BUSINESS COUNCIL OF ALBERTA

FROM BARRIERS TO BREAKTHROUGHS

The High Cost of Low Investment: Understanding Canada's Economic Stagnation

Policy Report

October 2025

Report Citation

From Barriers to Breakthroughs: The High Cost of Low Investment.
Business Council of Alberta. October 2025.

About the Business Council of Alberta

The Business Council of Alberta is a non-partisan, non-profit organization dedicated to building a better Alberta within a more dynamic Canada. Composed of the chief executives and leading entrepreneurs of the province's largest enterprises, Council members are proud to represent the majority of Alberta's private sector investment, job creation, exports, and research and development. The Council is committed to working with leaders and stakeholders across Alberta and Canada in proposing bold and innovative public policy solutions and initiatives that will make life better for Albertans.

Land Acknowledgement

In the spirit of truth, reconciliation, and respect, we honour and acknowledge the lands upon which we live and work as guests, including the traditional territories of the First Nations in Treaties 6, 7, and 8 and the citizens of the Métis Nation of Alberta. We thank the First Peoples of this land, which we now call Alberta, for their generations of stewardship, and we seek to walk together in the spirit of truth and reconciliation to build a shared future for all in Alberta.

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INTRODUCTION

Canada's economy is stuck in neutral. Output per person hasn't grown since 2015, and real wages are barely increasing. Few major projects can get off the ground without active government intervention, and labour productivity is weak. The result? Canada is falling behind its global peers. Our living standards are declining, our public services are eroding, and we're losing relevance on the international stage.

At the heart of Canada's stagnation lies one key factor: business investment. This isn't about stocks or savings accounts. It's when companies put money into the tools that power growth: factories, equipment, technology, and innovation. Simply put, businesses aren't investing enough in Canada. Whether local companies or foreign enterprises, they see too many obstacles and not enough opportunity.

Many factors contribute to this problem, but a key one is the policy, regulatory, and tax environment in which businesses operate. To its credit, the federal government has acknowledged that the current situation is untenable and is taking action. Legislation and initiatives such as the *Building Canada Act* to fast-track project approvals, the *Red Tape Review* of regulations, and efforts to reduce federal barriers to labour mobility represent early, positive steps towards creating a more welcoming investment climate.

But they are just early steps. The federal government knows that more needs to be done and it plans to introduce additional measures in the months and years ahead.

That's why the Business Council of Alberta (BCA) launched *From Barriers to Breakthroughs*, a major research project focused on identifying the most significant policy, regulatory and tax obstacles to business investment in Canada. Our goal is to contribute to the Government of Canada's efforts by not only identifying those barriers, but also providing clear recommendations on how to overcome them. By so doing, we aim to unlock growth, drive innovation, and foster long-term prosperity nationwide.

Published in July, BCA's first paper of the project, *From Barriers to Breakthroughs: Early Steps to Unlock Canada's Investment Potential*, outlined immediate steps to get Canada back on track, and highlighted three areas that demand deeper study. Those areas are where BCA's research, consultations, and recommendations will focus. They are:

- **Fixing Canada's major project approval processes** to reduce delays and uncertainty that discourage investment.
- **Streamlining Canada's policy and regulatory landscape** to create a clearer, more predictable environment for businesses.
- **Modernizing the tax system to incentivize investment** to enhance Canada's competitiveness and encourage business growth.

In addition, BCA will offer recommendations on how to build a better policy and regulatory system in Canada—one that is modern, efficient, responsive, and balances economic competitiveness with health, safety, and environmental concerns.

However, before diving into those areas and the solutions that are needed, this paper takes a step back to examine the roots of Canada's investment challenge. Without a clear picture of the problem, any solution risks being incomplete or misguided. By exploring the depth and nature of the issue, this paper lays the groundwork to identify both immediate and longer-term actions that will help chart a course toward long-term prosperity.

WHAT IS BUSINESS INVESTMENT AND WHY IS IT SO IMPORTANT?

Broadly speaking, an investment is about spending money on something with the expectation that it will generate income or grow in value over time. In that sense, many different things could be considered investments—from stocks or bonds, to post-secondary education, to baseball cards.

In this paper, when we talk about business investment, we are referring to what is also called non-residential capital investment: money companies spend on the assets that help them produce more and add more value.*

This includes physical assets like factories, machinery, and equipment. It also covers intangibles like research and development, new software, and large-scale databases—crucial drivers of growth in a modern economy.

When businesses invest, workers become more productive. With better tools and technology, they can accomplish more in the same workday—whether it's a factory using robotics to process more potatoes, or an office using project management software to deliver projects faster—driving up wages and living standards.

That said, more investment isn't an end in itself. If driven mainly by subsidies to government-favoured sectors or incentives that distort markets, it steers capital away from its most productive use. In those cases, the result is misallocated resources without real gains in living standards. What really matters is for businesses to see genuine opportunity in Canada to boost productivity, innovation, and long-term competitiveness via investment.

A healthy environment for investment creates a virtuous cycle: higher productivity fuels more investment, which drives more growth. It's the foundation for long-term competitiveness, allowing companies to modernize, innovate, expand into new markets, and sustain prosperity over time.

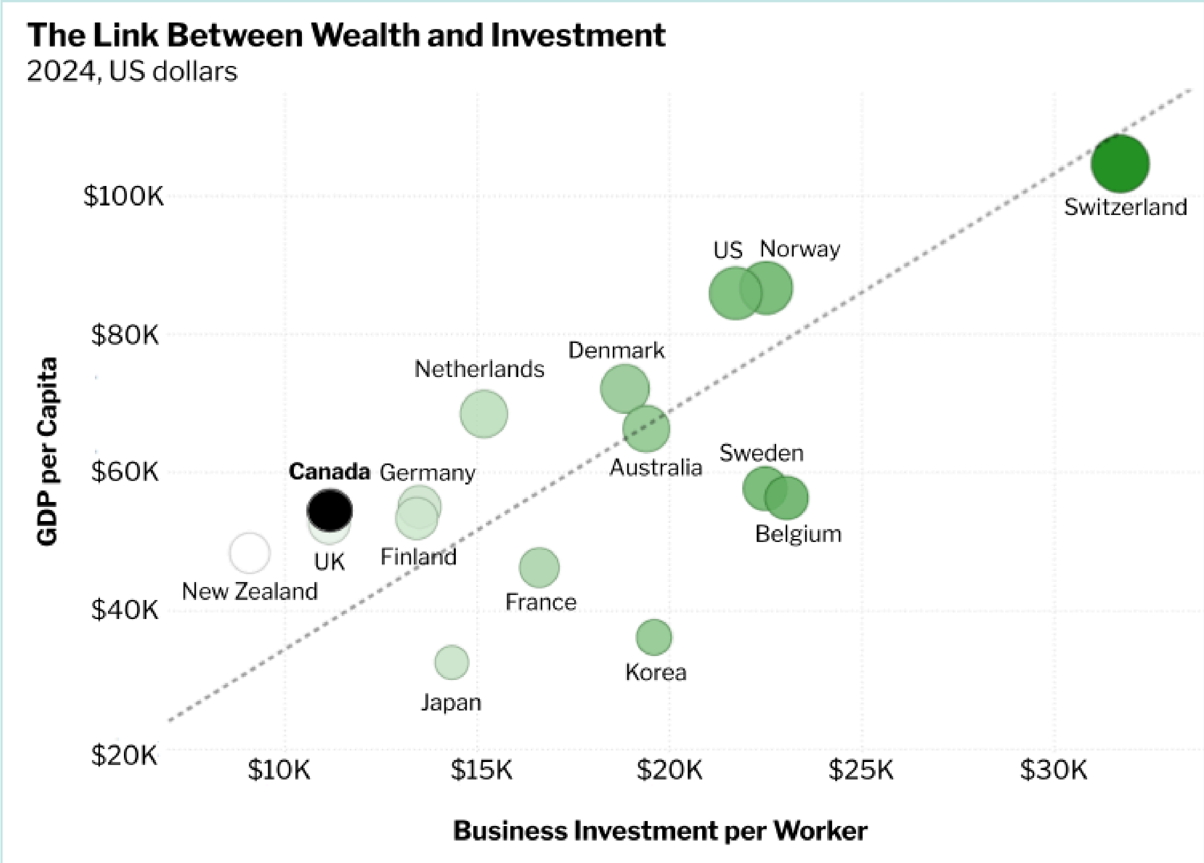
That's why Canada's investment deficiency isn't just a "business problem"—it's important for every Canadian.

