TAX HIGHLIGHTS FROM THE 2026 FEDERAL BUDGET

Canada's Finance Minister, the Honourable François-Philippe Champagne, tabled the 2026 federal budget on November 5, 2026.

The budget estimates a deficit of $39.3 billion, or 1.2% of GDP, for the 2025/26 fiscal year. The deficit is projected to increase to $62.3 billion, or 1.8% of GDP, in 2026/27 and remain at 1.8% in 2027/28 before gradually declining to $52.9 billion, or 1.3% of GDP, by 2030/31.

Consumer Price Index inflation is projected to average 2.8% in 2026 and 2.2% in 2027 before returning to approximately 2% over the remainder of the forecast period.

From a tax perspective, Budget 2026 proposes a broad range of measures affecting individuals, trusts, businesses, registered plans, and non-residents.

The following is a summary of significant tax and program changes announced in the budget. Please note that the changes are proposals until they are passed by the federal government.

PERSONAL TAX MATTERS

Personal Income Tax Rates and Tax Brackets

Tax brackets and other amounts have been indexed by 2% to recognize the impact of inflation. The table below outlines the federal personal income tax rates and brackets for 2026.

2026 TAX RATES				
Taxable income range	Other income	Capital gains	Eligible dividends	Non-eligible dividends
First $58,523	14.00%	7.00%	0.00%	5.72%
Over $58,523-$117,045	20.50%	10.25%	7.56%	13.19%
Over $117,045-$181,440	26.00%	13.00%	15.15%	19.52%
Over $181,440-$258,482	29.00%	14.50%	19.69%	23.30%
Over $258,482	33.00%	16.50%	24.81%	27.57%

The table below outlines the highest marginal federal tax rates for various types of income in 2026.

TYPE OF INCOME	2026 TAX RATES
Regular income	33.00%
Capital gains	16.50%
Eligible dividends	24.81%
Non-eligible dividends	27.57%

Canada Groceries and Essentials Benefit

The Canada Groceries and Essentials Benefit (CGEB), formerly the Goods and Services Tax (GST) Credit, helps low- and modest-income individuals and families offset the rising cost of food and other everyday essentials and the GST they pay. The CGEB is non-taxable, income-tested, and indexed to inflation.

Budget 2026 proposes to deliver a one-time CGEB supplement, to be paid in early 2027, equal to half of the maximum annual CGEB amounts for the 2026/27 benefit year.

- The maximum amounts of this supplement would be $223 per adult, $117 per child, and $117 for the single supplement.
- For this supplement only, the phase-in and phase-out rates would be adjusted to 6% and 15%, respectively, so that eligibility starts and ends at the same income levels as under the current rules.

Mineral Exploration Tax Credit and Critical Mineral Exploration Tax Credit

Flow-through shares allow corporations to transfer, or renounce, certain Canadian exploration expenses (CEE) and Canadian development expenses (CDE) to investors, who can then deduct those expenses from their own taxable income. Two tax credits provide an additional benefit to individuals who invest in eligible flow-through shares:

- The Mineral Exploration Tax Credit (METC) is equal to 15% of the specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors. The METC is set to expire on March 31, 2027.
- The Critical Mineral Exploration Tax Credit (CMETC) is equal to 30% of specified critical mineral exploration expenses incurred in Canada and renounced to flow-through share investors. The CMETC is set to expire on March 31, 2027.

Budget 2026 proposes to extend the METC and the CMETC by five years, for flow-through share agreements entered into on or before March 31, 2032.

Canada Caregiver Credit

The Canada Caregiver Credit (CCC) is a non-refundable tax credit that recognizes the impact of non-discretionary, out-of-pocket expenses on a caregiver's ability to pay tax. Budget 2026 proposes to make the CCC refundable to ensure that eligible caregivers can receive the full amount even if they have little or no tax liability. A refundable CCC would retain the same design parameters as the current non-refundable credit, including the annual indexation of the maximum amounts and income threshold.

Capital Gains Exemption

Budget 2026 proposes to introduce a new Canada Growth Incentive (CGI) capital gains exemption, which would allow a Canadian-resident individual to claim a tax exemption on capital gains realized on the disposition of qualifying shares of a qualifying corporation, up to a $15-million limit. This $15-million limit would apply separately to each qualifying individual in respect of each business.

