



Tax Reform for Growth in Canada

October 2025

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.





A Message From

Carol Wilding

FCPA, FCA, ICD.D

President & CEO

CPA Ontario

Canada's economic foundation is weakening. Productivity is flat, investment is lagging, and our tax system has evolved into a barrier to growth. These aren't abstract concerns; they carry real consequences that affect the daily lives of ordinary Canadians. They're echoed by Ontario CPAs, and we're listening.

This report is CPA Ontario's response – 20 bold, practical recommendations for tax reform. These recommendations are grounded in what we've heard. A resounding 88% of Ontario CPAs emphasize the importance of reforming the personal and corporate income tax system, with 84% describing it as overly complex. And nearly two-thirds believe the tax system inhibits economic growth.

In August, we shared a pre-budget submission with the Honourable Minister of Finance, François-Philippe Champagne, to ensure government heard directly from Ontario's CPAs before this report was released publicly. Our members are clear that they want us to be part of the conversation, with 85% believing CPA Ontario should inform and influence public policy.

Our engagement didn't stop with CPAs; we've also engaged leading tax experts, academics, economists, business leaders, and industry voices to shape a forward-looking agenda.

But this isn't just about tax. It's about Canada's future prosperity. Half-measures and piecemeal reforms have left us with a system that's incoherent, burdensome, and out of step with our economic goals. We need to act with urgency and ambition, even when it's politically difficult. The time for meaningful reform is now.

CPA Ontario, and the 105,000 CPAs in the province, are prepared to convene expertise, shape debate, and advance bold, evidence-based ideas. From improving the tax environment for talent, and reforming innovation incentives, to using capital gains policy as a lever for entrepreneurship, and simplifying the Income Tax Act, this report lays out a pro-growth, pro-productivity agenda for Canada.

We also know tax reform isn't a silver bullet. It must be part of a broader strategy that includes cutting red tape, improving fiscal discipline, strengthening innovation policy, and investing in productivity-enhancing infrastructure. But tax is a powerful lever, and it's one we must use wisely.

Success will require leadership and a willingness to make difficult choices. But just as importantly, it will require public buy-in. Canadians must understand the rationale, trust the direction, and feel confident that the outcomes will serve the public interest. That's

why we're calling for a Royal Commission to guide a full and independent rethink of Canada's tax system. A commission of this kind would provide the structure and legitimacy needed to engage Canadians, build consensus, and ensure reforms are both ambitious and enduring.

The last comprehensive review of Canada's tax system was led by the Royal Commission on Taxation – widely known as the Carter Commission – in the 1960s. Chaired by Kenneth Carter, himself a member of the CPA profession, the Commission undertook a landmark, multi-year study into the principles that underpin our tax system. The Carter Commission's multi-volume report set out an ambitious blueprint for reform that emphasized fairness, simplicity, and economic efficiency.

But over time, that foundation has eroded. Our tax system has become more complicated and less connected to those original principles.

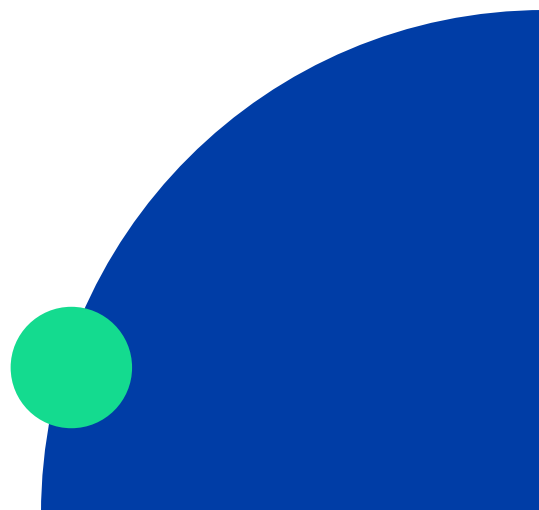
A wide range of voices, including CPAs, economists, lawyers, policy leaders, and Canadians from all walks of life, are calling for a tax system that is fit for today's purpose.

We must move quickly because we don't have the luxury of time. We've waited 60 years. We can't wait another 60.

Sincerely,



CAROL WILDING, FCPA, FCA, ICD.D
President & CEO
CPA Ontario



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Albert Anelli, FCPA, FCA

Managing Partner, Tax, EY Canada

Brian Ernewein

Senior Advisor, National Tax Centre, KPMG

Jamie Golombek, FCPA, FCA

Managing Director, Tax & Estate Planning, CIBC

Rob Jeffery, CPA, CA

Partner, Tax, Deloitte Canada

**Andrew M. Kennedy, CPA, CA,
CPA (Illinois)**

Chief Financial Officer, Capstone Infrastructure Corporation, and CPA Ontario Council member

John McKenzie, FCPA, FCMA

CEO, TMX Group

Kim Moody, FCPA, FCA

Founder, Moody's Private Client

Colin Mowatt, CPA, CA

Canadian Tax Policy Leader, PWC

Fred O'Riordan

National Leader, Tax Policy, EY

Matthew Roman, CPA

Partner, Tax, KPMG Canada,
Chair of the CPA Income Tax Education Committee
CPA Board of Examiners Member

**Dan Rogozynski, CPA, CA,
CPA (Illinois)**

University of Waterloo,
and CPA Ontario Council member

John Ruffolo, FCPA, FCA

Founder and Managing Partner
Maverix Private Equity

John Waters, CPA, CA

Vice President, Tax Consulting Services
RBC Wealth Management

Disclaimer

While this report uses the shorthand term "CPA Ontario recommends," these recommendations 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.



Contents

Executive Summary	10
Introduction	15
Improve the Tax Mix	17
Reform Corporate Income Taxes	20
Reform Personal Income Taxes	27
Reform Capital Gains Taxes	34
Spur Innovation Through Tax Policy	37
Simplify the Income Tax Act	40
Conduct a Broad Review of Canada's Tax System	44
Conclusion	46
Appendix 1: Recent Federal Tax Changes that Add Complexity	47
Appendix 2: Flow-through Shares and Innovation	49
Appendix 3: Organizations and Thought Leaders Who Support Our Recommendations	50
References	53
Bibliography	61

Executive Summary

Introduction

Canada's economic performance has virtually stalled over the past decade. Business investment per worker has fallen to half of U.S. levels, productivity has stagnated, and real GDP per capita has barely improved. At the heart of this challenge lies a tax system that has evolved into a barrier to the economic growth Canada so desperately needs.

Canada has ignored tax reform for too long, largely adopting a piecemeal approach to taxation rather than a comprehensive overhaul since the Royal Commission on Taxation in 1962. The result is a patchwork system ill-equipped for today's economic challenges.

As trusted advisors across every sector of Ontario's economy, Chartered Professional Accountants (CPAs) experience daily how tax complexity diverts resources from productive activities and how high tax rates discourage investment and entrepreneurship. CPA Ontario, with over 105,000 members, all with foundational training in tax and many with professional experience as tax practitioners, can offer important insight into how tax policy impacts economic growth.

A recent survey of CPA Ontario members revealed that 88% emphasized the importance of reforming the personal and corporate income tax system, with 84% describing it as overly complex. In response, CPA Ontario launched the *Trade & Growth Insights* program in February 2025 to provide growth-focused public policy advocacy.

The current moment demands more than incremental adjustments. With new competitive pressures from the U.S. on tax and trade, and Canada's productivity challenges deepening, Canada needs a bold, comprehensive rethink of the Income Tax Act to modernize it for simplicity, equity, efficiency, and competitiveness, ensuring tax policy facilitates economic growth. This report presents 20 recommendations to reposition Canada's tax system, developed through extensive research, tax expert engagement, and CPA Ontario member insights. Tax reform is a key lever, although not a silver bullet, for improving Canada's economic performance. The time for meaningful tax reform is now.

Improve the Tax Mix

Not all taxes are created equal. Income and profit-based taxes — such as personal and corporate income taxes — impose higher economic costs than consumption taxes like the Goods and Services Tax (GST) and the Harmonized Sales Tax (HST). To enhance competitiveness, Canada's tax system needs rebalancing because our governments currently rely too heavily on the types of taxes that hurt economic growth the most. International comparisons show that Canada leans more on personal and corporate income taxes than other Organization for Economic Co-operation and Development (OECD) countries, while underutilizing consumption taxes and other revenue sources with lower economic costs.

A more growth-friendly tax mix would reduce reliance on taxes that discourage productive activity and shift toward more efficient sources like consumption taxes. This transition can be designed to protect vulnerable households while improving overall economic performance.

CPA Ontario recommends:

Shift the Tax Mix to Rely Less on Harmful Taxes:

Canada should gradually reduce its reliance on personal and corporate income taxes, and increase revenue from broad-based consumption taxes. This would enhance Canada's competitiveness and better align the country's tax structure with international peers. Enhanced refundable GST credits and targeted transfers can be implemented to protect low- and middle-income households.

Harmonize Provincial Sales Taxes in Provinces That Have Not:

Canada's fragmented provincial sales tax system adds unnecessary complexity and cost to doing business. Provinces such as British Columbia, Saskatchewan, and Manitoba should harmonize their Provincial Sales Taxes (PSTs) with the federal GST to create a HST. This would simplify the sales tax system by creating a single, value-added tax structure, reducing compliance burdens and improving economic efficiency.

Reform Corporate Income Taxes

Canada's economic growth challenges largely stem from a lack of competitiveness, low productivity growth, and weak business investment. Corporate income taxes deter investment, reduce productivity, and suppress wages. Canada's corporate income tax (CIT) system is not what it once was, with combined rates above the OECD average and higher than the U.S. Recent tax changes in the *One Big Beautiful Bill Act*, such as permanently restoring full and immediate expensing for domestic research and experimentation, and the 100% bonus depreciation for short lived assets, stand to make Canada's investment climate less competitive relative to the U.S.

Moreover, in Canada, a large gap between general and small business CIT rates creates a perverse incentive for successful firms to avoid growth and remain below the small business deduction threshold.

CPA Ontario recommends:

Lower the Federal and Provincial General Corporate Income Tax Rates:

Cutting the combined general corporate tax rate would improve Canada's international tax competitiveness and encourage businesses to invest.

Mitigate Disincentives to Small Business Firm Growth:

Rather than raise the small business rate, which would be politically challenging, 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.

Make Accelerated Capital Cost Allowances Permanent and Consider Full and Immediate Expensing:

The federal government should fully restore accelerated capital cost allowances and make them permanent. In light of recent changes in the U.S., it should also consider moving to full and immediate expensing, allowing businesses to deduct 100% of qualifying capital investments in the year of purchase, lowering the marginal effective tax rate on investment.

Explore Distributed Profits Taxation: Going a step further, governments should consider the Estonia model of distributed profits taxation. Under this system, corporate taxes are paid only when profits are distributed to shareholders as dividends; retained earnings are not taxed. This creates a powerful incentive for businesses to reinvest earnings into growth, innovation, and productivity-enhancing capital expenditures, negating the need for initiatives like full expensing for new investments.

Implement Group Corporate Taxation:

Canada should review and consider implementing consolidated group corporate taxation, an approach used in some form in all other G7 countries. This allows affiliated companies to file a federal income tax return together, offsetting losses of one firm with profits of another, reducing overall tax liability and compliance paperwork.

Reform Personal Income Taxes

Canada's personal income tax (PIT) system is increasingly out of step with international best practices. Canada's PIT rates are among the highest in the OECD, and top rates kick in at comparatively low income levels.

This hampers our ability to attract and retain top talent, creating a significant barrier to growth, innovation, and entrepreneurship. Ontario's surtax further adds complexity and obscures effective rates, and the lack of inflation indexation in the provincial tax system results in "bracket creep."

CPA Ontario recommends:

Cut Top Marginal Personal Income Tax Rates:

Federal and provincial governments should work together to reduce the combined top marginal rate to ensure no province exceeds the 50% threshold, and then aim to align Canada's rates with U.S. and OECD peers.

Increase Income Thresholds: The income levels at which individual tax rates apply should be raised to align more closely with international norms, mitigating disincentives to work and invest while preserving tax progressivity.

Flatten the System: The number of tax brackets should be reduced both federally and provincially. A flatter system offers economic and administrative advantages, including lower compliance costs, minimized distortions, and increased transparency.

Simplify Ontario's Personal Income Tax System:

Ontario should eliminate its two surtax brackets. Instead, marginal rates could be adjusted to maintain revenue neutrality while enhancing clarity and transparency.

Index Ontario's Personal Income Tax Income

Thresholds to Inflation: Ontario should index its top two personal income tax thresholds to inflation. This approach protects taxpayers from "bracket creep," preventing unintended annual tax increases, safeguarding households, and enhancing competitiveness.

Reform Capital Gains Taxes

Canada's approach to capital gains taxation has been a subject of considerable debate. High capital gains taxes discourage long-term investment and entrepreneurial activity, particularly in sectors reliant on venture capital and private equity. Taxes on capital are among the most economically damaging ways for governments to raise revenue, as they tend to lock in capital instead of moving it to more productive investments. Reforming capital gains taxation is key to stimulating business investment, innovation, and entrepreneurship, and any changes should be permanent to provide needed stability.

CPA Ontario recommends:

Maintain Commitment to Not Raising the Inclusion Rate and Consider Reducing It:

While reversing the planned increase in the inclusion rate was an important first step, the federal government should consider lowering the inclusion rate to spur innovation and investment amid growing global competition.

Broaden Rollover Provisions for Reinvested

Gains: Canada should introduce a broad capital gains tax rollover provision, allowing investors to defer taxation on realized capital gains if proceeds are reinvested in another qualifying asset. This recognizes the economic value of reinvestment and removes disincentives to reallocate capital to more productive uses.

Spur Innovation Through Tax Policy

As economies shift to knowledge-based industries, investments in innovation and intangible assets are increasingly key. But Canada's investment in business research and development (R&D) and information and communications technology (ICT) is middling, as are its patent applications by population. Canadian firms also struggle to commercialize their intellectual property (IP). Tax policy must be modernized to stimulate both upstream R&D and downstream commercialization.

CPA Ontario recommends:

Reform the Scientific Research and Experimental Development (SR&ED) Tax Credit:

The federal government should simplify the application for both the basic and enhanced investment tax credits to make it easier for qualifying businesses to access and navigate the program. It should also conduct a full review of existing expenditure qualification rules to ensure they reflect the reality of R&D for firms. The enhanced refundable tax credit expenditure limit should be increased significantly to reflect inflationary increases and the rising cost and importance of innovation. The eligibility of the enhanced refundable tax credit should be expanded to public and larger firms, with an increased taxable capital phase-out threshold. This approach would better reflect the scale of innovation spillovers these firms generate. In designing expanded eligibility, consideration should be given to prioritizing Canadian firms (i.e. those listed on domestic exchanges and not controlled by non-residents.)

