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Competing for capital: strengthening Canada's tax competitiveness

Canada is competing for capital in an increasingly challenging global environment. Businesses deciding where to invest can choose among jurisdictions offering different combinations of tax treatment, regulatory certainty, access to markets, infrastructure and talent. For Canada, this competition is particularly acute with the United States, where changes in tax, trade and industrial policy can quickly alter the economics of investing on either side of the border.

The federal government has made attracting investment and accelerating project developments a central economic priority. In September 2026, the Canada Investment Summit brought together the world's largest investment managers, resulting in nearly $500 billion in announced investment commitments. The Summit was framed around a broader effort to lower the cost of investing accelerate approvals and get major infrastructure and productive assets built in Canada.

Tax competitiveness is an important part of that agenda. Announced alongside the Summit, the Productivity Mega Deduction significantly expands immediate expensing for capital investment and is expected to lower Canada's marginal effective tax rate on new investment to approximately 6.4 per cent, compared with 16.9 per cent in the United States. The Calgary Chamber has welcomed this direction and considers the expansion of accelerated capital-cost treatment an important competitiveness win.

But attracting capital requires more than a competitive headline tax rate. Investment decisions are also shaped by the complexity and predictability of the tax system, financing costs, administrative timelines and confidence that incentives announced by government will actually be accessible and durable in practice.

Calgary Chamber member feedback reinforces the importance of tax policy to investment decisions. In a recent survey our membership, 70 per cent of respondents said Canadian tax policy has a significant or moderate influence on their organization's capital investment decisions.

Canada now has an opportunity to build on recent momentum. If the objective is to attract capital, accelerate major projects and strengthen the country's productive capacity, the next phase of reform should focus on creating a tax system that is competitive, accessible, predictable and designed to support investment and growth.

Improving business tax competitiveness should ultimately form part of a broader modernization of Canada's tax system. Business, personal, consumption and other taxes interact to shape incentives to save, invest, work and grow, and reforms in one area can create unintended consequences elsewhere. Comprehensive reform should therefore consider the overall tax mix, the sustainability of government revenues and whether the system as a whole supports investment, productivity and economic growth.

This report represents the next phase of a broader Calgary Chamber advocacy effort on tax competitiveness. Given the pace of change in Canada's tax and investment environment, these

recommendations are intended to provide a foundation for continued member engagement, allowing the Chamber to build on this work and advance additional sector-specific or technical reforms as new issues emerge.

While the recommendations in this report are intended to provide a broad agenda for continued advocacy, six priorities stand out as the most immediate opportunities to strengthen Canada's tax competitiveness:

- **Modernize Canada's business tax system** to improve simplicity, predictability and competitiveness.
- **Ensure the Productivity Mega Deduction is broad, predictable and economically usable in practice.**
- **Reassess and reform EIFEL** so financing rules do not unnecessarily discourage major infrastructure investment.
- **Make tax administration a competitive advantage** through predictable service standards, consistent treatment and timely dispute resolution.
- **Ensure investment incentives are accessible in practice** and reflect the financing and ownership structures used to deliver major projects.
- **Measure tax policy by economic outcomes**, including investment, productivity, competitiveness and compliance costs.

The recommendations that follow build on these priorities and identify additional technical and sector-specific reforms that can support investment and growth.

A. Modernize Canada's business tax system

Canada's economy has evolved substantially while its tax system has become increasingly complex through successive additions of credits, exemptions, anti-avoidance measures and sector-specific rules. That complexity can create uncertainty, increase compliance costs and make investment decisions more difficult.

Calgary Chamber member survey results also suggest investment decisions are shaped by the broader tax environment rather than any single measure. Respondents most frequently identified overall effective tax burden (60 per cent), corporate income tax rates (43 per cent), predictability and stability of the tax system (37 per cent), and investment tax credits (33 per cent) as important factors in investment decisions.

