



Big Bold Tax Reform (BBTR): Building a Foundation for Canadian Prosperity

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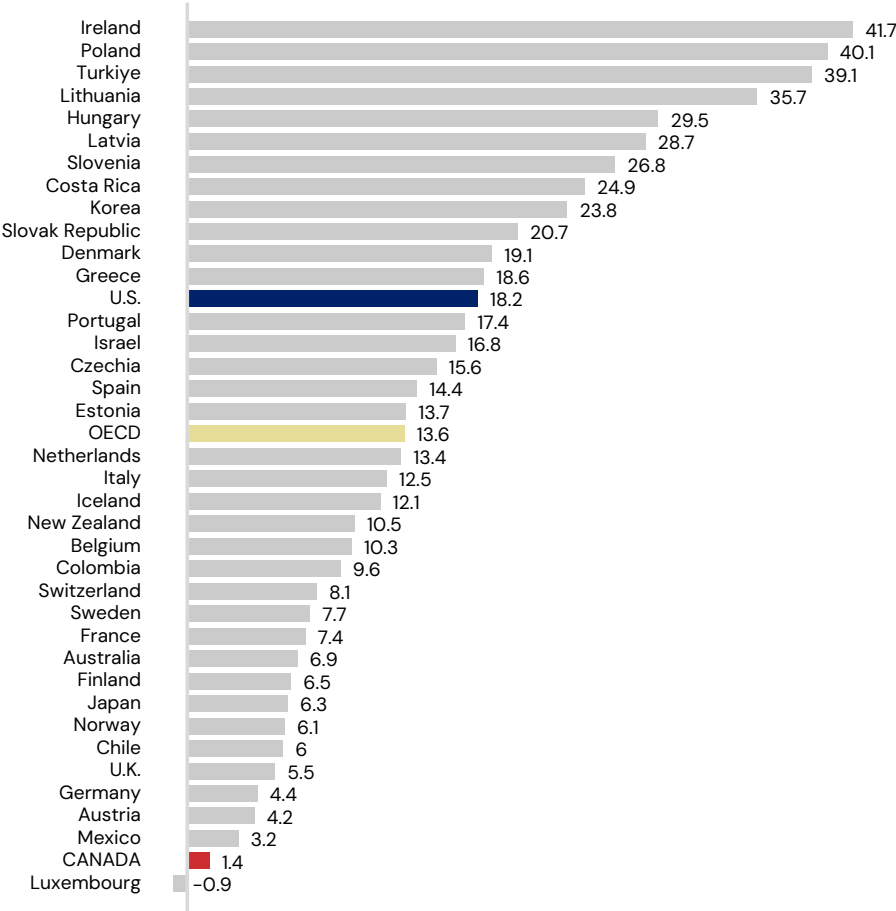
This study was commissioned by the Centre for Civic Engagement. The CCE is a non-partisan Canadian charity dedicated to conducting original research on public policy issues related to Canadian prosperity, productivity, and national flourishing. The CCE's research informs an active program of policy seminars, events, conferences, and lectures all aimed at providing the policy making community with actionable insights that encourage informed decision making on issues that matter to Canadians.

1. Canada's Economic Crisis Demands Bold Action

1.1 The Stagnation Reality

Canada confronts not cyclical downturn but structural decline. Despite vast resources, world-class talent, and stable institutions, policy inadequacy has stifled our economic potential. The evidence is troubling. Real GDP per capita shows virtually no cumulative growth over seven years. From 2015 to 2024, Canada's per-person growth was a dismal 1.4%, second lowest in the OECD (see **Chart 1**). The U.S., by contrast, achieved 18.2% growth over the same period. The ultimate result: per capita GDP – which peaked at 94% of U.S. levels in 1981 – is now around 76% and projected to fall to just 70% by 2029.¹

Chart 1: Real GDP Per Capita Growth in the OECD (%), 2015 Q1 to 2024 Q3



Source: Trevor Tombe

¹ OECD Data Explorer <https://tinyurl.com/yvj99ne9> and CPA Ontario, "Meeting the Moment: Mobilizing CPAs to Address Canada's Economic Challenge," March 6, 2025, <https://www.cpaontario.ca/insights/blog/mobilizing-cpas-to-address-canada-economic-challenge>

Canada's labour productivity (now only 72% of U.S. levels) stems from deep structural flaws in both capital formation and innovation capacity.² The typical Canadian worker receives only 32 cents of new machinery and equipment capital for every dollar enjoyed by an American worker as of Q2 2025.³ This chronic underinvestment has caused Canada's capital stock per worker to decline steadily since 2015. The OECD's latest economic survey notes Canada's stagnation rooted in systematic underinvestment in productivity-enhancing assets, weak business dynamism, and structural barriers including interprovincial trade restrictions.⁴

Our innovation engine is sputtering, as economist Alicia Planincic recently wrote in the Hub.⁵ Canada is no longer in the World Intellectual Property Organization's top 15 ranking of the most innovative economies – partially due to our inability to translate invention into commercialized innovation. The U.S. now produces 45 times more "high-potential" startups than Canada, up from 11x in 2015.⁶ The loss of entrepreneurial talent is notable: nearly half (48%) of all high-potential companies founded by Canadians in 2024 chose to locate their headquarters in the U.S., directly undermining domestic R&D and intellectual property creation.

The decline in entrepreneurial activity is structural and worsening. A BDC study found that by 2022, only 1.3 persons out of 1,000 had started a business, compared to 3 out of every 1,000 in 2000 – a collapse of more than half.⁷ Despite a population of 40 million, Canada has 100,000 fewer entrepreneurs than it did 20 years ago. BDC identifies the increasingly complex business environment as a key contributing factor to this entrepreneurial decline.

1.2 Five Pillars of Economic Renewal

There is no single policy reform that will solve Canada's structural ills; jumpstarting economic growth requires coordinated action across at least five interconnected pillars:

1. **Tax policy reform** (this proposal's focus: creating a low-rate, pro-investment tax architecture)
2. **Regulatory modernization** (cutting the invisible tax of red tape to unleash economic dynamism)
3. **Competition policy reform** (dismantling domestic and foreign investment barriers to foster competition and innovation)
4. **Strategic public investment** (building trade and transport corridors, and enabling infrastructure to diversify exports)
5. **Immigration reform** (resetting the system to reduce levels to match absorptive capacity and support human and physical capital accumulation over cheap labour substitution)

² OECD, "OECD Economic Surveys: Canada 2025," Paris: OECD Publishing, 2025, https://www.oecd.org/en/publications/oecd-economic-surveys-canada-2025_28f9e02c-en.html

³ William B.P. Robson and Mawakina Bafale, "Time to break the glass on Canada's investment emergency," Financial Post, September 2025, <https://cdhowe.org/publication/time-to-break-the-glass-on-canadas-investment-emergency/> and "Underequipped: How Weak Capital Investment Hurts Canadian Prosperity and What to Do about It," C.D. Howe Institute Commentary No. 666, 2024, https://cdhowe.org/wp-content/uploads/2024/12/For20advance20release20Commentary_666.pdf

⁴ OECD, "OECD Economic Surveys: Canada 2025," Paris: OECD Publishing, 2025, https://www.oecd.org/en/publications/oecd-economic-surveys-canada-2025_28f9e02c-en.html. Moreover, recent population surges have expanded the labour force without corresponding productivity gains, as many low-skilled non-permanent residents have reduced pressure on businesses to invest in automation and technology

⁵ Alicia Planincic, "One reason for our faltering economy? Canada's struggle to turn innovation into growth," the Hub, October 9, 2025 <https://thehub.ca/2025/10/09/one-reason-for-our-faltering-economy-canadas-struggle-to-turn-innovation-into-growth/>

⁶ Leaders.vc, "Canadian Startup Migration Analysis," September 2025, <https://www.leaders.vc/canadianstartups>

⁷ BDC and Université de Montréal, "Nearly Half as Many People are Launching Businesses as 20 Years Ago," October 16, 2023, <https://www.bdc.ca/en/about/mediaroom/news-releases/nearly-half-many-people-are-launching-businesses-20-years-ago>

Big Bold Tax Reform (BBTR) is a structural response and provides the essential tax competitiveness foundation that enables success across all other pillars. The choices required for BBTR are hard but so is the challenge facing Canada. Without fundamental tax reform, progress on other fronts will be undermined by persistent disincentives to investment and work.