Introduce a Patent Box System to Incentivize Commercialization:

Canada should move forward on commitments to create a domestic patent box regime, offering a preferential corporate tax rate on income derived from IP developed in Canada. This would encourage firms to retain IP and associated revenue within Canada, tied to domestic R&D activities.

Simplify the Income Tax Act

Tax reform in Canada must prioritize simplification, a view overwhelmingly supported by 84% of CPA Ontario members. Complexity leads to high compliance costs, especially for lower income households and smaller businesses, diverting resources to unproductive activity and weakening competitiveness. It also increases administration costs for government. The Income Tax Act has grown significantly, and frequent, ambiguous rule changes introduce uncertainty, eroding business confidence.

CPA Ontario recommends:

Review Recent Legislative Changes and Tax Expenditures:

Recent legislative changes and international rules adding complexity should be reviewed to assess if they meet stated goals without undue compliance burdens. A comprehensive review of tax expenditures should also assess effectiveness and eliminate unnecessary measures.

Reinvest Fiscal Gains into Growth-Enhancing Tax Reforms:

Fiscal savings from simplification — by removing ineffective tax expenditures — should be redeployed to reduce broader tax rates, specifically personal and corporate income tax rates, as these are economically harmful.

Implement Automatic Filing for Simplicity and Equity:

The federal government should implement automatic tax filing, a measure already adopted in some OECD countries. This reduces compliance costs, benefits lower-income Canadians, and increases tax filing rates, ensuring more receive valuable government benefits.

Conduct a Broad Review of Canada's Tax System

Canada's tax system has become increasingly complex, poorly aligned with supporting economic growth, and ill-equipped for rising competitiveness pressures. Beyond swift action on this report's recommendations, a comprehensive review is long overdue. The last major review concluded almost 60 years ago. A new Royal Commission could offer the rigorous, independent assessment needed to redesign the system for the current moment. But we don't have the luxury of spending years on such a review; it needs to move faster than the previous Carter Commission.

CPA Ontario Recommends:

Establish a Royal Commission:

A Royal Commission would:

- **Identify what is and is not working:** Evaluate how the tax system aligns with principles of efficiency, equity, neutrality, simplicity, and competitiveness, identifying effective vs. ineffective taxes and expenditures.
- **Encourage discussion and debate:** A Commission-led consultation process would build consensus around trade-offs and policy options, incorporating diverse stakeholders.
- **Develop bold, forward-looking options for structural change:** Explore unique international approaches like Estonia's distributed profit tax, and assess modern alternative tax models.

Conclusion

Half-measures and piecemeal reforms have left Canada with a tax system that is incoherent, burdensome, and poorly aligned with the country's economic goals. While targeted changes are necessary to address immediate competitiveness concerns, a comprehensive structural reset is now essential. A new Royal Commission, informed by expert guidance and international best practices, would provide the blueprint Canada needs to build a tax system for the 21st century.

Tax reform faces real political obstacles, but the political difficulty cannot justify continued inaction when Canada's economic competitiveness hangs in the balance. From simplifying the Income Tax Act and improving the tax environment for talent to reforming innovation incentives and modernizing capital gains policy, the recommendations in this report represent a pro-growth, pro-productivity tax reform agenda for Canada. While tax policy is a key lever, it's not the only one. Other changes, such as cutting red tape, improving fiscal discipline, strengthening innovation policy, and investing in productivity-enhancing infrastructure, are also essential to move Canada forward. In the face of rising global competition and a weakening domestic economic foundation, it is time for policymakers to act with urgency and ambition — even when politically challenging. Canada's future prosperity depends on it.

Introduction

Canada's economic performance has virtually stalled over the past decade.¹ Business investment per worker has fallen to half of U.S. levels, productivity has stagnated, and real gross domestic product (GDP) per capita has barely improved.² Recent global trade tensions are making a bad situation worse. At the heart of this challenge lies a tax system that has, unfortunately, evolved into a barrier to the economic growth Canada so desperately needs.

Canada has ignored tax reform for too long. The reluctance to undertake bold, principled reform, has been evident since the last major overhaul following the Royal Commission on Taxation established by Prime Minister John Diefenbaker in 1962. The country has instead largely adopted a piecemeal approach to taxation designed to appease voter bases rather than address the nation's complex challenges. The result is a patchwork system built through decades of ad hoc additions and political compromises that no longer serves the country's interests and is ill-equipped to withstand today's economic challenges.

As trusted advisors across every sector of Ontario's economy, Chartered Professional Accountants (CPAs) experience this reality daily. They see how tax complexity diverts resources from productive activities towards compliance and administration, and how high tax rates discourage the very investment and entrepreneurship essential for long-term growth.

This frontline experience is reflected in the results from CPA Ontario's member survey, where a resounding 88% of members emphasized the importance of reforming the personal and corporate income tax system, with 84% describing the system as overly complex.³

That's why, in February 2025, CPA Ontario launched the *Trade & Growth Insights* program.⁴ It was an opportunity for both CPA Ontario and the profession to step up during a period of nation building amid Canada's ongoing productivity and trade challenges. The program combines insights for CPAs based on practical advice from subject matter experts and growth-focused public policy advocacy informed by members, expert interviews, and policy research.

The current moment demands more than incremental adjustments; a strong Canada necessitates a bold, comprehensive rethink of the Income Tax Act. We must modernize it to be simpler, more equitable, efficient, and competitive, ensuring that tax policy functions as a powerful lever to facilitate, rather than impede, economic growth. CPA Ontario, with 105,000 members, all with foundational training in tax and many with professional experience as tax practitioners, can offer important insight into how tax policy impacts economic growth.

This report presents 20 recommendations to reposition Canada's tax system, developed through extensive research, tax expert engagement, and CPA Ontario member insights. Tax reform is a key lever, although not a silver bullet, for improving Canada's economic performance. While broader changes to red tape, fiscal, and innovation policy are also needed, reforming the tax system is an important step for moving Canada forward. If the goal is for Canada to have the strongest economy in the G7, then enhancing competitiveness, encouraging investment and innovation, creating conditions for sustained prosperity, and unleashing Canada's true potential should be top priority.

The time for meaningful tax reform is now.

CPA Ontario members' views on Canada's tax system

CPA Ontario's member survey revealed deep concern about Canada's tax competitiveness:⁵

- **88%** believe reforming personal and corporate income tax is important
- **84%** say Canada's income tax system overall is too complex
- **Two-thirds** believe the tax system is inhibiting economic growth
- **82%** agree the federal tax system is overly complicated
- **72%** believe federal marginal income tax rates are too high
- **63%** say Ontario's marginal income tax rates are too high



Improve the Tax Mix

Not all taxes are created equal. Income and profit-based taxes — such as personal and corporate income taxes — impose higher economic costs than consumption taxes like the Goods and Services Tax (GST) or Harmonized Sales Tax (HST). To enhance competitiveness, Canada's tax system needs rebalancing because our governments currently rely too heavily on the types of taxes that hurt economic growth the most.⁶ Academic research consistently demonstrates that income and profit-based taxes impose higher economic costs than consumption and property taxes, which have relatively smaller adverse impacts on growth.⁷

International comparisons reveal that Canada's mix of taxes is significantly different than our peers. Including all levels of government, Canada relies more heavily on personal and corporate income taxes than other Organization for Economic Co-operation and Development (OECD) countries, while underusing consumption taxes and other revenue sources with lower economic costs. Personal income taxes account for 37% of Canada's total tax revenue, 13 percentage points above the 24% OECD average (see Figure 1). Consumption taxes comprise only 22% of Canada's tax revenue — 10 percentage points below the OECD average of 32%. A tax structure that relies so heavily on taxing production versus consumption creates structural challenges for economic competitiveness.

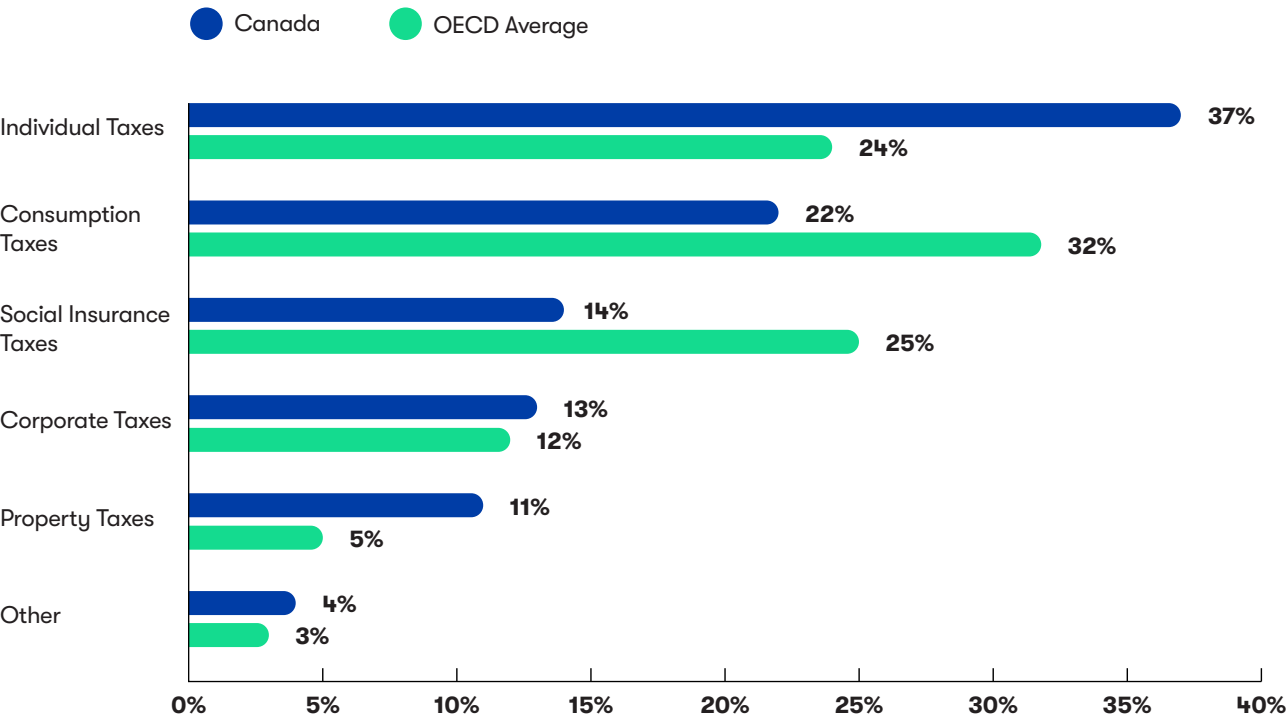
The OECD data in Figure 1 includes all levels of government (national, sub-national, and municipal) to capture the totality of a country's tax system. This is necessary when comparing across countries since taxation responsibilities and government structures vary. If simply looking at the composition

of the federal government's revenue sources in fiscal 2023/24, 47.4% of revenue was raised through personal income taxes, 17.9% through corporate taxes, and 11.2% through the GST.⁸ This reinforces the heavy reliance on personal and corporate taxes compared to consumption taxes.

These differences have real costs. The economic cost of raising an additional dollar of revenue through Canada's federal personal income tax is estimated at \$2.86, and \$2.02 through the federal corporate income tax — costs that exceed those from consumption taxes.⁹ The costs are even more pronounced at the provincial level, with Ontario's economic cost of raising additional revenue estimated at \$6.76 per dollar through the provincial income tax and \$2.62 through the provincial corporate income tax.¹⁰

A more growth-friendly mix would reduce reliance on taxes that discourage productive activity and shift toward more efficient revenue sources. This shift should be implemented in an equitable and fiscally responsible way, protecting vulnerable households while enhancing the economy's overall performance.

Figure 1: Sources of All Government Revenue in Canada and the OECD Average, 2022



Source: Tax Foundation

CPA Ontario recommends:¹¹

Shift the Tax Mix to Rely Less on Harmful Taxes

Canada should gradually reduce its reliance on personal and corporate income taxes and increase revenue from broad-based consumption taxes. This would enhance Canada’s competitiveness and better align our tax structure with international peers.

Shifting from income taxes toward consumption taxes presents political challenges, but reducing economically harmful taxes can have important positive results. Cuts to corporate and personal income taxes typically stimulate investment, job creation, and productivity growth, leading to higher GDP and expanded tax bases over time. These effects help offset initial revenue losses, meaning consumption taxes such as the GST would require smaller increases to maintain fiscal balance.

To address distributional concerns, the government can use enhanced refundable GST credits and targeted transfers that protect low- and middle-

income households. This ensures that tax reform does not disproportionately burden those least able to pay while maintaining the economic benefits of a more efficient system.

A growth-oriented tax mix would create stronger incentives for work, savings, investment, and entrepreneurship, supporting Canada’s long-term economic goals while preserving fiscal sustainability and social equity.

Harmonize Provincial Sales Taxes in Provinces That Have Not

Canada’s fragmented provincial sales tax system adds unnecessary complexity for businesses and undermines the efficiency of the country’s overall tax regime. Provinces such as British Columbia, Saskatchewan, and Manitoba continue to operate standalone provincial sales taxes (PSTs) that are administratively distinct from the federal GST.

Unlike a value-added tax like the GST, these traditional PSTs are often levied on business inputs, creating a hidden “tax-on-tax” that increases production costs, distorts investment decisions, and raises prices for consumers. This creates duplicate compliance burdens, higher costs for investment, and less efficient tax administration.

CPA Ontario recommends encouraging these provinces to harmonize their PSTs with the federal GST to create a HST. This would simplify the tax system by creating a single, value-added tax structure across jurisdictions. The HST avoids the cascading tax effects of traditional retail sales taxes by allowing businesses to claim input tax credits. This reduces the effective tax rate on investment and improves transparency. Research consistently shows that harmonization improves economic efficiency and reduces compliance costs, particularly for businesses operating interprovincially.¹² A more uniform sales tax base also makes tax administration more consistent and predictable.

These reforms would lay the foundation for stronger growth. As Canada faces mounting competitive pressures and stagnating productivity, rebalancing the tax mix is not just an option — it’s a necessity.



