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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”)**

## **List of Recommendations**

The Government of Canada should prioritize reducing the compliance burden on corporate taxpayers by simplifying tax legislation, eliminating redundancy, and modernizing outdated regimes—without compromising fairness, tax integrity, or government revenues.

### **Recommendation 1**

The government should amend the Income Tax Act (“ITA”) to streamline the capital cost allowance (“CCA”) class system, which would reduce administrative complexity.

### **Recommendation 2**

The government should amend the ITA to eliminate duplicative and redundant provisions. For example, by removing overlapping interest deductibility rules and repealing duplicative international tax rules, many of which were implemented in a patch-work approach across years of government initiatives.

### **Recommendation 3**

The government should modernize and simplify the foreign affiliate regime in light of increased international reporting under the Global Minimum Tax Act (“GMTA”) and OECD Pillar 2 initiatives adopted by Canada. Recommendations include replacing the surplus based dividend system with a participation exemption model, refocusing the foreign accrual property income (“FAPI”) rules on low taxed jurisdictions, and reducing duplicative tax reporting.

### **Recommendation 4**

The government should create a consolidated corporate tax filing regime to simplify and modernize the Canadian tax system. A consolidated corporate filing system would reduce the need for complex legislation, allowing for the simplification and modernization of Canada’s corporate taxation system.

May 11, 2026

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

**Via online submission**

**RE: TEI Recommendations for the 2026 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 2026, 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 recommendations reflect the views of TEI as a whole but, more particularly, those of our Canadian constituency.

**Background**

Canada’s corporate tax system has become increasingly complex over time. While incremental legislative changes are often introduced to address specific policy concerns, the cumulative effect has created a system imposing significant compliance costs on Canadian businesses with limited corresponding benefit to government revenues or tax administration (e.g., the GMTA compliance requirements).

As Parliament considers priorities for the Fall 2026 Federal Budget, we encourage Finance Members to focus on practical reforms that simplify compliance. Reducing unnecessary complexity and associated tax compliance will free up resources for productive investment,

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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).

improve voluntary compliance, and strengthen Canada’s competitiveness—particularly at a time when businesses face heightened economic uncertainty and increasing global tax coordination.

Corporate taxpayers must navigate an expanding web of detailed calculations, specialized elections, and overlapping reporting requirements. Large and small businesses alike devote substantial internal and external resources to meeting technical filing obligations, many of which are duplicative or low value from a policy perspective.

Importantly, these burdens do not fall solely on taxpayers. The Canada Revenue Agency (“CRA”) must also process, review, and audit vast quantities of information, often with limited marginal benefit. Simplification benefits both sides of the tax system.

## **Recommendations**

### **1. Simplified Tax Depreciation**

Canada’s CCA system has numerous asset classes, each with different rates and technical rules. The varying rates arise from layering tax policy objectives on top of economic useful life estimates.

While targeted incentives may have policy merit in certain circumstances, the overall result is a system that is difficult to administer and complicated compared to regimes used by other G7 countries. Taxpayers must track multiple depreciation pools for similar assets, maintain detailed continuity schedules, and interpret nuanced classification rules.

*Recommendation:* The government should complete a review to reduce, merge and rationalize CCA classes. A simplified depreciation framework would retain economic neutrality while significantly reducing ongoing compliance costs.

### **2. Eliminate Duplicative and Redundant Legislation**

Canada has recently introduced new anti-base erosion measures. While the underlying policy objectives are sound, many of the new measures overlap with older base erosion regimes, creating complexity without meaningful incremental protection of the tax base. For example, the new interest limitation (“EIFEL”) regime represents a fundamental shift in how Canada limits interest deductions. The regime has, however, rendered earlier rules—such as traditional thin capitalization limits—largely redundant. In addition, taxpayers must still comply with related international provisions, including the foreign affiliate dumping (“FAD”) rules, which pursue similar policy objectives through different mechanisms.

*Recommendation:* The government should amend the ITA's interest deduction limitations to:

- (i) Eliminate duplicative rules;
- (ii) Narrow the scope of regimes that impose disproportionate compliance costs; and
- (iii) Enable lower risk taxpayers an exemption from unnecessary complexity.

Removing redundancy will not weaken Canada's tax system; it will strengthen it through clarity and efficiency.

### 3. Simplify the Foreign Affiliate Regime

Canada's foreign affiliate rules are among the most complex in the G7, reflecting a system built incrementally rather than holistically. While protecting the Canadian tax base remains essential, the current regime imposes compliance obligations that are increasingly disconnected from actual tax risk, as discussed in the examples and recommendations below.

#### (a) *Dividend Taxation and Surplus Accounts*

Tracking multiple surplus pools for foreign affiliates creates significant compliance costs. This framework was developed in a different global tax environment and no longer reflects modern international practice or recent global minimum tax initiatives. The requirement to track multiple surplus pools for foreign affiliates was adopted prior to Canada adopting the GMTA and its corresponding OECD rules and compliance requirements ensuring all activity performed by foreign affiliates is taxed at a minimum rate of 15%.