2. Why Canada's Tax System Needs a Rethink

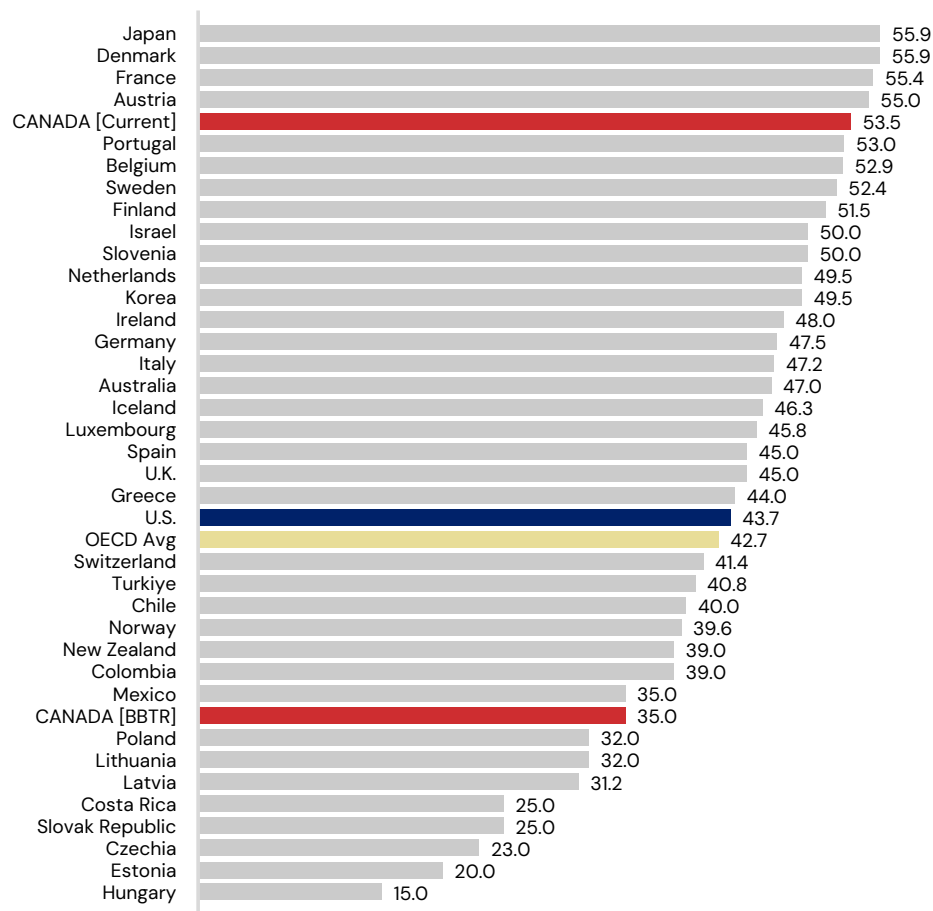
2.1 Deteriorating Global Rankings

Canada ranks poorly on global tax competitiveness due to reliance on high rates and complexity. According to the Tax Foundation's International Tax Competitiveness Index 2024:⁸

- **Overall competitiveness:** 17th of 38 OECD countries
- **Individual tax component:** 31st (bottom third)
- **Corporate tax component:** 26th (bottom half)

Our combined top personal rate of 53.5% (Ontario) ranks 5th highest in the OECD (see **Chart 2**). Canada not only hits high earners harder – it does so much earlier, with rates kicking in at relatively low income levels. Federally, Canada's top rate kicks in at \$253,414 CAD, while the U.S. top federal rate of 37% begins at \$626,350 USD (~\$878,000 CAD). Our statutory corporate income tax rate averages 26.0%, exceeding both the U.S. rate and OECD average of 24.2% (see **Chart 3**).

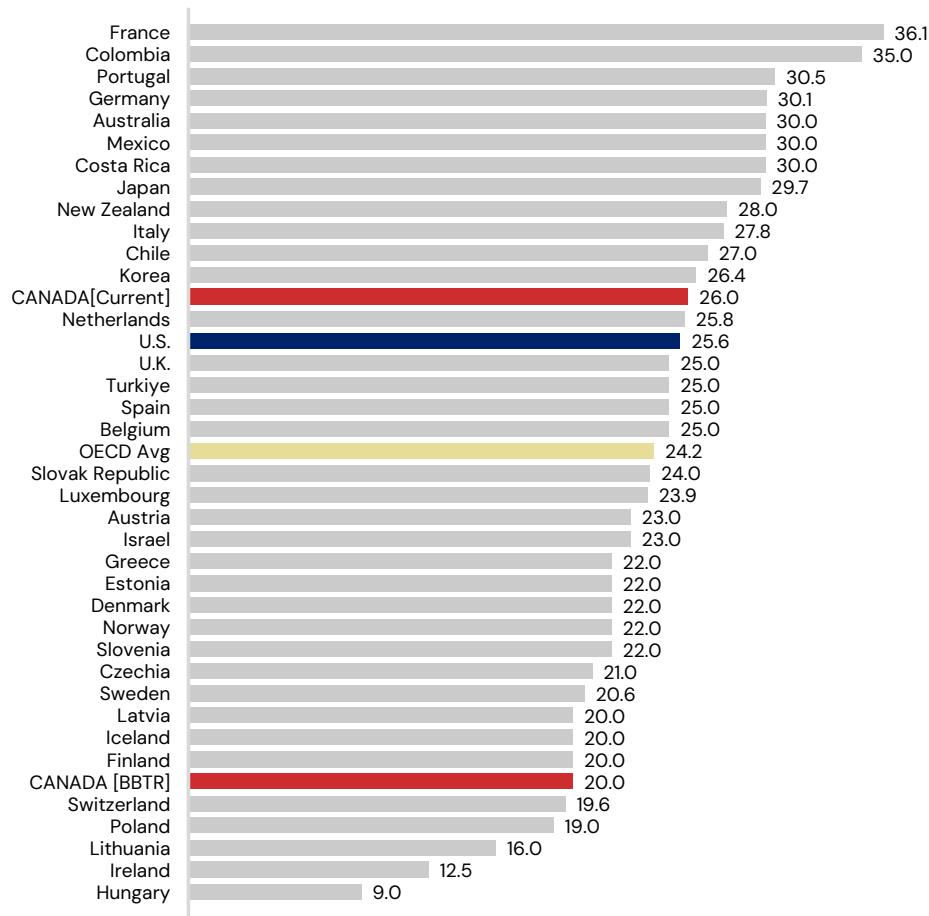
Chart 2: Top Marginal Rate on Personal Income (%), 2024



Source: OECD Data Explorer

⁸ Tax Foundation, "International Tax Competitiveness Index 2024," October 2024, <https://taxfoundation.org/research/all/global/2024-international-tax-competitiveness-index/>

Chart 3: Combined Statutory Corporate Income Tax Rate (%), 2025



Source: OECD Data Explorer

Canada’s fundamental problem isn’t just high rates; it’s relying on the wrong kinds of taxes. Personal income taxes account for 37% of Canada’s total tax revenue, 13 percentage points above the OECD average of 24%.⁹ Meanwhile, Canada derives only 22% of revenue from consumption taxes, well below the OECD average of 32%.

