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TAX MATTERS

Tax incentives alone won't be enough to right the Canadian economic ship

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Some have said that success is stumbling from failure to failure with no loss of enthusiasm. I like that definition.

If one thing can be said about the Canada Investment Summit, which took place this week in Toronto, it's that Canadian politicians, CEOs and asset managers showed no loss of enthusiasm about our country as a place to invest. As for the failure part – well, it's time for our leaders to turn things around.

During the summit, Prime Minister Mark Carney unveiled a new tax incentive – the Productivity Mega Deduction (PMD) – that is supposed to reduce Canada's effective tax rate on new business investment to about 6.4 per cent from roughly 13 per cent. The deduction will allow companies to immediately expense the cost of certain assets – a list expanded from what was previously announced in the 2025 federal budget. And the deduction has been made "permanent."

List of announcements coming out of the Canada Investment Summit

In addition, Finance Minister François-Philippe Champagne announced that the Canada Revenue Agency will prioritize advance income tax ruling requests related to investments of $1-billion or more in Canada. This news is nothing to write home about. The advance ruling program has existed for more than 50 years. An advance ruling, usually available within about 90 days, simply provides confirmation of how the CRA will apply Canadian tax law to a proposed transaction.

Improving incentives

I'll be the first to suggest that the PMD is a good thing. Previously, in 2018, the government introduced the Accelerated Investment Incentive, including immediate expensing for certain manufacturing and clean-energy equipment. About 299,000 corporations made asset additions qualifying for this incentive in 2023. (Granted, we don't know how many of these businesses would have made those investments anyway.)

But the PMD by itself isn't sufficient. With a federal budget expected in

November, the government would be wise to consider other measures to encourage investment, such as:

Ensuring grandfathering of incentives: I know Ottawa has said the PMD is a “permanent” deduction. Let’s face it – nothing in our tax law is permanent, and few investors will trust our government to keep tax incentives forever. Yet large mines, nuclear technology, liquefied natural gas plants, pipelines, artificial-intelligence and data infrastructure and electricity projects all have long investment horizons. Our government should promise to grandfather any tax incentives once a qualifying project reaches its final investment decision. Investors care about the probability that today’s tax rules will still apply tomorrow.

Making tax incentives easier to monetize: A large tax deduction – even immediate expensing under the PMD – is less valuable to an investor who won’t have taxable Canadian income for years. Many infrastructure and resource projects will generate huge deductions before producing taxable income. Creating refundable or transferable investment credits can overcome this problem – although they’re much more expensive for Ottawa.

Tim Cestnick: Five ways to create financial certainty in uncertain times

Creating incentives for investment in Canadian companies: What we need in Canada are companies headquartered here – not just factories and mines owned by foreigners. The government should consider improving capital-gains treatment for investments in Canadian growth companies where investors commit capital for a minimum holding period, rather than simply encouraging investment in physical assets in Canada.

Improving loss utilization for major projects: Large projects can accumulate tax losses for years before generating revenue. More generous loss carrybacks, interest on unused tax losses or carefully designed refundability could reduce the tax disadvantage created by long development periods. This would be especially relevant to mining, infrastructure and technology development.

Rewarding intellectual property commercialization: Today, our tax system rewards spending on scientific research and experimental development (SR&ED). But spending shouldn’t be the primary goal. Canada’s recurring problem isn’t merely a lack of invention, but failing to turn Canadian intellectual property into large Canadian businesses. The government could help by creating a commercialization incentive tied to incremental Canadian payroll and IP development and investment. This could complement our existing SR&ED incentives.

Insufficient incentives

As important as all of these are, let’s not fool ourselves into thinking that tax incentives alone are going to drive investment in those critical sectors that can move the wealth-creation needle in our country.

Suppose an investor is considering a $5-billion mine, LNG facility, pipeline or data centre. While the incentives I’ve discussed can significantly improve the after-tax internal rate of return on a project, they won’t solve other critical issues.

I’m talking about a multiyear permitting process, uncertainty over whether a project will be approved, unpredictable regulatory changes, interprovincial barriers, uncertainty over Indigenous consultation and agreements, the inability to build transmission lines, pipelines or transportation infrastructure, trade uncertainty, or political risk that the rules will change after billions have been committed.

The real measure of success for our Prime Minister and premiers will be solving these non-tax challenges – and quickly.

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