*Recommendation:* Canada should adopt a participation exemption model for dividends received from significant foreign shareholdings. This approach is widely used internationally and would eliminate much of the surplus tracking system, while maintaining Canada's tax policy integrity.

#### (b) *Passive Income Rules*

Canada applies its passive income (FAPI) rules on a global basis, regardless of whether income is earned in a high tax or low tax jurisdiction. This broad approach generates extensive reporting obligations even where there is little or no risk of tax deferral.

*Recommendation:* The FAPI rules should apply only to low tax jurisdictions, determined via effective tax rate tests or jurisdictional filters. Targeting genuine risk would significantly reduce compliance costs while preserving revenue protection. Leveraging GMTA information reporting could support decision-making around which jurisdictions would be considered "low-tax income jurisdictions."

(c) *Duplicative Reporting*

Taxpayers are required to report substantially similar information through multiple regimes, including foreign affiliate forms, country by country reports, and global minimum tax filings.

*Recommendation:* The government should reduce duplicative international reporting by:

- (i) Eliminating filings where information overlap exists,
- (ii) Amending reporting requirements based on demonstrated tax risk, and
- (iii) Providing exemptions for taxpayers on certain informational reporting forms where such taxpayers are already required to report the same, or often more detailed, international reporting under the GMTA (for example, eliminate the requirements to file forms such as RC4649, T106, T1134, and T1135 forms if the OECD GloBE Information Return must be filed in Canada).

4. Creation of a Consolidated Corporate Tax System

Canada does not permit consolidated or group based corporate tax filing, unlike its major trading partners. Most other advanced economies—including the United States, the United Kingdom, and Australia—allow corporate groups to calculate taxable income on a consolidated or partially consolidated basis. Canada’s current approach requires each legal entity within a corporate group to compute income, losses, and deductions as if it were dealing with arm’s length parties, even where entities are wholly owned and economically integrated. This leads to needless complexity, artificial tax planning, and a significant compliance burden with no corresponding policy benefit.

Because Canada lacks a consolidation regime, corporate groups must rely on a variety of technical rules, elections, and internal transaction policies to approximate outcomes that would arise naturally under consolidated filing. These include:

- (i) Tax elections for routine internal assets transfers between related companies,
- (ii) Structuring complex reorganizations to use tax losses within a related group,
- (iii) Allocating deductions and income across entities, even where results are identical at a group level, and
- (iv) Navigating highly technical interest, intercompany loan, and intercompany dividend rules.

These exercises are costly, time consuming, and difficult to administer and audit. They provide little insight into a group's true economic position and do not materially enhance the integrity of the tax base.

The lack of a consolidated filing system places Canadian based corporate taxpayers at a competitive disadvantage relative to foreign multinationals operating in jurisdictions with modern group taxation systems. It also increases administrative costs for the CRA, which must audit transactions and allocations that would be irrelevant under consolidated reporting (e.g., intercompany dividends, loss utilization plans, intercompany loans and asset transfers between related companies).

Past discussions regarding consolidation in Canada have stalled due to concerns about provincial revenue allocation and the provincial tax base. However, economic realities have evolved since 2010 (the last time the government published a paper on this topic). Existing CRA administrative policies already permit effective loss and deduction sharing within groups through pre-approved tax planning transactions. Further, the 2024 EIFEL rules allow sharing of EIFEL related tax attributes between related entities. These are only two examples of situations where overly complex tax policy and tax legislation exist because of the lack of a modern consolidated system.

*Recommendation:* The Government should engage with stakeholders to introduce a corporate tax consolidation regime that:

- (i) Permits consolidated or group-based filing for related Canadian corporations,
- (ii) Allows group wide loss utilization and deduction sharing,
- (iii) Simplifies internal non-arm's length transactions and elections,
- (iv) Reduces compliance and audit burdens, and
- (v) Aligns Canada with international best practices.

Even a limited or phased in consolidation model would represent a meaningful step toward simplification and modernization, with clear benefits for taxpayers, tax administrators, and the broader economy.

## **Conclusion**

Canada's corporate tax system would benefit substantially from a renewed focus on simplicity, coherence, and administrative efficiency. Reducing compliance burdens does not require sacrificing policy objectives; rather, it requires thoughtful coordination, modernization, and the elimination of redundancy.

As Parliament prepares for the Fall 2026 Federal Budget, we encourage Members of the Standing Committee on Finance to support targeted changes that:

- (i) Improve the competitiveness of Canadian businesses,
- (ii) Reduce unnecessary administrative costs, and
- (iii) Strengthen confidence in Canada's tax system.

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TEI appreciates the opportunity to provide the above recommendations regarding the Canadian income tax system and would welcome further dialogue on practical pathways to meaningful simplification. 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.

Respectfully submitted,

***Walter B. Doggett***

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