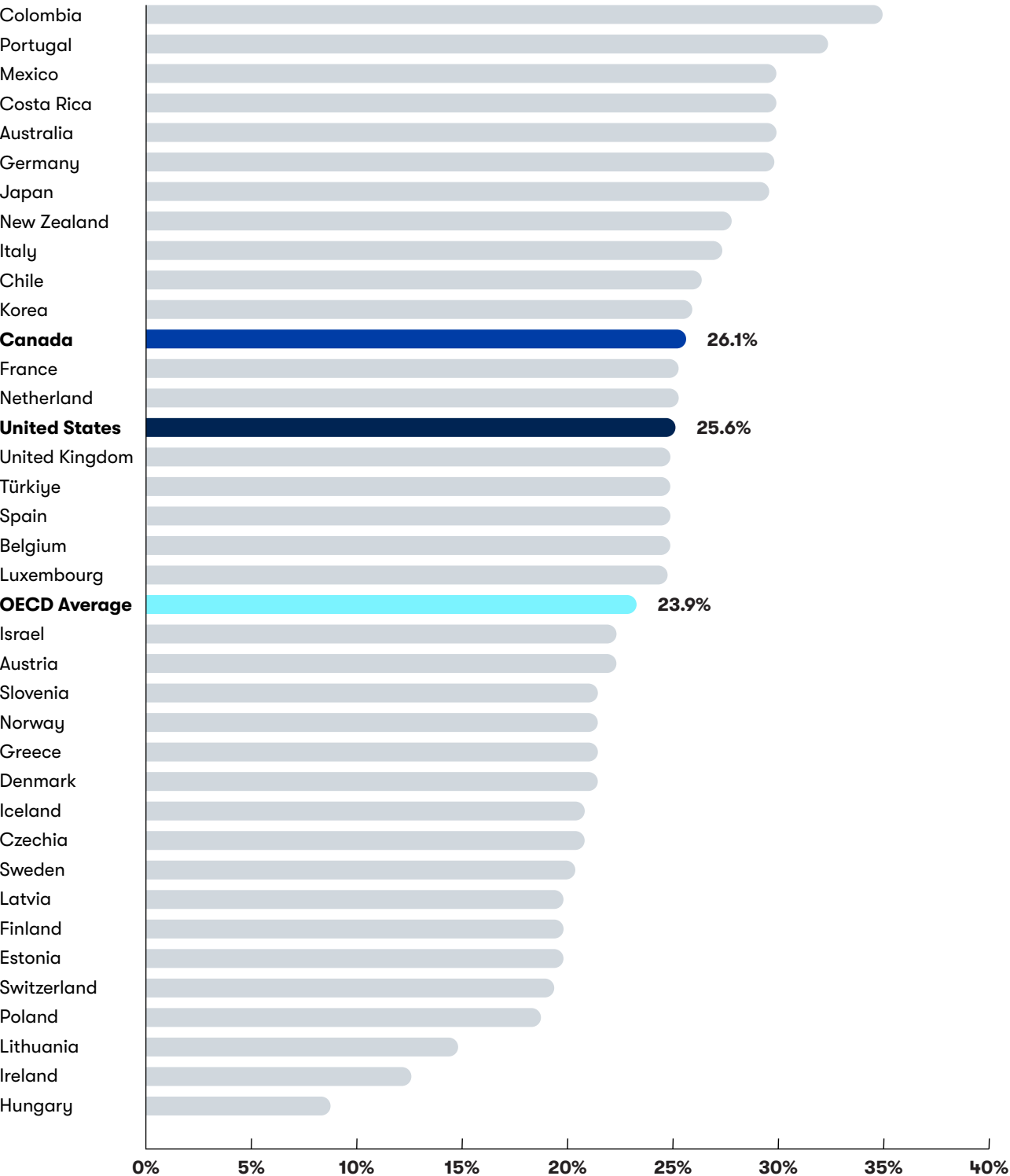
Reform Corporate Income Taxes

Canada's economic growth challenges stem largely from a lack of competitiveness, low productivity growth, and weak business investment.¹³ Labour productivity lags below the OECD average, and at only 72% of the U.S. level; this gap has persisted and widened for decades.¹⁴ Business investment in machines, equipment, technology, and intellectual property (IP) drive productivity, yet Canada consistently lags other advanced nations, ranking 13th out of 17 OECD countries.

Canada's corporate income tax (CIT) system hampers business investment, with relatively higher rates dragging down growth.¹⁵ Figure 2 illustrates combined (federal and sub-national) CIT rates for OECD countries in 2024. Canada's average combined rate of 26.1% is above the OECD average (23.9%) and higher than the U.S. (25.6%) Recent tax changes in the *One Big Beautiful Bill Act* (OBBBA), such as permanently restoring full and immediate expensing for domestic research and experimentation and the 100% bonus depreciation for short lived assets, stand to make Canada's investment climate less competitive relative to the U.S.¹⁶ The administration also struck a deal with the G7 to exempt U.S. multinationals from the OECD's 15% global minimum tax (Pillar 2), potentially giving them a further tax advantage.¹⁷ While not included in the OBBBA, Trump's campaign pledge to lower the federal corporate tax rate to 15% would make the U.S. more attractive for investment vis-à-vis Canada, dropping its average rate to 19.6%.¹⁸

Research from University of Calgary economists Bev Dahlby and Ergete Ferede shows that high CIT rates hurt both capital formation and long-term average living standards.¹⁹ These economists estimate that "a one percentage-point reduction in a provincial government's statutory CIT rate increases the growth rate by 0.12 percentage points four years after the initial CIT rate cut and increases real per capita GDP by 1.2 per cent in the long run."²⁰ Corporate income taxes also impose high economic costs, actively deterring investment, reducing productivity, and suppressing wages.²¹ This reality is recognized by Canada's business community. A 2025 KPMG poll found that 91% of business leaders believe Canada must simplify the corporate income tax system, and 90% agree that Canada must reduce tax rates on investment to stimulate economic growth.²²

Figure 2: Combined General Corporate Tax Rates in OECD Countries, 2024



Source: OECD

Ireland is proof that corporate tax reform can drive economic growth

Ireland offers a compelling case study in the power of corporate tax policy, including an unwavering commitment to a low headline rate. Between 1997 and 2003, Ireland reduced its corporate tax rate from 36% to 12.5%; less than half of Canada's current average combined rate of 26.1%.²³

Once one of Western Europe's poorest countries, the so-called "Celtic Tiger" underwent a dramatic transformation, emerging as one of the region's richest on a per capita basis. In the early 1990s, Canada's real GDP per capita was significantly higher than Ireland's. By the late 1990s, Ireland had overtaken Canada, and today, Irish GDP per capita is roughly double that of Canada's.

It's important to acknowledge that Ireland's economic statistics have faced scrutiny. Economist Paul Krugman famously coined the term "leprechaun economics" after a reported 26% surge in Irish GDP in 2015 (later revised even higher) largely attributed to multinational corporations shifting intellectual property and profits through Ireland for tax purposes.²⁴ Critics argue that such figures overstate the genuine economic gains experienced by ordinary Irish citizens.

Still, the broader economic transformation in Ireland is difficult to dismiss. According to Irish government estimates, the reduction of the corporate tax rate to 12.5% increased the country's gross national product by 3.7%.²⁵ While a low corporate tax rate was central to Ireland's strategy, a key insight is the philosophy behind it. As a 2020 Canadian Tax Foundation analysis noted, Ireland prioritized simplicity and competitiveness in the corporate tax system, favouring low rates over complex tax credits or targeted subsidies.²⁶

Research published in the *Journal of Monetary Economics* found that substantial reductions in the corporate tax, combined with openness to international capital, were associated with large increases in foreign direct investment and economic output.²⁷

Ireland also capped its top marginal tax rate for individuals at 40% and employed policy tools like a patent box regime, offering preferential corporate tax treatment for income derived from qualifying intellectual property developed within the country, to spur innovation within Ireland.²⁸ The tax system helped attract high-value sectors like technology, pharmaceuticals, and financial services, and positioned the country as a preferred destination for multinational investment.

Tax reform alone did not account for the full extent of Ireland's economic transformation; it played a powerful reinforcing role alongside other structural changes. Ireland actively developed a highly educated workforce and fostered a pro-business regulatory environment. It simplified administrative processes for foreign investors and built strong connections between academia and industry. The government aimed to be seen as a reliable and welcoming partner for global companies.

The key lesson from Ireland is that clear rules, competitive rates, and a commitment to simplicity can create a pro-growth environment.

Canada has been down the road of corporate tax reform before. In the late 1990s, economist Jack Mintz led a major review that sparked bipartisan action to improve the country's tax competitiveness.²⁹ Both Liberal and Conservative governments federally, along with many provinces, took action to reduce the combined statutory corporate tax rate from over 42% to today's average of approximately 26%.³⁰

There was broad agreement across party lines that lowering corporate taxes would benefit Canadians by encouraging greater investment.³¹ The reforms made Canada more competitive at the time, but the world hasn't stood still. Canada's combined rate now exceeds the OECD average (see Figure 2) making Canada less attractive for mobile investment.

Who really pays corporate taxes?

Corporate income taxes are levied on businesses, but the economic burden of these taxes ultimately falls on people — consumers, workers, and shareholders. This concept, known as tax incidence, highlights a critical reality: corporations are merely intermediaries that collect and remit taxes, but cannot themselves bear the cost.

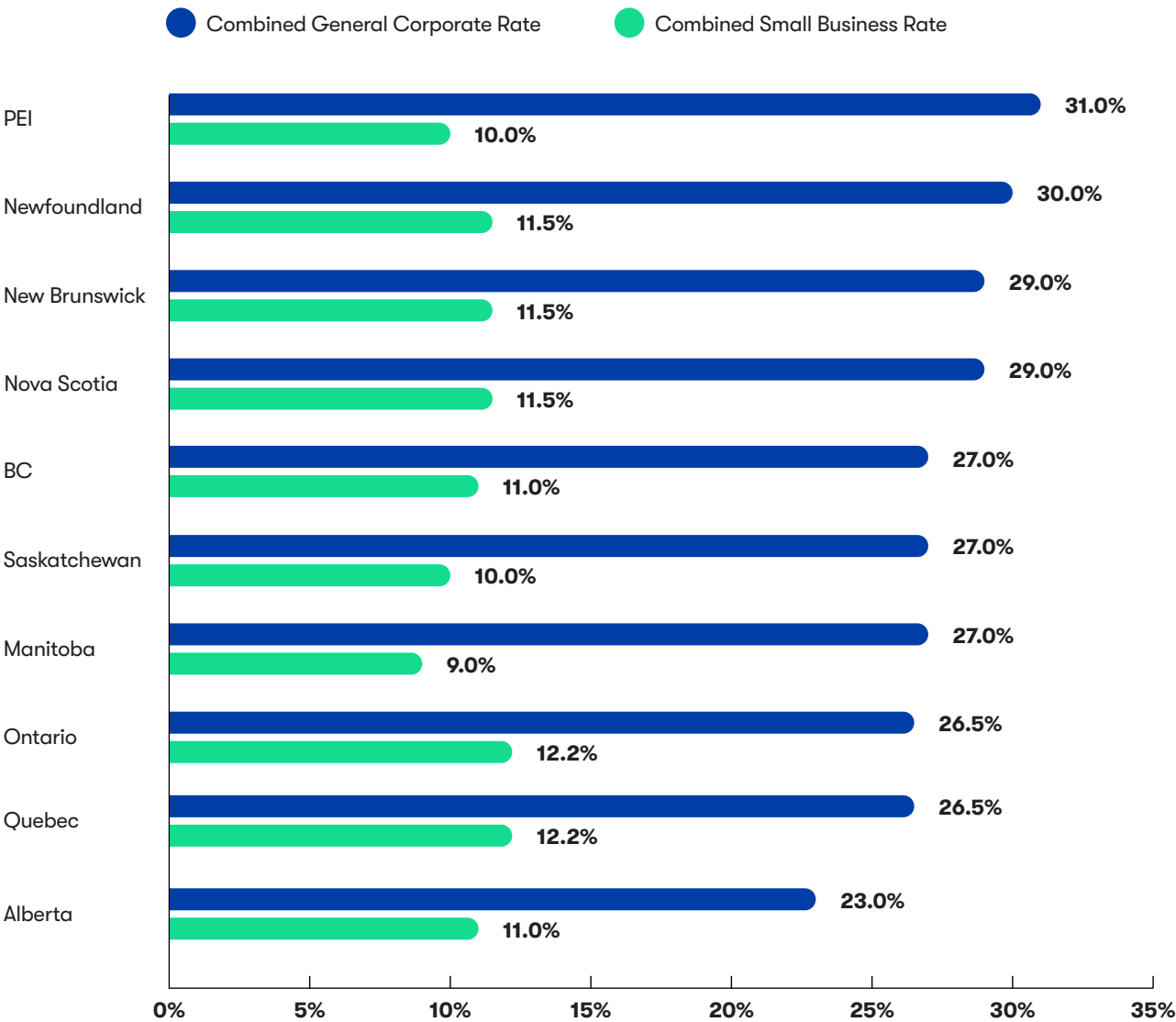
Economists have long debated who bears the lion's share of corporate taxes. In a closed economy, most of the burden was thought to fall on capital owners — wealthier individuals who own shares and collect dividends. But in a small open economy like Canada, where capital and goods move easily across borders, the dynamics change.

Recent research shows that workers actually bear much of the corporate tax burden. When higher corporate tax rates discourage investment, the result is a lower capital-to-labour ratio, reduced productivity, and ultimately, suppressed wages. In fact, University of Calgary economist Ken McKenzie and MacEwan University economist Ergete Ferede find that for every \$1 raised in additional provincial corporate income tax, aggregate long-run wages may fall by almost \$2 in Ontario.³² International research supports this finding, estimating that 38% of the corporate income tax burden falls on workers, 31% falls on consumers, and 31% falls on shareholders.³³

These insights matter. They reveal that corporate taxes are far from a painless way to raise revenue. Instead, they reduce employment and suppress wages, ultimately shifting the burden onto workers. Thoughtful policy reform — one that lowers these economically harmful taxes on capital while preserving government revenues through less distortionary alternatives like consumption taxes — would help minimize hidden costs and better advance the goal of shared prosperity.

Compounding the economic costs of Canada's corporate tax system is the large gap between general and small business CIT rates. The general rate is at least double the small business rate and sometimes triple. In Ontario, the small business rate is 12.2% while the general rate is 26.5%. (Figure 3) This "small business tax wedge" creates a perverse incentive for successful firms to avoid growth and remain below the small business deduction threshold.³⁴ Statistics Canada data shows clustering of firms just below this threshold, indicating that the current structure hinders scaling up, limits job creation, and reduces overall business investment and innovation.³⁵

Figure 3: Combined Small Business and General Corporate Tax Rates in Canadian Provinces



Note: The small business threshold is reached at \$500,000 federally and in all provinces except Saskatchewan where it is reached at \$600,000.
Source: PwC; CPA Ontario Calculations

Put simply, Canada needs comprehensive corporate tax reform to truly boost competitiveness, investment, and productivity. The current federal government seems to recognize this need. The Liberal Party, under Mark Carney’s leadership, signalled their commitment to this in their 2025 campaign platform, stating the government would: “conduct an expert

review of the corporate tax system with a view to transparency, simplicity, sustainability and competitiveness.”³⁶ This is a timely commitment; Prime Minister Carney has an important opportunity to pursue major tax reform that could improve economic growth and spur Canada’s global competitiveness.

