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## **Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget**

**Submitted by:** Tax Executives Institute, Inc. (“TEI”)

### **Recommendation 1**

The Canadian government should conduct a comprehensive review of the tax compliance burden faced by Canadian taxpayers to reduce excessive and duplicative reporting requirements.

### **Recommendation 2**

The government should conduct a comprehensive review of the income tax audit process, from the start of the audit itself through to the appeals and dispute resolution process to ensure fairness, efficiency, and public confidence in Canada’s tax system.

### **Recommendation 3**

The government should conduct a comprehensive review of the overly complex and burdensome foreign affiliate taxing and reporting regime, which should be modernized to bring it in line with current global tax norms.

July 31, 2025

The Honourable Karina Gould  
Chair, Standing Committee on Finance  
House of Commons  
Ottawa, Ontario

**Via online submission**

**RE: TEI Recommendations for the 2025 Pre-Budget Consultation**

Dear Minister Gould:

The House of Commons Standing Committee on Finance (the “Committee”) has opened pre-budget consultations (the “Consultation”) on Budget 2025, to be tabled in the fall. The Committee has asked for ideas and priorities on how to better shape Canada’s future as part of the consultation process. I am pleased to respond to the Committee’s request on behalf of TEI.

**About TEI**

TEI was founded in 1944 to serve the professional needs of in-house tax professionals.<sup>1</sup> Today, the organization has 55 chapters across North and South America, Europe the Middle East & Africa, and Asia, including four chapters in Canada. Our over 6,000 members represent 2,800 of the world’s leading companies, many of which either are resident or do business in Canada. Over 15 percent of TEI’s membership comprises tax professionals who work for Canadian businesses in a variety of industries across the country. The following comments reflect the views of TEI as a whole but, more particularly, those of our Canadian constituency.

**TEI Recommendations**

Our recommendations below are predominantly focused on making the Canadian income tax system operate in a more efficient, fair, and sustainable manner. We believe this is critical given the dramatic changes in the global tax landscape over the past few years, and to ease what has become an untenable reporting burden on all taxpayers.

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<sup>1</sup> TEI is organized under the Not-For-Profit Corporation Law of the State of New York. TEI is exempt from U.S. Federal Income Tax under section 501(c)(6) of the U.S. Internal Revenue Code of 1986 (as amended).

We feel that the outcomes from these comprehensive reviews will meaningfully reduce the compliance burden currently faced by taxpayers without undermining Canadian tax policies or eroding the Canadian tax base

## **1. Comprehensive Review of Income Tax Reporting Requirements**

The Canadian government should conduct a comprehensive review of the tax compliance burden faced by Canadian taxpayers to reduce excessive and duplicative reporting requirements.

There has been exponential growth in the compliance burden faced by Canadian taxpayers as the government enacts new complex tax legislation over the past few years. TEI members feel that both the Department of Finance (“Finance”) and the Canada Revenue Agency (“CRA”) have lost sight of the fact that every new form required under the Income Tax Act adds time and effort to the compliance burden of corporate tax departments. Every tax compliance season sees the addition of new, detailed reporting requirements, with never a move in the opposite direction to reduce or eliminate duplicative reporting returns and forms.

A prime example of the government’s lack of appreciation for the reporting burden faced by taxpayers is the introduction of Schedule T130, one of the reporting forms required under the new Excessive Interest and Financing Expenses Limitation (“EIFEL”) rules. This form is 14 pages long and comes with multiple supporting forms and elections. Much of the information required on the form: (i) has no impact on the ultimate result that is reported; (ii) is difficult to determine given that the information is not otherwise used for any corporate purpose; and (iii) is duplicative of information required by other returns and forms.

The time and effort required to complete Schedule T130 is completely disproportionate to the ultimate objective of including a single number on the tax return. The purpose of preparing and filing income tax returns is to provide CRA with a corporation’s annual calculation of net income, taxable income, and resulting tax liabilities, with certain underlying information included as support to aid the calculation and understanding of the income and expense items included therein. It is then CRA’s job to request any additional information it needs to audit a taxpayer’s return. An income tax return is not meant to include every detail of a corporation’s determination of the specific pieces that make up its annual net income and taxable income.

The EIFEL form is just one example of the additional compliance burden imposed on taxpayers over the past couple of years. Others include bare trust reporting, mandatory disclosure requirements, extended foreign affiliate reporting, and country-by-country reporting. The Global Information Return will exponentially increase the current burden when it comes into effect.

TEI believes both Finance and the CRA have an obligation to undertake a full-scale review of all returns, forms, elections, and other reporting requirements with a view toward: (i)

streamlining the current forms to delete requirements to provide extraneous information; (ii) eliminating forms requiring duplicative information, and (iii) ensuring that any new returns and forms are reviewed for an assessment of their cost and benefit to both taxpayers and CRA.

