

Written Submission For The Pre-Budget Consultations
In Advance of the Upcoming Federal Budget

By: The Canadian Forum for Financial Markets (CFFiM)

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SUMMARY OF RECOMMENDATIONS

A. Restore Fiscal Credibility

- Recommendation 1: Re-establish the debt-to-GDP ratio as the fiscal anchor, with a clear medium-term path back to pre-pandemic level.

B. Drive Growth and Competitiveness Through Tax Reform

Generally

- Recommendation 2: Rebalance the tax mix toward consumption taxes.
- Recommendation 3: Cut the statutory corporate income tax rate by 1 percentage point in 2027 and another in 2028.
- Recommendation 4: Compress the five personal income tax brackets into three.
- Recommendation 5: Increase the GST rate by 1 percentage point in 2027 and another in 2028.

Financial Markets

- Recommendation 6: Expand the mining flow-through share regime to include preliminary economic, pre-feasibility, and feasibility studies as eligible Canadian Exploration Expenses.
- Recommendation 7: Expand flow-through share eligibility to qualifying R&D expenditures in innovative sectors and integration with the Scientific Research and Experimental Development (SR&ED) tax incentive program.
- Recommendation 8: Consider tax free corporate spinoffs akin to s. 355 of the U.S. *Internal Revenue Code*.

C. Drive Growth and Competitiveness in Financial Markets Through Legislative and Regulatory Reform

Capital Markets

- Recommendation 9: Examine a modernized income trust structure for mature, cash-generating businesses with limited reinvestment needs.
- Recommendation 10: Introduce a UK-style Enterprise Investment Scheme (EIS) to stimulate investment in early-stage, unlisted businesses with high growth potential.
- Recommendation 11: Reduce overlapping and duplicative financial market regulation and regulators.

Banking

- Recommendation 12: Conduct a public review of banking regulations to eliminate unnecessary requirements.
- Recommendation 13: Amend legislative mandates to include competition.
- Recommendation 14: Designate a technical standards body by Q3, 2026 to accelerate open banking.

D. Improve Tax-Assisted Retirement Savings

- Recommendation 15: Gradually raise the RRSP-to-RRIF conversion age from 71 to 74.
- Recommendation 16: Gradually reduce, and ultimately eliminate, mandatory RRIF withdrawal rates.
- Recommendation 17: Gradually increase the defined contribution pension plan and RRSP contribution limit from 18% to 30% of earned income.
- Recommendation 18: Expand qualified investments in registered savings plans to include private capital funds.

The [Canadian Forum for Financial Markets \(CFFiM\)/Forum Canadien des Marchés Financiers \(FCMFi\)](#) is dedicated to advancing proposals that foster healthy, competitive financial markets and a resilient Canadian economy.

We welcome the opportunity to contribute to the House of Commons Finance Committee’s pre-budget consultations.

RECOMMENDATIONS

A. Restore Fiscal Credibility

The government’s [Spring Economic Update 2026](#) projects persistent deficits, rising from \$36.3 billion in 2024-25, to \$65.3 billion in 2026-27, before declining to \$53.2 billion by 2030-31, with no path to balance.

Federal debt is projected to rise from \$1.27 trillion to \$1.63 trillion over the same period, while the debt-to-GDP ratio increases from 40.7% to 41.6%.

Public debt charges rise from \$54.0 billion in 2025-26 to \$80.9 billion in 2030-31, diverting resources from tax relief and productivity-enhancing investment. Prior to the pandemic (2019-20), debt-to-GDP was 31.2%, and public debt charges were \$24.4 billion.

The government has introduced two new fiscal anchors to address fiscal pressures:

1. Balancing day-to-day operating spending with revenues by 2028-29; and
2. Maintaining a declining deficit-to-GDP ratio.

However, these targets can be met while debt-to-GDP rises due to non-operating borrowing, raising [sustainability concerns](#).

Recommendation:

- Re-establish the debt-to-GDP ratio as the fiscal anchor, with a clear medium-term path back to pre-pandemic level.

B. Drive Growth and Competitiveness Through Tax Reform

Generally

Canada [relies](#) more on personal income taxes (35.9% of tax revenue vs 23.7% OECD average) and corporate income taxes (13.8% vs 11.9%), and less on value-added taxes (13.8% vs 20.5%).

Tax [composition](#) matters for growth. Corporate taxes are the most harmful, discouraging capital investment and productivity, followed by personal income taxes, which reduce incentives to work, save, invest and undertake entrepreneurial activity. Value-added taxes such as the GST/HST affect work, saving, and investment decisions less.