This inverted tax mix suppresses growth, as research consistently shows that income and profit-based taxes impose far higher economic costs per dollar raised than consumption taxes.¹⁰ ¹¹ By over-taxing work and investment while under-taxing consumption, Canada uses a tax mix that hurts competitiveness and imposes avoidable economic costs.

⁹ CPA Ontario, “Tax Reform for Growth in Canada,” October 2025, <https://assets.cpaontario.ca/insights/thought-leadership/pdfs/tax-reform-for-growth-in-canada-final.pdf>

¹⁰ OECD, “Tax Policy Reform and Economic Growth,” OECD Tax Policy Studies No. 20, Paris: OECD Publishing, 2010 https://www.oecd.org/content/dam/oecd/en/publications/reports/2010/11/tax-policy-reform-and-economic-growth_g1g113a3/9789264091085-en.pdf

¹¹ Bev Dahlby and Ergete Ferede, “The Impact of Tax Cuts on Economic Growth in Canadian Provinces,” National Tax Journal 65, no. 3 (2012): 563–594, <https://www.journals.uchicago.edu/doi/abs/10.17310/ntj.2012.3.0.3>

2.2 Complexity as Economic Poison

Tax complexity creates compliance burdens disproportionate to benefits. And here, Canada stands out in a bad way. Whether measured by the length of the Income Tax Act or the volume of tax expenditures, tax complexity is growing. In addition, unclear and shifting rules (i.e. on capital gains tax) or legislation (i.e. bare trust reporting) aggravate the problem.¹²

The accumulating complexity diverts billions from productive activity while discouraging investment and risk-taking. The total compliance cost associated with personal income tax filings alone reached \$4.2 billion in 2022, equivalent to 0.15% of GDP.¹³ These costs hurt lower income Canadians and small businesses disproportionately, as they often don't have the resources or knowledge to navigate. Time spent complying is time not spent doing more productive things.

2.3 Escalating U.S. Competitive Pressure

President Trump's "One Big Beautiful Bill Act" passed earlier this year extends and deepens the 2017 U.S. tax changes. For instance, the permanent restoration of full and immediate expensing for domestic research and experimentation, combined with 100% bonus depreciation for short-lived assets, makes Canada's investment climate significantly less competitive.¹⁴ Trump's tariffs further underscore the urgency of Canadian tax reform. In the face of mounting competitive pressures, Canada must cultivate a policy landscape that attracts capital and talent, positioning itself as a compelling alternative to the U.S. and other global jurisdictions.

¹² CPA Ontario, "Tax Reform for Growth in Canada," October 2025, <https://assets.cpaontario.ca/insights/thought-leadership/pdfs/tax-reform-for-growth-in-canada-final.pdf>

¹³ François Vaillancourt and Nathaniel Li, "Personal Income Tax Compliance for Canadians: How and at What Cost?," The Fraser Institute, 2024, <https://www.fraserinstitute.org/sites/default/files/personal-income-tax-compliance-for-canadians.pdf>

¹⁴ CPA Ontario, "What the "One Big Beautiful Bill" Act Means for Canadian Tax Competitiveness," August 5, 2025, <https://www.cpaontario.ca/insights/blog/what-the-one-big-beautiful-bill-act-means-for-canadian-tax>

3. The BBTR Solution: Estonian Vision with Canadian Implementation

3.1 Drawing on Estonia's Successful Model

Big Bold Tax Reform (BBTR) draws inspiration from Estonia's tax system, which has consistently ranked as the most competitive in the OECD.¹⁵ It is a model also put forward by economist Jack Mintz.¹⁶ Since implementing comprehensive tax reform in 2000, Estonia has achieved remarkable economic transformation:

- Real GDP per capita growth of 119% since 2000, compared to Canada's 27% and the OECD average of 26%.¹⁷
- Leads Europe in startups per capita, including "unicorns" (companies valued at \$1 billion or more).¹⁸
- Highest venture capital funding per capita in Europe.¹⁹
- Venture capital investment growth from \$4 million (2009) to nearly \$1 billion (2021).²⁰

Estonia's success stems from three integrated tax policy elements working in concert:^{21, 22}

1. **Distributed profits tax:** Corporate taxes levied only on distributed profits (currently 22%, up from the 20% originally); retained earnings taxed at 0%, creating powerful reinvestment incentives.
2. **Simple flat personal income tax:** Currently 22% on all personal income (recently adjusted from the original 20%).
3. **Consumption tax base:** Value-added tax of 24% (adjusted from original 20%) funding government services efficiently.

¹⁵ Tax Foundation, "International Tax Competitiveness Index 2024," October 2024, <https://taxfoundation.org/research/all/global/2024-international-tax-competitiveness-index/>

¹⁶ Jack Mintz, "A Proposal for a 'Big Bang' Corporate Tax Reform," SPP Research Paper 15, no. 7, 2022, https://www.policyschool.ca/wp-content/uploads/2022/02/FMK3_Big-Bang-Corporate-Tax_Mintz.pdf

¹⁷ Tax Foundation, "Details and Analysis of a Tax Reform Plan for Growth and Opportunity," July 2023, <https://taxfoundation.org/research/all/federal/tax-reform-plan-growth-opportunity/>

¹⁸ Invest Estonia, "Estonia Leads Europe in Startups, Unicorns and Investments per Capita," December 2022, <https://investinestonia.com/estonia-leads-europe-in-startups-unicorns-and-investments-per-capita/>

¹⁹ Invest Estonia, "Estonia Leads Europe in Startups, Unicorns and Investments per Capita," December 2022, <https://investinestonia.com/estonia-leads-europe-in-startups-unicorns-and-investments-per-capita/>

²⁰ Camillo Padulli, "In Estonia, an Enterprising Spirit Thrives," Manhattan Institute, January 18, 2023, <https://manhattan.institute/article/in-estonia-an-enterprising-spirit-thrives>

²¹ Tax Foundation, "Details and Analysis of a Tax Reform Plan for Growth and Opportunity," July 2023, <https://taxfoundation.org/research/all/federal/tax-reform-plan-growth-opportunity/>

²² Tax Foundation, "International Tax Competitiveness Index 2024," October 2024, <https://taxfoundation.org/research/all/global/2024-international-tax-competitiveness-index/> and https://www.oecd.org/en/publications/oecd-economic-surveys-estonia-2024_33e6beee-en.html#:~:text=The%20Estonian%20economy%20has%20experienced,account%20has%20swung%20into%20deficit.