## **2. Comprehensive Review of Income Tax Audit Process**

The government should conduct a comprehensive review of the income tax audit process, from the start of the audit itself through to the appeals and dispute resolution process to ensure fairness, efficiency, and public confidence in Canada's tax system.

Many TEI members view the CRA audit process as broken. This is particularly true when it comes to the appeals process. Filing a Notice of Objection with Appeals typically results in no response for well over a year for large taxpayers and in some cases it takes even more time to have an appeals officer assigned to the case.

Enhancing the efficiency and effectiveness of CRA tax audits requires more than simply increasing CRA's powers or resources. Instead, the focus should be on improving audit quality and the dispute resolution process. One of TEI's key concerns is the high rate of technically weak or unfounded reassessments, with a significant portion overturned on appeal, indicating persistent audit quality issues despite increased CRA resources.

To improve audit quality and expedite dispute resolution, TEI recommends: (i) enhanced auditor training, particularly for complex corporate cases; (ii) more targeted and relevant CRA information requests; (iii) quality control over major reassessments; and (iv) greater collaboration with taxpayers. Taxpayers are consistently required to spend time, effort, and expense to respond to what, in some cases, are untenable positions that should have been discussed and settled before the CRA issued reassessments.

Additional recommendations include expanding judicial resources, transferring audit disputes to the Tax Court of Canada ("TCC"), introducing a statutory right to judicial review of taxpayers' compliance obligations with respect to audit queries or requirements on a correctness standard, and reconsideration of proposed new audit powers and penalties that risk overwhelming the courts.

Delays in resolving appeals are also a major issue, with CRA Appeals and the TCC unable to keep pace with increased audit activity, leading to multi-year or even decade-long delays. This undermines business productivity, creates unfairness for taxpayers, and discourages investment.

A comprehensive review of the current audit process and dispute resolution system should be a high priority for the government. There needs to be systemic reforms to audit

processes, dispute resolution, and resource allocation to ensure fairness, efficiency, and public confidence in Canada's tax system

### **3. Comprehensive Review of Canada's International Tax Regime**

The government should conduct a comprehensive review of the overly complex and burdensome foreign affiliate taxing and reporting regime, which should be modernized to bring it in line with current global tax norms.

Canada's foreign affiliate tax system is overly complex, creating heavy compliance burdens for both taxpayers and the CRA. A comprehensive review of this system should be undertaken to modernize and simplify the regime and align it with international standards, particularly in light of Canada and many other countries adopting the global minimum tax. This can be accomplished while still protecting Canada's tax base.

There are several areas where Canada's tax regime for foreign holdings is unnecessarily complicated. One example is the current hybrid exemption/credit system for taxing dividends received from controlled foreign corporations ("CFCs"). The requirement to maintain and track foreign earnings and distributions (i.e., the surplus regime) is very labor intensive with little overall benefit, especially in cases where foreign earnings are never repatriated to Canada. TEI recommends moving to a simpler exemption-based system, like those used in most G7 countries. This would greatly reduce the compliance burden for all Canadian multinationals.

Another example of Canada's complex international rules is the taxation of foreign passive income earned by CFCs. The rules require monitoring passive income on a global basis, even if a CFC is subject to a high level of tax and there is little risk of tax avoidance. The broad application of these rules significantly increases compliance costs, with little resulting benefit. Focusing the rules on passive income earned by CFCs in low tax jurisdictions would align Canada's rules with other G7 countries and would greatly reduce the complexity and administrative burden of compliance.

In addition, the Income Tax Act has multiple overlapping anti-avoidance regimes, introduced at various times to address Finance concerns. However, when each new regime is introduced, there is a reluctance to review prior rules to determine how best to incorporate new ones into the existing framework. For example, the foreign affiliate dumping rules, the thin capitalization rules, and the EIFEL rules all target similar issues, and all three sets of rules are overly complicated, difficult to comply with, and create heavy administrative burdens on taxpayers. TEI recommends that a full-scale review of these rules be undertaken to consolidate

them into one more concise set of anti-avoidance measures, thereby eliminating measures that have become redundant and are no longer needed.

A comprehensive review of Canada's international tax system is needed to modernize, simplify and align it with other international standards. Layering on each new series of complex legislation has made the system untenable for taxpayers, resulting in extremely complicated rules and a heavy compliance burden. It has also led to a lack of expertise in the CRA that is needed to administer the rules, requiring taxpayers to spend more time and effort in the annual audit process. An updated international tax regime would enhance Canada's tax competitiveness without significantly reducing its tax base.

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TEI appreciates the opportunity to provide the above recommendations regarding the Canadian income tax system. Should you have any questions regarding TEI's recommendations, please do not hesitate to contact Sandy Shanks, Chair of TEI's Canadian Income Tax Committee, at [sandy.shanks@conocophillips.com](mailto:sandy.shanks@conocophillips.com) or Benjamin Shreck of TEI's Legal Staff at [bshreck@tei.org](mailto:bshreck@tei.org) or 202.464.8353.

Sincerely,

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