(i) Business Income Taxes

[Canada’s](#) combined federal-provincial statutory corporate income tax rate averages 25.98%, broadly in line with the [U.S.’s](#) (25.57%) and slightly above the [OECD’s](#) (24.27%) combined central and sub-central rates. Canada’s 12.3-point corporate tax advantage over the U.S. in 2017 has disappeared, eliminating any tax advantage for locating businesses in Canada.

Small businesses are taxed at a combined federal-provincial rate of 11.57% on up to \$500,000 of active business income – 14.4 percentage points below large corporations. [Research](#) suggests this rate differential discourages firms from scaling.

Investment decisions are influenced by marginal effective tax rates (METR) on capital, which incorporate statutory rates, depreciation allowances, investment tax credits, and sales taxes on capital inputs. METRs [vary](#) considerably across industries, and capital tends to flow to tax-advantaged sectors over those with stronger growth potential, slowing innovation and productivity.

(ii) Personal Income Taxes

Combined federal-provincial top marginal personal income tax rates exceed 50% in most provinces, placing Canada among the highest-tax [OECD jurisdictions](#). Canadians at all [income](#) levels in every province face higher marginal tax rates than U.S. counterparts.

Recommendations:

- Rebalance the tax mix toward consumption taxes.
- Cut the statutory corporate income tax rate by 1 percentage point in 2027 and 2028 (from 15% to 13%).
- Compress the five federal income tax brackets into three. Reduce the second-lowest personal income tax rate (20.5%) to 14% over six years starting in 2027, aligning it with the lowest bracket. This would help reduce elevated METRs faced by middle-income earners, often amplified by income-tested benefits claw-backs. Reduce the fourth bracket rate (29%) to 26%, and the top rate (33%) to 29% to attract talent and encourage entrepreneurship.
- Increase the GST by 1 percentage point in 2027 and 2028, to 7%, its original level.

Financial Markets

(i) Improve Canada's Flow-Through Share Regime

Mining projects face [long timelines](#) and high risk, contributing to funding gaps. Flow-through shares help bridge the gap by allowing exploration companies to renounce eligible Canadian Exploration Expenses (CEE) to investors. CCE generally excludes preliminary economic, pre-feasibility, and feasibility studies, often required for regulatory approvals, investment decisions, and financing. [Consideration](#) should be given to including these expenses as eligible renounceable costs.

The Liberal Party's 2025 platform proposed extending flow-through shares to innovation-focused startups (e.g., AI, quantum computing, biotechnology, advanced manufacturing) by allowing eligible R&D expenses to flow through to investors. This should be pursued.

(ii) Corporate Spin-offs

[Corporate spin-offs](#) can enhance competition across the economy, as spun-off entities tend to compete more vigorously, benefiting from more focused management and improved valuation transparency, which increases pressure to improve efficiency, pricing, and innovation. In Canada, demergers typically occur through "butterfly reorganizations" under section 55 of the *Income Tax Act* – a complex, multi-step process often requiring advance CRA rulings. The U.S. approach provides for clearer and more predictable tax treatment of spin-offs.

Recommendations:

- Expand the mining flow-through share regime to include preliminary economic, pre-feasibility, and feasibility studies as eligible Canadian Exploration Expenses.
- Expand flow-through share eligibility to qualifying R&D expenditures in innovative sectors and integration with the SR&ED tax incentive program.
- Consider tax free corporate spinoffs akin to s. 355 of the U.S. *Internal Revenue Code*.

C. Drive Growth and Competitiveness in Financial Markets Through Legislative and Regulatory Reform

Capital Markets

(i) *Income Trusts*

The flow-through structure allows excess cash generated by mature businesses with limited reinvestment needs to be distributed efficiently to investors, supporting more productive capital allocation across the economy.

Past reforms to the tax treatment of income trusts (2006–2011) were designed to promote tax neutrality, fairness, efficiency, and fiscal sustainability by ending preferential tax treatment for operating businesses that converted to trusts. Certain sectors or large firms may warrant restrictions to prevent abuse and protect the tax base.

(ii) *Stimulate Investment in Early-Stage, Unlisted Businesses with High Growth Potential*

Canada could adopt a program like the UK Enterprise Investment Scheme (EIS). [Since 1993-94](#), over 78,435 companies (38,500 first-time) have raised £31.5 billion through the program. Tax expenditures are [estimated](#) to be offset by taxes paid by EIS-financed firms and their employees. See EIS evaluation [here](#).