This architecture – combined with comprehensive digitization of government services and open trade policies – catalyzed Estonia’s transformation.²³ Notably, Estonia’s tax system typically takes five minutes to file online, compared to an average of 12 hours for U.S. taxpayers.^{24, 25}

Canada, of course, is not Estonia but needs major tax reform urgently, as the country competes with other economic powerhouses and counteracts trade uncertainty. BBTR adapts Estonia’s principles to Canadian realities that achieve similar economic effects to Estonia’s distributed profits tax.

²³ OECD, Estonia country economic surveys and structural reform analysis, https://www.oecd.org/en/publications/oecd-economic-surveys-estonia-2022_21ef46e4-en.html#:~:text=Abstract,on%20the%20sector%20is%20challenging.

²⁴ Scott Hodge, “The Compliance Costs of IRS Regulations,” Tax Foundation, June 15, 2016, <https://taxfoundation.org/research/all/federal/compliance-costs-irs-regulations/>

²⁵ Kyle Pomerleau, “The Best Part of the Estonian Tax Code Is Not 5 Minute Tax Filing,” Tax Foundation, July 21, 2015, <https://taxfoundation.org/blog/best-part-estonian-tax-code-not-5-minute-tax-filing/#:~:text=While%205%2Dminute%20online%20tax,people%20can%20pay%20their%20taxes>.

3.2 The Complete BBTR Proposal

BBTR transforms Canada’s tax system through integrated rate reductions, powerful investment incentives, and base broadening. At the federal level, BBTR implements:

- 20% flat personal income tax on income above a much higher \$22,500 Basic Personal Amount
- 12% flat corporate rate (eliminating the small business deduction) combined with 100% immediate expensing for all capital investments²⁶
- 100% capital gains inclusion at the 20% rate with rollover provisions exempting reinvested gains
- Federal GST increase from 5% to 7% with a doubled refundable GST/HST Credit protecting low-income families
- Elimination of \$25 billion in inefficient and ineffective tax expenditures and \$11 billion in corporate subsidies.

These federal actions establish the foundation for coordinated federal-provincial rate targets of ≤35% combined personal income tax, ≤20% combined corporate tax, and ≤15% combined GST/HST.

Table 1: BBTR Policy Parameters Summary

TAX TYPE	CURRENT FEDERAL	BBTR FEDERAL	COMBINED FED-PROV TARGET
Personal Income Tax	5 brackets (14–33%); BPA: \$16,129	20% flat rate; BPA: \$22,500	≤35%; (Federal 20% + Provincial ≤15%)
Corporate Tax	15% general / 9% small biz; Limited expensing	12% flat rate; 100% immediate expensing	≤20%; (Federal 12% + Provincial ≤8%)
Capital Gains	50% inclusion	100% inclusion at 20%; + Rollover for reinvestment	N/A
GST/HST	Federal 5%; Credit: \$6.4B program	Federal 7%; Credit: \$12.8B (doubled)	≤15%; (Federal 7% + Provincial ≤8%)
Base Broadening	Complex preferences	Eliminate \$25B tax expenditures – Eliminate \$11B corporate subsidies	N/A

²⁶ The distributed profits tax remains a compelling direction for future enhancement once core reforms of BBTR demonstrate success and behavioral parameters can be reliably estimated. Estonia’s distributed profits tax eliminated the penalty on business reinvestment and helped transform one of the poorest economies in the OECD to one of the most competitive. Jack Mintz has proposed DPT implementation for Canada, estimating a revenue-neutral combined federal-provincial corporate tax rate of approximately 27%. BBTR’s 100% immediate expensing serves as a practical stepping stone, demonstrating economic benefits of reducing taxation on reinvested earnings before undertaking the more complex DPT transition. While BBTR achieves this through immediate expensing combined with low rates, the DPT’s elegant simplicity and proven track record merit serious consideration for Phase 2 tax reform. The Federal-Provincial Tax Competitiveness Panel’s research mandate should prioritize DPT feasibility analysis to guide this potential next step in Canada’s tax transformation.

3.3 Canada's Two-Stage Implementation Strategy

Canada's federal structure requires adaptation of the Estonian model through a two-stage approach:

Stage 1 (immediate): Federal action – The federal government exercises its constitutional tax authority to implement its share of the reform, creating competitive pressure and demonstrating commitment to change.

Stage 2 (coordinated): Provincial calibration – A Federal-Provincial Tax Competitiveness Panel negotiates provincial participation within an aspirational framework, ensuring provinces are held harmless or better off while achieving combined rates that boost Canadian competitiveness.

4. Federal Actions: What Ottawa Can Do Now

4.1 The Federal 20% Personal Flat Tax with Expanded Basic Personal Amount

The federal government replaces its current five-bracket structure (14%, 20.5%, 26%, 29%, 33%) with a single 20% federal rate applied to all taxable income above an expanded \$22,500 Basic Personal Amount (BPA).

Expanded zero-tax bracket: The \$22,500 BPA (up from \$16,129 currently, a 40% increase) ensures many very low-income earners pay no federal income tax.

Competitiveness restoration: The 20% federal rate (compared to current top federal rate of 33%) dramatically reduces brain drain incentives and marginal work disincentives. Research shows top global talent is highly responsive to marginal tax rates.^{27, 28, 29}

Provincial room: The 20% federal rate leaves 15 percentage points for provinces to set their own rates while achieving the combined $\leq 35\%$ target – still dramatically more competitive than the current 53.5% combined top rate in Ontario.

4.2 The Federal 12% Corporate Rate with 100% Immediate Expensing

The federal government implements a 12% flat federal corporate income tax rate, eliminating the small business deduction and replacing it with uniform treatment for all firms. Critically, this is combined with 100% immediate expensing for all capital investments, creating powerful investment incentives comparable to Estonia's distributed profits tax model. Key features:

Investment supercharger: The combination of a low 12% rate with immediate expensing mitigates the tax penalty on business investment. Research shows 100% expensing increases investment for affected firms and boosts GDP.^{30, 31} This achieves the core goal of Estonia's distributed profits tax – boosting reinvestment – through a mechanism that is simpler to model and implement.

Firm size and scale neutrality: Eliminates the "small business trap" where the gap between small business (9%) and general corporate rate (15%) discourages firms from scaling.^{32, 33} This "trap" is exacerbated by similar but even greater provincial rate differentials (12.2% and 26.5%, respectively in Ontario). The uniform 12% federal rate applies to all firms regardless of size.

²⁷ Ergete Ferede, "Entrepreneurship and Personal Income Tax: Evidence from Canadian Provinces," *Small Business Economics* 56, 2021: 1765–1781

²⁸ Erica York, "An Overview of Capital Gains Taxes," Tax Foundation, April 2019, <https://taxfoundation.org/wp-content/uploads/2019/04/An-Overview-of-Capital-Gains-Taxes.pdf>

²⁹ Saez, E., J. Slemrod & S. Giertz (2012). "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review," *Journal of Economic Literature* 50(1): 3–50.

³⁰ Zwick, E. & J. Mahon (2017). "Tax Policy and Heterogeneous Investment Behavior," *American Economic Review* 107(1): 217–248.