**All investment figures in this paper use inflation-adjusted non-residential capital investment data unless otherwise noted.*

THE ROOTS OF CANADA'S INVESTMENT PROBLEM

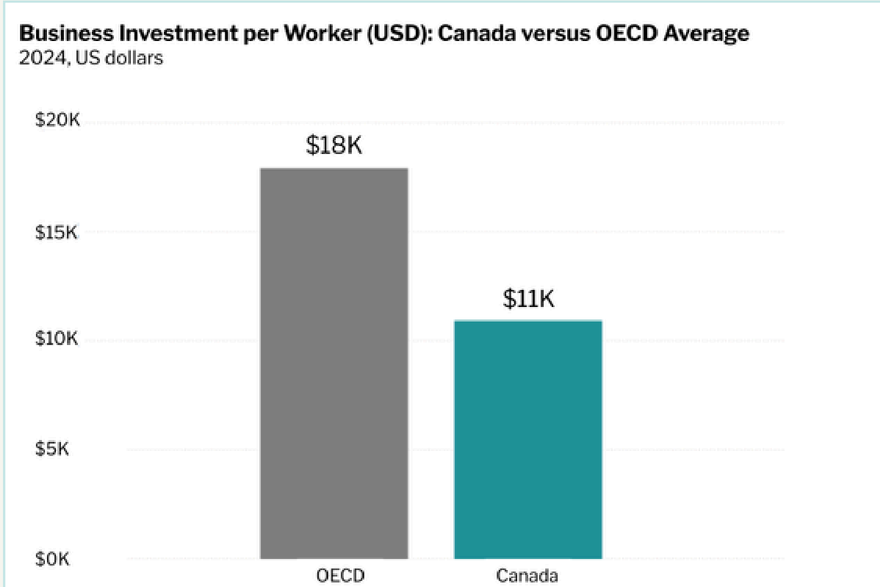
Canada's Investment Gap: A Problem Decades in the Making

Canada's economic strengths are considerable, including a highly educated workforce, abundant natural resources, political stability and strong institutions anchored in the rule of law. Even so, our record on business investment is poor relative to our international peers. Among 33 OECD countries, Canada ranks in the middle of the pack, with businesses spending just $10,871 per worker (USD)—barely half of the U.S. level and well below the OECD average of $17,865.

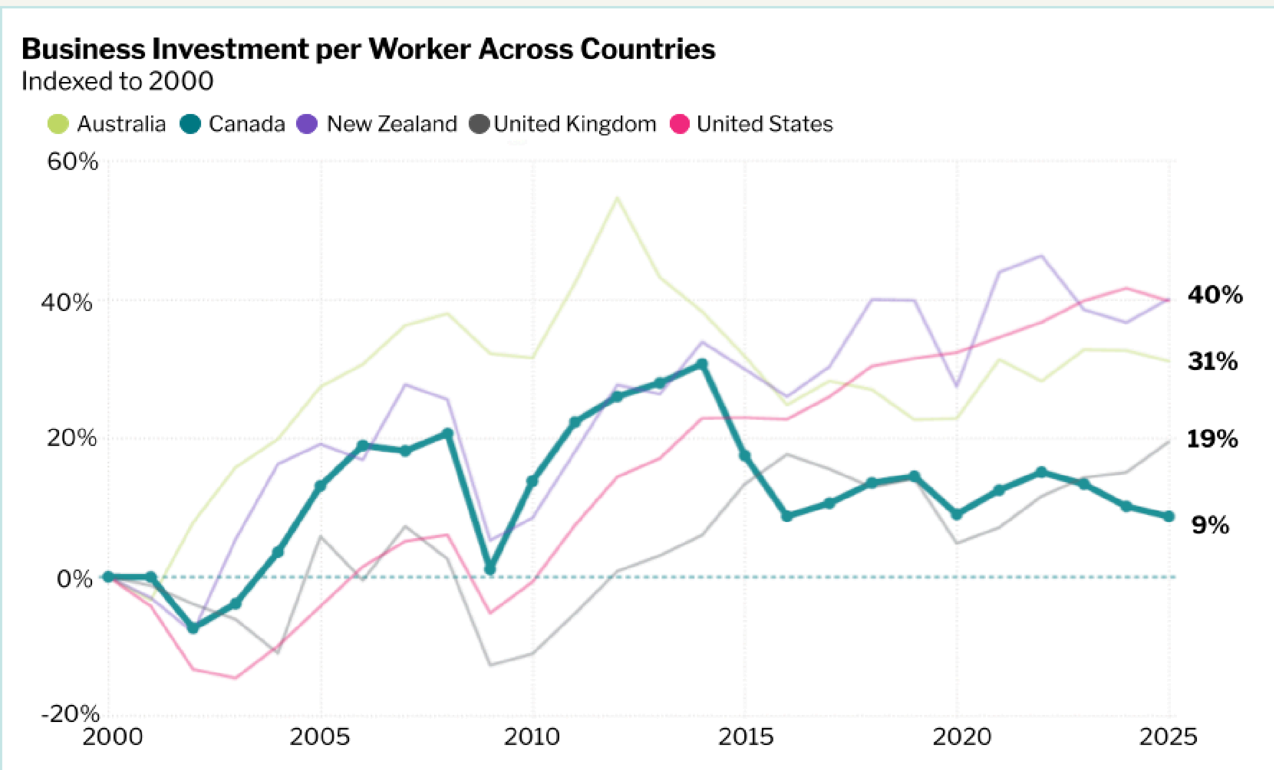


Source: OECD Database for Structural Analysis, 2025 edition.
Note: National currencies converted to US dollars using latest available purchasing power parity.

Making matters worse, the gap between Canada and its global peers is widening. This is especially notable with regard to the U.S. Over the past decade, real business investment declined by 11% in Canada but increased by 45% in the United States. On a per-worker basis, it fell by 24% in Canada while rising by 31% in the U.S.



Source: OECD Database for Structural Analysis, 2025 edition.
Note: National currencies converted to US dollars using latest available purchasing power parity.



Source: OECD Economic Outlook 117.

But while the past ten years—the so-called “lost decade”—have drawn headlines, the problem dates back much further. Investment per worker grew briskly in the 1960s and 1970s, at 4% or more annually, but slowed to less than 1.5% in the 1980s and early 1990s. Things improved in the late 1990s and mid-2010s, but that proved temporary. Since 2014, investment per worker has fallen by an average of nearly 3% per year. As a result, investment levels today are roughly where they would have been if growth had inched along at just 1.5% since the mid-1990s.