(iii) *Reduce Overlapping and Duplicative Regulation and Regulators in Financial Markets*

Securities and financial services regulation remain divided across multiple federal and provincial bodies. The [Canadian Securities Administrators \(CSA\)](#) is the umbrella organization for provincial and territorial securities regulators and relies, oversees and duplicates the work of the [Canadian Investment Regulatory Organization](#) (CIRO) for most aspects of the regulation of CIRO's member firms. Both address matters subject to the [Office of the Privacy Commissioner of Canada](#) and [FINTRAC](#). The [Office of the Superintendent of Financial Institutions](#) (OSFI) and the [Financial Consumer Agency of Canada](#) (FCAC) oversee federally regulated financial institutions who have entities subject to CSA and CIRO oversight

Recommendations:

- Examine a modernized income trust structure for mature, cash-generating businesses with limited reinvestment needs.
- Introduce a UK-style Enterprise Investment Scheme (EIS).
- Reduce overlapping and duplicative regulation and regulators in financial markets.

Banking

The Bank of Canada [cites](#) research indicating that concentration in Canada's banking sector negatively impacts productivity, with the six largest banks hold roughly 93% of banking assets – an oligopoly. The Competition Bureau has [called](#) for “new players to shake things up” in banking.

(i) *Conduct a Public Review of Banking Regulations to Eliminate Unnecessary Requirements*

Lowering fixed regulatory costs can help all banks accelerate innovation, and intensify price and service competition without compromising financial stability.

The Department of Finance, in consultation with OSFI and the Competition Bureau, should conduct a public review of banking regulations to identify and eliminate outdated or duplicative requirements, reduce unnecessary compliance burdens, and preserve prudential rules that deliver clear incremental stability benefits.

(ii) *Amend Legislative Mandates to Include Competition*

Amend the Bank Act and legislative mandates of key federal financial oversight bodies – including OSFI, FCAC, and the Competition Bureau – to explicitly include competition as a core statutory objective. This would:

- Require agencies to provide a Competition and Efficiency Impact Statement with all major regulatory changes, assessing impacts on consumer affordability, market entry, digital innovation, and cost-reducing technologies.

- Require agencies to report on how their regulatory and supervisory activities have supported competition, efficiency, innovation, and stability outcomes.

(iii) ***Accelerate Open Banking With the Designation of a Technical Standards Body***

[Budget 2025](#) committed to the designation of a technical standards body for consumer-driven banking. Similar to the U.K.'s Open Banking Implementation Entity, CFFiM supports the establishment of a single, independent entity to develop and maintain national API and data standards, oversee conformance and certification, publish a delivery roadmap, coordinate industry implementation, and advance toward payments initiation, through transparent, independent leadership and governance. Like the UK, funding for implementation and ongoing operational costs would come mostly from designated large banks in proportion to market share.

Recommendations:

- Conduct a public review of banking regulations to eliminate unnecessary requirements.
- Amend legislative mandates to include competition.
- Designate a Technical Standards Body by Q3, 2026 to accelerate open banking.

D. Improve Tax-Assisted Retirement Savings

(i) ***RRIFs***

Mandatory RRSP-RRIF conversions at age 71, along with mandatory minimum withdrawals, are outdated. When the modern RRIF calculation was set in 1992, [life expectancy](#) at 71 was 13.7 years; today it is about 16.1 years. Longer lifespans increase the risk of outliving retirement savings.

Canadians should have greater flexibility to manage retirement savings and maximize tax efficiency. See CFFiM [Submission to Finance Canada](#).

(ii) ***RRSPs***

The 18% contribution limit, set in 1992, is [outdated](#) and disadvantages Canadians with RRSPs and defined contribution pension plans (common in the private sector) relative to those with defined benefit pension plans (more prevalent in the public sector). Increasing the limit would improve equity across pension arrangements.

Private capital has entered mainstream finance across jurisdictions. The government should expand qualified investments to include Private Equity (PE) and Venture Capital (VC) funds within registered plans, enabling Canadians to access high-growth investment opportunities traditionally reserved for high-net-worth investors and family offices.

Recommendations:

- Gradually raise the RRSP-to-RRIF conversion age from 71 to 74.
- Gradually reduce, and ultimately eliminate, mandatory RRIF withdrawal rates.
- Gradually increase the defined contribution pension plan and RRSP contribution limit to 30% of earned income.
- Expand qualified investments in registered savings plans to include private capital funds.