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In the competition for global capital, Canada is losing its competitive edge. What can be done? Jack Mintz releases alarming new report on corporate taxation

For Immediate Release February 22, 2018

Calgary – Canada stands to lose a major competitive edge unless it responds to the challenges of the 2018 U.S. tax reforms by instituting reforms of its own. At 20.9 per cent, Canada's tax burden on new investment (measured by the marginal effective tax rate or METR), is competitive when compared to countries in the Americas and Asia-Oceania, and it's the sixth highest among the G7 countries. However, the rules of the game are about to change.

Today, The School of Public Policy with authors Jack Mintz, Philip Bazel and Austin Thompson released a report showing how the U.S.'s tax reforms are going to affect the economies of 92 countries with solid recommendations for Canada to keep its competitive edge.

According to Jack Mintz "Among the reforms the U.S. is bringing in are a drop in the federal corporate income tax rate from **35** per cent to **21** per cent, a five-year window for expensing machinery and equipment, and some enticing dividend exemptions for U.S. companies with foreign affiliates. The result of this and other reforms will be a sharp drop in the U.S. METR by almost half – from **34. 6** per cent to **18.8** per cent. This means Canada will have a higher tax burden on capital than the U.S. Put simply, Canada and other countries will face a drop in revenue while the U.S. gains revenue."

Reforms in the U.S. are going to make that country a much more attractive place for investment than Canada because of the new tax advantages. However, Canada doesn't have to accept this diminished status. Federal and provincial governments can do a number of things to offset the U.S. reforms. Corporate tax rates should be reduced so as to achieve a more neutral corporate tax structure. By doing things like scaling back the small business deduction, Canada can reduce its corporate tax rate to 23 per cent, which would be just a bit below the U.S.'s combined federal-state figure. Sales taxes on capital purchases could be eliminated in some provinces, reforms could be made to the taxation of international income and incentives for debt financing reduced. Carbon revenues could be used to provide an offset for higher energy taxes businesses face in Canada.

Canadian policy makers must meet these imminent challenges with economic reforms of their own if Canada hopes to continue to attract investment and remain competitive.

The paper can be downloaded at https://www.policyschool.ca/publications/

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