³¹ Ohrn, E. (2018). "The Effect of Corporate Taxation on Investment and Financial Policy: Evidence from the DPAD," *American Economic Journal: Economic Policy* 10(2): 272–301.

³² Josip Lesica, "Responsiveness of small businesses to corporate income taxation in Canada: A summary of new findings," Statistics Canada, March 2025, <https://www150.statcan.gc.ca/n1/en/pub/36-28-0001/2025003/article/00003-eng.pdf?st=hOQ-DiDT>

³³ Jeremy Kronick, "Tax Policies to Reverse Current Trends in Productivity in Canada," Canadian Tax Foundation Perspectives on Tax Law & Policy 4, no. 4, 2023 <https://www.ctf.ca/EN/EN/Newsletters/Perspectives/2023/4/230404.aspx>

Simplicity: Immediate expensing dramatically reduces the complexity of capital cost allowance schedules, depreciation classes, and recapture calculations. Firms deduct capital investments immediately rather than tracking depreciation over years.

Competitive positioning: The 12% federal rate combined with immediate expensing creates an effective marginal tax rate on new investment near zero – more competitive than most OECD countries and directly comparable to Estonia’s 0% rate on retained earnings.

Implementation: 100% immediate expensing applies to all depreciable capital property acquired after the implementation date. The current Accelerated Investment Incentive is replaced by this more generous provision.

Provincial room: The 12% federal rate leaves 8 percentage points for provinces to implement their own rates while achieving the combined 20% target competitive with OECD averages.

Table 2: Current vs. BBTR Federal Corporate Tax Structure

ASPECT	CURRENT FEDERAL LAW	BBTR FEDERAL ACTION
General Corporate Rate	15% on all profits	12% flat rate
Small Business Rate	9% on first \$500K	Eliminated; single 12% applies to all
Capital Expensing	Limited immediate expensing (specific classes)	100% immediate expensing for all assets
Depreciation / CCA	Complex schedules and classes	Largely eliminated by immediate expensing

4.3 100% Capital Gains Inclusion with Rollover Provision

All capital gains are taxed as ordinary income (100% inclusion) at the 20% federal rate, eliminating preferential treatment that creates complexity and lock-in effects.³⁴ Critically, capital gains on assets sold and reinvested are exempt from tax – only gains “cashed out” for consumption are taxable. This broad rollover provision reduces lock-in effects that suppress capital reallocation.

Principal Residence Exemption retained: The Principal Residence Exemption is retained under current law. While economic theory suggests taxing all capital gains equally would improve neutrality, the PRE enjoys broad public support as protecting families’ primary shelter investment. The Federal-Provincial Tax Competitiveness Panel may revisit this and other controversial tax carve-outs in future reform phases once the core BBTR structure demonstrates success.

³⁴ Erica York, “An Overview of Capital Gains Taxes,” Tax Foundation, April 2019, <https://taxfoundation.org/wp-content/uploads/2019/04/An-Overview-of-Capital-Gains-Taxes.pdf>

Savings vehicles retained: RRSPs and TFSAs are retained under current parameters. These vehicles align with the consumption-tax principle that income should be taxed when consumed, not when saved, thereby eliminating the double taxation bias against saving inherent in income tax systems.

Table 3: Current vs. BBTR Federal Personal Tax Structure

ASPECT	CURRENT FEDERAL LAW (2025)	BBTR FEDERAL ACTION
Tax Brackets	5 brackets: 14%, 20.5%, 26%, 29%, 33%	Single 20% rate
Basic Personal Amount	\$16,129	\$22,500
Top Rate Threshold	\$253,414	N/A (flat rate)
Capital Gains Inclusion	50%	100% at 20% rate
Capital Gains Rollover	Very narrow	Reinvested gains exempt
Principal Residence	Fully exempt	Retained; fully exempt
Dividends	Taxed with gross-up / credit	Retained (integration system)

4.4 Federal GST Increase and Enhanced GST/HST Credit

The federal government increases the GST from 5% to 7%, funding federal rate cuts while leaving room for provincial consumption taxes within the combined 15% target.

Revenue and progressivity: The GST increase generates approximately \$22.2 billion annually in gross federal revenue (\$11.1B per percentage point based on current \$55.4B at 5%). Doubling the GST/HST Credit costs an additional \$6.4 billion, for a net contribution of \$15.8 billion. This funds a significant portion of federal rate reductions, with the remainder from tax expenditure reform and corporate subsidy elimination.

Doubling the GST/HST Credit from current program cost of \$6.4B to \$12.8B annually means:

- Singles: \$533 → \$1,066
- Couples: \$698 → \$1,396
- Per child: \$184 → \$368
- Example family (2 kids): \$1,066 → \$2,132

For a family spending \$40,000 annually:

- Additional GST cost (2 points): -\$800
- Additional credit benefit: +\$1,066
- Net benefit: +\$266

Provincial coordination: Ontario's current provincial HST component is 8%, which combined with a 7% federal GST equals the 15% combined target. Other provinces operating HST systems (Newfoundland and Labrador, Nova Scotia, New Brunswick, Prince Edward Island) would coordinate adjustments. Provinces with separate PST systems (British Columbia, Saskatchewan, Manitoba) would be encouraged to harmonize while maintaining combined rates at or below 15%.

Canada Workers Benefit (CWB) retained: CWB, a wage subsidy program, is retained under current parameters to support low-income workers.

4.5 Tax Expenditure Elimination

To achieve base broadening, the federal government would eliminate approximately \$25 billion in inefficient tax expenditures. A comprehensive review following the Auditor General's criteria – assessing relevance, efficiency, and whether the tax system is the appropriate delivery mechanism – would identify the complete list of expenditures to eliminate.³⁵ The following represent select, non-exhaustive examples requiring review using the Auditor General's recommended criteria:

- Labour-Sponsored Venture Capital Corporations Credit
- Fossil Fuel Tax Expenditures
- Accelerated CCA for specific assets (i.e. zero-emission vehicle credits)
- Small Business Deduction
- Green Energy Tax Credits (i.e. Clean Hydrogen Investment Tax Credit, Clean Electricity Investment Tax Credit, Clean Technology Manufacturing Investment Tax Credit)
- EV Supply Chain Investment Tax Credit
- Multigenerational Home Renovation Tax Credit
- Scientific Research and Experimental Development (SR&ED) Tax Credit
- Critical Mineral Exploration Tax Credit for Flow-Through Share Investors
- Mineral Exploration Tax Credit for Flow-Through Share Investors
- Flow-through share deductions
- Canadian Film or Video Production Tax Credit
- Canadian Entrepreneurs' Incentive
- Canadian Journalism Labour Tax Credit
- First-Time Home Buyers' Tax Credit
- Small Businesses Air Quality Improvement Tax Credit
- Age Credit

³⁵ Auditor General of Canada, "Report of the Auditor General of Canada 2015 – Tax-Based Expenditures," April 28, 2015, https://www.oag-bvg.gc.ca/internet/English/parl_oag_201504_03_e_40349.html

4.6 Corporate Subsidy Elimination

The federal government eliminates at least \$11 billion in federal business subsidies. Based on a recent report, federal business subsidies reached \$11.2 billion in 2022.³⁶ These subsidies distort market signals, create dependency, and demonstrate limited economic benefit relative to broad-based tax competitiveness.