CPA Ontario recommends:

Lower the Federal and Provincial General Corporate Income Tax Rates

Cutting the combined general corporate tax rate (reductions both federally and in Ontario) would improve Canada's international tax competitiveness and encourage businesses to reinvest profits.³⁷

Mitigate Disincentives to Small Business Firm Growth

Rather than raise the small business rate, which would be politically challenging, 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.

Make Accelerated Capital Cost Allowances Permanent and Consider Full and Immediate Expensing

Canada's Accelerated Capital Cost Allowance (ACCA) provisions, notably the Accelerated Investment Incentive (AII), were introduced to boost business investment by allowing faster depreciation of capital assets. Implemented in 2018 in response to similar American provisions in the 2017 *Tax Cuts and Jobs Act* (TCJA),³⁸ the AII enables firms to recover capital costs more quickly, enhancing cash flow, and encouraging reinvestment.

Initially set to phase out between 2024 and 2027, the 2024 federal Fall Economic Statement (FES) proposed extending the AII for property acquired on or after January 1, 2025, and available for use before 2030, with a four-year phase-out commencing in 2030.

Research from the U.S. and other countries shows these initiatives can effectively spur investment and job creation, although poorly designed accelerated write-offs can introduce additional distortions in the tax system.³⁹

The federal government should fully restore accelerated capital cost allowances and make them permanent. In light of recent changes in the U.S. it 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 spreading costs over multiple years. Doing so would lower the marginal effective tax rate on investment and improve the incentives for capital formation.

Explore Distributed Profits Taxation

One promising approach to corporate taxation is the distributed profits model used by Estonia (For more on the Estonia Model see "Estonia - A model for "big bang" tax reform in Canada?" in section VII).⁴⁰ Under this system, 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.⁴¹

This approach creates a powerful incentive for businesses to reinvest earnings into growth, innovation, and productivity-enhancing capital expenditures rather than distributing them immediately. It removes the tax penalty on reinvestment and better aligns with pro-growth economic policy.

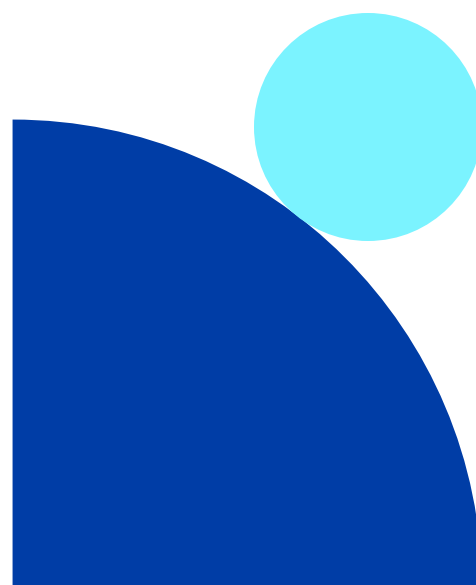
Given Canada's weak investment and productivity crisis, a distributed profits tax is a bold policy worth exploring. It is especially relevant as traditional capital cost allowance-based incentives (like accelerated depreciation) phase out. A distributed profits tax approach negates the need for initiatives like full expensing for new investments.⁴² CPA Ontario recommends considering the Estonia model as part of a broader corporate tax review or Royal Commission.

Together, these changes would simplify corporate taxes, spark investment, and catalyze long-run economic growth.

Implement Group Corporate Taxation

Canada should review and consider implementing consolidated group corporate taxation, an approach used in some form in all G7 countries, including the United States.⁴³ In the U.S., an affiliated group of companies, including a parent and subsidiaries that are at least 80% owned,⁴⁴ can file a federal income tax return together.⁴⁵ This lets firms within the consolidated group offset the losses of one firm with the profits of another.

Allowing corporate income to be taxed this way has real economic benefits. First, it would reduce the overall tax liability on firms since there is currently no allowance for loss sharing. This means capital that could be reinvested into productivity-enhancing machines, equipment, and IP is paid to taxes instead, making Canada less attractive for investment. Group consolidation could reduce costly tax compliance paperwork by eliminating multiple filings and intercompany documentation. Finally, group taxation could eliminate inefficiencies where tax benefits, like available credits, go unused because an individual firm may not be eligible, but a consolidated group could be.



Reform Personal Income Taxes



Canada's personal income tax (PIT) system is increasingly out of step with international best practices. It's perhaps unsurprising that 88% of CPA Ontario members think reforming the personal income tax system is important.⁴⁶

Canada's PIT rates are among the highest in the OECD, and top rates kick in at comparatively low levels of income. This combination creates a system that directly hampers our ability to attract and retain top talent, with significant economic consequences. In the context of intense global competition for skilled labour, particularly with the United States, Canada's high marginal tax rates are a significant barrier to growth, innovation, and entrepreneurship.⁴⁷ The profession's concern reflects this reality: 72% of CPA Ontario members believe federal marginal personal income tax rates are too high, and 63% express the same concern about Ontario's provincial rates.⁴⁸

In a 2024 assessment among OECD countries, Canada's personal income tax competitiveness ranked 31st out of 38.⁴⁹ To fully grasp the severity of Canada's ranking, consider Figure 4, which compares top combined marginal personal income tax rates across Canadian provinces and U.S. states. Eight of the nine provinces and states with combined top marginal tax rates over 50% are Canadian. Even Saskatchewan, the Canadian province with the lowest top marginal tax rate, ranks as the 15th highest overall at 47.5%. In Ontario, the top combined marginal personal income tax rate is 53.5%, while in neighbouring Michigan, it's only 41.3%, and in Pennsylvania it's 40.1%

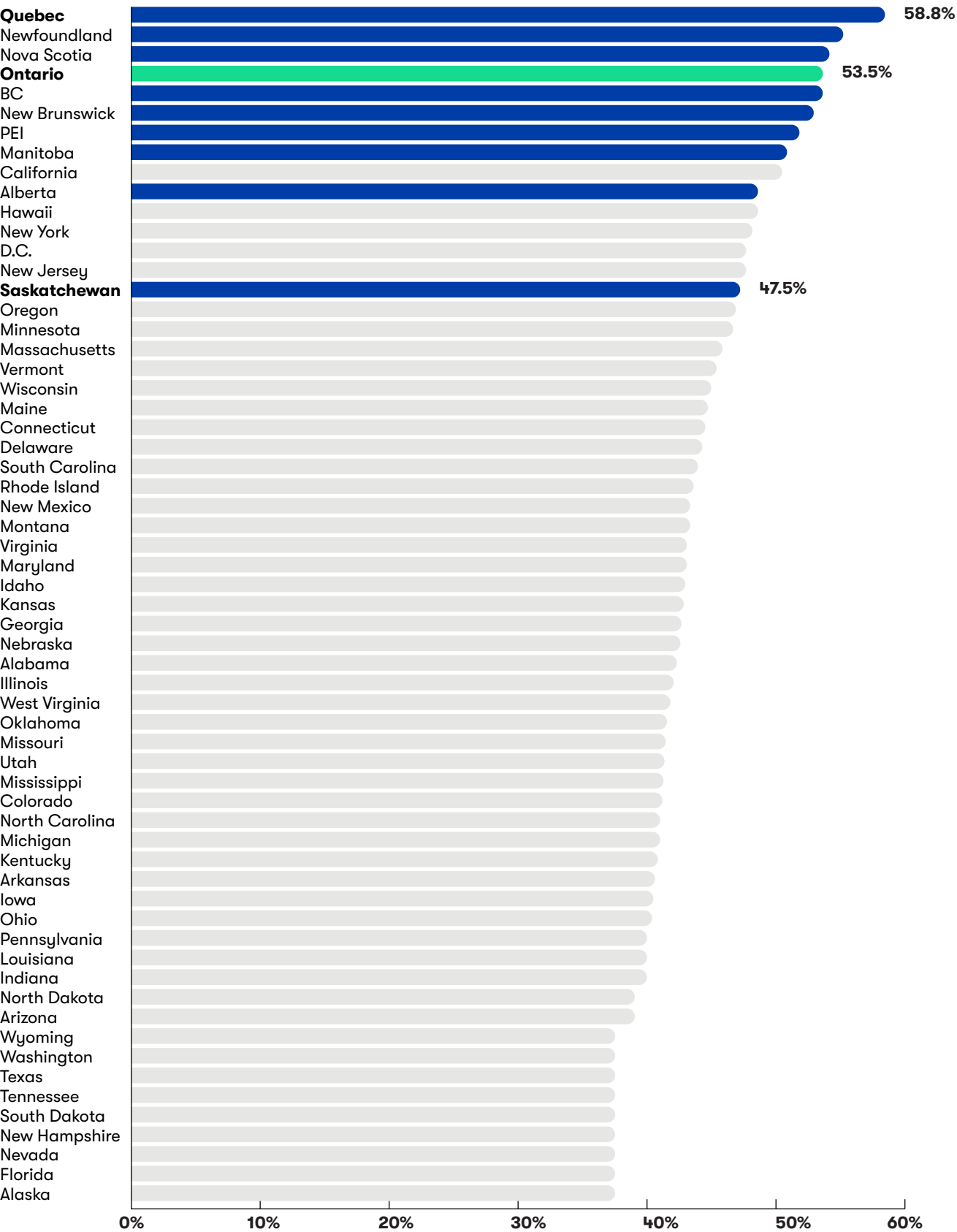
Canada's top marginal PIT rates are not just uncompetitive with the U.S.; among 38 OECD countries Canada has the fifth-highest top combined marginal tax rates (see Figure 5). Canada's and Ontario's top rate of 53.5% is more than 10 percentage points above the OECD average of 42.7% and much higher than the U.S. average (43.7%).

In addition to Canada's high top marginal income tax rates, these rates apply at relatively low income thresholds. This is recognized by the profession; 66% of CPA Ontario members agree that income thresholds for federal marginal tax rates should be increased.⁵⁰

Consider that Ontario and California have roughly similar combined top marginal tax rates at 53.5% and 50.3%, respectively. However, Ontario's top rate begins at \$253,414 CAD which is the income threshold for the top federal income tax rate, whereas California's top rate starts at approximately 1.37 million CAD. California's state personal income tax rates are indexed for inflation, while Ontario's top provincial income tax rates are not.⁵¹ In the case of New York, where the top combined marginal tax rate is 47.9%, the state's top rate only kicks in on income over \$34 million CAD — though like Ontario, New York's state rates are not indexed for inflation.^{52, 53}

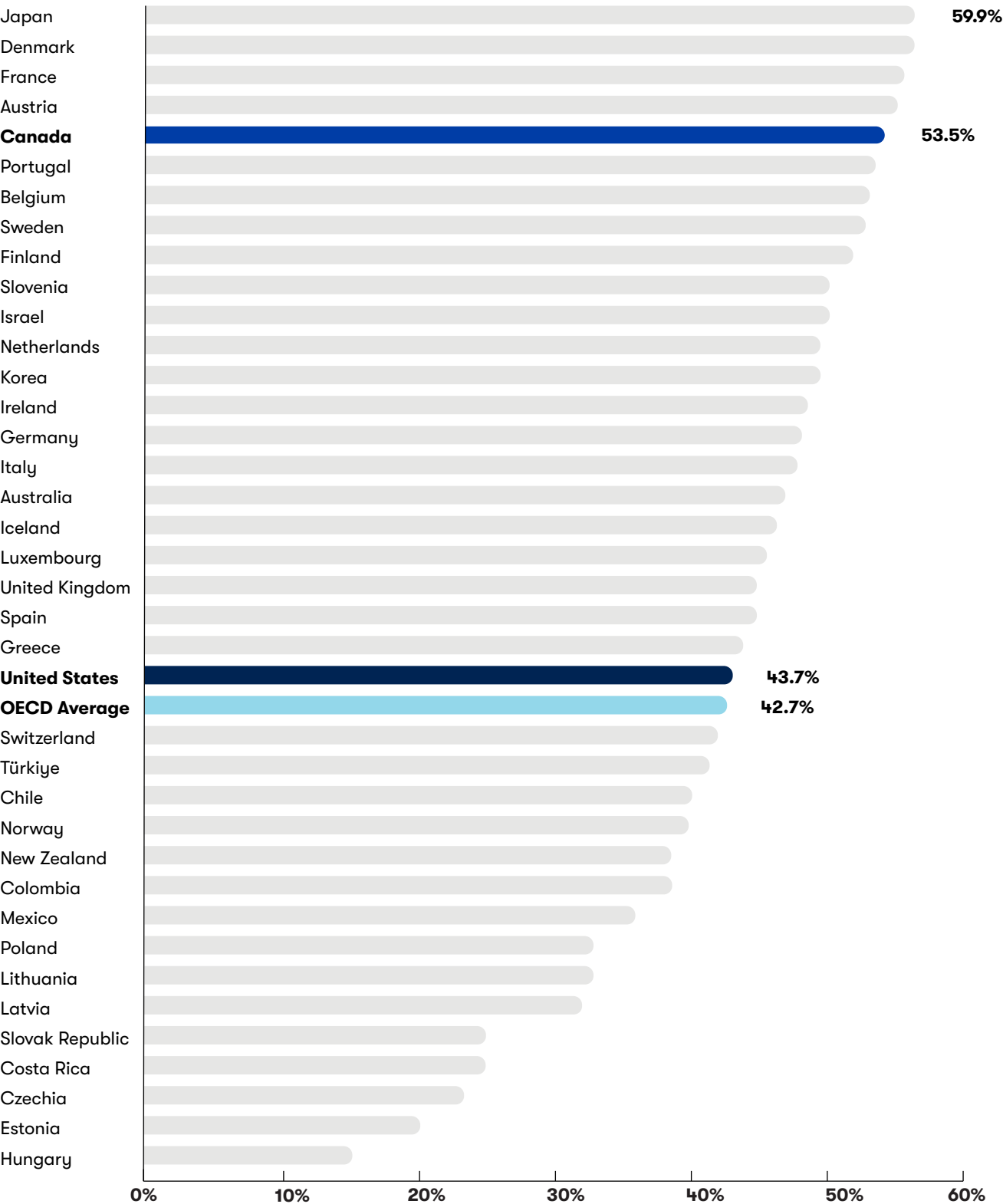
Federally, Canada's top rate of 33% kicks in at \$253,414 CAD (see Table 1), while the U.S. top federal rate of 37% begins at over \$626,350 USD or approximately \$865,000 CAD.

