



CESTNICK

TAX MATTERS

Canada needs tax reform, not a patchwork quilt of tax measures

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Watching the Masters golf tournament last weekend has inspired my friend Jack to improve his game. “Tim, no more mulligans for me” he said. Now, I’m not sure that Jack is a dishonest golfer – any more than the next guy. But I’ll admit that it’s hard to know what has encouraged more lying – golf or income taxes.

When it comes to taxes, lying is made worse because our tax system is broken. The last time our government closely examined the system was between 1962 and 1966, when the Royal Commission on Taxation, also known as the Carter Commission, made several recommendations – some of which led to big changes, such as the introduction of the tax on capital gains, in 1972.

During the current election campaign, we’ve rarely heard the words “tax reform” uttered by any politician. In fairness, the Conservative Party did announce on Feb. 15 that it would establish a tax reform task force within 60 days of forming government to design tax cuts and simplify the system. But it’s not clear it would have the same mandate the Carter

Commission did to make structural changes to our tax law.

The need

Why focus on tax reform? First, our system is far too complex. Controversial tax changes implemented in 2018 that affect business owners and professionals (the tax on split income, or TOSI, rules) layered on more complexity than we have ever seen. So much so that many accountants still can’t figure out how the rules work. As for the average person? Forget it.

The TOSI rules were introduced to prevent taxpayers from splitting income with family members. Interestingly, the Carter Commission had the mandate of determining the proper unit for taxation in Canada and suggested that the family is it. “We believe firmly that the family is today, as it has been for many centuries, the basic economic unit in society,” the report said.

This is still true today. While much has changed over the past 60 years, the family still makes the most sense as a unit

for taxation. A spouse who stays home to raise children or manage the household or simply has less income than the other plays just as important a role in the success of the family as the one who works full-time as an employee, runs a business or otherwise has a higher income.

Family law acknowledges this in that a spouse often has property, support, custody and other rights regardless of their work or income status. Why should our tax law work differently? Our tax law already utilizes the concept of a family unit in Section 54 (for the principal residence exemption) and defines it to be an individual, their spouse and any unmarried children under the age of 18.

In the United States, spouses are allowed to file their tax returns jointly, while here in Canada our government has added multifarious, convoluted rules to prevent the splitting of income. Tax reform is needed, and taxation of the family as a unit – hearkening back to the Carter Commission recommendations – can simplify the law and recognize the economic and social importance of the family.

Tax reform should also ensure that the tax system is fair. The problem with the patchwork quilt of measures introduced by the current government over the past decade is that they have avoided defining what a “fair share” of taxes means. Let’s define it.

Tax reform should also examine whether different types of income should be taxed differently. On this issue, I disagree wholeheartedly with the views expressed by the Carter Commission, which believed that “a buck is a buck is a buck” – that is, regardless of the type of income, it should all be taxed the same.

By this reasoning, the business owner who sells their business after risking all they have, creating jobs for others, innovating and solving important problems, growing Canada’s economy, sharing their knowledge and inspiring others to do the same should pay the same tax on a dollar as the person who earns a dollar by parking their money in a guaranteed investment certificate. Absurd.

And it didn’t make sense to the government of the day either – hence the lower tax rate on capital gains than on regular income – a benefit the current government proposed to erode during Justin Trudeau’s time as leader.

Tax reform also needs to make changes that promote strong business investment, greater productivity, higher incomes and effective use of our natural resources to bring economic prosperity and sovereignty to the country – all challenges we face as Canadians today.

While reforming our tax law isn’t the only path to achieving these critical goals, it can be a powerful component of meaningful change.

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