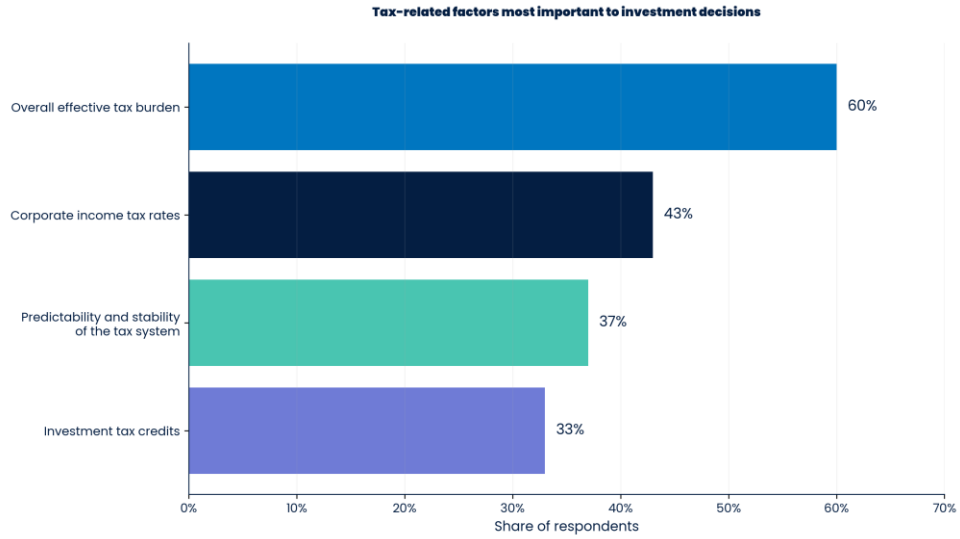


Figure 1: Tax-related factors most important to investment decisions
Source: Calgary Chamber member survey. Respondents selected up to 3 factors.

Canada needs a fundamental modernization of its tax system, rather than continued incremental changes layered onto an increasingly complex framework. While this report focuses on business taxation given its direct relevance to investment decisions and Calgary Chamber members, business tax reform should be considered within the broader tax system and its effects on saving, investment, employment and economic growth.

A comprehensive review should examine the tax system as a whole and determine whether its structure remains fit for a modern, investment-driven economy, including how business, personal and consumption taxes interact and whether the overall tax mix creates the right incentives for capital formation and productivity.

External benchmarking reinforces the case for broader reform. The Tax Foundation's 2026 International Tax Competitiveness Index ranks Canada 15th among 38 OECD countries overall, including 17th for corporate taxes and 28th for cross-border tax rules. While Canada performs relatively well in some areas, these results reinforce the case for examining the tax system as a whole rather than relying on incremental changes to individual measures.

Recommendations:

1. **Undertake a comprehensive review and modernization of Canada's tax system**, including business taxation, focused on competitiveness, simplicity, investment and growth.

2. If a comprehensive overhaul is not pursued in the near term**, examine a modern corporate group taxation regime,** including carefully designed group-loss transfer rules or consolidated corporate tax filings.

3. **Modernize Canada's international tax framework** to reduce unnecessary barriers to investment and reinvestment, including by ensuring Canada's implementation of global minimum tax rules remains competitive with comparable jurisdictions.

A comprehensive review and modernization should address corporate taxation, capital-cost treatment, financing rules, innovation incentives, international taxation and tax administration, with particular attention to how these measures interact. The objective should be to simplify the system, reduce unnecessary complexity and ensure tax policy supports productive investment, business growth and capital formation in Canada.

In the absence of broader reform, targeted changes can still address important structural weaknesses. Canada should examine whether corporate groups can use losses more efficiently without relying on unnecessary restructuring. Group-loss transfer rules or consolidated filing could provide a clearer framework for related businesses operating across multiple entities.

Canada should also assess its implementation of the global minimum tax against evolving international approaches, including recent OECD simplifications and safe harbours, to ensure Canadian-headquartered businesses are not placed at an unnecessary competitive disadvantage.