Figure 4: Top Combined Marginal Income Tax Rates in Canadian Provinces and U.S. States, 2025



Source: Tax Foundation; IRS; Government of Canada; CPA Ontario calculations

Figure 5: Top Combined Marginal Income Tax Rates in OECD Countries, 2024



Source: OECD Data Explorer

Table 1: Federal Personal Income Tax Rates and Thresholds, 2025

Tax Rate	Starting Income	Ending Income
14.5%	\$0	\$57,375
20.5%	\$57,375	\$114,750
26.0%	\$114,750	\$177,882
29.0%	\$177,882	\$253,414
33.0%	\$253,414	And up

Source: CRA
Note: The reduction of the lowest tax rate to 14% takes effect mid-year on July 1, 2025, resulting in an effective tax rate of 14.5% for the full year.

Table 2: Ontario Tax Rates and Thresholds, 2025

Tax Rate	Starting Income (CAD)	Ending Income (CAD)
5.05%	\$0	\$52,886
9.15%	\$52,886	\$105,775
11.16%	\$105,775	\$150,000
12.16%	\$150,000	\$220,000
13.16%	\$220,000	And up
Surtax Rates		
Surtax Rate	20%	36%
Surtax is on Ontario tax greater than	\$5,710	\$7,307
Surtax starts at taxable income of	\$93,132	\$109,727

Note: The surtaxes are additive and the total surtax is 56%.
Source: PwC; TaxTips.ca

Magnifying the PIT challenge is the fact that Ontario levies a surtax on personal income tax, effectively adding two additional layers to its marginal rate structure (see Tables 2 and 3). These surtaxes apply once an individual’s Ontario tax liability exceeds certain thresholds, increasing the province’s already high top marginal tax rate. The result is a system that lacks transparency and adds unnecessary complexity, and the lack of inflation indexation for the top two brackets in the provincial tax system results in “bracket creep.”

Table 3: Ontario Combined Rates with Surtax, 2025

Taxable Income Level	Ontario Combined Tax Rate
first \$52,886	19.55%
over \$52,886 up to \$57,375	23.65%
over \$57,375 up to \$93,132	29.65%
over \$93,132 up to \$105,775	31.48%
over \$105,775 up to \$109,727	33.89%
over \$109,727 up to \$114,750	37.91%
over \$114,750 up to \$150,000	43.41%
over \$150,000 up to \$177,882	44.97%
over \$177,882 up to \$220,000	48.29%
over \$220,000 up to \$253,414	49.85%
over \$253,414	53.53%

Source: TaxTips.ca

Canada's high personal income tax rates and low income thresholds reduce competitiveness and growth. Nearly two-thirds of the profession agree: 64% of CPA Ontario members believe Canada's income tax system inhibits economic growth.⁵⁴ Volumes of economic research consistently show that top global talent is highly responsive to marginal tax rates, especially in mobile sectors like tech and finance.⁵⁵ High top income tax rates are negatively related to entrepreneurship within Canada, while lower tax rates increase the likelihood of top innovators moving into a country, with positive impacts on patenting activity and innovation intensity.⁵⁶

Put simply, jurisdictions with competitive personal income tax regimes are more likely to attract and retain the talent essential for a prosperous economy.

Canada's punitive tax thresholds are pushing skilled workers to jurisdictions with more favourable taxes, weakening Canada's skilled talent pool.

At first glance, reductions to top income tax thresholds may seem to primarily benefit high-income earners. In reality, more competitive personal income tax rates offer broad-based advantages. By encouraging investment, attracting and retaining skilled professionals, and fostering entrepreneurship, these rates contribute to job creation, higher wages across the income spectrum, and a broader tax base. Ultimately, a more competitive personal income tax system strengthens Canada's economic foundation, driving the sustained growth needed to support public services and enhance living standards for all Canadians.

Canada's reliance on high-income earners

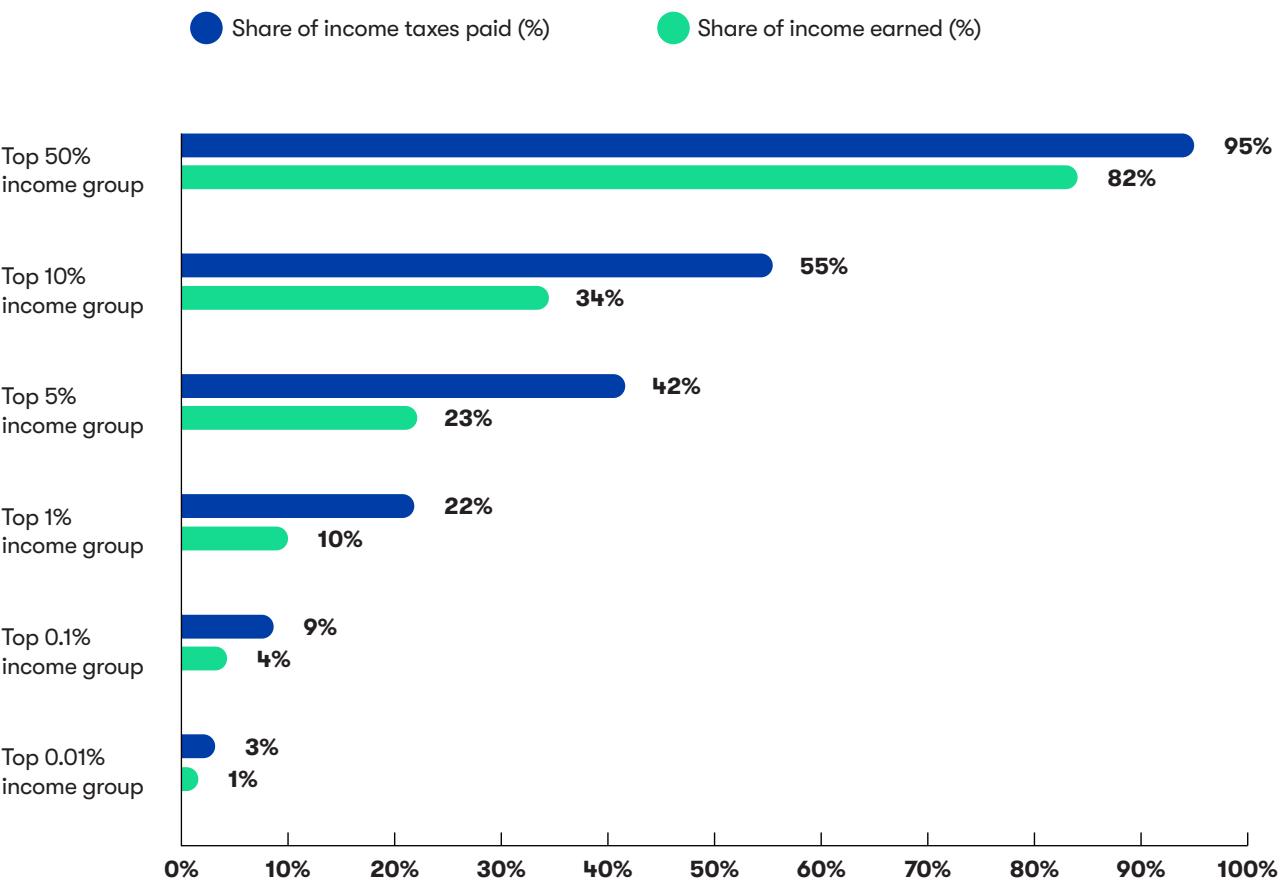
Canada's tax system, while progressive, relies quite heavily on top earners, a point often overlooked in discussions about "fair share" taxation. Statistics demonstrate that high-income Canadians already contribute a disproportionately large share of personal income tax revenue (see Figure 6). For instance, the top 10% of income-earners pay 55% of all personal income taxes, despite earning 34% of the total income. The top 1% alone contributes 22% of all income taxes while earning 10% of all income. The reliance on a relatively small segment of the population to drive the majority of tax revenue means that further increasing their tax burden could have unintended and serious effects on the economy.

A substantial body of research shows that persistently high personal income tax rates can 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.⁵⁷ This outflow of talent and capital stifles domestic innovation, productivity growth, and ultimately, economic prosperity. And, in an environment where top earners are responsible for contributing such a high percentage of tax revenue, this is a precarious trend.

This is why reducing the top marginal personal income tax rate should not be viewed narrowly as a "pro-rich" policy. Rather, it should be considered a strategic measure to enhance Canada's economic competitiveness, foster growth, and retain the very individuals — highly skilled professionals, entrepreneurs, and innovators — who make a significant contribution to the country's tax base.

At the same time, it's important to recognize that many lower- and middle-income Canadians effectively pay little or no net federal or provincial income tax. This outcome is largely due to a combination of deductions, non-refundable tax credits such as the basic personal amount, and income-tested benefits that can offset or even exceed their tax liabilities. While a progressive tax system rightly expects higher earners to shoulder a larger share of the burden, determining the appropriate level of that burden requires careful consideration of economic impacts, behavioural responses, and long-term fiscal sustainability.

Figure 6: Share of Federal and Provincial Income Taxes Paid by Income Group, 2022



Source: Statistics Canada

CPA Ontario recommends:

Cut Top Marginal Personal Income Tax Rates

Federal and provincial governments should work together to reduce the combined top marginal rate to ensure no province exceeds the 50% threshold. The Royal Commission on Taxation in the 1960s, commonly referred to as the Carter Commission, identified the 50% threshold as a psychological barrier, where it was problematic for encouraging work if an individual would take home less than half of the next dollar they earn.⁵⁸ While reducing top marginal tax rates below this threshold is a good first step, governments should then be bolder and look to bring Canada's rates in line with the U.S. and OECD peers.

Increase Income Thresholds

The income levels at which individual tax rates apply must be raised. One option is to align thresholds more closely with international norms, mitigating disincentives to work and invest while preserving Canada's tax progressivity.

Flatten the System

The number of tax brackets should be reduced both federally and provincially. This can be done in a revenue neutral way. Tables 1-3 illustrate how complex the combination of brackets and surtaxes are both federally and provincially. A flatter personal income tax system — characterized by fewer tax brackets — can offer several economic and administrative advantages. Simplifying the tax

structure lowers compliance costs for individuals and businesses, minimizes distortions in work and investment decisions, and makes the Income Tax Act more transparent and predictable. Empirical studies suggest that lower and flatter tax structures can enhance incentives to work, save, and invest.⁵⁹ Currently, Canadian provinces and territories average five tax brackets, while 23 U.S. states have either flat or no personal income tax beyond the federal system.

Simplify Ontario's Personal Income Tax System

Ontario should eliminate its two surtax brackets, which obscure effective tax rates and increase complexity. Instead, marginal rates could be adjusted to maintain revenue neutrality while enhancing clarity and transparency.

Index Ontario's Personal Income Tax Income Thresholds to Inflation

Ontario should index its top two personal income tax thresholds to inflation to match the treatment of other provincial tax brackets.⁶⁰ This is a simple way to protect taxpayers in these income groups from “bracket creep,” in which modest, cost-of-living pay increases push individuals into higher tax brackets even though their real purchasing power hasn’t grown. By automatically adjusting the top two income thresholds each year to inflation, Ontario would prevent unintended annual tax increases, safeguard all households equally, and enhance the province’s competitiveness, without altering statutory rates. By raising the top two income thresholds each year at the same rate of overall price increases, this approach ensures that inflation itself doesn’t become a hidden tax on Ontarians.

Collectively, these reforms would make Canada more attractive for entrepreneurs, investors, and high-skilled professionals. A fairer, flatter PIT system would also reduce tax avoidance incentives, encourage work, and support economic dynamism.

Reform Capital Gains Taxes



Canada's approach to capital gains taxation received considerable debate following the 2024 federal budget proposal to increase the inclusion rate from 50% to 66.67% for gains over \$250,000 for individuals, and all gains for corporations and trusts.⁶¹ This move caused immense uncertainty, and risked hampering Canada's investment climate and losing entrepreneurs to other countries.⁶² Over two-thirds (67%) of CPA Ontario members opposed the increase.⁶³ The Carney government should be commended for retracting the capital gains tax inclusion rate increase. However, there is an opportunity to make the country more attractive to innovators, entrepreneurs, and mobile capital.

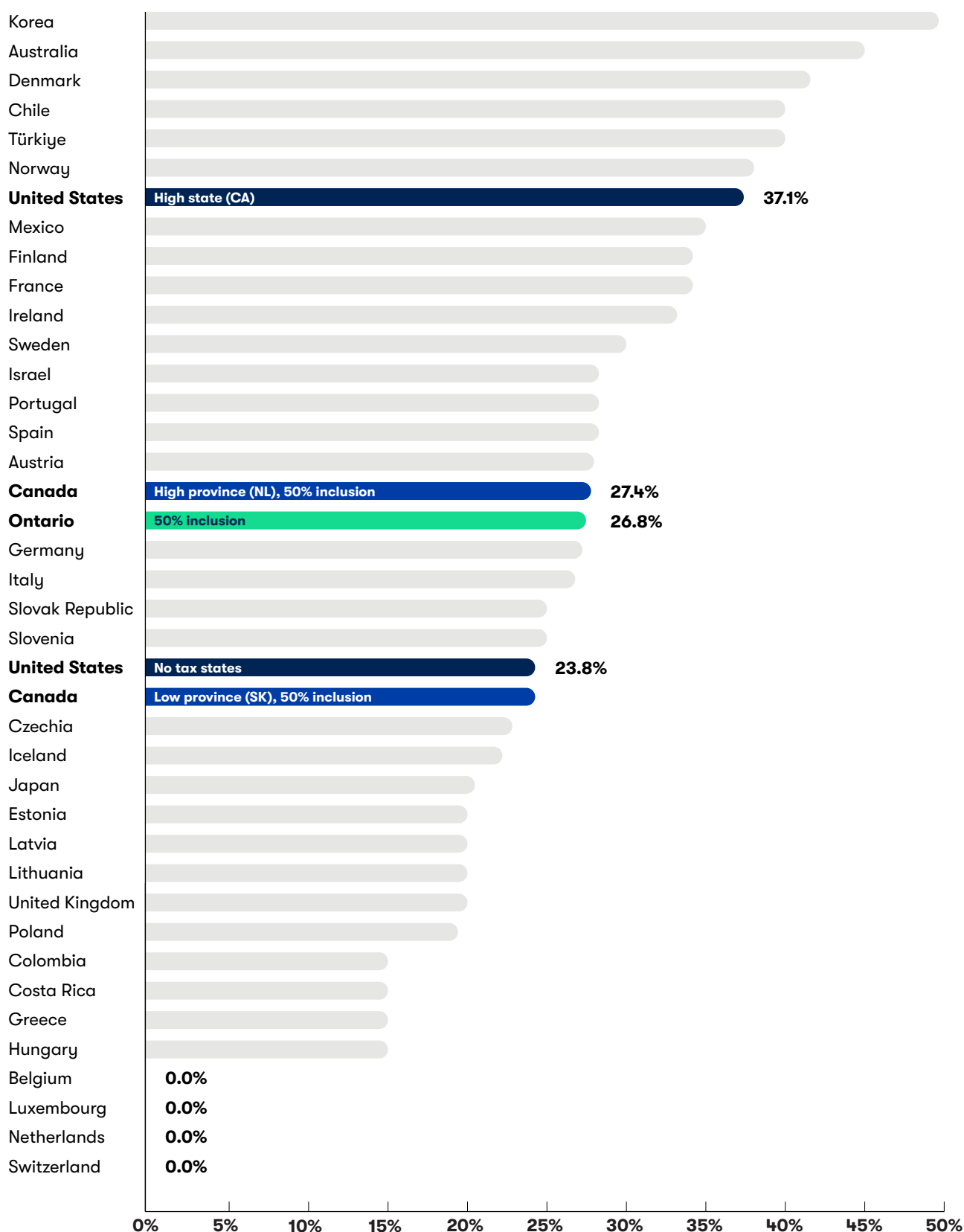
In Canada, 50% of capital gains are included in taxable income and taxed at the individual's marginal tax rate. This means that tax rates vary by province and income levels. As seen in Figure 7, even Saskatchewan, the Canadian province with the lowest top capital gains rate (23.8%), is only in the middle of the pack in terms of tax rates on capital gains among OECD countries. Ontario's top rate is higher still at 26.8%

High capital gains taxes discourage long-term investment and entrepreneurial activity, particularly in sectors that rely heavily on venture capital and private equity like technology and innovation.⁶⁴ Research by economist Douglas Cumming estimates that had the federal government raised the inclusion rate, venture capital deals would have fallen by 20% and private equity investment by nearly 50%.⁶⁵

Economic research shows that taxes on capital are among the most economically damaging ways for governments to raise revenue, as they tend to lock in capital, causing it not to be deployed to its most efficient uses.⁶⁶ While some countries like the US, UK, and Australia have broad rollover provisions whereby reinvested capital gains are not subject to tax, Canada maintains very narrow options.

