qualifying asset. This should be designed carefully and applied more broadly than the proposal in the 2024 Fall Economic Statement to allow all investment types, avoiding arbitrary firm-size and asset caps. Doing so recognizes the economic value of reinvestment and removes disincentives to reallocate capital to more productive uses.

5. **Implement Automatic Filing for Simplicity and Equity:** Building on recent pilot programs, the federal government should fully implement automatic tax filing, which would reduce compliance costs, benefit lower-income households and seniors, and increase tax filing rates, ensuring more Canadians can access the benefits they are entitled to.

As part of our forthcoming report, which will be released next month, we highlight that Canada's tax system has broadly adopted a piecemeal approach over the past several decades, creating a patchwork system ill-equipped for today's economic challenges. As a result, our tax system has unfortunately evolved into a barrier to the economic growth Canada so desperately needs.

The current moment – marked by trade and geopolitical uncertainty, new competitive pressures from the U.S. on tax policy, and Canada's deepening productivity challenges – demands even bolder thinking and comprehensive tax policies. To truly unlock Canada's economic potential, we urgently need a bold, comprehensive rethink of the Income Tax Act to modernize it for simplicity, equity, efficiency, and competitiveness, ensuring tax policy facilitates economic growth. In our forthcoming report, we also recommend the following broader tax reforms:

1) **Improve the Tax Mix:** Gradually reduce reliance on personal and corporate income taxes, which impose higher economic costs, and increase revenue from broad-based consumption taxes like the GST/HST. This shift should be revenue-neutral and designed to protect vulnerable households through enhanced refundable GST credits and targeted transfers. Compared to our peers, Canada relies more heavily on revenue from the types of taxes that harm growth the most. A shift in our tax mix would not only match other nations, but it would also bolster our competitiveness.

    - **Harmonize Provincial Sales Taxes:** Encourage provinces such as British Columbia, Saskatchewan, and Manitoba to harmonize their PSTs with the federal GST to create an

HST. This would shift provincial sales taxes, which tax and increase the cost of production, to greater reliance on consumption, simplifying the sales tax system and reducing compliance burdens in the process.

2) **Reform Corporate Income Taxes:**

- **Lower the Combined General Corporate Income Tax (CIT) Rate:** All options should be considered as part of the proposed corporate tax review. That includes working with the provinces to cut the general CIT rate to improve Canada's international tax competitiveness and encourage businesses to invest, as Canada's combined statutory rates are no longer what they once were. The average rate is above the OECD average and higher than the U.S. average.

- **Mitigate Disincentives to Small Business Firm Growth:** As part of a corporate tax review, consider how the large gap between the small business and general corporate tax rate discourages successful firms from growing beyond the small business threshold. One way to reduce disincentives for firms to scale is to raise the threshold where the general rate applies, allowing smaller firms to grow their income more before hitting the tax wall. Lowering the general corporate rate would also narrow the gap with the small business rate.

- **Explore Distributed Profits Taxation:** A broad corporate tax review should consider bold options to boost competitiveness, such as the model used in Estonia, where corporate taxes are paid only when profits are distributed, creating a powerful incentive for businesses to reinvest earnings into growth and innovation. This approach negates the need for initiatives like full expensing.

- **Implement Group Corporate Taxation:** Review and consider allowing affiliated companies to file a federal income tax return together, offsetting losses with profits, reducing overall tax liability and compliance paperwork.

3) **Reform Personal Income Taxes:**

- **Cut Top Marginal Personal Income Tax (PIT) Rates:** Working with the provinces, the federal government should reduce the combined top marginal rate to ensure no province exceeds the 50% threshold and then aim to align Canada's rates with the U.S. and OECD peers. Canada's PIT rates are among the highest in the OECD, and top rates kick in at comparatively low income levels. This hurts Canada's investment attractiveness, work incentives, and ability to attract and retain top talent.
- **Increase Income Thresholds:** The income levels at which individual tax rates apply should be raised to align more closely with international norms.

- **Flatten the System:** Reduce the number of tax brackets, both federally and provincially, to lower compliance costs, minimize distortions, and increase transparency.

4) **Simplify the Income Tax Act:**

  - **Review Recent Legislative Changes and Tax Expenditures:** Refrain from adding new boutique tax credits, and instead conduct a comprehensive review of all tax expenditures and recent legislative changes to assess their effectiveness and eliminate unnecessary or poorly performing measures that add undue complexity and compliance burdens. CPAs on the front lines are witnessing how tax complexity diverts resources from productive activities and how elements of the tax system discourage investment and entrepreneurship. There's an urgent need to simplify the Income Tax Act.

  - **Reinvest Fiscal Gains into Growth-Enhancing Tax Reforms:** Fiscal savings from simplifying the tax system by removing ineffective tax expenditures should be redeployed to reduce broader, economically harmful personal and corporate income tax rates.

5) **Establish a Royal Commission to Review Canada's Tax System:** A comprehensive review is long overdue, with the last significant effort concluding nearly 60 years ago. A new Royal Commission could provide the rigorous, independent assessment needed to redesign the system for the 21st century, identify what is and is not working, encourage public discussion, and develop bold, forward-looking options for structural change. But we don't have the luxury of spending years on such a review; it needs to move faster than the previous Carter Commission.

Canada's economic prosperity is a shared objective. While tax reform is not a silver bullet, it remains a critical lever for enhancing Canada's economic performance and fostering the conditions necessary to build the strongest economy in the G7.

I would welcome the opportunity to meet with you and your senior officials to further discuss these recommendations in detail, explore their potential impact, and collaboratively work towards building a more competitive and growth-oriented tax system for Canada's future prosperity.

Sincerely,
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About CPA Ontario:

The Chartered Professional Accountants of Ontario (CPA Ontario) governs and regulates CPAs and accounting firms in Ontario. We grant CPA designations and public accounting licenses. We enforce the highest professional and ethical standards, provide professional guidance, and support the continuing development of our members. We educate and assess students, so they are ready for market demands. We enable the mobility of CPAs through inter-provincial and international agreements. We are a community of over 105,000 CPAs in Ontario.

Disclaimer:

The recommendations in this submission are informed by a December 2024 survey of CPA Ontario members on tax policy, consultation with leading experts in tax policy, and extensive academic and policy research. The recommendations may not necessarily reflect the views of all CPA Ontario members, CPA Ontario Council members, CPA Ontario employees, the individuals who were consulted, or their affiliated organizations.