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An Excess Returns Tax for Canada

A discussion paper for the Department of Finance

Discussion Paper

This paper proposes a targeted tax on the surplus profits of Canada's largest and least competitive firms — profit earned above a fair return on invested capital — as one pillar of a broader revenue strategy.

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Executive summary

The problem. Canada is running a deficit of about $80 billion — roughly 2.5 percent of the economy — while a tariff dispute with the United States slows growth in trade-exposed regions. At the same time, corporate profits are strong, and in a handful of concentrated industries they are unusually high. Canadian businesses earned about $620 billion in pre-tax profit in 2024.

The proposal. Tax the profit a large company earns above a fair return on the money it has invested. Most profit would be untouched. ***Only the surplus earned by the biggest, least competitive firms — the part that reflects market power rather than effort — would be taxed***. Ordinary and mid-sized businesses would be exempt through a size threshold.

The financial impact. A well-designed version could raise roughly $8 to $15 billion a year — about 10 to 20 percent of the deficit. It is a meaningful contribution, not a cure, and works best as one part of a broader revenue plan.

The risks. Three matter most: setting the "fair return" line correctly so ordinary investment is not discouraged; stopping large multinationals from moving profit offshore to avoid the tax; and managing the message to investors. All three are manageable with careful design, and Canada has done a narrow version before without raising consumer prices.

The recommendation. Enact an Excess Returns Tax under the Income Tax Act, using the same legislative framework Canada used for the 2022 bank and insurer surtax, but extended to all large corporations and applied to returns above a fair level rather than to a flat dollar amount of profit. Direct Finance and the Canada Revenue Agency to set the exact rate and threshold using their own firm-level data before it is included in a budget.

1. The problem

Canada needs durable new revenue. The federal deficit is near $80 billion, growth is running below its potential, and the tariff dispute is concentrating economic pain in specific provinces and industries. Raising the general corporate tax rate would hit every business, including those already struggling, and would weaken Canada's competitive position.

Yet some of the country's largest companies continue to earn very high and very stable profits — not because they take large risks or out-compete rivals, but because they operate in industries with few competitors and strong pricing power. That surplus profit is the natural place to look for revenue that does the least economic harm.

2. The proposal: how it would work

A company that invests capital is entitled to a fair, competitive return. Profit earned beyond that fair return — especially by firms shielded from competition — is surplus. The proposal is to tax that surplus, and only that surplus.

Three design choices keep it targeted and fair:

- **A fair-return line.** Set a benchmark for a normal return on invested capital — for example, the long-term Government of Canada bond rate plus a fixed margin, landing somewhere around 8 to 9 percent. Profit up to that line is not taxed; only profit above it is.
- **A size floor.** Apply the tax only to very large companies. Small and mid-sized businesses are exempt, which also keeps the administrative burden low.

- **Measure the right thing.** Base the tax on the return a company earns on its invested capital, not simply on its reported return to shareholders. Return to shareholders can be inflated by borrowing and by share buybacks, which would distort who pays. (The technical explanation is in Appendix C.)

This is not a new or untested idea. Canada applied a narrower version to banks and insurers in 2022, and Australia has run a tax on exactly this principle for nearly forty years (Appendices A and B).

3. Which companies it would target

The tax would fall on large firms in concentrated industries where high profits most likely reflect market power. The table below shows where a detailed study should look first. The profit figures are a starting indicator, not the proposed tax base.

Industry	Market structure	Profit indicator
Railways (CN, CP)	Two dominant firms	Return to shareholders near 26% in 2024 — among the highest in the market
Grocery (Loblaw, Metro, Empire)	Three dominant chains	Loblaw near 20% in 2024; the sector has faced public scrutiny over pricing
Banks (Big Six)	Few dominant players	RBC near 14%, Scotiabank near 13% in 2024 — high and very stable
Telecom (BCE, Telus, Rogers)	Few dominant players	Long history of strong pricing power; profits currently under competitive pressure
Pipelines (Enbridge, TC Energy)	Regulated near-monopoly	Stable, protected returns on a very large asset base
Oil & gas producers	Cyclical	Windfall profits when commodity prices spike

Two cautions: bank profits look high partly because banks borrow heavily, so measuring return on invested capital (rather than return to shareholders) would treat them more fairly. Telecom profits are currently squeezed by competition, so the reported figures overstate today's position.

4. What it could raise

Three separate methods point to the same range, which gives the estimate credibility even before detailed modelling.

Method	Basis	Estimated revenue
International (IMF)	A 10% surplus-profit tax typically raises about 16% of a country's corporate tax take	about $15 B / yr
Canadian (advocacy group)	A 5-point surtax on profit above $100 million — about 143 firms crossed that line in 2023	over $8 B / yr
Fair-return method	Taxing surplus profit above a fair return, at 15–20% (see grid below)	about $10–15 B / yr

How the fair-return estimate moves with the tax rate and the amount of surplus profit captured (before allowing for avoidance):

Tax rate \ Surplus profit	$100 B	$150 B	$200 B
10%	$10.0 B	$15.0 B	$20.0 B
15%	$15.0 B	$22.5 B	$30.0 B
20%	$20.0 B	$30.0 B	$40.0 B

These figures should be trimmed by roughly 20 to 30 percent to allow for tax planning and avoidance. A realistic planning range is $8 to $15 billion a year — a meaningful share of the deficit, presented honestly as a contribution rather than a solution.