³⁶ Tegan Hill, Joel Emes, and Jake Fuss, "The Cost of Business Subsidies in Canada: Updated Edition," The Fraser Institute, March 2024, <https://www.fraserinstitute.org/studies/cost-of-business-subsidies-in-canada-updated-edition>

5. Federal-Provincial Coordination: The Panel's Mandate

5.1 Establishing the Federal-Provincial Tax Competitiveness Panel

The federal government establishes a Federal-Provincial Tax Competitiveness Panel with representation from all provinces, territories, and the federal government. The panel receives dedicated secretariat support, economic modeling capacity, and authority to negotiate binding agreements.

The panel operates within an aspirational framework of combined tax rate targets designed to restore Canadian competitiveness with the United States and OECD peers:

- Top personal income tax rate: $\leq 35\%$ (Federal 20% + Provincial $\leq 15\%$)
- General corporate income tax rate: $\leq 20\%$ (Federal 12% + Provincial $\leq 8\%$)
- Consumption tax (GST/HST): $\leq 15\%$ (Federal 7% + Provincial $\leq 8\%$)

These targets are aspirational. The panel's role is to negotiate province-by-province agreements that move toward these targets while ensuring provinces are held harmless or better off through economic growth, federal transfers, and administrative savings.

Table 4: Current vs. BBTR Target Rate Structure

TAX TYPE	CURRENT FEDERAL	CURRENT PROVINCIAL (ONTARIO)	CURRENT COMBINED	BBTR FEDERAL	PROVINCIAL ROOM	TARGET COMBINED
Top Personal	33%	20.53% (w/ surtaxes)	53.53%	20%	$\leq 15\%$	$\leq 35\%$
Corporate (General)	15%	11.5%	26.5%	12%	$\leq 8\%$	$\leq 20\%$
Consumption (GST/HST)	5%	8%	13%	7%	$\leq 8\%$	$\leq 15\%$

5.2 Provincial Flexibility Within the Framework

RATE STRUCTURE AUTONOMY

Provinces retain substantial flexibility in how they structure their tax systems within the aspirational targets:

- **Personal income tax:** Provinces may choose flat rates, two-tier systems, or up to three brackets, so long as combined rates don't exceed the 35% target
- **Corporate tax:** Provinces implement their share of the rate structure (recommended $\leq 8\%$) with option to adopt immediate expensing
- **Consumption tax:** Provinces maintain or adjust HST/PST within the combined 15% target

PHASE-IN FLEXIBILITY

Provinces negotiate their own implementation timelines (i.e. 3–5-year transition periods).

Early adopters may receive:

- Bonus federal fiscal transfers
- Priority technical assistance
- Public recognition as competitive jurisdictions

WHY THE PROVINCES SHOULD COORDINATE

There are many benefits for the provinces from coordinating, including an economic growth dividend, administrative/compliance savings, federal incentives, and competitive necessity. Even before provincial coordination is complete, federal action creates competitive pressure, demonstration effects, and a strong signal to domestic and foreign investors that Canada is serious about becoming an investment destination.

5.3 Projected OECD Tax Competitiveness Rankings

Canada's tax competitiveness would improve dramatically under BBTR's combined federal-provincial targets. Based on the Tax Foundation's International Tax Competitiveness Index methodology, Canada's overall ranking is estimated to improve from 17th among 38 OECD countries to the top five alongside Estonia, Latvia, New Zealand, and Switzerland. On the top marginal rate, Canada would go from 34th to the top five (**Chart 2**) and on the top statutory corporate tax rate, from 26th to the top six (**Chart 3**).

6. Economic Impact of BBTR

The economic estimates in this section are meant to be illustrative; further modelling is needed for increased precision.³⁷ The economic projections assume successful federal-provincial coordination achieving the combined rate targets of ≤35% personal income tax, ≤20% corporate tax, and ≤15% GST/HST. Federal action alone (without provincial participation) would generate more modest effects, approximately two-thirds of the GDP impact.

PROJECTED OUTCOMES

- Long-run GDP growth: +4.5% to +5.5%
- Capital stock increase: +8% to +10%
- Real wage growth: +2.0% to +2.5%
- Job creation: 240,000 to 280,000 full-time equivalent positions

These projections represent the long-run steady-state effects achieved after approximately 10 years of implementation. The GDP increase is a permanent boost to the level of GDP, not an annual growth rate. For example, a +5% effect means the economy would be 5% larger than it otherwise would have been.

BBTR's comprehensive transformation generates economic gains through the five integrated channels working simultaneously: personal income tax reform (53.5%→35% top rate); BPA expansion (\$16,129→\$22,500); corporate rate reduction (26.5%→20%); 100% immediate expensing; and capital gains rollover. The projections are supported by academic research demonstrating that simultaneous transformation of personal taxation, corporate taxation, and consumption taxation generates larger effects than isolated single-tax reforms. Detailed methodology, academic citations, and sensitivity analysis are provided in **Appendix A**.

Table 5: Projected Economic Outcomes

METRIC	BASE CASE	CONSERVATIVE CASE
Long-Run GDP	+4.5% to +5.5%	+3.5% to +4.0%
Long-Run Wages	+2.0% to +2.5%	+1.5% to +2.0%
Capital Stock	+8% to +10%	+6% to +8%
Full-Time Jobs	240K to 280K	180K to 220K

³⁷ Economic and fiscal modeling calculations were developed using AI-assisted analysis tools. All assumptions, interpretations, and policy judgments are the author's. The calculations apply standard methodologies from the cited academic literature.

7. Federal Fiscal Impact of BBTR

The fiscal estimates in this section are meant to be illustrative; further modelling is needed for increased precision.³⁸ The fiscal analysis models federal government costs and revenues only. Provincial fiscal impacts are not included, as provinces will conduct their own analyses through the Federal-Provincial Tax Competitiveness Panel. The federal fiscal costs shown here fund federal rate reductions that, when combined with provincial coordination, generate the economic benefits projected in **Section 6**.

BBTR generates a static deficit of -\$33.0B annually (years 1-5), improving to just -\$6.7B with conservative dynamic effects after 10+ years. This near revenue-neutral position comes with dramatic competitiveness gains that meaningfully address Canada's structural economic decline.

The static deficit of -\$33.0B represents the immediate fiscal cost before economic growth effects materialize. Over approximately 10 years, as the GDP growth, wage increases, and employment gains translate into expanded tax bases, dynamic revenue effects add \$26.3B annually. The final net position of -\$6.7B (just 1.7% of federal revenue) represents near revenue neutrality while achieving dramatic competitiveness gains. Detailed fiscal calculations, assumptions, and sensitivity analysis are provided in **Appendix B**.

Ottawa faces significant fiscal pressures, with some projecting the federal deficit to be as high as \$100B in the November 4th budget.³⁹ BBTR would add to near-term deficits before dynamic effects materialize. However, structural tax reform should take priority over incremental spending programs precisely because it addresses Canada's fundamental competitiveness crisis. As the Carney government contemplates new spending initiatives, it should redirect that fiscal capacity toward BBTR instead – a reform that pays dividends over time while transforming economic performance.

³⁸ Economic and fiscal modeling calculations were developed using AI-assisted analysis tools. All assumptions, interpretations, and policy judgments are the author's. The calculations apply standard methodologies from the cited academic literature.

