

Productivity, Innovation and How Canada's Tax System Can Help

August 07, 2025

Canada and its new government find themselves at a crossroads in the summer of 2025. The Trump administration's first six months have changed (likely forever) Canada's relationship with its closest neighbour and largest trading partner. While the [Canada-United States-Mexico Free Trade Agreement](#) has [cushioned most of the impact](#) to date, we still face considerable economic headwinds from threatened tariffs (both general and sectoral) and the prospect of CUSMA being renegotiated in 2026. The [resulting uncertainty](#) creates a drag on the economy, as businesses hesitate to expand or modernize at a time when important parameters are changing weekly.

Moreover, the "[One Big Beautiful Bill Act](#)" enacted in July 2025 includes a host of highly stimulative tax changes designed to super-charge the American economy. These include faster tax write-offs of business expenditures, export subsidies, expanded investor-level tax relief, and the extension of reduced income tax rates, all financed by substantial deficit spending. When combined with the highly distortive and inefficient *de facto* consumption taxes that America's new tariffs represent, these tax changes constitute a major shift in U.S. fiscal policy and a substantial incentive to attractive business investment into the U.S. from other countries.

All of this is occurring at a time when the Canadian economy continues to experience a [general malaise](#), essentially stalling or even experiencing a modest contraction. In particular, Canada's performance on productivity continues to languish, [falling further behind](#) not only America's but also that of many of its own OECD counterparts. On innovation, our persistent [aversion to risk](#) limits our willingness to fully participate in the innovation economy of tomorrow. For example, one [report](#) identifies Canada as "trail[ing] every other G7 nation in AI computing infrastructure." We continue to [underperform in business innovation](#) at the risk of missing out on the high-value sectors of the global economy that are becoming increasingly important, as other countries move to create critical mass and resulting gravitational attraction in the innovation economy.

Addressing these issues must be foremost on our new government's agenda. While tax policy is not the entire solution, it is certainly part of it. This paper discusses what levers within the tax system might be employed to address these challenges and respond to initiatives in the U.S., hopefully providing a useful basis for further discussion as to which ones are best suited to create the right incentives and achieve the desired

results. Typical Canadian wait-and-see incrementalism is not the answer when events are moving with such force and celerity. Canada needs to act now to invest in its economy in a major way so as to protect its long-term tax base and the social programs it funds.

By

[Steve Suarez](#)

Expertise

[Tax](#)

BLG | Canada's Law Firm

As the largest, truly full-service Canadian law firm, Borden Ladner Gervais LLP (BLG) delivers practical legal advice for domestic and international clients across more practices and industries than any Canadian firm. With over 800 lawyers, intellectual property agents and other professionals, BLG serves the legal needs of businesses and institutions across Canada and beyond – from M&A and capital markets, to disputes, financing, and trademark & patent registration.

blg.com

BLG Offices

Calgary

Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa

World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver

1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal

1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto

Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749

The information contained herein is of a general nature and is not intended to constitute legal advice, a complete statement of the law, or an opinion on any subject. No one should act upon it or refrain from acting without a thorough examination of the law after the facts of a specific situation are considered. You are urged to consult your legal adviser in cases of specific questions or concerns. BLG does not warrant or guarantee the accuracy, currency or completeness of this publication. No part of this publication may be reproduced without prior written permission of Borden Ladner Gervais LLP. If this publication was sent to you by BLG and you do not wish to receive further publications from BLG, you may ask to remove your contact information from our mailing lists by emailing unsubscribe@blg.com or manage your subscription preferences at blg.com/MyPreferences. If you feel you have received this message in error please contact communications@blg.com. BLG's privacy policy for publications may be found at blg.com/en/privacy.

© 2026 Borden Ladner Gervais LLP. Borden Ladner Gervais LLP is an Ontario Limited Liability Partnership.