

3. Calling for a Comprehensive, Independent Review to Simplify Canada's Tax Code

Description

It has been nearly 60 years since the last thorough review was undertaken of Canada's tax code, which now encompasses several thousand pages. Over successive governments it has become bloated and inefficient, while continually being inflated by a patchwork of incentives and amendments that have made it burdensome and complex, especially for businesses. It is time reinforce the Canadian Chamber of Commerce's ongoing advocacy in support of a simplified tax code, beginning with an independent, comprehensive review with a mandate to simplify and create a system that works in Canadians' best interests and encourages, not discourages, economic growth.

Background

When income tax was first imposed on a small portion of Canada's population in 1917 to help finance the First World War, the Income War Tax Act was drafted as a 10-page document. However, once the war ended in 1918 and nearly \$8 million had been collected representing just a fraction of the overall cost of the war which left a national debt of \$1.6 billion, this temporary measure remained. It was expanded during the Second World War and officially became a permanent legislative fixture coming into effect Jan. 1, 1949, as the Income Tax Act.¹

By 1948, the Act had grown to 88 pages and continued to expand following a series of amendments and reforms in the 1960s leaving the 1970 edition at 424 pages. Despite the fact it was considered too complicated for the average Canadian to understand even at that time, the Act has continually increased in size ballooning to more than 3,300 pages thanks to various amendments and narrow fixes. In the Federal Budget 2024 alone, numerous amendments and changes were announced including an increase to the Carbon Tax, Increased Capital Gains Inclusion, and the Alternative Minimum Tax, to name just a few.²

The document itself, according to the Canadian Taxpayers Federation, contains more than 1.1 million words — more than the Bible and the Koran — and would take more than 62 hours straight to read. (It's approximately the same length as the entire seven-book Harry Potter series).³ Containing countless amendments and adjustments, the current tax code has become increasingly convoluted as taxation of SMEs has become more complex as layers of incremental changes are continually introduced — from anti-avoidance rules to association rules, to the taxation of private corporations.

Canada's tax code does not foster alignment with international norms, nor does it do enough to promote global competitiveness and more must be done to help businesses grow and innovate.⁴ According to a True North article shared by the Fraser Institute from December of 2023, Canada is expected to be the worst-performing advanced economy among 38 OECD (Organisation for Economic Co-operation and Development) for growth in in-person GDP and uncompetitive business tax rates have been identified as being partially responsible.⁵

Canada has lost its corporate tax advantage as the U.S. and other countries have reduced corporate taxes and improved their own tax competitiveness. The tax code last underwent a comprehensive review in 1967 and since then the world has become much more global as technology has taken hold.

¹ <https://shorturl.at/bnn9E>

² <https://shorturl.at/DAmkr>

³ <https://tinyurl.com/mr4ckdk2>

⁴ <https://shorturl.at/aRFXy>

⁵ <https://shorturl.at/INUTR>

Some may argue the tax code in its current form serves Canadian taxpayers well and that continued amendments ensure Canada's wealthy will pay their fair share, which is untrue. In fact, a 2023 Fraser Institute report has suggested the top income-earning families — those making just under \$250,000 — pay most of Canada's taxes. It found that the top 20% of income earning families pay 61.9% (nearly two thirds) of all the country's personal income taxes and more than half — 53.1% — of total taxes, while accounting for just under half of its total income.⁶

The Canadian Chamber of Commerce has long been a strong proponent of changes to Canada's tax system. In its 2021 pre-budget submission to the House of Commons Standing Committee on Finance, the Canadian Chamber clearly identified the ongoing complexity of our tax system and the need for review to enhance Canada's competitiveness.⁷ As well, in its 2019 report 50 Years of Cutting and Pasting: Modernizing Canada's Tax System, it identified eight recommendations pertaining to the tax system, five of which remain outstanding. Among these is a call to have a federally appointed Royal Commission to undertake a whole-of-system review of taxation in Canada.⁸

We feel strongly the time is now to move forward and believe the first step requires a review of the tax code itself to determine what efficiencies can be found to strengthen our current tax system, creating a more viable economic environment for businesses to thrive.

Recommendations

That the Government of Canada:

Heed the call to reform Canada's tax system. Commit to establishing an independent, comprehensive review of Canada's tax system ensuring the review's terms of reference focus on simplification and modernization, identifying potential changes to encourage more economic prosperity for Canadians.