Business Investment per Worker Historical Growth

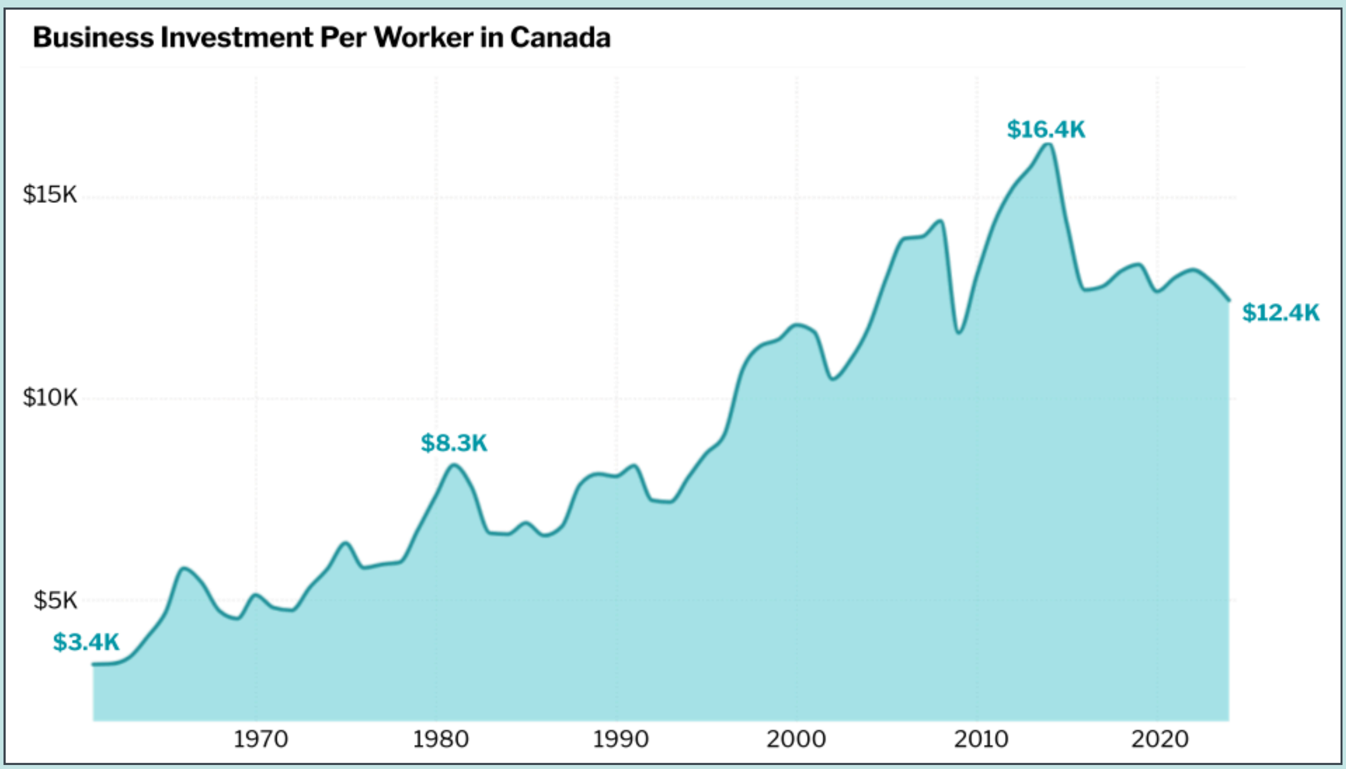
Time period	Beginning	End	Avg Annual Growth
1960s	$3.4K	$5.1K	4.7%
1970s	$5.1K	$7.6K	4.0%
1980s	$7.6K	$8.1K	0.6%
1990 - 1995	$8.1K	$8.6K	1.4%
1995 - 2014	$8.6K	$16.4K	3.4%
2014 - present	$16.4K	$12.4K	-2.7%

Average Annual Growth Less than 2%

Average Annual Growth less than 2%

Source: BCA's own calculations via Statistics Canada.

The international gap began decades ago as well. Back in the 1960s and 1970s, business investment [in Canada kept pace with the U.S.](#)—even outpacing it at times—but by the 1980s, Canada started to fall behind. And with the brief exception of the surge in business investment during the early 2000s energy boom, the gap has only widened over time.



Source: BCA's own calculations via Statistics Canada.

A PROBLEM ACROSS SECTORS AND REGIONS

There is no doubt that the steep decline in business investment since 2014 was largely driven by the energy sector, as was the relative investment boom that preceded it. That makes it easy to point fingers and assume that our current business investment challenge is confined to a single industry.

It isn't. For decades, large swings in energy sector investment have masked broad-based weakness across the rest of the Canadian economy.

This weakness was evident both during the boom and after the oil price collapse, as well as subsequent anti oil and gas policy at the federal level. During the peak of the boom (roughly 2006 to 2014), business investment in manufacturing, professional services, finance, and other sectors fell by an average of 0.8% annually.

Business Investment per Worker in Oil & Gas and Beyond

Time period	Oil & Gas	Other Industries
2006 - 2014	2.6%	-0.8%
2014 - 2024	-6.2%	0.4%

Average Annual Growth less than 2%

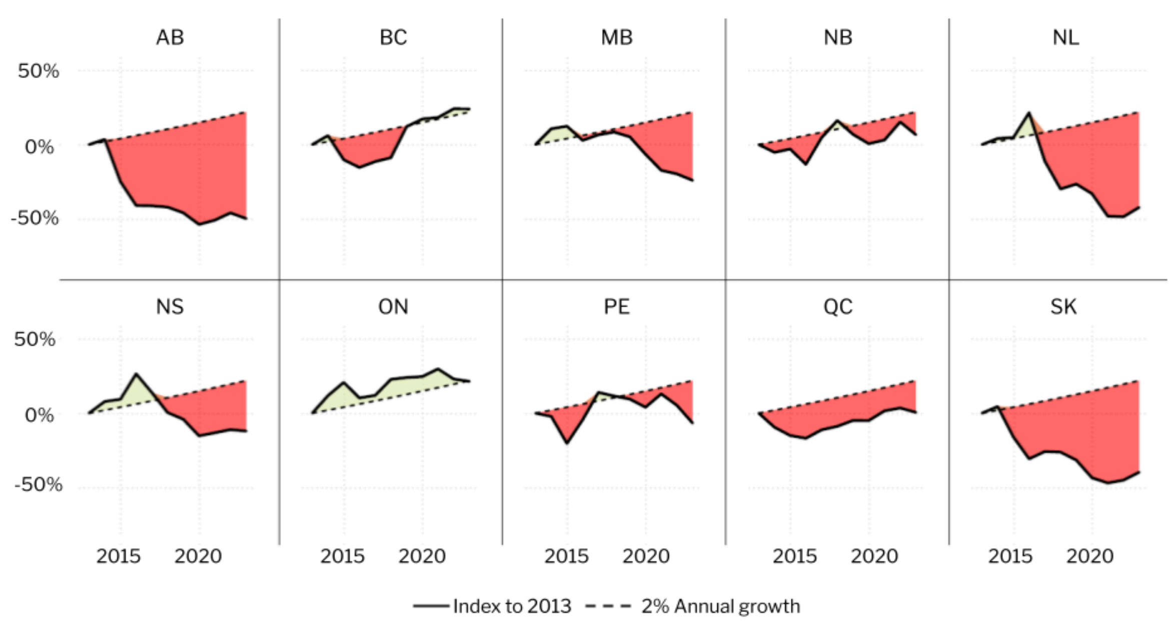
Source: BCA's own calculations via Statistics Canada.

Even after oil prices collapsed, things didn't change that much. Since 2014, capital investment per worker in these sectors has increased by less than 0.5% annually, with both capital-intensive and service industries showing limited growth.

The same pattern holds across regions. Alberta—the province hardest hit by the energy downturn and challenging federal policy—saw investment fall nearly 7% per year over the past decade. But elsewhere in Canada, per-worker investment grew by just 0.4% annually. In fact, eight of ten provinces have fallen short of the 2%+ average annual growth typically seen in periods of strong productivity and wage growth. And even provinces that narrowly met that 10-year benchmark, such as Ontario and British Columbia, have seen recent declines.

The result is a nationwide gap that cuts across both sectors and regions.

Business Investment per Worker Across Canada



Source: BCA's own calculations via Statistics Canada.