As Canada aims to stimulate business investment, innovation, and entrepreneurship, reforming capital gains taxation is a key consideration. But capital requires long-term certainty. With this in mind, any changes should be permanent rather than temporary, to provide the needed stability.

Figure 7: Top Capital Gains Tax Rates in OECD Countries, 2024



CPA Ontario recommends:

Maintain Commitment to Not Raising the Inclusion Rate and Consider Reducing It

In the 2000 federal budget, when then Finance Minister Paul Martin lowered the capital gains inclusion rate, he acknowledged that this tax was acting as a deterrent to investment and economic growth.

“The high-technology sector and other fast-growing industries are particularly important to Canada’s future economic growth. Our tax system must be conducive to innovation, and must ensure that businesses have access to the capital they need in an economy that is becoming increasingly competitive and knowledge-based. An examination of the taxation of capital gains in Canada suggests that this objective would be better achieved with a reduction in the inclusion rate...” ⁶⁷

This argument is still true today. If Canada wants to have a robust innovation economy, it must reckon with how capital gains taxes lock in capital and discourage business investment. While reversing the planned increase in the inclusion rate was an important first step, the government should consider lowering the inclusion rate to spur innovation and investment.

Broaden Rollover Provisions for Reinvested Gains

Canada should introduce a broad capital gains tax rollover provision.⁶⁸ Rollover provisions allow investors to defer taxation on realized capital gains if the proceeds from the sale are reinvested in another qualifying asset within a specified time frame. A rollover does not eliminate the tax liability; it simply postpones (or defers) it until the new asset is sold. This approach recognizes the economic value of reinvestment and removes the disincentive to shift capital towards more productive uses. In effect, rollovers facilitate the dynamic allocation of capital, which is vital in a rapidly changing innovation economy.

Many advanced economies already offer rollover relief.⁶⁹ The United Kingdom provides business asset rollover relief, allowing businesses to defer capital gains taxes if the proceeds are reinvested in other qualifying assets.⁷⁰ In Australia, capital

gains tax rollovers were introduced in 1999 and have encouraged more active merger and acquisition activity, particularly where “share consideration” is used instead of cash.⁷¹ Historically, the United States allowed like-kind exchanges under Section 1031 of the Internal Revenue Code, particularly in real estate, to defer gains on reinvested property.⁷²

In Canada, the Trudeau government’s 2024 Fall Economic Statement proposed an expanded capital gains rollover provision (Section 44.1) for eligible small business shares, with a reinvestment window of up to one year.⁷³ Although a step in the right direction, this proposal remains too narrow in scope, restricted by firm size, asset caps (currently \$50 million, proposed to be raised to \$100 million), and a limited definition of qualifying assets. These design choices risk excluding many transactions and further adding distortions to Canada’s tax system.⁷⁴

CPA Ontario recommends broadening the rollover framework to more classes of shares and securities and avoiding arbitrary firm-size and assets caps. Given the current Canadian investment climate, the government may consider making the rollover provisions preferential to Canadian firms and investments. Such a move may add to complexity, but with careful design considerations, this type of provision could spur investment in Canadian firms. 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.

Spur Innovation Through Tax Policy



As economies shift from traditional production to knowledge-based industries, investments in innovation and intangible assets are increasingly key drivers of economic growth.⁷⁵ Yet, Canada's investment in business R&D and information and communications technology (ICT) is middling compared to other OECD countries, as is its patent applications per million people.⁷⁶ Among surveyed CPA Ontario members, 75% agree that the innovation economy is underperforming.⁷⁷

Canadian firms are also challenged in their ability to commercialize their intangibles after initially developing their intellectual property (IP). In fact, CPA Ontario members believe that the top challenge in the underperforming innovation economy is that Canada is good at invention, but not at commercializing innovations.⁷⁸

Tax policy, as a key lever in the innovation ecosystem, must be modernized to stimulate both upstream R&D and downstream commercialization.

The scientific research and experimental development (SR&ED) program has long been the centrepiece of Canadian innovation policy, offering refundable and non-refundable tax credits for research and development (R&D) expenditures. However, several systemic issues have emerged from this program.

First, the program is overly complex and costly to access. For small firms to navigate the application process, many hire consultants, and the average fees paid is about 12.5% of the value of the credit.⁷⁹ This not only reduces the effective benefit of the program but also reveals the burdensome compliance requirements that deter participation, especially among newer or leaner firms.

Second, the structure of the SR&ED credit does not align with where the greatest innovation spillovers occur. Currently, small Canadian-controlled private corporations (CCPCs) can receive a 35% refundable credit on the first \$3 million in qualifying expenditures, while large firms are limited to a 15% non-refundable credit. According to research by Kim and Lester, each dollar spent on R&D by large firms produces \$0.52 in spillovers, compared to only \$0.19 from small firms.⁸⁰

Third, the SR&ED investment tax credit also excludes key types of expenses that are essential to the innovation process, such as patenting costs, capital expenditures, and outsourced R&D beyond a restricted threshold. For fast-growing firms commercializing their IP, these omissions are particularly limiting.

Fourth, the enhanced refundable tax credit rate is only available to small private firms. Once firms go public or exceed the \$10-\$50 million taxable capital phase out threshold, they lose access to the higher benefit, creating a disincentive to grow and list on public markets. Notably, the Trudeau government's 2024 FES proposed increasing the taxable capital phase out threshold to \$15-\$75 million and extending the enhanced refundable SR&ED credit to Canadian public corporations.⁸¹ But those changes were not ambitious enough and never came into effect.

Reform the Scientific Research and Experimental Development Tax Credit

Streamline the application process: The federal government should simplify the application process to make it easier for qualifying businesses to access and navigate the SR&ED program. This applies to both the basic investment tax credit of 15% and enhanced refundable tax credit of 35%. Reforming the application process to make administration easier should expedite processing times.

Review qualifying R&D expenditure rules: 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 firms.

Increase the expenditure limit of the enhanced refundable tax credit: The current expenditure limit of \$3 million for a given firm should be significantly increased to reflect inflationary increases and the rising cost and importance of innovation.

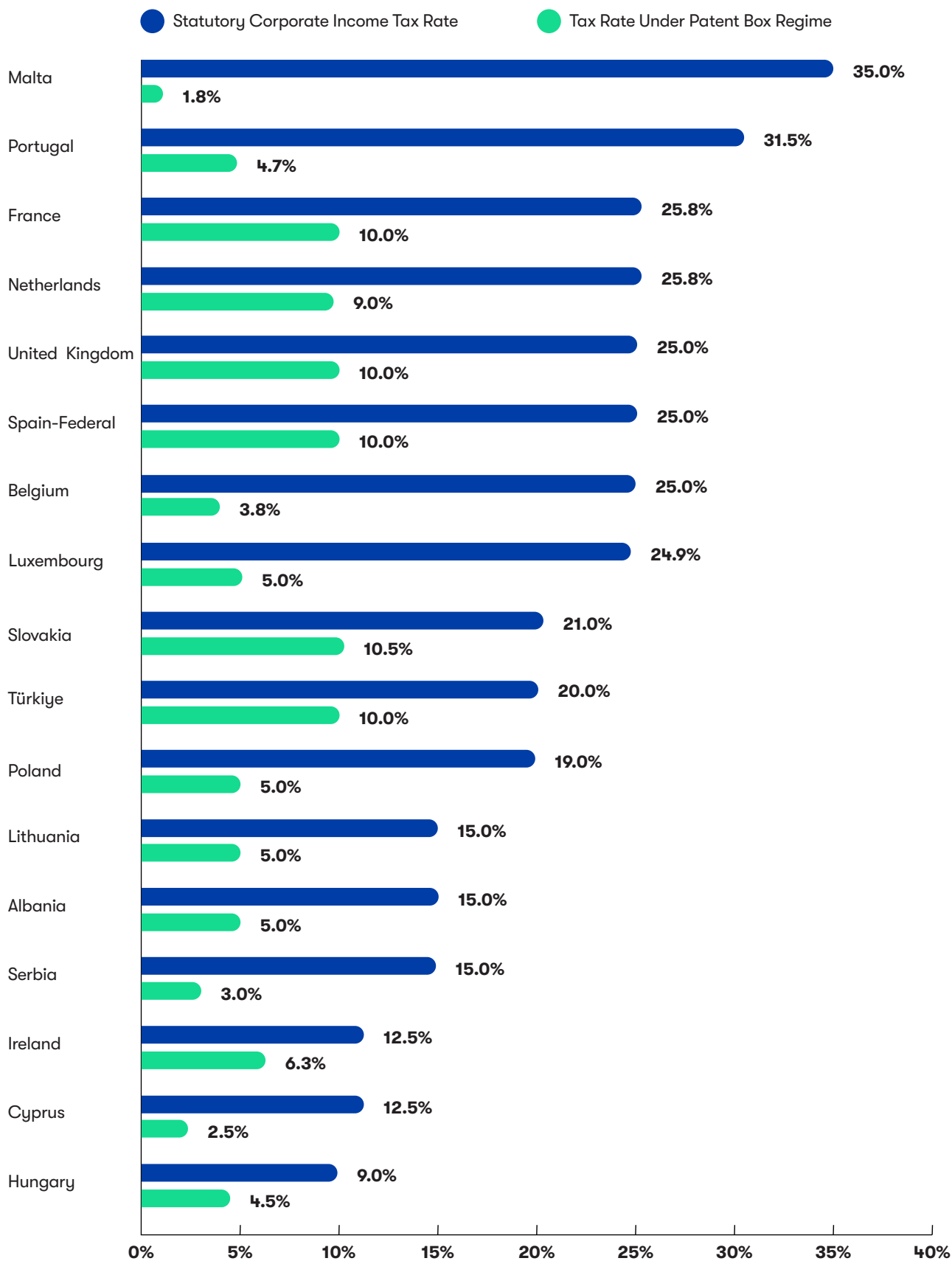
Expand eligibility of the enhanced refundable tax credit: To better align support with the scale of spillovers generated, expand eligibility to allow public companies and larger firms with taxable capital significantly above the current phase-out threshold to qualify for the enhanced investment tax credit. While support should continue to phase out as taxable capital increases, the phase-out threshold should be raised to ensure meaningful support reaches the firms generating the greatest impact. In designing the expanded eligibility, consideration should be given to prioritizing Canadian firms (i.e. those listed on domestic exchanges and not controlled by non-residents).

Introduce a Patent Box System to Incentivize Commercialization

Canada should move forward on its commitments in the 2024 FES and in the Liberal Party's recent election platform to create a domestic patent box regime.⁸² A patent box offers a preferential corporate tax rate on income derived from intellectual property developed in Canada. This policy would encourage firms to retain their IP and associated revenue streams within Canada, rather than shifting them to lower-tax jurisdictions. Several OECD countries already operate such regimes, and, on average, these policies provide 15 percentage points of tax relief to IP-derived income (see Figure 8).

While patent box regimes have mixed results in encouraging innovation and commercialization, the government should apply best practices and lessons learned from other countries to maximize the benefits when setting up the system in Canada.⁸³ A key insight is to make qualifying income definitions broad and to ensure that the income is derived from innovation occurring within the country.⁸⁴ Crucially, the IP must be linked to R&D activities performed in Canada, ensuring that the tax benefit is tied to domestic economic activity. By offering this incentive, Canada can both attract foreign investment in R&D and retain a greater share of the resulting value domestically.

Figure 8: Corporate Tax Rate vs Tax Rate Under Patent Box Regime in Europe, as of July 2023



Simplify the Income Tax Act



Tax reform in Canada must prioritize simplification, a view overwhelmingly supported by the profession. In fact, 84% of CPA Ontario members believe the country's income tax system is overly complex and urgently requires simplification.⁸⁵ These concerns are valid, and addressing this complexity is an essential step toward broader reform since complexity translates into unnecessarily high compliance costs, which weaken the country's competitiveness. It also increases administration costs for government.

Over the years, Canada's Income Tax Act has become incredibly complicated, with the Act now nearly 3,700 pages long.⁸⁶ When introduced in 1917, the Act consumed just 44 pages.⁸⁷ Data from the federal Department of Finance, which tracks administrative burdens, shows that as of June 2024, there were 2,051 tax and fuel charge regulations administered by the federal department alone, reflecting an increase of over 200 new regulations since 2014.⁸⁸ When adding the 1,824 regulations administered by the Canada Revenue Agency (CRA) in 2024, the total reaches 3,875 regulations directly associated with the tax system and its administration.⁸⁹

Additionally, the federal government publishes an annual report detailing the estimated fiscal impact of federal tax expenditures.⁹⁰ This report has also grown over time, from 121 pages in 1995 to 424 pages in 2025.⁹¹

Taken together, this complexity not only burdens taxpayers but hampers competitiveness and economic growth by introducing uncertainty, increasing compliance costs, and diverting resources away from productive activities. In response to complex tax rules, firms tend to hold larger cash

reserves.⁹² This is capital that could be reinvested into innovating, scaling, purchasing new tools, or training workers.

