

Comprehensive Income Tax Reform

Issue

The Income Tax Act is becoming more complex every year, adversely affecting Canadian individuals, businesses, and Canada's global competitiveness. A comprehensive review and overhaul of the Income Tax Act, targeting the broadest base possible, with lower rates and fewer preference, would reduce compliance costs and increase transparency while promoting growth, investment, entrepreneurship, and job creation

Background

The Income Tax Act is becoming more complex every year, adversely affecting Canadian individuals, businesses, and Canada's global competitiveness. The Chartered Professional Accountants of Canada (CPA Canada) points out that:

At a time when income inequality is rising, labour force growth is slowing and our closest trading partners are shoring up their tax systems, Canada needs to ensure we continue to create jobs, attract investment and remain competitive. But, on these vital measures, our current tax system is falling short, and Canadians and their businesses risk falling ever more behind their global peers.⁹³

CPA Canada has repeatedly called for the simplification of the Income Tax Act (the Act) to assist taxpayers with compliance. The Royal Commission on Taxation, better known as the "Carter Commission" conducted the last complete review of the income tax system over 50 years ago in 1966. The 1972 Carter Commission report recommended taxation of the family as the basic unit of taxation rather than the individual with the goal of reducing complexity in the Income Tax Act and supporting Canadian families by taking into consideration the reality that the family is the basic economic unit of society.

The evolution of the Act since the recommendations of the Carter Commission, and the system of taxation in Canada as a whole, has not maintained this basic reality. In fact, a review of "where we are today" reveals some very troubling developments:

- Canada has lost its corporate tax advantage as the U.S. and other countries have reduced corporate taxes and improved their own tax competitiveness
 - Top personal income tax rates and thresholds in Canada are uncompetitive
 - Tax complexity makes it difficult for lower income and other vulnerable Canadians to access much-needed income supports through the tax system.
 - Tax compliance is becoming exceedingly difficult for all Canadians, especially small business owners and their advisers, putting the integrity of the tax system in jeopardy.
 - Many Canadians have lost trust in the tax system, which may contribute to reduced compliance and increased underground economic activity
 - Canada's tax mix is out of sync with international trends and overly reliant on income taxes with high efficiency costs, putting a drain on Canada's economy.
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⁹³ CPA Canada report reference – p. 4

- Benefits delivered through Canada's Scientific Research and Experimental Development (SR&ED) program are declining, indicating a need to improve the program's accessibility, certainty and ease of use
- Beyond SR&ED, the tax system does not adequately encourage innovation or attract investment in innovation to Canada
- Canada's income tax and GST/HST rules deliver a high number of tax expenditures that greatly complicate the tax system, but it is not known whether they are achieving their aims at an acceptable cost.⁹⁴

Over the past 50 years, the US has undergone several significant measures to reform their tax system – most recently with a lowering of personal and corporate income tax rates that is designed to attract business. The Department of Finance has not proposed any measures to ensure that Canada remains competitive, a good place for entrepreneurs, and attractive for investment in light of US tax reform. Comprehensive tax reform, reduction of taxes and efforts to simplify the Canadian tax system would help make Canada more competitive and improve the lives of all Canadians.

Canada needs a tax system for the 21st century, one that reduces compliance costs and increases transparency while promoting growth, investment, entrepreneurship and job creation. A full review of the tax system is in order to ensure it works well for Canadians by identifying the broadest base possible, with lower rates and fewer preferences.

The Alberta Chambers of Commerce believes it is time for the federal government to consider all aspects of our tax system and answer four key questions:

- Does Canada's tax system align with international norms and promote global competitiveness? Does Canada's tax system help businesses grow and innovate?
- Do Canada's tax expenditures achieve their goals at the right cost?
- Does Canada's personal tax system promote compliance and deliver social benefits efficiently and effectively?

The Alberta Chambers of Commerce recommends the Government of Canada:

1. Immediately establish a Royal Commission to review the Income Tax Act and Canada's fiscal framework with the goals of modernization, simplification, and enhancing competitiveness.

⁹⁴ CPA Canada report reference – pp. 4-5