A PROBLEM OF WHAT WE INVEST IN

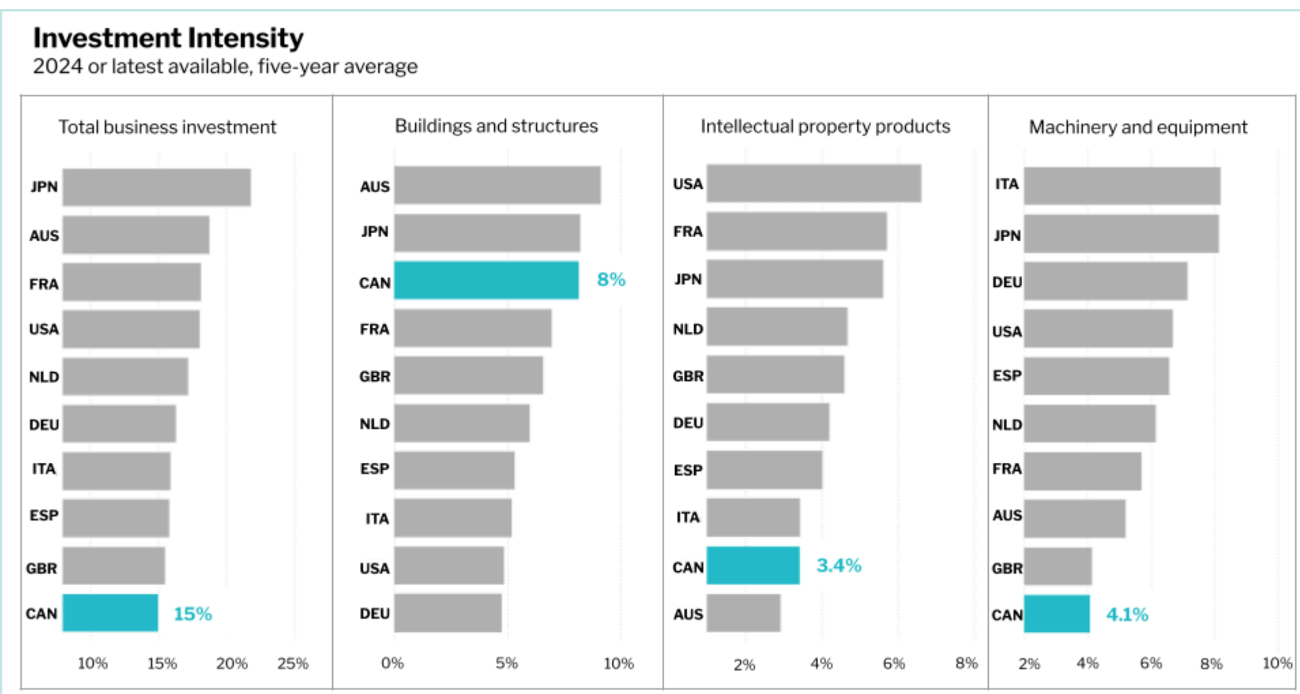
But Canada's challenge isn't just about total dollars invested. In fact, how those dollars are invested matters at least as much. And the difference between Canada and other countries explains a lot about why business investment here isn't achieving the same results as it is in other countries.

One factor is Canada's heavy tilt toward housing. Residential investment runs at nearly 8% of GDP—about double the share in the U.S., Britain, or Japan—leaving fewer resources for non-residential equipment, innovation, and industrial capacity. If Canada's investment mix mirrored its peers, non-residential investment per worker would be far higher.

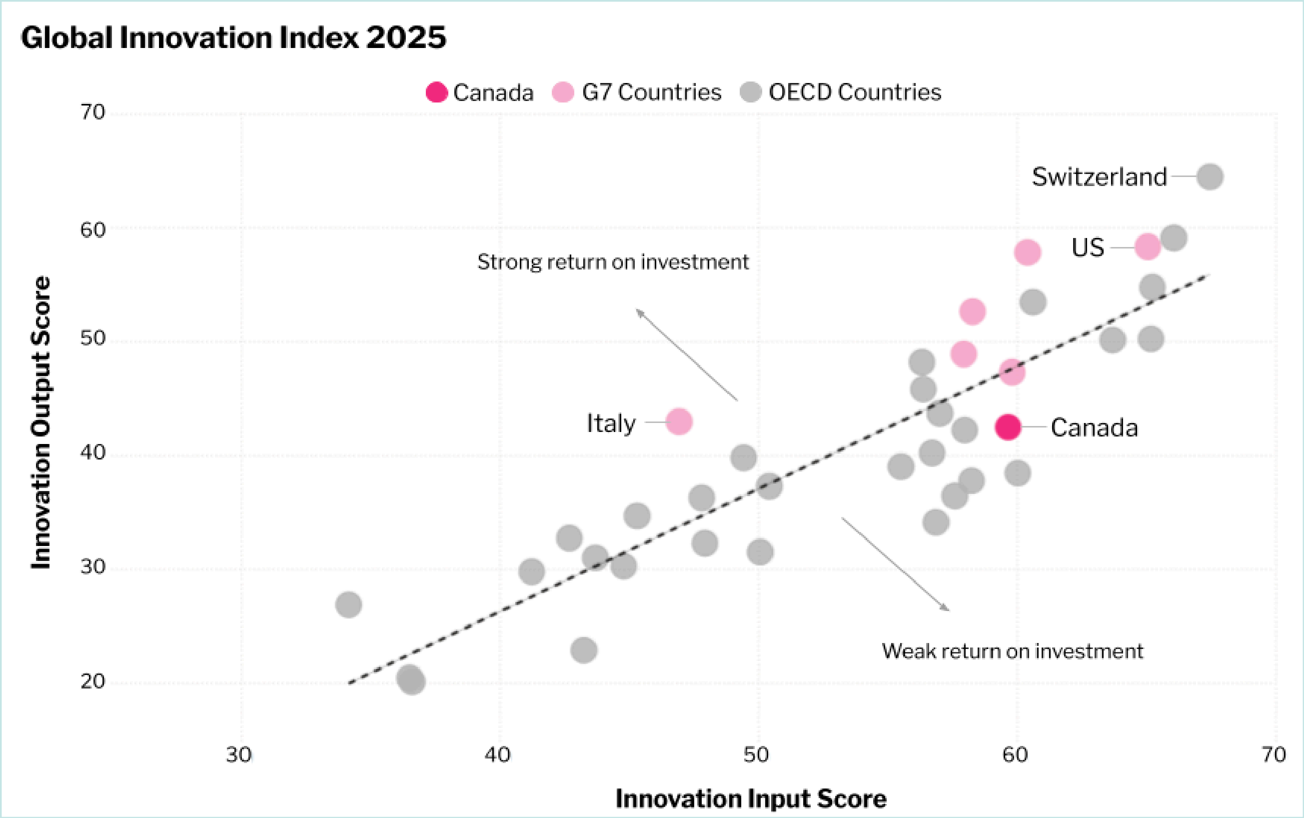
Canada's overemphasis on residential investment may seem at odds with current affordability concerns. However, residential investment isn't the same as housing supply. Turnover and upgrades, construction costs, and a host of fees, zoning restrictions, and permit delays all play a role in driving the dollar value of residential investment higher.

The issue is that this imbalance constrains growth. Productivity gains depend on non-residential business investment, which fuels competitiveness and job creation, and, importantly, generates additional resources that can support housing too.

Canada also underinvests in intellectual property—R&D, patents, software, and proprietary technologies—a critical component of modern capital investment. On R&D specifically, businesses spend less than 1% of GDP on R&D, compared with more than 3% in the U.S. and Japan.



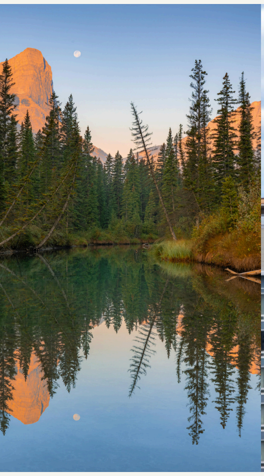
Source: BCA's own calculations based on OECD National Accounts database and OECD Economic Outlook database.
Note: Investment intensity is measured as the gross fixed capital formation as a percentage of gross value added.