5. Risks and how to manage them

Risk	How to manage it
Setting the fair-return line too low would tax ordinary profit and discourage investment.	Set the line at a transparent, published benchmark (bond rate plus a fixed margin) and review it periodically.
Large multinationals could move profit offshore to escape the tax.	Measure the surplus using Canadian sales, consistent with Canada's existing international tax commitments.
Affected industries will argue the tax deters investment in Canada.	Keep the general corporate rate unchanged; tax only surplus above a fair return; point to the 2022 precedent, which did not raise consumer prices.
The revenue alone will not close the deficit.	Present it as one pillar of a broader revenue plan, not a stand-alone fix.
A permanent new tax invites future expansion.	Either tie it to the current fiscal situation with a review date or enact it within a wider tax-reform package.

6. Recommendations

I recommend that the Government:

1. **Enact an Excess Returns Tax** as an additional tax under the *Income Tax Act*, using the same legislative framework as the 2022 Canada Recovery Dividend and bank and insurer surtax, but extended beyond financial institutions to all large corporations, focusing on the least competitive firms whose profits reflect market power rather than effort.
2. **Tax surplus profit, not size.** Apply the tax to profit earned above a fair return on invested capital, replacing the flat dollar threshold used in 2022 with a return-based threshold.
3. **Set the fair-return line in regulation** at the long-term Government of Canada bond rate plus a fixed margin, so it can be updated without reopening the Act.
4. **Limit it to large firms** through a size threshold, exempting small and mid-sized businesses.
5. **Protect the base against profit-shifting** by measuring surplus profit using Canadian sales, consistent with Canada's existing international minimum-tax commitments.

6. **Direct Finance and the CRA to set the rate and threshold** using confidential firm-level data, and to confirm the revenue, before the measure is included in a budget.

7. A note on the numbers

The revenue figures here are planning estimates built from public data (Statistics Canada, the Parliamentary Budget Officer, and the IMF). They are not a formal costing and need to be confirmed against firm-level tax data. Their assumptions are stated, and the results are shown as a range, so they can be tested and refined.

Appendix A — What other countries have done (2022–2026)

Many countries introduced taxes on surplus or windfall profits after 2022. Most were aimed narrowly at energy or banking and were meant to be temporary; several were extended. The clearest lesson is that taxes based on revenue or output work poorly, while taxes on profit above a fair return work well.

Country	What	Rate	Status
European Union	Charge on surplus fossil-fuel profits above a prior-year average	33%	Temporary 2022–23; used by 15 of 27 members
United Kingdom	Levy on oil & gas profits	about 38%	Extended to 2030
Czech Republic	Levy on energy and banks	60%	2023–2025, extended
Lithuania / Slovakia	Energy and bank levy	up to 60%	To 2026 / 2027
Spain	Bank and energy levy (on revenue)	varies	Extended; central bank objected
Italy	Bank windfall tax	40%	2023; banks could add to reserves instead
Romania	Bank levy	2%	Made permanent
Nigeria	Tax on bank currency gains	50–70%	2023–24
India	Tax on crude oil production	varies	2022–24, then dropped

Appendix B — The model to follow: Australia

Australia's Petroleum Resource Rent Tax has run since 1987 and is the clearest working example of the idea proposed here. It taxes the profit left after a company has recovered all its costs, including a fair return on its capital.

- **How it works.** Investors need a certain return to proceed; profit above that return is taxed at 40 percent.
- **The fair-return line.** It is built from the long-term government bond rate plus a set margin, so it is transparent and published.
- **It does not deter investment,** because a normal return is always protected.
- **It has lasted.** It was updated in 2023–24 with new limits and anti-avoidance rules — proof that this kind of tax can be maintained for decades.

Appendix C — Why the tax should be based on return on invested capital, not return to shareholders

This appendix explains, for technical readers, why the tax base should not simply be a company's reported return on equity (its return to shareholders).

- **Borrowing distorts it.** Return to shareholders rises automatically when a company borrows more. Banks show high figures largely because they are highly leveraged, not because they earn more surplus. A tax on that figure would penalize borrowing rather than market power.
- **Buybacks distort it.** Share buybacks shrink the equity figure and inflate the reported return, even when the underlying business is unchanged or weakening.
- **It does not isolate surplus.** A high figure can reflect risk or skill, not just a protected market position.

Return on invested capital, compared against the company's cost of capital, avoids these problems: it is not distorted by borrowing, and it isolates the return earned above what the capital requires — which is exactly the surplus the tax is meant to reach. This is the same principle used by Australia's petroleum tax.

Appendix D — Principal sources

IMF Working Paper 2022/187 (Hebous, Prihardini & Vernon);
EU Tax Observatory (Zucman and others, 2022);
Boadway & Bruce (1984); Canadians for Tax Fairness (2024); Canadian Tax Foundation (2023);
C.D. Howe Institute (2023); Parliamentary Budget Officer (2022);
Statistics Canada, Financial and Taxation Statistics for Enterprises (2024);
Australian Taxation Office and Treasury (2024);
Tax Foundation Europe (2024–2025).