B. Make tax administration part of Canada's competitive advantage

Tax policy is only as effective as its administration. Delays in processing investment tax credits, completing audits or resolving disputes can weaken the value of otherwise competitive tax measures and tie up capital that could be reinvested in productive activity. Rigorous enforcement and competitive tax administration are not mutually exclusive. Businesses should be able to expect a system that is predictable, timely and fair.

Recommendations:

4. **Establish publicly reported CRA service standards** for investment tax credit reviews, audits, rulings and payments.
5. **Ensure specialized auditors and technical staff are in place before new tax programs are launched.**
6. **Expand access to timely advance rulings and technical guidance** for major investments.
7. **Reform the requirement for large corporations to remit 50 per cent of disputed reassessments,** including considerations of a defined deferral or exemption mechanism.
8. **Ensure new CRA audit powers are proportionate and subject to clear safeguards,** including appropriate materiality thresholds and timely review mechanisms.
9. **Review CRA performance measures** and administrative practices to emphasize accuracy, consistency, timely resolution and consistent treatment of recurring tax issues.

Particular attention should be given to the requirement for large corporate taxpayers to remit 50 per cent of a disputed reassessment before final resolution. Where disputes take years to resolve, this can remove significant capital from productive use before the underlying tax issue has been determined.

Canada should consider providing greater flexibility where a taxpayer has a credible basis for disputing an assessment. Other jurisdictions provide mechanisms that allow collection to be suspended in appropriate circumstances. In Italy, for example, a taxpayer can apply to the tax court to suspend collection while an assessment is under dispute, subject to certain conditions. The federal government

should therefore review the mandatory payment requirement and consider a deferral or exemption mechanism based on defined criteria, including the merits of the taxpayer's position, risk to government revenues and availability of appropriate security.

Proposed expansions to CRA audit powers should also be assessed through a competitiveness and proportionality lens. Bill C-31, the *Budget 2025 Implementation Act, No.2*, would introduce new compliance-order penalties, notices of non-compliance and expanded circumstances in which the normal reassessment period can be suspended.

CRA requires appropriate tools to enforce compliance, but those powers should include clear thresholds and safeguards. Minor or technical deficiencies should not result in disproportionate financial consequences or unnecessarily extend already lengthy audits. Penalties associated with compliance orders should be proportionate to the underlying non-compliance, while notices of non-compliance should be reserved for material failures to satisfy CRA information requests and subject to timely review.

Businesses should also be able to expect consistent treatment of the same tax issue across taxation years, reducing the need to repeatedly resolve issues on which CRA has previously reached a determination.

C. Build on the Productivity Mega Deduction

The Productivity Mega Deduction (PMD) addresses a longstanding Chamber recommendation, and is an important step toward improving Canada's investment competitiveness by allowing businesses to recover the cost of qualifying capital investments more quickly. However, the value of accelerated capital-cost treatment can vary significantly depending the type of investment and how the measure interacts with other provisions of the tax system.