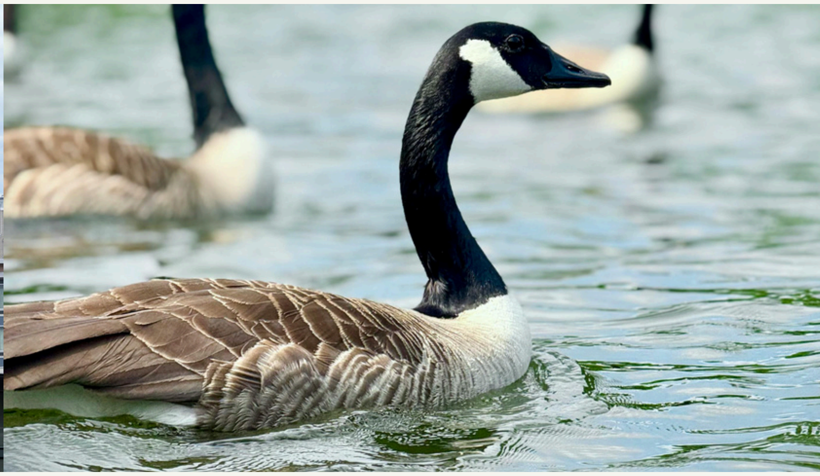


Source: Global Innovation Index Database, WIPO, 2025.

Worse, Canada lags even further when it comes to results, according to the World Intellectual Property Organization (WIPO)'s Global Innovation Index. While Canada performs reasonably well on overall innovation "inputs," which include R&D spending as well as research capacity and human capital, its performance on "outputs"—such as high-tech exports, trademarks, and industrial designs—is far poorer.

This weakness compounds Canada's broader investment challenge. Without effective investment in innovation, businesses fall behind, revenues decline, and their ability to reinvest and grow diminishes.





WHY AREN'T BUSINESSES INVESTING IN CANADA?

Global Context: Forces Shaping Investment

So, why aren't businesses investing in Canada?

It's important to note that our investment gap isn't just about what happens at home—global forces have shaped business decisions in ways beyond our control. Rising competition from China in the 1990s and 2000s hit manufacturing hard worldwide. Industries most exposed to Chinese imports saw the steepest job losses and sharpest pullback in capital spending. In Canada—where manufacturing was concentrated in sectors like autos, textiles, and consumer goods that faced growing Chinese competition—the impact was especially severe. Once 20% of economic output, manufacturing now accounts for roughly half that share. Had it remained as central to the economy, overall business investment in Canada would be much higher today.

At the same time, global investment in oil and gas—Canada's most valuable export sector—has declined. Worldwide, foreign direct investment has been shifting toward renewables, health care, and the digital economy, driven by price volatility, decarbonization efforts, and activist pressure. Domestic policy has amplified these trends, but the global context sets the stage.

Domestic Policy: Barriers Built at Home

Though global forces have played a role, domestic policy choices have compounded the problem. High and growing regulatory burdens, uncompetitive taxes, and an unpredictable policy environment have held Canadian businesses back, stifling the growth and innovation that could have driven new and existing industries forward over this time. These barriers have made investment riskier and less attractive, encouraging capital to flow to other countries.

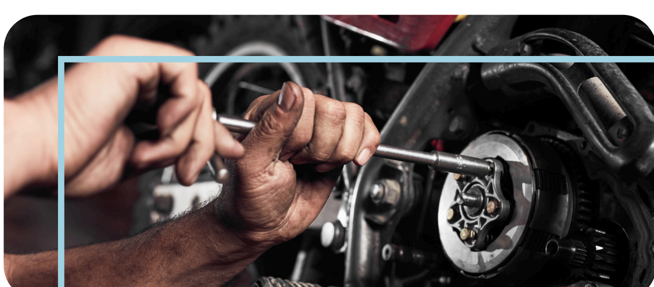
POLICY SIGNALS AND INVESTOR UNCERTAINTY

Companies need certainty and stability before committing hundreds of millions of dollars to new projects. Instead, they have faced profound uncertainty: inconsistent government messaging, antipathy and hostility to specific projects and sectors, delayed or reversed policy decisions, and a constantly shifting and uncompetitive policy environment.

Repeated debates over major taxes and incentives—many of which were later removed, reversed, or delayed—have reinforced the sense that Canada's commitment to investment is selective, sporadic, and unpredictable. The Accelerated Investment Incentive, for instance, remains uncertain beyond its scheduled phase-out in 2027. The Carbon Capture, Utilization, and Storage (CCUS) Investment Tax Credit was announced in multiple budgets before a framework was finalized, leaving businesses unsure if they could rely on it. Clean-technology incentives were delayed and then, once formalized, lacked clear eligibility guidance. And both the consumer carbon price and proposed capital gains tax increases were abruptly reversed after being vigorously defended.

Although the impact is economy-wide, the energy sector has felt this most acutely. Conflicting statements on the business case of LNG exports and new pipelines have clouded investors' understanding of government priorities. Earlier this year, Prime Minister Carney expressed conditional support for new pipelines, only for the former environment minister to downplay the need days later. Meanwhile, new and proposed regulations—from "greenwashing" rules to a proposed cap on emissions to the Oil Tanker Moratorium—send a clear signal that resource development is not a priority and that Canada does not want investment in the sector.

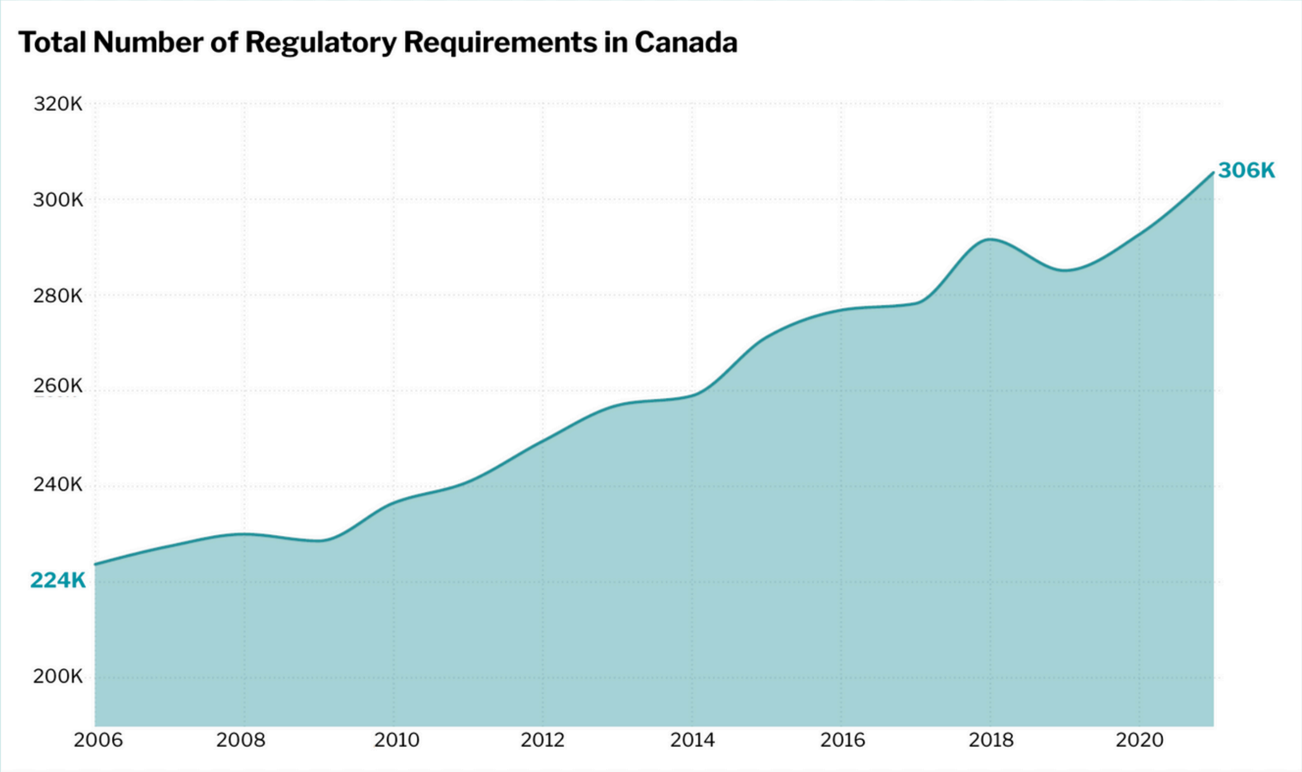
While the government is now working to unlock private investment, the lingering uncertainty from past actions has created a chill that will be difficult to overcome. Between 2015 and 2023, nearly $670 billion in natural resource projects were cancelled or suspended, reflecting not only market conditions but also the high cost of policy unpredictability.



