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Base Hits to Make Canada Investable Again (Chapter 4)

By Stéfane Marion and Ethan Currie

Canadian politicians, like baseball sluggers, often swing for the fences—announcing sweeping policy visions designed to grab headlines and secure legacy. But in baseball, as in policymaking, long-term success is more often built on a steady stream of singles and doubles. As of the 2024 MLB season, the league-wide probability of hitting a home run per plate appearance is just 3.0%. Meanwhile, singles and doubles still account for over 84% of all hits, and two-thirds of all runs are generated by plays other than home runs.

The lesson for Canada's economic strategy is clear: Ottawa must keep its eye on the ball by focusing on high-probability policy plays, rather than concentrating solely on rare moonshots. Such high-probability measures include streamlining regulation, accelerating project approvals, providing clear and bankable incentives for private capital, and investing in foundational infrastructure.

These policy “base hits” may not generate headlines, but they're the most reliable way to move the economy forward. They're precisely what's needed to close Canada's persistent valuation gap, rebuild industrial competitiveness, and re-attract long-term capital—one base at a time.

With that in mind, the Economics & Strategy team is planning a series of policy papers under the banner of Rebuilding the Base of Industry (RBI). Much like an RBI in baseball drives runs across the plate to win the game, our RBI initiative aims to drive practical, high-impact reforms across the finish line. As a case in point, we offer this Chapter 4 of our RBI series, which highlights how Canada's small-business tax structure—by creating a strong kink at the business-income limit—likely discourages scaling up and biases investment decisions. This work is part of our broader vision to Make Canada Investable Again (MCIA)—an effort to close Canada's persistent valuation gap, rebuild industrial competitiveness, and re-attract long-term private capital. The focus will be on measures that help ensure Canada's economic sovereignty by rebuilding a critical mass in manufacturing and securing a meaningful role in global supply chains.

#4: Eliminating the tax kink that fosters Canada's ambition deficit

Executive Summary: Canada's persistently weak productivity performance is linked not only to sluggish capital investment and scale-up challenges — but also to the way the tax system shapes business behaviour. Leading analysts and former Finance Canada officials John Lester and Don Drummond have long argued that Canada's small-business tax regime encourages firms to stay small rather than grow, including in recent work published from the C.D. Howe Institute (see [here](#) and [here](#)).

New empirical evidence from Statistics Canada validates these concerns (see [here](#)). The study shows that firms cluster just below the Small Business Deduction (SBD) limit — a “tax kink” that creates a sharp jump in marginal taxation once firms grow beyond \$500,000 in taxable income. By reserving preferential rates for companies below a fixed income threshold, the system rewards modesty and penalizes scale — undermining the formation of medium-sized, globally competitive firms.

A. Many small players. Not enough heavy hitters

- Canada's business landscape is heavily weighted toward micro-firms: nearly 70% of Canadian businesses have fewer than 10 employees—far more than the 50% share in the United States—yet they contribute only about 13% of GDP. Canada also has far fewer firms in the crucial 20–99 employee “scale-up zone,” where companies build the capabilities needed to invest, innovate, and export. By contrast, nearly 80% of U.S. GDP comes from firms with 100 or more employees, underscoring how scale drives productivity and global competitiveness.

Canada: Economy is more heavily weighted toward very small firms

Firm count by size (number of employees) and contribution to GDP

Country Aggregate	Firm Size (Number of Employees)					
	0-9	10-19	20-49	50-99	100-499	500+
Canada	760	166	90	68	9	2
Canada (% of Firms)	69.4	15.2	8.2	6.2	0.9	0.2
United States	6295	4010	1022	637	519	88
United States (% of Firms)	50.1	31.9	8.1	5.1	4.1	0.7

Share of GDP / Output

Country Aggregate	Firm Size (Number of Employees)					
	0-9	10-19	20-49	50-99	100-499	500+
Canada	13	7	9	8	15	48
United States	12	4	3	5	12	64