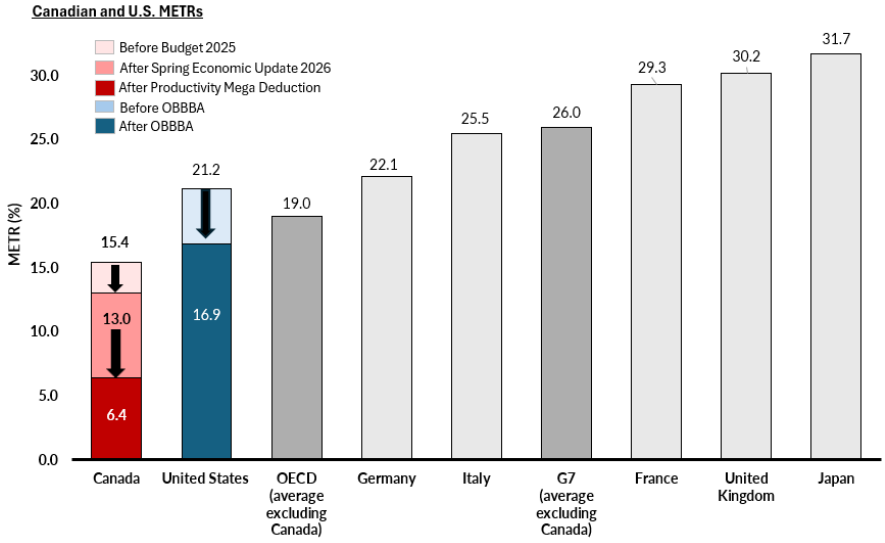


Figure 2: Marginal effective tax rate on new business investment, selected jurisdictions, 2026
Source: Department of Finance Canada

The expected impact of the measure is positive but mixed. 27 per cent of Calgary Chamber members surveyed said the PMD would increase their organization's investment in Canda, while 40 per cent expected no material impact. This reinforces the need to build on the measure with broader reforms that address other barriers to investment.

Recommendations:

10. **Extend permanent immediate expensing to additional productive capital investments, and ensure the deduction is economically usable in practice**, including qualifying industrial buildings and infrastructure not currently covered by the PMD.

11. **Establish clear transition and grandfathering rules for multi-year projects** so investments already under development are not disadvantaged by timing or implementation rules.

12. **Ensure future expansions or exclusions under the PMD are developed in consultation with affected industries and account for interactions with other tax rules,** including EIFEL, so accelerated deductions do not inadvertently worsen investment economics.

Capital-cost treatment should be broad, predictable and designed to encourage productive investment across the economy. At the same time, accelerated deductions do not operate in isolation. In some circumstances, reducing taxable income or EBITDA can interact with financing rules and other tax provisions in ways that reduce the intended benefit of the deduction.

Future changes to the PMD should therefore consider both how the measure interacts with the broader tax system and whether businesses can use the deduction in practice. The federal government should review rules that may defer or materially limit its value, particularly for capital-intensive projects with long development periods, limited taxable income in early years or losses that may otherwise become stranded. Consultation with affected industries should be used to ensure expansions and exclusions are designed intentionally and achieve the government's investment objective.

D. Reform financing rules that increase the cost of investment

Canada's Excessive Interest and Financing Expenses Limitation (EIFEL) rules can increase the cost of financing major investments, particularly for infrastructure and other capital-intensive projects that rely on significant debt financing over long investment horizons. These rules are also layered on an already complex set of provisions governing the deductibility of interest and cross-border financing.

Given Canada's objective of attracting significantly more private sector investment, the federal government should reassess whether the current EIFEL regime appropriately balances tax-base protection with the need to finance productive investment.

Recommendations:

13. **Reassess the EIFEL regime considering Canada's investment and infrastructure objectives** and its interaction with existing interest-limiting and anti-avoidance rules.

14. **If EIFEL is retained, provide greater flexibility for capital-intensive and infrastructure businesses**, including through appropriate interest-deductibility thresholds and greater ability use unused interest capacity.

15. **Establish a targeted exemption for arm's-length financing supporting qualifying Canadian infrastructure investment,** including financing undertaken through holding company structures where the borrowing can reasonably be attributed to Canadian infrastructure.

16. **Address technical interactions between EIFEL and other tax provisions that unintentionally increase the cost of investment or capture expenditures that are not genuine financing costs.**

Infrastructure projects often require higher leverage and longer investment horizons than other forms of business investment. Applying a uniform interest-deductibility limitation without sufficient recognition of those financing structures can increase project costs and affect investment decisions.

The government should first assess whether EIFEL remains appropriately designed given Canada's current investment objectives and the other rules already available to protect the tax base. If the regime is retained, greater flexibility should be provided for investments where higher levels of debt are a normal and necessary component of project financing.

At minimum, arm's-length borrowing that can reasonably be attributed to qualifying Canadian infrastructure investment should receive appropriate treatment. The government should also address technical inconsistencies and interactions with other tax rules that can cause EIFEL to apply more broadly than intended or undermine other measures intended to encourage investment.