REGULATORY BARRIERS

One of the most significant barriers to business investment in Canada is the domestic regulatory environment. Not only is the burden on businesses increasing and becoming more complex, but Canada's regulatory climate is also losing ground relative to international peers.

Canadian businesses consistently cite regulation as the top obstacle to investment—recently even ranking it above trade uncertainty and CUSMA. In a Business Council of Canada survey, 41% of CEOs identified the domestic regulatory burden as the single biggest factor influencing investment decisions.



Source: Statistics Canada.

The issue is that, while regulations are intended to protect people and the environment while also ensuring markets function, they also impose costs on businesses. The growing burden means firms operating in Canada must devote an increasing amount of time and resources to regulatory compliance, instead of directing them toward operations, innovation, and growth. The more complex and burdensome the regulatory environment, the less incentive or capacity businesses have to invest in new projects, facility expansion, or cost-saving technologies. The issue is further magnified if the regulatory environment is constantly changing.

Several dynamics underlie businesses' concern:

A Growing Overall Regulatory Burden

First is the sheer volume of regulations businesses face. One measure developed by KPMG and Transport Canada shows that the number of federal regulatory requirements in place increased by 37% between 2006 and 2021—despite two separate regulatory reviews during that period intended to have the opposite effect. This figure also does not account for any increases in provincial, territorial, or municipal regulations.

Second—and just as important—the rules themselves have not become any easier to understand. Data from the U.S. Mercatus Center suggests that regulations remain as complex as ever. While there is no perfect yardstick, proxies such as average sentence length and complexity offer useful insights. The logic is straightforward: the longer and denser the sentences, the harder it is for businesses to interpret, navigate, and comply with what the regulations say.

In fact, many regulations far exceed the Treasury Board's plain language guidance of 20 words per sentence, with some stretching to more than twice that length. The result is added complexity on top of an already heavy regulatory burden.

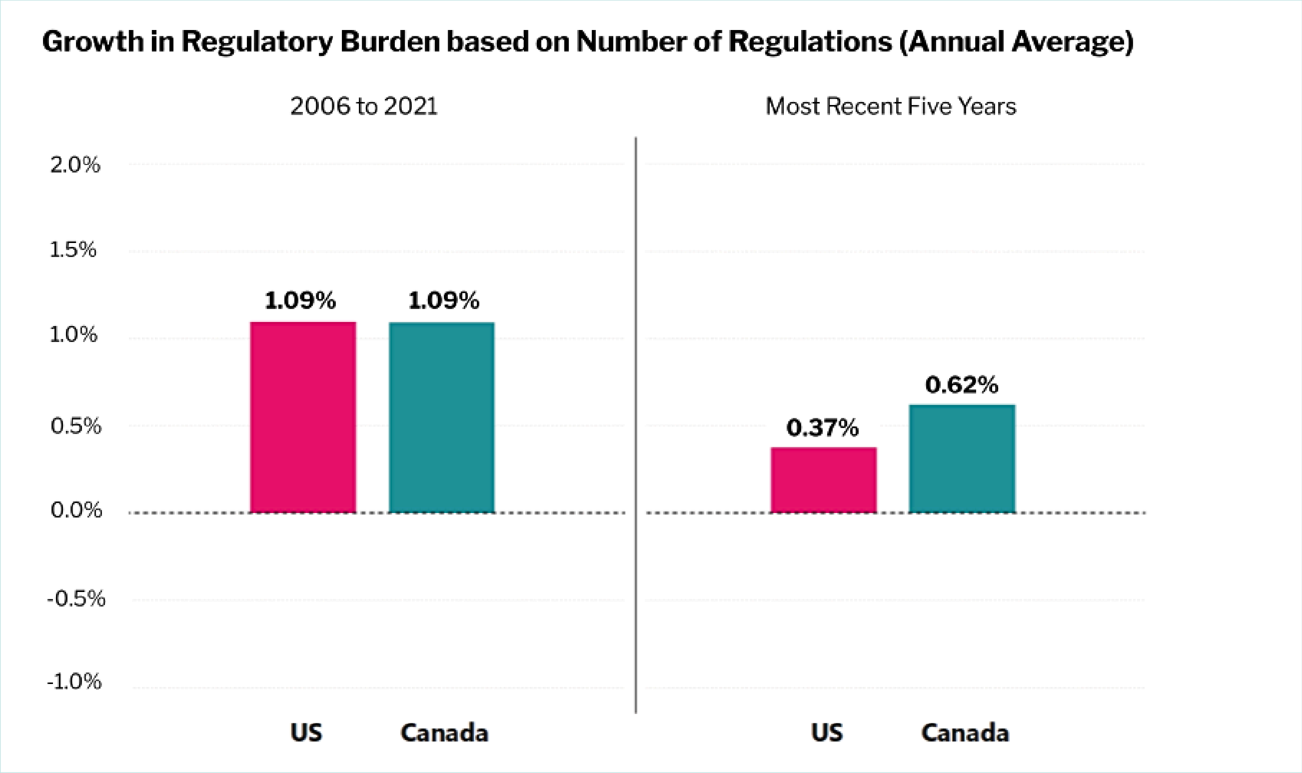
Research suggests that the overall impact of this growing regulatory burden is significant. A Statistics Canada study estimates that the 37% increase in regulations noted above led to business investment growing by 9% less than it otherwise would have, while also reducing competition and lowering GDP and employment by 1.7% and 1.3%, respectively.

The growing burden has had the biggest impact on the output and employment of large firms, which are more likely to operate in heavily regulated industries and manage diverse product lines—each subject to detailed compliance requirements.

But smaller firms are severely impacted, too. A small business with fewer than five employees faces compliance costs estimated to be seven times higher per employee than the costs faced by those with 20 to 99 employees. Unsurprisingly, the Statistics Canada study found that smaller businesses have reduced investment more sharply than larger ones—reinforcing the tendency for small firms in Canada to stay small.

Waning International Competitiveness

Not only is Canada's regulatory burden growing as described above, but it's also growing faster than elsewhere. U.S. data from the Mercatus Center show that from 2006 to 2021, the number of regulations in Canada and the U.S. increased at roughly the same pace—about 1.1% annually. But over the most recent five years for which data is available (2016-2021), Canada's regulatory burden expanded nearly twice as quickly as in the U.S.



Source: RegData Canada 2.2 and United States 5.0. QuantGov, Mercatus Center.

And the gap has almost certainly widened since. In recent years, Canada has introduced significant new regulatory burdens on businesses, including climate-risk reporting requirements for financial institutions and large companies; equity and gender pay gap rules and reporting under the Pay Transparency Act and Employment Equity Act reforms; as well as new rules that fall heavy on resources industries specifically: the Clean Fuel Standard, the Clean Electricity Regulations, and new methane emissions regulations, just to name a few.

It's not just with the U.S. where Canada has a regulatory disadvantage. The World Economic Forum's Global Competitiveness Index, which assesses 140 countries across 12 pillars, ranks Canada 14th overall in terms of business competitiveness, but 38th on the burden of government regulation. In other words, there is a large gap between Canada's overall competitiveness ranking and its performance on regulation, specifically.

Costly and Uncertain Project Approvals

Beyond the general regulatory burden, Canada's major project review systems remain slow, costly, and unpredictable. Businesses must spend hundreds of millions of dollars or more complying with regulatory requirements over a years-long process before construction can begin. Companies not only risk market conditions shifting over that time but, under the current system, there is no guarantee that the project will even be approved at the end of the process.

The bottom line is that, though countless factors influence any multi-billion dollar investment decision, businesses' experience navigating Canada's slow and uncertain regulatory environment have created an investment chill. The Trans Mountain Expansion Project, for example, took over 10 years from regulatory application to construction completion with its budget expanding from $5.4 billion to $34.2 billion. This experience, which is not an isolated incident, has made other businesses reticent to pursue major project approvals.