Tax complexity is particularly damaging for small businesses and individuals who don't have the resources needed to navigate an increasingly labyrinthine tax regime. A recent study found that the compliance costs associated with personal income tax filings in Canada alone (excluding corporate tax compliance) reached \$4.2 billion in 2022, equivalent to roughly 0.15% of GDP.⁹³ Compliance complexity disproportionately affects lower-income Canadians, who often lack access to professional tax advice, compounding economic inequity.

While metrics such as the number of pages in the Income Tax Act or the volume of tax expenditures offer a surface-level measure of complexity, they fail to capture the more consequential dimension: the uncertainty and difficulty taxpayers face in interpreting and complying with tax rules. This includes challenges in understanding the intent behind tax changes, how they are implemented, and whether they achieve their intended outcomes.

In particular, the growing frequency and ambiguity of recent tax rule changes — such as the Tax on Split Income (TOSI), passive investment restrictions within private corporations, and new trust reporting requirements — have introduced significant uncertainty. This has eroded business confidence and complicated economic decision-making, especially for those trying to navigate an already complex system.⁹⁴

These are just some of the changes that have occurred in the past several years. Other legislative changes have further compounded complexity while producing unintended effects (see *Appendix 1 – Recent Federal Tax Changes that Add Complexity* for more details). Each of these policy measures, although introduced with specific policy goals, has inadvertently added layers of administrative difficulty, raising uncertainty and compliance risk.⁹⁵

- **Alternative Minimum Tax (AMT):** Intended to ensure high-income earners pay a minimum tax, it has added layers of complexity for many taxpayers and raised questions about its actual impact on tax fairness.
- **Tax on Split Income (TOSI):** While aiming to prevent income splitting, TOSI has introduced significant ambiguity and confusion, often penalizing legitimate family business structures without clear evidence of widespread abuse.
- **Bare Trust Reporting Requirements:** New reporting requirements for bare trusts have dramatically increased complexity and administrative workload for ordinary Canadians, disproportionate to their demonstrated effectiveness in combating financial crime.
- **Stock Buyback Tax:** New taxes aimed at discouraging share buybacks have added compliance requirements for publicly traded corporations, with their impact on corporate investment strategies and capital allocation still being assessed.
- **Employee Stock Option Changes:** Changes in taxation intended to limit favourable treatment have resulted in intricate rules that complicate compliance, potentially stifling innovation and talent retention in Canadian companies.
- **Digital Services Tax (DST):** This tax retroactively targeted revenue from digital services provided by large multinational companies, causing international tax complexities, uncertainty, and trade policy irritants, while its long-term revenue impact remained unclear. The introduction of this tax was halted in June 2025 to support advancing trade negotiations with the United States.⁹⁶ The federal government intends to soon introduce legislation that would repeal the *Digital Services Tax Act*.
- **Underused Housing Tax (UHT):** An annual tax on vacant or underused housing, the UHT adds another layer of compliance for property owners, yet its effectiveness in addressing housing affordability or utilization remains questionable relative to the administrative burden it imposes.
- **Luxury Taxes:** Introduced on high-value goods, these taxes create additional administrative layers for retailers and manufacturers, and their actual revenue generation and economic impact are often debated.
- **Capital Gains Inclusion Rate Changes (and Reversal):** Although the Carney government ultimately reversed the inclusion rate changes, nearly an entire year passed filled with uncertainty and complexity following the initial announcement of a change to the capital gains inclusion rate in the 2024 budget. The lack of clear, timely legislation and the retroactive nature of some announcements impacted individuals and businesses who made major financial and investment decisions based on previous rules. This policy instability created substantial compliance challenges, forcing taxpayers and advisors to navigate shifting guidelines and timelines, and raising concerns about the predictability of the Canadian tax environment.
- **International Tax Rules to Address Base Erosion and Profit Shifting:** As part of the OECD's framework on base erosion and profit shifting (BEPS), Canada adopted Pillar Two, which imposes a 15% minimum tax on global corporate profits based on the residence of a corporation. These rules require complex calculations and extensive documentation, leading to significant compliance costs for affected firms, especially Canadian multinationals. The risk of double taxation and varying implementation timelines across countries adds further uncertainty. In addition, Canada brought forward rules on excessive interest and financing expenses limitation (EIFEL) to address BEPS. EIFEL applies broadly due to its low \$250,000 threshold and complex criteria. It creates substantial compliance challenges by requiring detailed analysis of corporate structures, financial and foreign affiliations.

To put the complexity and compliance burden of recent rule changes into perspective, noted tax expert Kim Moody, FCPA, FCA, described the 2017 income splitting rule changes in parliamentary testimony as being “incomprehensible” and imposing significant compliance costs.⁹⁷ The costs are not just borne by individual businesses; the time and capital spent on navigating “incomprehensible” tax laws could instead be invested in growing the business or hiring new workers. Ultimately, these costs drag down Canadian businesses and make them less competitive in the global marketplace.

A KPMG 2025 survey of business leaders showed that 88% of business leaders believe Canada needs a complete overhaul of its economic and industrial policies, with more than half (58%) identifying comprehensive tax reform as a top three priority for increasing business competitiveness.⁹⁸

CPA Ontario recommends:

Review Recent Legislative Changes and Tax Expenditures

Recent legislative changes and international rules have added a layer of complexity to the Income Tax Act that Canada cannot afford. These should be reviewed and evaluated in short order to see if they are actually meeting stated goals without undue compliance burdens.

Canada also requires a comprehensive review of tax expenditures and carveouts to assess their effectiveness and eliminate unnecessary or poorly performing measures. A 2015 Auditor General review found that the Department of Finance lacks a systematic approach to evaluating existing tax-based measures; it recommended that comprehensive tax expenditure evaluations should include three key criteria:⁹⁹

Assess relevancy: Does the measure address an ongoing need and align with government priorities?

Evaluate efficiency: Is the tax system the most efficient and effective way to meet policy objectives?

Make a determination: Should the measure be abolished, modified, replaced, or retained?

A systematic review would reduce the number of tax expenditures, simplify compliance requirements, and decrease administrative burdens for both taxpayers and government. Regular evaluation cycles would ensure that tax expenditures continue to serve their intended purposes while contributing to overall tax system coherence.

Reinvest Fiscal Gains into Growth-Enhancing Tax Reforms

Fiscal savings realized through simplification — by removing ineffective and inefficient tax expenditures — should be redeployed to reduce broader tax rates, specifically targeting personal income and corporate income tax rates.

As discussed in section I, income taxes are among the most economically harmful types of tax. By broadening the tax base and lowering rates, Canada can enhance competitiveness and stimulate growth.¹⁰⁰

Implement Automatic Filing for Simplicity and Equity

The federal government has signalled its openness to automatic tax filing, a measure already adopted in some OECD countries, and is currently completing a pilot with 1.5 million Canadians.¹⁰¹ Automatic filing reduces compliance costs and benefits lower-income Canadians who often find the tax-filing process daunting and financially burdensome. Countries like Norway have demonstrated how pre-filled tax returns simplify the tax process, reduce errors, and cut down compliance costs.¹⁰² Recent research suggests that adopting pre-filled tax returns in Canada could reduce individual compliance costs by up to one-third.¹⁰³

Automatic tax filing would increase tax filing rates, benefitting lower-income Canadians who often miss out on valuable government program benefits and credits by not filing their taxes. Streamlining filing, reviewing the Income Tax Act, and reinvesting savings could improve transparency and fairness, and boost economic growth.

While these recommendations to simplify the tax system are needed in the immediate term, there is a fundamental need to go further than short term review — this is why we are calling for a full Royal Commission on tax reform.

How to finance tax reform

To ensure the tax reform proposals are fiscally responsible and sustainable, the government should adopt a multi-pronged approach to financing the growth-enhancing cuts.

1. Eliminate Ineffective Tax Measures

Start with a comprehensive review to eliminate inefficient and ineffective tax credits and expenditures. Canada's tax system is cluttered with carveouts and boutique credits that add complexity without achieving their intended economic or social goals. By carefully assessing and eliminating inefficient/ineffective tax expenditures, the government can create significant fiscal room without raising headline tax rates.

2. Conduct a Broader Fiscal Review

The federal and provincial governments should launch a broad fiscal review to identify program spending that isn't delivering results in a cost-effective way or is no longer relevant — and then either reform or reduce it. They could take inspiration from the approach used by Jean Chrétien's government in the mid-1990s, when Finance Minister Paul Martin led a review that resulted in major program reforms and a roughly 10% spending reduction over two years. This kind of effort would help create room for the tax changes being recommended. Research by economist Alberto Alesina and others shows that when governments need to tighten their budgets, focusing on spending reductions tends to be less harmful to the economy than raising taxes.¹⁰⁴

3. Shift the Tax Mix

To shift the tax mix in a more growth-oriented direction, the government should modestly increase consumption taxes, such as the GST and HST, as a trade-off to reduce economically harmful income taxes. This would align Canada's tax structure more closely with OECD best practices, which emphasize the efficiency of consumption taxes over income taxes. Given the base that the GST/HST applies to, small rate increases can yield large revenue gains. For instance, a one percentage point increase in the federal GST rate (to 6% from 5%) can yield an additional \$10 billion in federal revenue, according to the Parliamentary Budget Officer's estimates.¹⁰⁵ Shifting the tax mix towards consumption could allow for bold pro-growth and pro-competitiveness changes in other areas of tax policy like personal and corporate income taxes, while producing little negative consequence for the revenues that governments need to fund critical public services.

4. Expand the Tax Base Long-Term Though Dynamic Growth

Finally, it is important to recognize that the proposed tax reforms, such as lowering marginal income tax rates, reducing corporate income taxes, and introducing more investment-friendly capital gains treatment, would enhance Canada's long-term growth potential. Over time, stronger economic growth will expand the tax base and increase government revenues, helping to offset the static cost of tax reductions. In combination, these measures can deliver a more competitive, and growth-oriented tax system without undermining fiscal sustainability.

Conduct a Broad Review of Canada's Tax System



Canada's tax system has become increasingly complex, poorly aligned with policies that encourage economic growth, and ill-equipped to respond to rising economic pressures from domestic stagnation, trade tensions, and international competition.

This report outlined crucial reforms to personal, corporate, capital gains, and innovation-related taxes. The OECD agreed with the necessity of many of these changes in its recent economic survey of Canada, where it recommends reforming the tax system for economic growth, shifting the tax mix from income and to consumption taxes, halting preferential tax treatment based on firm size, and harmonizing R&D tax-incentives across all firms.¹⁰⁶ These changes would put Canada on a stronger path to reach its economic potential.

Beyond acting swiftly on the recommendations in this report, a comprehensive review of Canada's tax system is long overdue. The last major effort — the Royal Commission on Taxation (Carter Commission) — concluded in the 1960s, or approximately 60 years ago. Since then, Canada's economic structure, technological landscape, sources of productivity, geopolitical context, and trade patterns have all evolved dramatically.

Our tax system, meanwhile, despite periodic reforms (such as the introduction of the GST, corporate tax modernization, etc) has largely changed through ad hoc amendments and politically driven adjustments. We've ended up with a patchwork of inconsistent incentives, growing administrative complexity, and declining economic efficiency. A new Royal Commission could offer the rigorous, independent assessment needed to redesign the system for the reality of the 21st century. But we don't have the luxury of spending years on such a review; it needs to move faster than the previous Carter Commission.

CPA Ontario recommends:

Establish a Royal Commission

A Royal Commission would:

The first goal of a Royal Commission would be to identify what is and is not working. This would go well beyond tracking rates and compliance burdens; it would evaluate how the tax system aligns with principles of efficiency, equity, neutrality, simplicity, and competitiveness. It would help clarify how the system affects investment, work incentives, innovation, and capital formation. Crucially, it would identify which taxes and tax expenditures are delivering value, and which are not.

Second, it would encourage discussion and debate. Tax reform cannot succeed without public buy-in. A Commission-led consultation process — incorporating economists, tax practitioners, business leaders, labour organizations, and civil society — would help build consensus around trade-offs and policy options. It would also allow for regional and sectoral concerns to be surfaced and addressed. When more people have a voice in the process, the result is more likely to get broad support.

Third, it would develop bold, forward-looking options for structural change. This means looking at unique approaches internationally such as Estonia's distributed profit tax regime and its competitive taxation model.¹⁰⁷ It could explore Ireland's approach to attracting investment through a highly competitive headline corporate tax rate.¹⁰⁸ A commission could also assess modern alternatives to personal and corporate taxation, like expanded consumption taxes, and family-unit taxation. The key is to give the Commission the mandate and capacity to evaluate how a redesigned tax system could drive inclusive growth, innovation, and long-term fiscal sustainability.

Estonia — A model for “big bang” tax reform in Canada?

A compelling international model for structural tax reform comes from Estonia. Since achieving independence in the early 1990s, Estonia’s real GDP per capita has risen from roughly \$14,000 to over \$42,000 in 2024, according to data from the International Monetary Fund. During this time period, Estonia’s average living standards have risen from being 37% of Canada’s in 1993 to 75% in 2024.

A significant part of Estonia’s economic success is its “distributed profits” corporate tax model, which deviates from the conventional approach of taxing corporate profits when they are earned. Instead, corporate taxes are levied only when profits are distributed to shareholders, such as through dividends. This system, first implemented in 2000, encourages companies to reinvest earnings in their operations rather than extracting them, thereby supporting long-term business growth and capital accumulation. The result has been a simplified tax structure that boosts economic efficiency and investment without eroding the tax base. Jack Mintz has argued that adopting a similar model in Canada could reduce compliance costs, eliminate the bias against reinvestment, and encourage investment by enhancing neutrality in the tax system.¹⁰⁹

Complementing the distributed profits approach is Estonia’s 20/20/20 model: a flat 20% rate on corporate income (upon distribution), personal income, and value-added consumption tax. This straightforward structure has made Estonia’s tax system one of the most competitive globally. Economist Trevor Tombe notes that such a system would remove many of the distortions found in Canada’s complex web of tax credits, surtaxes, and multiple brackets.¹¹⁰

Notably, Estonia has changed its rates recently. As of January 1, 2025, the corporate and personal income tax rates are now 22%. The standard value-added tax rate increased to 22% on January 1, 2024, and again to 24% on July 1, 2025. So technically, Estonia now has a 22/22/24 model.

For Canada, which ranks poorly in international tax competitiveness, an Estonian-style reform could be a bold and transformative step, simplifying tax administration, improving incentives for growth, and enhancing the country’s appeal to investors and entrepreneurs.



