Canada's Talent Tax: Why High Taxes Are Becoming a Skilled-Immigration Problem

Sergio R. Karas writes, "Canada is excellent at attracting skilled immigrants. It is less successful at keeping them."

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Canada is excellent at attracting skilled immigrants. It is less successful at keeping them. The reason is not taxes alone, but taxes increasingly compound the very factors that matter most to mobile professionals: salary, housing affordability, career advancement, credential recognition and the ability to build wealth. For highly skilled immigrants comparing Canada with the United States, the United Kingdom, Australia, or emerging low-tax talent hubs, Canada's proposition has become harder to defend.

Canada's top personal tax rates are internationally competitive only if "competitive" means "high." In 2025, the combined top marginal rate is 53.5 per cent in Ontario, 53.5 per cent in British Columbia, 53.3 per cent in Quebec, and 48 per cent in Alberta; the top federal bracket begins at $253,414 of taxable income, while Ontario's top provincial threshold begins at $220,000 and B.C.'s at $259,829. By comparison, the U.S. federal top rate is 37 per cent, beginning at US$626,351 for a single filer in 2025, before state and local taxes. PwC's global tax summaries list headline personal income tax rates of 45 per cent in Australia, 45 per cent in the United Kingdom, 37 per cent federally in the United States, and Canada's 33 per cent federal rate plus provincial or territorial top rates ranging from 11.5 to 21.8 per cent.

The international comparison is not one-dimensional. At average earnings, Canada's overall tax wedge is not extreme by OECD standards: a Tax Foundation analysis of OECD data put Canada's 2023 tax wedge for a single average worker at 31.9 per cent, compared with 29.9 per cent in the United States, 31.3 per cent in the United Kingdom and 29.2 per cent in Australia, below the OECD average of 34.8 per cent. But skilled immigration is not decided at the average wage. It is decided at the margin, by engineers, physicians, founders, software developers, finance professionals and researchers who can often move to where after-tax compensation, housing affordability and career upside are strongest.

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That is where Canada's problem becomes acute. TD Economics warned in 2026 that Canada's challenge is not attracting talent but "anchoring" it, arguing that high top marginal rates apply at much lower income thresholds than in the U.S. and that Canada underperforms on commercialization, business R&D, technology adoption and scaling firms. TD also noted that median pre-tax wages for technology workers in the United States are 46 per cent higher than in Canada, before considering exchange rates or equity compensation. In other words, a talented immigrant in Toronto or Vancouver may face the trifecta of lower pay, higher housing costs and a top marginal rate above 50 per cent.

The empirical evidence supports a cautious but clear conclusion: taxes influence the location decisions of highly mobile earners, especially when combined with other economic incentives. A widely cited NBER study of Denmark's preferential tax scheme for highly paid foreign workers found that the scheme doubled the number of highly paid foreigners relative to similar ineligible foreigners and produced a large migration elasticity with respect to the net-of-tax rate, between 1.5 and 2. The lesson is not that every skilled worker moves for taxes. It is that the most mobile, highest-return workers do respond to after-tax opportunity.

Canada is already seeing warning signs. The Institute for Canadian Citizenship and the Conference Board of Canada's *Leaky Bucket 2025* report found that one in five immigrants leaves Canada within 25 years of landing, that onward-migration risk peaks in the first five years, and that immigrants with doctorates are nearly twice as likely to leave within five years as those with bachelor's degrees. The report also found that higher-skilled immigrants are more than twice as likely to leave Canada as lower-skilled immigrants five years after landing, and that weak retention is concentrated in business and finance management, ICT, engineering and architecture management, and manufacturing and processing engineering.

This is precisely the talent Canada says it wants. Statistics Canada reported in 2025 that the number of Canadian STEM graduates at the bachelor's level or higher rose from 45,380 in 2010 to 63,250 in 2021, while international STEM graduates quadrupled from 5,550 to 24,900; international students' share of STEM graduates rose from 11 per cent to 28 per cent. Yet retention varies sharply: for 2015-to-2020 STEM graduates, 88.9 per cent of Canadian students and 63.6 per cent of international students filed Canadian tax returns three years after graduation, while doctoral graduates and graduates from highly ranked universities were less likely to remain in Canada.

The sectoral implications are serious. In technology, the U.S. offers deeper capital markets, larger firms, higher salaries and more equity compensation. Canada's own Tech Talent Strategy acknowledges that immigration is "key" to meeting innovation priorities and that employers need more top talent with in-demand skills; it introduced measures including an H-1B work permit program capped at 10,000 applications, the Innovation Stream and a return to two-week processing for complete Global Skills Strategy applications. In healthcare, Canada recruits internationally trained professionals while many face licensing delays and earnings mismatches. In finance and senior management, Canada competes directly with U.S. markets that reward scale, mobility and capital formation.

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There are regional patterns as well. Ontario and British Columbia are simultaneously Canada's main talent magnets and two of its highest-tax, highest-cost jurisdictions. Ontario's top marginal rate is 53.5 per cent and B.C.'s is 53.5 per cent. The *Leaky Bucket 2025* report found that onward migration was highest in the Atlantic region, followed by British Columbia and Quebec, while Ontario retained immigrants more successfully than those regions. That suggests taxes are not the only driver: local labour markets, housing, credential recognition and industry depth matter enormously.

Canada should not become a low-tax jurisdiction at the expense of public services. But neither can it ignore the incentives facing mobile professionals. A country that taxes high earners heavily, pays them less than competitors, delays recognition of their credentials and prices them out of housing should not be surprised when some leave.

The solution is not a crude tax race to the bottom. It is a competitiveness reset: index brackets properly, reduce punitive marginal-rate cliffs, improve credential recognition, align immigration selection with real labour demand, reward high-skill work, and make Toronto, Vancouver and other talent hubs livable again. Canada's immigration system cannot be judged by admissions alone. It must be judged by whether skilled newcomers build careers, savings, firms and families here.

Canada still has advantages: safety, institutions, some openness, education and a path to citizenship. But for the world's most mobile skilled workers, goodwill is not enough. If Canada wants to win the global competition for talent, it must offer not only the right to stay, but a compelling economic reason to do so.

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