E. Ensure investment incentives translate into actual investment

Canada has developed a substantial suite of tax incentives intended to attract investment in infrastructure, clean energy, advanced technologies and other strategic sectors. Their effectiveness depends on businesses being able to access them in a timely, predictable and administratively workable manner.

Recommendations:

17. **Improve the timeliness and certainty of clean economy investment tax credits**, including by simplifying compliance and approval requirements that unnecessarily reduce their practical value.

18. **Modernize loss-utilization rules and consider refundable or transferable incentives** for qualifying projects that cannot immediately use deductions.

19. **Develop an Infrastructure Investment Tax Credit and complementary flow-through mechanisms** to improve access to capital for qualifying infrastructure projects.

20. **Consider deferring GST/HST on qualifying major construction costs until assets enter service** to reduce carrying costs during project development.

21. **Review federal tax rules that create barriers to Indigenous equity participation and partnerships** in major infrastructure and clean-energy projects, ensuring tax incentives reflect the ownership, financing and partnership structures commonly used by Indigenous Nations.

22. **Review federal tax rules for municipally-owned corporations** to provide greater flexibility for private equity participation without jeopardizing access to tax exemptions or other federal incentives.

Eligibility and compliance requirements should be proportionate to the policy objectives of the incentive. The federal government should review conditions that materially reduce access to clean economy tax credits or impose significant compliance costs without a commensurate policy benefit.

Investment incentives should also be designed around the economic realities of major projects. Businesses frequently incur significant costs years before an asset generates taxable income, which can reduce the immediate value of deductions and non-refundable credits. More flexible loss utilization, refundable or transferable incentives and flow-through structures can help ensure tax benefits support investment when capital is actually required.

The same principle should apply to project ownership and financing structures. Indigenous Nations are increasingly participating as equity partners in major energy and infrastructure projects, but federal tax rules may not always reflect the financing and partnership structures required to facilitate that participation. Where tax rules make otherwise viable partnerships uneconomic or reduce access to investment incentives, those barriers should be reviewed.

Similarly, municipally owned utilities and corporations can face constraints when introducing private capital because access to certain tax exemptions or clean electricity incentives depends on maintaining specified levels of public ownership. These rules should be reviewed to determine whether greater flexibility could attract additional private investment while preserving the underlying policy intent.

F. Build a tax system that helps small businesses scale

Canada's tax competitiveness must support businesses at every stage of growth, including small firms seeking to scale.

Recommendations:

23. **Increase the federal Small Business Deduction business limit from $500,000 to $750,000 and index it to inflation.**
24. **Lower Employer Insurance premiums for small employers.**
25. **Review whether existing small business tax thresholds create unintended barriers to scaling.**

Increasing and indexing the income threshold eligible for the preferential small business tax rate would help preserve the real value of the benefit over time and provide growing firms with greater capacity to reinvest earnings in hiring, equipment, technology and expansion.

Lower Employment Insurance premium rates for small employers would also provide direct relief on labour costs and improve cash flow.

More broadly, future tax reform should examine whether elements of the small business tax system unintentionally create incentives for firms to remain below particular thresholds.

G. Modernize innovation incentives

Canada's productivity challenge requires stronger investment not only in physical capital, but also in research, technology, commercialization and intellectual property.

Recommendations:

26. **Simplify the Scientific Research and Experimental Development (SR&ED) application and administration process.**

27. **Broaden eligible activities to better support commercialization and intellectual property protection**.

28. **Ensure innovation incentives support the pathway from research through commercialization.**

Recent improvements to the SR&ED are welcome, but further reform can make the program easier for businesses to access and more responsive to how innovation actually occurs.

Eligibility should be based as much as possible on the underlying economic activity rather than unnecessarily constrained by corporate or partnership structure. Innovation incentives should be simple to access, predictable in application and capable of supporting Canadian businesses as they move from research and development to commercialization and scale.