Conclusion

Half-measures and piecemeal reforms have left Canada with a tax system that is incoherent, burdensome, and poorly aligned with the country's economic goals. While targeted changes are necessary to address immediate competitiveness concerns, a comprehensive structural reset is now essential. A new Royal Commission, informed by expert guidance and international best practices, would provide the blueprint Canada needs to build a tax system for the 21st century.

Tax reform faces real political obstacles — from entrenched interests to public resistance to change. Success will require leadership, clear communication about long-term benefits, and careful attention to phasing of reforms. But, the political difficulty of comprehensive reform cannot justify continued inaction when Canada's economic competitiveness hangs in the balance.

CPA Ontario and the CPA profession stand ready to lead this effort by convening expertise, shaping debate, and advancing bold, evidence-based policy ideas. From simplifying the Income Tax Act and improving the tax environment for talent to reforming innovation incentives and modernizing capital gains policy, the recommendations in this report represent a pro-growth, pro-productivity tax reform agenda for Canada. While tax policy is a key lever, it's not the only one. Other changes, such as cutting red tape, improving fiscal discipline, strengthening innovation policy, and investing in productivity-enhancing infrastructure, are also essential to move Canada forward.

In the face of rising global competition and a weakening domestic economic foundation, it is time for policymakers to act with urgency and ambition — even when politically challenging. Canada's future prosperity depends on it.

Appendix 1

Recent Federal Tax Changes that Add Complexity

Below are additional details of recent tax changes adding complexity and compliance costs to the Canadian tax system:

- **Alternative Minimum Tax (AMT) Reform:**

In Budget 2023, the federal government introduced significant changes to the AMT rules, increasing the minimum tax rate from 15% to 20.5% and limiting the deductions and credits available when calculating AMT. The revised AMT disproportionately affects high-income taxpayers, trusts, and those with large capital gains or charitable donations of securities. These changes have created uncertainty about the interaction between regular tax and AMT, especially for financial planners and high-net-worth individuals, and have made long-term tax planning more difficult.

- **Tax on Split Income (TOSI):** Introduced in 2018, the TOSI rules aimed to limit “income sprinkling” by applying top personal tax rates to certain types of income received by family members of business owners. However, the rules are complex and heavily reliant on subjective tests, such as determining whether a family member has made a “reasonable contribution” to a business. These ambiguities have led to inconsistent application, increased professional fees, and a chilling effect on legitimate family business structures.

- **Bare Trust Reporting Requirements:** New trust reporting rules, initially introduced in 2018 and delayed until 2023, require that bare trusts — previously exempt from filing — must now file T3 returns and disclose detailed information about all parties involved. This change caught many taxpayers and professionals off-guard,

especially as the CRA did not issue clear guidance until just before the filing deadline. Individuals with joint property arrangements, such as elderly parents holding assets with adult children, now face complex filing requirements despite having no tax liability, raising concerns over proportionality and administrative burden.

- **Stock Buyback Tax:** The federal government introduced a 2% tax on the net value of share buybacks by public corporations, effective January 2024. Intended to encourage reinvestment over capital returns, this measure adds a new layer of calculation and reporting for listed firms. It also raises concerns about the tax system influencing corporate finance decisions without clear evidence of economic benefit.

- **Employee Stock Option Changes:** In 2021, the federal government capped the preferential tax treatment of employee stock options at \$200,000 annually for employees of large, established companies. While startups remain exempt, the rules added complexity for growing firms that transition from small to mid-sized. Employees now face uncertainty about the tax treatment of options granted over time, particularly in relation to company valuations and eligibility thresholds, complicating both compensation planning and talent retention.

- **Digital Services Tax (DST):** Proposed in 2021 and set to come into effect in 2025 (and applied retroactively to 2022), the DST was set to impose a 3% tax on revenues from certain digital services earned in Canada by large multinational corporations. Unlike corporate income tax, the DST would have applied to gross revenues, not profits, creating a non-neutral and highly distortionary tax. It has drawn criticism for increasing the cost of digital services, potentially violating international trade norms, and leading to retaliatory measures from the United States. The uncertainty surrounding its timing and retroactivity has made tax planning for affected firms significantly more difficult. Implementation of the tax was paused in June 2025 to facilitate progress in trade talks with the United States. The federal government now plans to introduce legislation aimed at repealing the Digital Services Tax Act.
- **Underused Housing Tax (UHT):** The UHT applies a 1% annual tax on the value of certain vacant or underused residential properties owned by non-Canadians and other entities. However, the compliance burden is widespread, as even Canadian individuals, corporations, and trusts with little or no liability must file detailed UHT returns or face steep penalties. The CRA's late and evolving guidance has led to confusion over exemptions (e.g., bare trusts, co-ownership, partnerships), resulting in disproportionate administrative effort for minimal fiscal benefit.
- **Luxury Goods Tax:** Enacted in 2022, the Select Luxury Items Tax applies to certain vehicles, aircraft, and boats valued over specified thresholds. While relatively narrow in scope, the tax has introduced administrative complexity for retailers and manufacturers who must determine eligibility, calculate tax liabilities, and manage consumer communications.
- **Capital Gains Inclusion Rate Changes (and Reversal):** In Budget 2024, the federal government initially proposed to increase the capital gains inclusion rate from 50% to 66.67% for corporations and trusts on all capital gains, and for individuals on capital gains exceeding \$250,000 annually, effective June 25, 2024. This proposal, however, was subsequently deferred to January 1, 2026, and then ultimately cancelled on March 21, 2025. This back-and-forth created considerable uncertainty for taxpayers, particularly those who made investment decisions or accelerated asset dispositions in anticipation of the changes, only to find the rules revert. The need for the CRA to issue revised guidance and forms, and for taxpayers and their advisors to repeatedly adjust their planning, highlights how fluctuating tax policy significantly complicates compliance and erodes confidence in the stability of the tax system.
- **International Tax Rules to Address Base Erosion and Profit Sharing (BEPS):** In line with the OECD/G20 Base Erosion and Profit Sharing (BEPS) initiative, Canada introduced Pillar Two rules in Bill C-69, establishing a 15% minimum tax on large multinational firms based on effective tax rates across jurisdictions. Bill C-69 received royal assent on June 20th, 2024. These rules demand complex cross-border calculations and heavy documentation, resulting in high compliance costs and risks of double taxation. Canada also adopted EIFEL rules as part of Bill C-69 to curb interest-based tax avoidance, applying to a wide range of entities due to a low threshold of \$250,000. The criteria are complex, requiring detailed analysis of corporate affiliations and earnings. Together, Pillar Two and EIFEL introduce significant regulatory complexity, creating uncertainty for Canadian businesses and tax practitioners navigating overlapping domestic and international requirements.

Appendix 2

Flow-through Shares and Innovation

The Carney government's election platform called for the introduction of "flow-through shares to our Canadian startup ecosystem, supporting companies in AI, quantum computing, biotech, and advanced manufacturing to raise money faster."¹¹¹ The Parliamentary Budget Officer estimates that such an expansion would cost \$2.7 billion over five years.¹¹²

While such a move is well intentioned, CPA Ontario recommends that the government proceed with caution in implementing this policy given evidence on the effectiveness of flow-through shares in the resource sector.

Flow-through shares are a Canadian tax mechanism originally designed to support high-risk investment in the natural resources sector. Under this model, companies — typically in mining, oil, or gas — can pass eligible exploration and development expenses to individual investors, who then deduct these expenses from their personal income taxes. This significantly lowers the investor's tax burden and, in turn, makes it easier for resource companies to attract capital, particularly for early-stage projects that may not yet be profitable.

However, the primary benefit of flow-through shares accrues to investors, often generating poor returns,¹¹³ not necessarily to the firms developing new technologies. While the tool may succeed in raising capital, it does not directly incentivize commercialization or successful R&D outcomes.

There is also a risk that applying flow-through shares more broadly could lead to misuse or tax-driven investment behaviour. Unlike targeted innovation tax credits or direct grants, flow-through shares reward

spending rather than outcomes, and they lack safeguards to ensure that funds support scalable, commercially viable technologies.

Overall, the government should focus on broad-based, proven policy changes to spur innovation before turning to implementing flow-through shares, as their use may not be needed if Canada deals with its well-known challenges.

Appendix 3

Organizations and Thought Leaders Who Support Our Recommendations



The recommendations put forward in this report have been supported by numerous organizations and thought leaders. Find a non-exhaustive list below.

Improve the Tax Mix

Shift the Tax Mix to Rely Less on Harmful Taxes

- [Canadian Tax Foundation – Geoffrey S. Turner](#)
- [C.D. Howe Institute – John Lester](#)
- [Investment Industry Association of Canada](#)
- [Jack Mintz](#)
- [Kim Moody](#)
- [OECD](#)
- [RBC Thought Leadership](#)
- [Trevor Tombe](#)
- [Toronto Region Board of Trade](#)

Harmonize Provincial Sales Taxes in Provinces that Have Not

- [Investment Industry Association of Canada](#)
- [Jack Mintz](#)

Reform Corporate Income Taxes

Lower the Federal and Provincial General Corporate Income Tax Rates

- [Business Council of Canada](#)
- [Canadian Tax Foundation – Geoffrey S. Turner](#)
- [C.D. Howe – Don Drummond, Alexandre Laurin, William B.P. Robson](#)
- [Investment Industry Association of Canada](#)
- [Rob Jeffery – Partner, Tax, Deloitte](#)
- [Toronto Region Board of Trade](#)

Mitigate Disincentive to Small Business Firm Growth

- [Canadian Tax Foundation – Jeremy Kronick](#)
- [C.D. Howe – Benjamin Dachis, John Lester](#)

Make Accelerated Capital Cost Allowances Permanent and Consider Full and Immediate Expensing

- [Canadian Chamber of Commerce](#)
- [Canadian Tax Foundation – Trevor Tombe](#)
- [Canadian Venture Capital Association](#)
- [John McKenzie – TMX Group](#)
- [Toronto Region Board of Trade](#)

Explore Distributed Profits Taxation

- [Kim Moody](#)
- [Jack Mintz](#)
- [John Ruffolo](#)
- [Toronto Region Board of Trade](#)
- [Trevor Tombe](#)

Reform Personal Income Taxes

Cut Top Marginal Personal Income Tax Rates

- [C.D. Howe - Don Drummond, Alexandre Laurin, William B.P. Robson](#)
- [Kim Moody](#)
- [John Ruffolo](#)
- [Rob Jeffery - Partner, Tax, Deloitte](#)
- [Toronto Region Board of Trade](#)
- [Trevor Tombe](#)

Increase Income Thresholds

- [Macdonald-Laurier Institute](#)
- [Trevor Tombe](#)

Flatten the System

- [C.D. Howe - Don Drummond, Alexandre Laurin, William B.P. Robson](#)

Reform Capital Gains Taxes

Maintain the Commitment to Not Raising the Inclusion Rate and Consider Reducing It

- [Canadian Venture Capital Association](#)
- [Council of Canadian Innovators](#)
- [Investment Industry Association of Canada](#)
- [Jack Mintz](#)
- [John McKenzie - TMX Group](#)
- [Kim Moody](#)

Broaden Rollover Provisions for Reinvested Gains

- [Canadian Venture Capital Association](#)
- [Council of Canadian Innovators](#)
- [Kim Moody](#)

Spur Innovation Through Tax Policy

Reform the Scientific Research and Experimental Development Tax Credit

- [Build Canada](#)
- [Business Council of Canada](#)
- [Canadian Chamber of Commerce](#)
- [Canadian Venture Capital Association](#)
- [C.D. Howe Institute - Don Drummond, Alexandre Laurin, William B.P. Robson](#)
- [C.D. Howe Institute - John Lester](#)
- [Council of Canadian Innovators](#)
- [John Ruffolo](#)
- [TMX Group](#)
- [Toronto Region Board of Trade](#)

Introduce a Patent Box System to Incentivize Commercialization

- [Canadian Chamber of Commerce](#)
- [C.D. Howe Institute - Don Drummond, Alexandre Laurin, William B.P. Robson](#)
- [C.D. Howe Institute - John Lester](#)
- [Council of Canadian Innovators](#)
- [John Ruffolo](#)
- [Ontario Chamber of Commerce](#)
- [Toronto Region Board of Trade](#)

Simplify the Income Tax Act

Conduct a Comprehensive Review of the Income Tax Act

- [Business Council of Canada](#)
- [Canadian Chamber of Commerce](#)
- [Fred O’Riordan, EY Canada’s National Leader on Tax Policy, former assistant commissioner, CRA](#)
- [Kim Moody](#)
- [RBC Thought Leadership](#)
- [Trevor Tombe](#)

Reinvest Fiscal Gains into Growth-Enhancing Reforms

- [Canadian Chamber of Commerce](#)
- [John Ruffolo](#)

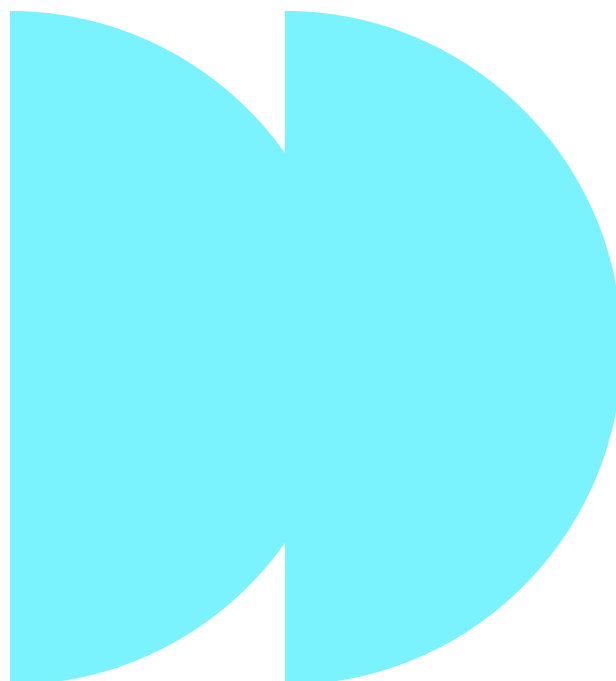
Implement Automatic Filing for Simplicity and Equity

- [Canadian Tax Foundation – Luc Godbout and François Vaillancourt](#)
- [Kim Moody](#)
- [Francois Boileau, Canada’s Taxpayers Ombudsperson](#)

Conduct a Broad Review of Canada’s Tax System

Establish a Royal Commission

- [Business Council of Canada](#)
- [Canadian Chamber of Commerce](#)
- [C.D. Howe - Don Drummond, Alexandre Laurin, William B.P. Robson](#)
- [Fred O’Riordan, EY Canada’s National Leader on Tax Policy, former assistant commissioner, CRA](#)
- [Munir Sheikh, former Chief Statistician](#)



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