PAST AND CURRENT ATTEMPTS AT REGULATORY REFORM

The federal government has made efforts in the past to address Canada's growing regulatory burden, but with limited success. In 2012, it introduced the Red Tape Reduction Action Plan, including a "one-for-one" rule (which became law in 2015). The rule requires regulators to offset any new administrative burden on business by removing an equivalent burden from existing regulations. While there is a methodology for estimating these costs, it is far from precise, and in practice individual businesses may face compliance demands that are greater than the official estimates suggest.

As well, in 2018, the federal government launched Targeted Regulatory Reviews, an initiative aimed at identifying barriers to innovation and growth in key sectors. Once completed, these reviews, informed by stakeholder feedback, will result in a six-part Regulatory Roadmap with proposed legislative and policy changes to support emerging technologies and evolving business models.

But implementation progress has been slow. Across the six roadmaps, only about 40% of initiatives are complete. Lengthy consultations and timeline extensions have delayed progress, limiting the effectiveness of the initiative.

The current federal government is adding to these efforts. It is in the early stages of a Red Tape Review of outdated or overly complicated regulations that increase costs and reduce productivity and growth. As part of this process, it has created the Red Tape Reduction Office to "accelerate the removal of outdated or unnecessary rules, duplication, or overlap with provincial rules and inefficient or unpredictable regulatory administration or service delivery."

This initiative is welcome as it is targeted squarely at addressing the problems outlined in this paper. However, as stated, it is still in its early stages and significant work remains, including engaging with stakeholders and addressing issues in key areas such as major projects and international trade.

HIGH, COMPLEX, AND CONSTRAINING TAXES

Canada's tax system also discourages capital investment. Taxes in Canada are high, they distort economic decision-making, and—much like the regulatory system—they have become increasingly uncompetitive over time.

Canada also leans unusually heavily on taxing income, profits, and capital gains rather than consumption. These taxes make up about 36% of total revenues in Canada, compared with just 24% across the OECD, weighing on economic growth and investment.

While there are broad concerns with Canada's tax system, the corporate tax picture matters most for business investment; research consistently shows corporate taxes are most harmful to economic growth.

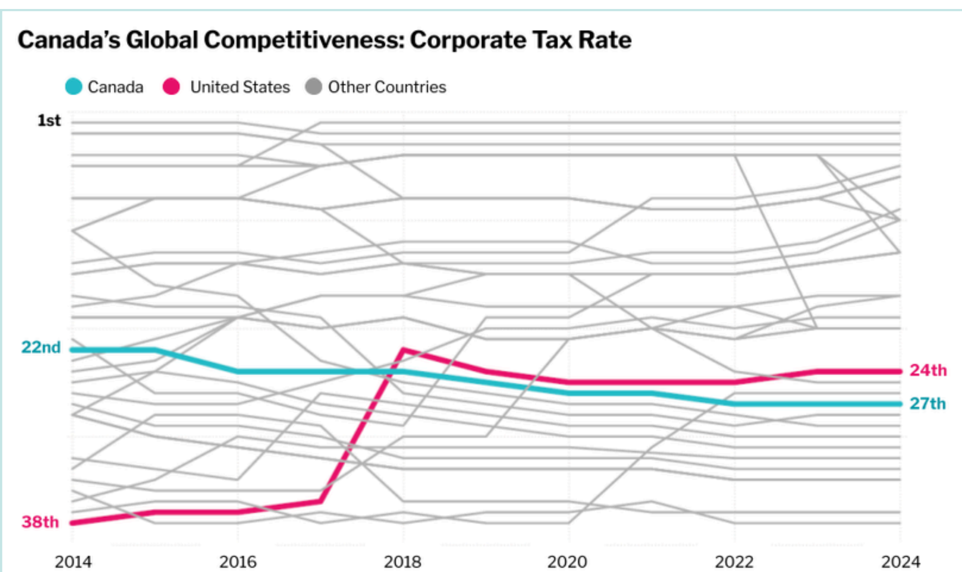
There are three main ways corporate taxation impedes investment and growth.

High Overall Tax Burden

The first of these it that overall tax rates directly affect investment returns. Capital is highly mobile, which means that businesses gravitate to jurisdictions with lower rates to maximize profitability.

Canada's business taxes are not competitive with its international peers. The combined average federal and provincial corporate tax rate of 26.2% ranks 27th among the 38 OECD countries and is well above the group average. It's not going to attract new businesses to the country.

This hasn't always been the case. Between 2000 and 2012, successive Canadian governments reduced the federal corporate income tax rate from 28% to 15%. Combined with provincial reductions over that period, Canada's corporate taxes became one of the most competitive in the G7, with certain provinces—such as Alberta—offering particularly attractive rates.



Source: International Tax Competitiveness Index, 2014-2024.

Since then, however, Canada has lost ground. Notably, the United States cut its federal corporate tax rate sharply—from 35% to 21%—through the 2017 Tax Cuts and Jobs Act. Other countries took action as well, but Canada largely stood still. As a result, Canada fell in the OECD rankings from 22nd to 27th, while the U.S. rose from near the bottom to 24th.

Incentives That Constrain Investment

Not only are Canadian business taxes high, but the current system also distorts economic decision making, reducing the incentive for businesses to invest and grow.

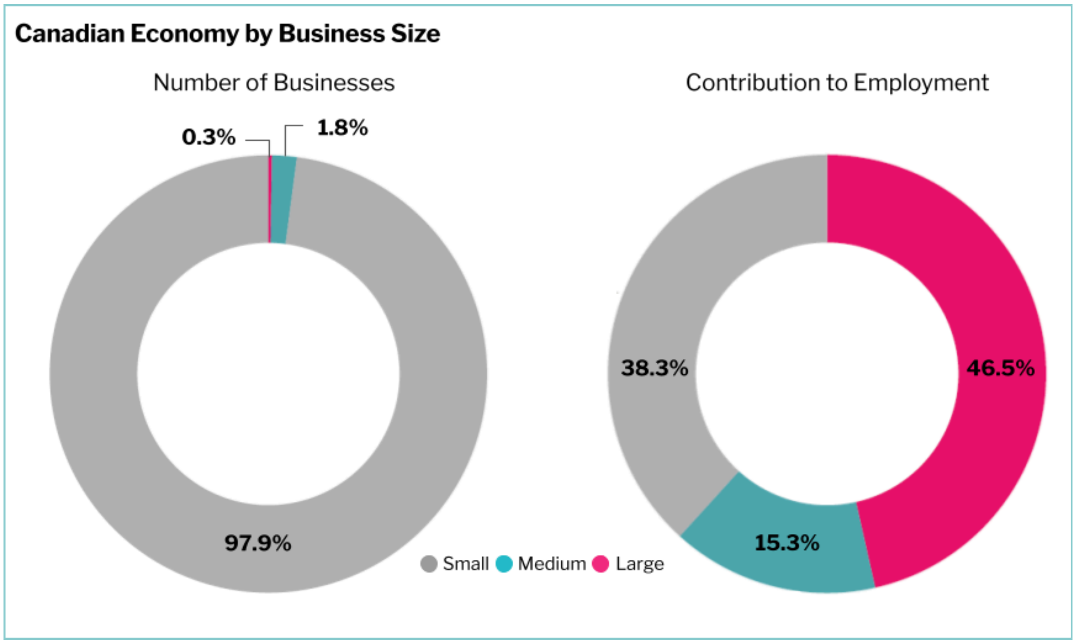
Tax policy can have a significant effect on investment decisions. Initiatives like the Accelerated Investment Incentive (AII), which came into effect in 2018, offer enhanced depreciation for capital purchases and even full expensing for certain machinery and clean energy equipment. This encourages investment by lowering the cost and risk to business of making those purchases.

The problem is that the rules surrounding Canada's investment tax incentives change frequently. Programs are often temporary, and adjustments can be made at any point. The AII, for example, began a phase-out process in 2024 and full elimination is scheduled for 2027. The 2024 Fall Economic Statement proposed extending the incentive for another five years, but that proposal has not yet resulted in enabling legislation.

