

# 3 Modernize and simplify the tax system

The federal government should launch an independent review of Canada's tax system aimed at strengthening the country's ability to attract and retain business investment and talent.

A comprehensive review of Canada's tax system is long overdue. The last thorough examination of the tax system took place more than 50 years ago. Since then, revisions and additions to the tax code have expanded the Income Tax Act to 3,281 pages, dramatically increasing its complexity and creating a wide range of inefficiencies.

Canada is experiencing rapid economic transformation, technological disruption, intense global competition and unprecedented mobility of both capital and talent. We should be asking ourselves whether the tax system built, revised and amended by successive generations of Canadians is still the right one to meet the challenges our country faces today and is likely to face in the future.

According to the World Bank, Canada ranks 19<sup>th</sup> globally for the ease of paying taxes, well behind countries such as Ireland, Denmark and New Zealand. On average, it takes a company in Canada 131 hours a year to prepare, file and pay (or withhold) corporate income taxes, value-added or sales taxes, and labour taxes, including payroll taxes and social contributions. That compares with 90 hours in Finland and 105 hours in both Australia and the United Kingdom.

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The burden on large Canadian-based companies can be many times greater. The most recent Total Tax Contribution report prepared by PwC Canada surveyed 83 companies and found they were subject to a total of 68 different kinds of business taxes and payments to all three levels of government. These tax obligations impose considerable compliance costs on both the companies themselves and on government.

Canadians face similar complexities when it comes to filing their personal taxes. Between February and April 2017, the Auditor General of Canada made 255 calls to the Canada Revenue Agency (CRA) to test the accuracy of information provided by CRA agents. More than half the calls were blocked because the call centres could not handle the volume, and almost a third of the callers who did manage to reach an agent received wrong information. These errors, the Auditor General's report pointed out, "could lead to callers paying too much or too little tax and later being subject to reassessments or objections," or in other instances not receiving the benefits to which they are entitled.

The CRA responded to the Auditor General's report by promising to invest in new call centre technology, revise its training programs and establish a new national quality assurance team to monitor the advice agents give to taxpayers. Unfortunately, none of those measures addresses the root cause of the problem: complexity. A simpler tax system would increase tax revenues and promote greater compliance. It would reduce, and in many cases eliminate, the need for time-consuming audits, appeals, adjustments and reassessments.

It would also make it easier for Canadians in need to access income supports. The current tax code is riddled with more than 200 different federal personal income tax credits and incentives. In theory, these measures promote social goals

and make the tax system more progressive. But accessing these benefits can be confusing and costly, reducing their effectiveness. Low-income Canadians should not have to hire a specialist to calculate and file their taxes.

Canada's tax system should be easy to understand, easy to comply with and efficient. The corporate tax system should promote growth, productivity and innovation, creating a competitive advantage for Canada rather than deterring investment and job creation. The focus of tax administration should shift to risk identification, service delivery and timely dispute resolution.

It would be a mistake to believe we can achieve these objectives through further piecemeal reforms. It is time for a comprehensive tax review.

## What others are saying

“Our tax system must be updated for the modern economic era—to safeguard Canada's status as a globally competitive tax jurisdiction and to ensure that it incentivizes investments in innovative technologies and intellectual capital.”

– **Advisory Council on Economic Growth, “Investing in a Resilient Canadian Economy”, December 1, 2017**

“For Canada's highest-potential firms to truly Own the Podium, a competitive tax framework and underlying policy conditions to scale-up are needed.”

– **Report from Canada's Economic Strategy Tables, September 25, 2018**

“Among the benefits of a comprehensive review of the tax system, respondents were most likely to cite that Canada's tax system would become less costly and time-consuming for both individuals and businesses; that Canada would attract more investment; and that it's a key to enhanced international competitiveness.”

– **CPA Canada Business Monitor, February 2019**

“The recent tax changes in the United States are having a significant impact. In the past our local entrepreneurs had an incentive to invest here, but not anymore. As a result, we see Canadians companies making more acquisitions south of the border.”

– **Roundtable participant in Montreal, June 18, 2019**

“We used to be able to compete based on taxation, but those days are over.”

– **Roundtable participant in Montreal, June 18, 2019**

“Canada's marginal tax rates are out of line. They punish success, even if our average tax rates are not out of line.”

– **Roundtable participant in Toronto, June 4, 2019**