

Call for Canadian Tax Reform Targets Corporate, Personal Rates

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Canada's uncompetitive taxes on businesses and individuals are stunting its productivity growth, as well as its chances for a four-day work week, according to a public policy think tank.

Canada is too reliant on the costliest types of taxes, like capital gains taxes and corporate and personal income taxes, according to an [essay released February 4 by the Fraser Institute](#). Tax reform is key to improving the country's "dismal record on productivity growth," it says.

Capital gains taxes specifically are "among the most economically damaging and least efficient types of taxation," and according to marginal efficiency cost studies, corporate and personal income taxes are more costly to society than taxes on consumption and payroll, the essay says. Canada has among the highest corporate and personal income tax rates, compared with peer countries, and ranks poorly on labor productivity, it says.

"By lowering tax rates on personal and business income, governments would encourage and incentivize the very things we need more of — investment and entrepreneurship, which lay the foundations for a four-day work week through improved productivity," Alex Whalen, Fraser Institute policy analyst and study co-author, said in a [release accompanying the essay](#).

While the United States and other OECD countries like France and Norway have reduced corporate taxes, "Canada has not responded in a similar fashion," and the country has dropped in competitiveness in the last three years, the essay says. "Among OECD countries, Canada had the 10th-highest corporate income tax rate in 2019 at 26.2 percent," which was higher than the rates in Denmark, Norway, Sweden, and the United States, it says.

"Canadian corporations will decide where to invest based in part on domestic versus foreign tax rates," the essay says. With the country's open economy and shared border with the United States, it's no wonder that the essay expresses specific concern about the latter's falling tax rates and a potentially widening gap between the two countries' productivity performance.

Canada's [personal income tax rates](#) put it at a disadvantage in attracting skilled labor, according to the essay. "Out of 61 jurisdictions in Canada and the United States, nine Canadian provinces are among the top 10 least competitive tax jurisdictions in the top combined . . . [personal income tax] rate," it says, adding that Canada is losing its best innovators to other jurisdictions as a result of its high rates.

Researchers have linked poor productivity growth to economic environments that penalize capital investment, the essay says. Citing statistics from the Conference Board of Canada, it says Canada ranks 12th in a field of 17 peer countries on labor productivity.

The essay is the latest publication in a series with contributions from public policy and economics experts focusing on ways Canada can improve productivity growth and achieve a four-day work week. It adds to [concerns about Canada's tax competitiveness](#), particularly since the passage of the U.S. Tax Cuts and Jobs Act, though [tax cuts are not universally supported](#) in Canada and the COVID-19 pandemic has made their likelihood uncertain.

High personal tax rates can reduce production efficiency, agreed Kim Moody of Moodys Tax Law LLP. "Canada has a real problem that I wish it would address . . . but unfortunately, given pandemic fiscal challenges, I don't see that happening," he said, adding that lower taxes can encourage entrepreneurial risk-taking. "While the issue is much more complex than simply reducing taxation on a broad basis, I do support the notion of lower overall taxes, regardless of the situation we are currently in."

"A four-day work week is probably a long way off," though it's an agreeable objective, said Aaron Wudrick of the Canadian Taxpayers Federation. "It's clear we need tax reform, and it's clear the current federal government is more focused on redistribution rather than productivity and growth." The government needs to consider policies that may reduce revenue in the short-term "in exchange for a bigger payoff in the medium and long term," he said.