# The 2026 federal budget: Great expectations

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The Canadian business community awaits the 2026 federal budget with heightened expectations. In *The Globe & Mail*, I described the Productivity Mega Deduction announced on Sept. 15 as "the most consequential Canadian tax policy initiatives of the 21st century", and it is, both for the impact of the tax change itself and for what it represents. In the government's own words, this measure constitutes "a sea change in how Canada intends to stimulate business investment decisions." That's a major change in Canada's historically passive tax policy and exactly what it should be doing in these circumstances: actively supporting our larger economic strategy and expanding our tax base (which funds the social programs we want), not just passively taking a cut of whatever's there.

Countries whose economies are susceptible to coercion (or "economic force") will find it very difficult to conduct themselves as truly sovereign nations, as recent events demonstrate. Indeed, as I argued recently, tax policy is both an essential ingredient of a strong economy and an expression of our sovereignty.

If we're going to preserve our sovereignty and compete with other countries for the people and businesses that our economy and our tax base need, getting our tax policy into the game in a major way is essential. In the present environment of aggressive recent tax (and trade) measures from the U.S., a more neutral "a buck is a buck approach simply isn't feasible. We need to use our tax policy to create the winning conditions to attract the new businesses we want and keep the ones we have. This government seems to understand that, and for that reason I am optimistic the 2026 federal budget will reflect this new activist turn in tax policy.

How the change to a more aggressive tax policy manifests itself in the budget remains to be seen, but there are a variety of ways in which it could. At the macro level, comprehensive tax reform is long overdue in Canada, and the chorus for getting on with this is only getting louder. Leading economists, academics and business organizations such as the Canadian Chamber of Commerce and CPA Ontario have all called for a full review and redesign of Canada's tax system (not just income tax). It has been three years since I lamented, "Canada's tax regime weighs on the economy – if not now, when do we reform it?" The 2026 federal budget should at least start what will be a multi-year journey down that road to a more efficient, more competitive tax system. If nothing else, getting top-end personal tax rates down below 50per cent and lowering

corporate rates can be funded by increasing sales taxes, which are a better way to raise money.

In terms of specific measures, the Department of Finance conducted a consultation in 2024 on the possibility of introducing a patent box regime for income from intellectual property (IP). The Liberals included this proposal in their election platform, and we should expect to see action on this measure in the upcoming federal budget 2026. Another candidate for stimulative tax measures that would have a meaningful impact is the innovation sector, where there are various ways the tax system could lend more support and the Liberal platform also proposed specific initiatives. As I have said elsewhere, historically our timid tax policy reflects our minimal appetite for economic risk. In general, we need measures that better incentivize risk-taking, such as capital gains relief for entrepreneurs and early-stage investors comparable to what the U.S. offers. Hopefully the government's policy "sea change" includes more such measures in Budget 2026.

The other theme that should be reflected in the 2026 budget is simplicity, particularly in the income tax sector. Over half a century our *Income Tax Act* has indeed become a Frankenstein's monster where "Nothing ever comes off, just new stuff gets bolted on." There are far too many provisions in the statute that don't actively support our economic strategy (many of the **Organization for Economic Co-operation and Development (OECD)** fall into this category), fail to achieve their intended objectives (various boutique personal tax credits, for example), or simply reflect poor cost/benefit choices: the excessive interest and financing expenses limitation rules tick all three of these boxes. These need to be pared back (along with corresponding measures on the tax compliance side), to produce a tax system that is less costly for taxpayers to comply with and for governments to administer: a win-win result. To do this meaningfully will take time, but there are some obvious candidates for immediate action, such as moving to a full exemption system for income earned by foreign subsidiaries of Canadian corporations, which would involve minimal tax revenue loss.

A stronger, more robust economy is absolutely central to a stronger, more robust Canada. Supportive tax policy can be a major contributor to this initiative, and hopefully we will see this featured prominently on Nov. 5, 2026.

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