Meanwhile, the federal government has also introduced a range of tax credits in recent years aimed at encouraging clean energy investments. Some have yet to be enacted and many of those that have, have already been amended.

This stop-start approach to investment incentives, combined with frequent adjustments, and attempts to encourage certain kinds of investment over others, has further weakened Canada's tax competitiveness. Businesses don't know what the tax environment will look like a few years from now; and that can have a material impact on their investment decisions.

Another distortion comes from the design of Canada's small business tax rate. Meant to support entrepreneurship, small businesses pay a much lower tax rate (9–12.2%, depending on the province/territory) than larger companies. But when those businesses reach a certain income threshold, the prospect of jumping to the general corporate tax rate creates a strong disincentive to grow. Indeed, evidence shows that businesses often limit their own growth to avoid higher taxes, clustering just below the cut-off and growing only when the income threshold rises.



Source: BCA's own calculations via Statistics Canada.

This disincentive to scale weighs heavily on investment in Canada. Nearly 98% of firms have fewer than 100 employees, and few end up growing into large, globally competitive companies. Since Canadian corporations skew to the small side compared to other countries, that means there are fewer large businesses capable of making the kinds of game-changing, billion-dollar-plus investments that create spillover opportunities for smaller companies to expand and innovate. The result is fewer opportunities for Canada to build world-class enterprises.

An Overly Complex Tax Code

Canada would benefit from lowering headline tax rates and improving investment incentives. In a recent survey, 90% of respondents said reducing taxes on investment is essential to driving economic growth.

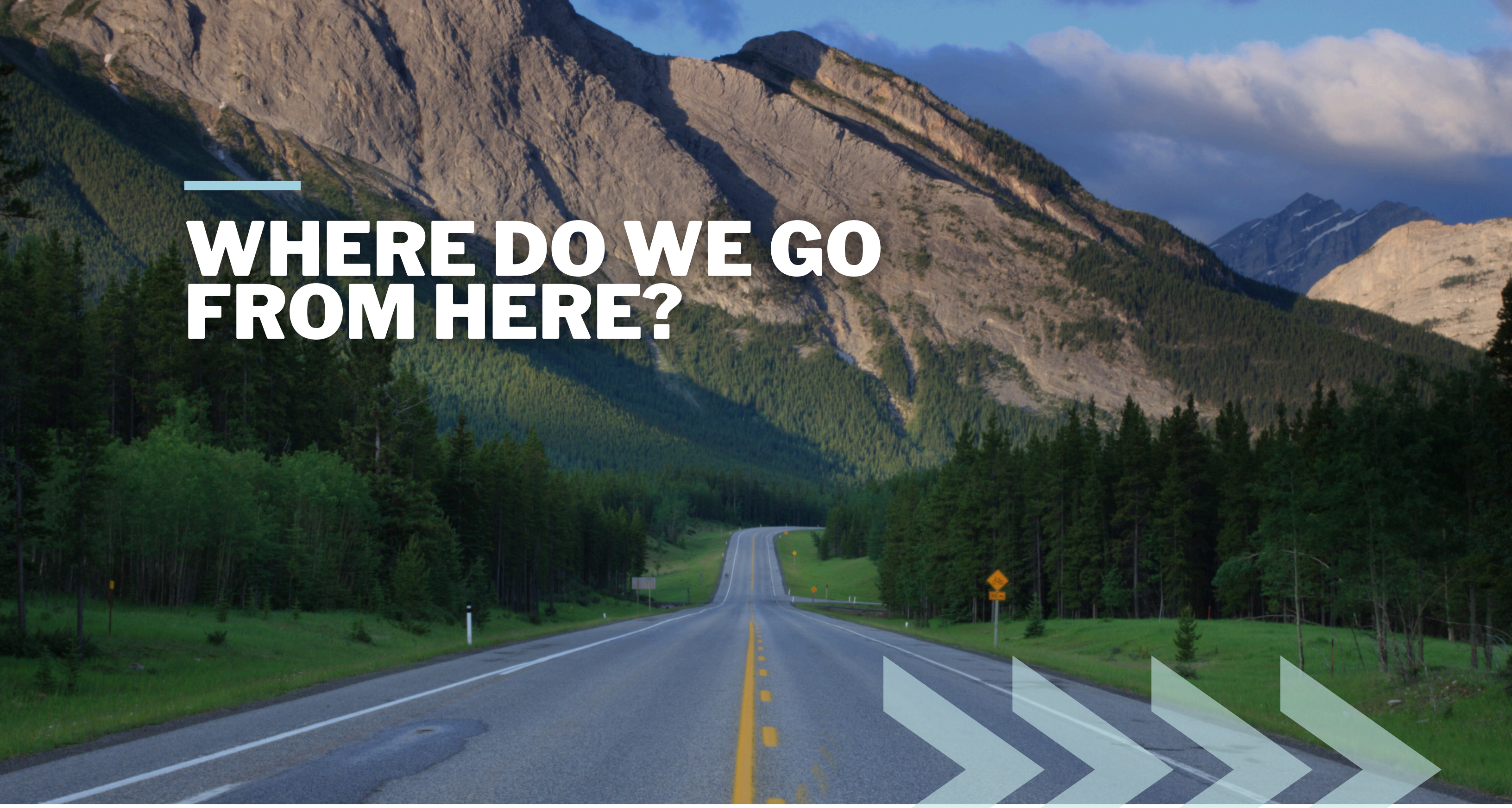
But it's not just about the rates and incentives; another problem is that Canada's business tax system is overly complex. In that same survey, 91% of business leaders also emphasized the need to simplify the corporate income tax system. They consistently view comprehensive tax reform as a top priority for Canada.

As with the regulatory environment, Canada's tax system has grown more complex over time. Businesses must navigate through an ever-expanding maze of tax credits, deductions, and sector-specific incentives. Reporting requirements vary by program, and eligibility rules frequently change. That means companies spend an increasing amount of time and resources trying to comprehend the tax system, on top of what they already spend on regulatory compliance.

This complexity and churn doesn't just increase compliance costs. It also makes capital investment and long-term strategic planning more difficult. Business cannot make informed long-term investment decisions if the tax system is unclear and constantly shifting.

Furthermore, federal tax policy may skew the investment that does take place. An incentive structure that rewards certain kinds of activities favoured by the government may result in companies investing sub-optimally, choosing investments that maximize tax benefits instead of those that would otherwise have the greatest impact on productivity and growth. In other words, a complicated tax system doesn't just drain resources—it also reduces transparency and can distort business decisions.

Given those challenges, it's no surprise that Canada doesn't just rank low internationally when it comes to headline tax rates. It also ranks poorly in global comparisons of the complexity of business taxation, particularly regarding the tax code itself.



WHERE DO WE GO FROM HERE?

Business investment is critical to a thriving economy. It generates productivity gains, increases competitiveness, creates jobs, and drives wage growth. Unfortunately, Canada's poor record on business investment over the years has resulted in the opposite: economic stagnation, declining living standards, and a country operating well below its immense potential.

This paper has examined the roots of this investment problem. While some contributing factors are global, three of the most important challenges are domestic: government messaging and policy signals; and our tax and regulatory systems.

But identifying the problems is just the first step. Action is needed in all three areas if Canada is to reverse course.

And the federal government has already begun. Its recent messaging is focused on building a strong economy by unlocking the private capital needed to do so. The *Building Canada Act* is an important first step in getting major projects off the ground and removing internal barriers to trade. And the Red Tape Review initiative is aimed at modernizing Canada's regulatory framework and removing barriers to growth.

These are all positive steps; and the government has been clear that more steps are to come. Decades of cumulative damage cannot be repaired overnight.

To assist in that process, BCA's forthcoming work will deliver detailed, actionable recommendations on how to further improve Canada's policy, regulatory and tax environment. The task is not easy—but the cost of inaction is far greater. By modernizing Canada's tax and regulatory systems, and sending the right signals, we can unlock the investment needed to raise incomes, expand opportunity, and secure prosperity for generations to come.

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