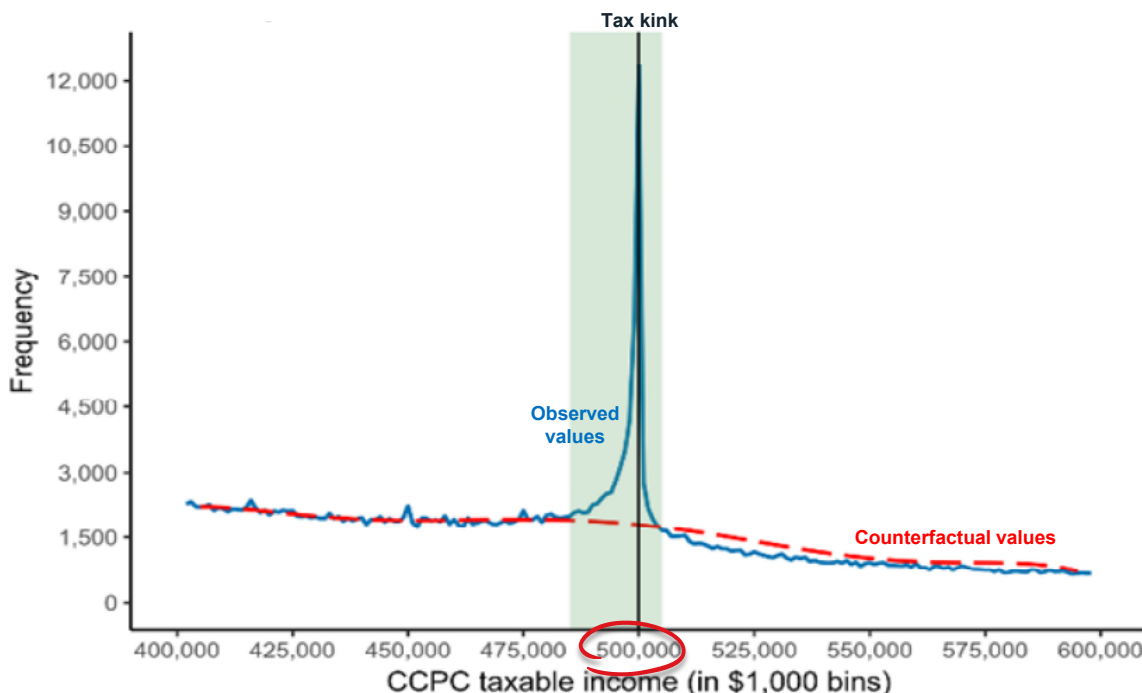
NBC Economics and Strategy (data via Statistics Canada, US Census Bureau, 2020)

B. Canada's tax regime rewards modesty

- It's no coincidence that Canada has so many micro-enterprises – our tax system has influenced this outcome. Canada's corporate tax system applies a lower tax rate to Canadian-controlled private corporations (CCPCs) with taxable income below a set threshold. When firms cross that threshold, the tax rate jumps sharply — creating a “tax kink.” In 2019, small firms paid roughly 14% on income below \$500,000 but 26% on income above it.
- According to Statistics Canada, the small-business tax threshold creates a significant excess mass of corporations just below the kink — clear evidence that firms adjust behaviour to preserve access to the preferential rate. The study calls this “bunching at the kink,” whereby small businesses actively inflate recurrent costs and shift capital investment to reduce taxable income and remain under the \$500,000 limit.

Canada: Small businesses are very active around the kink

Taxable income bunching for CCPCs* vs estimated counterfactual values for the period 2009-2019



* CCPC = Canadian-controlled private corporations

Source: [Statistics Canada](#)

- The study shows that firms inflate cost claims, including labour costs (by up to 260% in the bunching region) and use capital strategically to lower taxable income by skewing investment that depreciate quickly to the detriment of investments that support scaling and productivity (such as buildings and intangible assets).
- In other words, firms are actively adjusting their behaviour not to grow, but to avoid losing access to the lower small-business tax rate. As Don Drummond has noted, “to a considerable degree, the tax, subsidy, and regulation policies in Canada encourage entry of firms that wish to remain small and present barriers to growth for those wishing to expand.”

C. Conclusion

In his speech last week, Prime Minister Carney said it's time for Canada to “swing for the fences again” to build a stronger economy (see [here](#)). But that's difficult when our tax regime keeps too many companies on a permanent diet — too lean to muster the minimum of 328 feet for a homerun at the Toronto SkyDome. The kink in the small-business tax system effectively penalizes firms for growing, holding back the very businesses that should be scaling, investing, and competing globally.

Michael Sabia, now leading the Privy Council Office, has warned that Canada suffers from an “ambition deficit” (see [here](#)). That deficit is not a cultural flaw — it is policy-induced. A tax system that rewards firms for staying small will inevitably produce an economy of small firms. With the federal budget just around the corner, Sabia should urge the Finance Minister to remove this growth barrier and design a tax regime that rewards scale, ambition, and competitiveness. That means reducing corporate income tax rates for all firms, rather than offering preferential treatment that incentivizes businesses to remain small. That's how you rack up real RBIs in the near term — by building a lineup like the 2025 Blue Jays, where everyone has the power to clear the fence.



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