



March 11, 2026

From: Jack Mintz, Alexandre Laurin and Nick Dahir
To: Taxation Observers
Re: A TAX PLAN TO IGNITE THE ECONOMY

Canada-US free trade is on shaky ground. Nor is Canada attracting its share of business investment and, as a result, our economic performance has suffered over the past decade.

We have had virtually no growth in per capita gross national income and are lowest among G7 countries and several other advanced economies including Australia. That's not a statistical accident but a clear signal the Canadian economy needs a shakeup.

Governments are searching for solutions. But revitalizing risk-taking and entrepreneurship will take more than facilitating "nation-building" projects, eliminating internal trade barriers or layering on new targeted tax incentives. Such measures may help at the margin. But they will not move the dial.

Tax policy is one of the most powerful tools governments have. During last year's election campaign, Mark Carney's Liberals promised a corporate income tax review. That is welcome. But Canada needs much more than incremental adjustments to one tax alone. We need a "big-bang" reform that restructures how we tax people and businesses.

Today's large budget deficits mean reform needs to be revenue-neutral in the short run, even if over time a stronger economy could generate new revenues that ultimately strengthen public finances.

Canada relies more on personal income taxes than any other G7 country for all income groups. This over-reliance discourages investment, risk-taking and work effort, encourages migration and diverts effort and money toward tax planning rather than productive activity

In our new C.D. Howe Institute [study](#), we propose lowering federal personal income tax rates on taxpayers earning above \$117,000 – a group that pays roughly 55 percent of all personal income taxes – and cutting the number of brackets from five to three. The current third, fourth, and fifth bracket rates would fall by 3 to 7 percentage points, bringing the combined federal-provincial top rate below 50 percent in every province.

We also propose a simplified federal tax option that could fit on a single page. Taxpayers could choose a new federal \$10,000 simplified tax credit, which would be added to the existing basic personal amount and thus let them earn more than \$26,000 tax-free. Only a limited number of deductions and credits would remain: for retirement, charitable donations, disability or caregiving, or expenses incurred to earn income. Other provisions would still be required to avoid double taxation of profits at the corporate and personal levels.

Our estimate is that roughly 90 percent of taxpayers would choose the simplified tax credit, which would disproportionately benefit lower-income earners, who would pay less tax under it. That nine in 10 filers were choosing the simplified option would reduce and maybe even reverse the political pressure for new boutique credits, opening the way for the system to be simplified once and for all.

We also propose reducing the general corporate income tax rate to 10 percent for all businesses, large and small, thus eliminating the patchwork of preferences that currently distort business decisions. This lower rate could be financed largely by broadening the tax base: Eliminating accelerated depreciation, the small business deduction and various targeted tax credits.

An alternative approach would be a distributed profits tax. It would exempt retained earnings that were reinvested in business activities and tax only distributed book profits. We would suggest a federal rate of 13 percent.

Either approach would substantially reduce the tax cost of investment. With the reduction in personal income tax rates as well as business taxes, venture capital and innovation will be encouraged to grow.

Research suggests most business tax is actually paid by workers, whose wages suffer because taxes depress investment, reducing the demand for workers and leading to layoffs or salary cuts. In a small, open economy like Canada's, capital can move to wherever it earns the best after-tax return, leaving wages to adjust because labour is less mobile. Lowering the corporate tax burden would therefore support wage growth across the economy. Eliminating corporate tax preferences would also simplify compliance and reduce administrative costs.

To offset lower income tax revenues, Canada should shift toward less distortionary sources of revenue. We propose either a European-style employer payroll contribution for healthcare or a modest increase in the GST. People may not like consumption and payroll taxes but they do less economic damage. And the simplified tax credit we propose offsets any harm to lower-income Canadians.

Our proposal's long-run payoff could be big. We estimate higher investment could raise GDP by roughly \$79 billion (2.5 percent), which would generate more than \$26 billion a year in new tax revenues.

We will not reverse Canada's economic decline with piecemeal tax changes. If we want higher productivity and wages and renewed entrepreneurial dynamism, we need a fundamental rethink of how we tax people and businesses. Canada does not need tax tweaks. It needs a tax reset.

Jack Mintz is President's Fellow at the University of Calgary's School of Public Policy. Alexandre Laurin is vice-president and director of research at the C.D. Howe Institute, where Nick Dahir is a research officer.

To send a comment or leave feedback, click [here](#).

The views expressed here are those of the author. The C.D. Howe Institute does not take corporate positions on policy matters.

A version of this Memo first [appeared](#) in the Financial Post.