³⁹ Bloomberg, "Canada's deficit to surge to \$100 billion, NBF's Marion says," October 8, 2025, <https://financialpost.com/pmn/business-pmn/canadas-deficit-to-surge-to-72-billion-nbfs-marion-says>

Table 6: BBTR Federal Fiscal Impact Summary

FISCAL COMPONENT	AMOUNT	TIMING
REVENUE LOSSES		
Personal income tax (20% flat)	-\$29.2B	Immediate
Basic Personal Amount expansion	-\$37.6B	Immediate
Corporate rate cut (15%→12%)	-\$17.2B	Immediate
100% immediate expensing	-\$12.8B	Immediate
Capital gains (100% inclusion + rollover)	≈\$0B	Revenue neutral
SUBTOTAL REVENUE LOSSES	-\$96.8B	
OFFSETTING REVENUES		
GST increase (net of doubled credit)	+\$15.8B	Immediate
Tax expenditure elimination	+\$25.0B	Years 1-2
Corporate base expansion	+\$10.0B	Immediate
Corporate subsidy cuts	+\$11.0B	Years 1-2
Administrative efficiency	+\$2.0B	Years 2-4
SUBTOTAL OFFSETTING	+\$63.8B	
Static Deficit	-\$33.0B	Years 1-5 avg
Dynamic Revenue (annual)	+\$26.3B	Year 10+
Final Net Deficit	-\$6.7B	Year 10+
As % of federal revenue	-1.7%	Year 10+

8. Implementation Roadmap

Year 1: Foundation, Negotiation & Legislative Preparation

- Establish Federal-Provincial Tax Competitiveness Panel with dedicated secretariat.
- Launch national consultation to create public buy-in emphasizing competitiveness crisis and growth benefits.
- Begin negotiations on federal-provincial fiscal arrangements.
- Draft federal budget legislation incorporating all BBTR components.
- Negotiate binding agreements with early-adopter provinces.
- Begin enhanced GST/HST Credit payments (cushion before GST increase).
- Develop tax administration systems and prepare CRA for implementation.

Year 2: Federal Budget, Legislation & Implementation

- Federal budget tables legislation with effective dates.
- Parliament passes enabling legislation.
- CRA issues implementation guidance and public education campaign.
- Implement federal 12% corporate rate with 100% immediate expensing (immediate investment signal).
- Implement federal 20% flat tax with \$22,500 Basic Personal Amount.
- Increase federal GST from 5% to 7%.
- Tax expenditure elimination begins.
- Corporate subsidy programs closed to new applicants.

Year 3: Provincial Wave 1 Implementation

- Early-adopter provinces table budget legislation (corporate $\leq 8\%$, personal targeting combined $\leq 35\%$, consumption $\leq 15\%$).
- Provincial legislation passed and provincial tax changes take effect.
- The Federal-Provincial Panel monitors investment flows, business formation, migration patterns, employment, and wage growth.
- Federal government provides technical assistance to adopting provinces.
- Negotiations continue with non-adopting provinces.

Years 4–5+: Expansion & Adjustment

- Additional provinces join reform framework (Wave 2 and 3 adopters).
- Mid-term economic assessment and policy adjustments if needed.
- Evaluate achievement of aspirational rate targets.
- Panel reviews controversial tax carve-outs (including Principal Residence Exemption) for potential future reform once core BBTR demonstrates success.
- Commission distributed profits tax feasibility study for potential Phase 2 implementation.

Conclusion: Choose Prosperity Over Decline

Past incrementalism on tax policy has failed to reverse Canada's economic decline. Successive governments have layered new targeted preferences onto an already convoluted system, deepening complexity. Only fundamental reform can cut through the accumulated complexity, entrenched interests, and policy inertia that piecemeal changes cannot overcome.

Canada must choose.

The path of decline includes more tinkering, complexity, and political caution. Per capita GDP will likely fall further behind the U.S., talent will continue to leave, investment will stagnate, and living standards will erode for another generation.

The path of prosperity starts with Big Bold Tax Reform, led by decisive federal leadership and coordinated provincial partnership. BBTR lays the foundation for tax competitiveness essential to national prosperity. Yet it must be paired with regulatory modernization, competition policy reform, strategic public investment, and immigration reform. These five interconnected pillars, working in concert, can unlock the structural transformation Canada urgently needs.

BBTR comes with costs. The near-term fiscal impact is real, and the political obstacles are formidable. These costs, however, are an investment in Canada's economic future. The alternative would exact a far greater price.

By embracing competitive rates, immediate expensing, and a shift toward consumption taxation, Canada can become an economic powerhouse where innovation flourishes, capital flows, and opportunities abound. BBTR creates the conditions for Canada to compete with the world's best.

Appendix A: Economic Impact Methodology and Evidence Base

POLICY COMPONENT	ESTIMATED GDP EFFECT	RESEARCH EVIDENCE
Personal Income Tax Cuts	+2.0% to +2.8%	<ul style="list-style-type: none"> - Barro & Redlick (2011): 1 percentage point reduction in average marginal rate → +0.6% GDP.⁴⁰ With effective 5–6pp weighted reduction across taxpayers: +3.0–3.6% GDP potential. - Romer & Romer (2010): Personal income tax multiplier of 2–3.⁴¹ The \$29.2B cut (1.2% of GDP) × 2.5 multiplier = +3.0% GDP. - Mertens & Montiel Olea (2018): Top rate cuts have larger effects (+0.8% per percentage point) than average rate cuts.⁴² The 18.5 percentage point top rate reduction is significant. - Saez, Slemrod, Giertz (2012): Elasticity of taxable income for top earners: 0.4–0.6.⁴³ Much higher than average (0.2–0.25). - Conservative estimate: +2.0% to +2.8% GDP accounting for general equilibrium effects and overlap with other mechanisms.
BPA Expansion	+0.3% to +0.5%	<ul style="list-style-type: none"> - Eissa & Hoynes (2004): Labour supply effects from expanded zero-tax bracket.⁴⁴
Corporate Rate Cut	+1.0% to +1.2%	<ul style="list-style-type: none"> - Academic and modeling estimates for a 6.5 percentage point corporate rate cut → +1.0–1.2% long-run GDP.⁴⁵

⁴⁰ Barro, R. & C. Redlick (2011). "Macroeconomic Effects from Government Purchases and Taxes," *Quarterly Journal of Economics* 126(1): 51–102.

⁴¹ Romer, C. & D. Romer (2010). "The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks," *American Economic Review* 100(3): 763–801.

⁴² Mertens, K. & J. Montiel Olea (2018). "Marginal Tax Rates and Income: New Time Series Evidence," *Quarterly Journal of Economics* 133(4): 1803–1884.

⁴³ Saez, E., J. Slemrod & S. Giertz (2012). "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review," *Journal of Economic Literature* 50(1): 3–50.

⁴⁴ Eissa, N. & H. Hoynes (2004). "Taxes and the Labor Market Participation of Married Couples: The Earned Income Tax Credit," *Journal of Public Economics* 88(9–10): 1931–1958.