H. Measure tax competitiveness by economic outcomes

Tax measures are often assessed primarily by their fiscal cost to government. While that is important, it does not provide a complete picture of their broader economic impact.

Recommendations:

29. **Require major business tax measures to include transparent analysis of their expected economic impacts**, not only their fiscal cost.

30. **Assess expected impacts on investment, productivity, business growth, employment, wages, domestic and foreign capital formation, compliance costs and international competitiveness**.

31. **Undertake retrospective evaluations of major tax measures** once sufficient data is available to determine whether they are achieving their intended objectives.

Significant business tax measures should be evaluated not only by their effect on government revenues, but also by whether they are expected to increase private-sector investment, improve productivity, attract capital and strengthen Canada's competitive position. Analysis should also consider interactions with other parts of the tax system and broader economic incentives including effects on saving, financing and the supply of capital available for productive investment.

This would provide greater transparency around the trade-offs associated with tax policy and help ensure measures intended to improve competitiveness are assessed against the economic outcomes they are designed to achieve.

Evaluations should also consider the administrative burden imposed on taxpayers and government, including whether the revenue generated by complex tax regimes is proportionate to the compliance and administrative costs required to implement them.

Government should also evaluate major measures after implementation. The Productivity Mega Deduction, for example, should ultimately be assessed not only by its effect on Canada's marginal

effective tax rate, but also by whether it leads to greater capital investment, increased productive capacity and stronger business growth.

This approach can also help identify where otherwise well-designed incentives are being undermined by administrative complexity, financing rules or eligibility requirements that reduce their practical value.

I. Complementary provincial action

Federal policy has the greatest influence over Canada's overall tax competitiveness, but provincial governments also play an important role in determining the cost of investing and operating in Canada.

Recommendations:

31. **Eliminate Alberta's two per cent small business corporate income tax**, providing additional capacity for small businesses to reinvest in employees, equipment and operations.
32. **Reduce the Insurance Premium Tax**, which adds to operating costs for businesses, particularly SMEs.
33. **Align Alberta's treatment of capital investment with federal measures where appropriate,** reducing unnecessary complexity for businesses investing in the province.
34. **Establish a competitive, predictable and administratively simple provincial R&D and innovation tax incentive**, available to businesses undertaking eligible innovation activity in Alberta and designed to maximize Alberta-based investment, employment, intellectual property, commercialization and productivity gains.

Alberta should also ensure its tax treatment of capital investment aligns closely with federal measures where appropriate, reducing unnecessary complexity for businesses investing in the province.

Conclusion

Canada has taken meaningful steps toward improving the tax treatment of business investment. The Productivity Mega Deduction provides a stronger foundation for attracting capital and complements the federal government's broader focus on accelerating major projects and strengthening Canada's productive capacity.

The next challenge is ensuring Canada's tax advantage on paper translates into investment in practice.

Businesses need competitive treatment of capital, but they also need certainty around how tax rules will apply, confidence that incentives can be accessed within reasonable timelines and financing rules that recognize the realities of long-term investment. Small businesses need room to scale. Innovative firms need programs that support the path from research to commercialization. Large investors need confidence that disputes will be resolved fairly and efficiently and that the tax system will remain predictable over the life of an investment.

Canada does not need to compete solely by offering the lowest possible tax rates. It should aim to create a tax system that raises revenue efficiently while supporting investment, productivity, entrepreneurship and growth. The measure of success should ultimately be simple: whether businesses choose to invest their next dollar in Canada.

ABOUT THE CALGARY CHAMBER OF COMMERCE

The Calgary Chamber exists to empower our business community to advance a prosperous Calgary and Canada. As the convenor and catalyst for a vibrant, inclusive and prosperous business community, the Chamber works to build strength and resilience among its members and position Calgary as a magnet for talent, diversification and opportunity. As an independent, non-profit, non-partisan organization founded in 1891, we build on our history to serve and advocate for businesses of all sizes, in all sectors across the city.