⁴⁵ Bev Dahlby and Ergete Ferede (2019). "Simulating the Growth Effects of the Corporate Income Tax Rate Cuts in Alberta," University of Calgary School of Public Policy 12(30). <https://www.policyschool.ca/wp-content/uploads/2019/09/Alberta-CIT-Dahlby-Ferede.pdf>

POLICY COMPONENT	ESTIMATED GDP EFFECT	RESEARCH EVIDENCE
100% Immediate Expensing	+1.2% to +1.5%	<ul style="list-style-type: none"> - Zwick & Mahon (2017): Bonus depreciation increased investment by 10.4% for affected firms.⁴⁶ - Ohrn (2018): State-level 100% expensing increased investment by 9.4%, with GDP effects of +1.4%.⁴⁷ - House & Shapiro (2008): Temporary expensing provisions raised investment 10–17%.⁴⁸ - Tax Foundation (2021): Full expensing increases long-run GDP by +2.2% at 21% corporate rate.⁴⁹ Scaled to 12% rate: +1.2–1.5% GDP.
Capital Gains Rollover	+0.3% to +0.5%	<ul style="list-style-type: none"> - Burman & Randolph (1994): Reduces lock-in effects, encourages efficient capital reallocation.⁵⁰

The estimates use standard production function modeling with labour supply elasticities of 0.20–0.25 and investment elasticities of 0.35–0.50, consistent with Canadian empirical literature.

Conservative sensitivity: Under lower behavioral elasticities (0.15 labour, 0.30 capital) and more modest investment responses, projected GDP gains are +3.5–4.0% with 200,000–240,000 jobs – still substantial.

Optimistic scenario: With higher elasticities (0.30 labour, 0.50 capital) reflecting Canada’s open economy characteristics, GDP gains could reach +6.0–6.5% with 300,000–350,000 jobs.

⁴⁶ Zwick, E. & J. Mahon (2017). “Tax Policy and Heterogeneous Investment Behavior,” *American Economic Review* 107(1): 217–248.

⁴⁷ Ohrn, E. (2018). “The Effect of Corporate Taxation on Investment and Financial Policy: Evidence from the DPAD,” *American Economic Journal: Economic Policy* 10(2): 272–301.

⁴⁸ House, C. & M. Shapiro (2008). “Temporary Investment Tax Incentives: Theory with Evidence from Bonus Depreciation,” *American Economic Review* 98(3): 737–768.

⁴⁹ Tax Foundation (2021). “Neutral Cost Recovery and the Tax Treatment of Capital.” <https://taxfoundation.org/research/federal-tax/tax-reform-options/>

⁵⁰ Burman, L. & W. Randolph (1994). “Measuring Permanent Responses to Capital-Gains Tax Changes in Panel Data,” *American Economic Review* 84(4): 794–809.

Appendix B: Detailed Federal Fiscal Analysis

All fiscal tables show federal government impacts only. Provincial fiscal impacts are not included.

Table D1: Baseline Federal Revenues (FY 2025-26)

REVENUE SOURCE	AMOUNT
Personal Income Tax	\$243.2B
Corporate Income Tax	\$86.1B
GST Revenue (5%)	\$55.4B

Source: Fall Economic Statement 2024, Annex 1, Table A1.5

ITEM	COST
Basic Personal Amount	\$57.0B
GST/HST Credit Program	\$6.4B
Small Business Deduction	~\$6.0B (estimated)
Federal Business Subsidies (2022)	\$11.2B

Sources: Tax Expenditure Report 2025, Department of Finance Canada; Fraser Institute (2024), "The Cost of Business Subsidies in Canada"

Table D2: Revenue Losses from Rate Reductions - Detailed

COMPONENT	CALCULATION METHOD	ANNUAL IMPACT
Personal Income Tax (20% flat rate)	\$243.2B × 12% reduction; Assumption: Weighted avg current rate ~22-23%; flat 20% = ~12% revenue reduction	-\$29.2B
Basic Personal Amount Expansion	Increase: \$22,500; \$16,129 = \$6,371; Cost per \$1K BPA: \$57.0B ÷ 16.129 = \$3.53B/K; Scaling factor: 1.67× (20% rate vs. ~12% avg); \$6.371K × \$3.53B × 1.67 = \$37.6B	-\$37.6B
Corporate Rate Cut (15%→12%)	\$86.1B × 20% reduction; 3pp statutory cut = 20% proportional reduction	-\$17.2B
100% Immediate Expensing	Annual steady-state cost: \$15.7B; Less current All: -\$2.9B; Estimated \$300B annual capital investment × 15% rate × 35% PV factor	-\$12.8B
Capital Gains (100% inclusion + rollover)	Higher rate (20% vs. 14% effective) offset by; reinvestment exemption (~50-60% reinvested); Net revenue impact approximately neutral	≈\$0B
SUBTOTAL - Revenue Losses		-\$96.8B

Table D3: Offsetting Revenues and Spending Cuts

COMPONENT	CALCULATION / SOURCE	ANNUAL IMPACT
GST Increase (gross)	2 percentage points × \$11.1B per point - (\$55.4B current ÷ 5% = \$11.1B per point)	+\$22.2B
Enhanced GST/HST Credit	Double current \$6.4B program cost - Singles: \$533→\$1,066; Families: \$1,066→\$2,132	-\$6.4B
NET GST CONTRIBUTION		+\$15.8B
Tax Expenditure Elimination	~12% of \$200B+ total federal tax expenditures - Focus on inefficient, poorly-targeted measures per Auditor General criteria	+\$25.0B
Corporate Base Expansion	Small business deduction: ~\$6B - Other corporate preferences: ~\$4B	+\$10.0B
Corporate Subsidy Cuts	Federal business subsidies: \$11.2B (2022) - Source: Fraser Institute (2024)	+\$11.0B
Administrative Efficiency	Compliance cost reductions, enforcement gains - Conservative estimate: ~50% of \$4B total compliance costs	+\$2.0B
SUBTOTAL - Offsetting Revenues		+\$63.8B

Table D4: Net Static and Dynamic Fiscal Impact

ITEM	AMOUNT	NOTES
Revenue Losses	-\$96.8B	Personal, BPA, corporate, expensing
Offsetting Revenues	+\$63.8B	GST, expenditure cuts, subsidies
NET STATIC DEFICIT	-\$33.0B	Year 1-5 average
DYNAMIC EFFECTS (10+ YEAR HORIZON, ANNUAL):		
GDP Growth (+4.5% midpoint)	+\$15.8B	\$2,500B GDP × 4.5% × 14% federal share
Wage & Employment Growth	+\$7.5B	280K jobs + 2.5% wages × 15% avg rate
Capital Stock Expansion (+10%)	+\$3.0B	Corporate profit growth from investment
Total Dynamic Effects	+\$26.3B/year	
FINAL NET (Year 10+)	-\$6.7B	
As % of Federal Revenue	-1.7%	Essentially revenue neutral

Dynamic Effects Assumptions:

- GDP growth (4.5%): Low point of 4.5–5.5% range
- Federal revenue share: ~14% of GDP (historical average)
- Employment: 280,000 FTE (midpoint of 240K–320K literature range)
- Wage growth: 2.5% (conservative within 2.0–3.0% range from literature)
- Capital stock: 10% increase (midpoint of 8–12% from expensing studies)

Charles Lammam is an economic and policy professional with over a decade-and-a-half of combined experience as a think-tank scholar and thought leader, trusted senior advisor to government, executive leader at a financial services member association, and consultant to private and non-profit corporations.

The Hunter Prize for Public Policy aims to shake up Canadian policymaking by marshalling fresh ideas, energy, and voices to take on a clearly-defined “wicked problem” and improve the economic and social well-being of Canadians.