Qualifying Individual

A qualifying individual would have to be an individual (other than a trust) who was at least 18 years old when they acquired a qualifying share. The individual would also have to be resident in Canada throughout the year in which they claim the exemption. The claim could relate to a capital gain realized on the disposition of a qualifying share in that year or in a preceding taxation year.

A qualifying share would have to be issued by a qualifying corporation to the qualifying individual (or to a partnership of which the qualifying individual is a member) and be owned directly by the qualifying individual or by the partnership. If a partnership acquired the share, the qualifying individual would have to have been a member of the partnership and at least 18 years old at the time of the acquisition.

Qualifying Shares

A share of the capital stock of a corporation would be a qualifying share of a qualifying corporation if the following conditions are met:

- At the time the share is issued:
  - the corporation must be a Canadian-controlled private corporation; and
  - all or substantially all of the fair market value of the corporation's assets must be attributable to assets used, or reasonably intended to be used within 36 months, principally in a qualifying business carried on primarily in Canada.
- Immediately before and after the share is issued, the combined carrying value of the assets of the corporation and all corporations related to it must not exceed $100 million.
- The share must be issued either solely for cash consideration or in exchange for employment services provided by the qualifying individual to the qualifying corporation.

Continuity rules would be proposed to accommodate certain share-for-share exchanges and other corporate reorganizations that could occur after qualifying shares have been issued.

Qualifying Business

A qualifying business would be an active business other than:

- a business providing consulting services;
- the professional practice of an accountant, lawyer, notary, physician, other health care practitioner, engineer, or architect;
- any other business whose principal asset is the reputation or skill of one or more employees;
- a business operating in the agricultural, fishing, forestry, mining, financial, insurance, utilities, real estate, food and accommodation, arts, recreation, or entertainment sectors; or
- a business operating under a licensing or franchising agreement.

Interaction with Other Capital Gains Exemptions

A CGI exemption claimed on qualifying shares of a qualifying corporation would limit a qualifying individual's ability to claim the Lifetime Capital Gains Exemption (LCGE) on the sale of shares of the same corporation. Similarly, an LCGE claimed on the sale of shares of a corporation would limit a qualifying individual's ability to claim the CGI exemption on the sale of shares of the same corporation.

A qualifying individual could generally claim both the capital gains exemption on a sale to an Employee Ownership Trust or a worker cooperative and the CGI exemption on the same sale of shares, and using one exemption would not affect the limit available under the other.

Coming into Force

This measure would apply to qualifying shares of a qualifying corporation issued on or after Budget Day and before 2037.

Rollover for Investments in Small Businesses

Under the *Income Tax Act*, individuals are allowed to defer taxation on capital gains realized on a qualifying disposition of eligible small business corporation (ESBC) shares to the extent that the proceeds from the disposition are used to acquire replacement ESBC shares in the year of disposition or in the following calendar year.

For a disposition of ESBC shares by an individual to qualify, the following conditions must be met:

- Holding period: The shares must have been held by the individual for a minimum of 185 days immediately before the disposition.
- Active business requirement: Throughout the period during which the individual owned the shares, the corporation must have been a taxable Canadian corporation in which all or substantially all of the assets (measured by fair market value, and generally meaning at least 90%) were either used principally in an active business carried on by the corporation or by a related active business corporation, or were shares or debts of a related active business corporation.
- Canadian activity: The active business of the corporation must have been carried on primarily in Canada for the lesser of two years and the period during which the individual held the shares.

Period to Acquire Replacement Shares

Budget 2026 proposes to extend the period for acquiring replacement shares to include the year of disposition and the three following calendar years. In general terms, an individual who made a qualifying disposition in a taxation year and did not reinvest the proceeds in that year would be able to choose either to pay tax on the capital gain for the year of disposition or to claim a reserve that defers recognition of the gain to the following year. This deferral mechanism would be available until the end of the replacement period.

It also proposes that an individual who, before the end of the proposed three-year replacement period, enters into an agreement with an ESBC under which the individual provides upfront capital in return for shares to be issued at a future date (e.g., a simple agreement for future equity, or SAFE) would be able to defer the capital gain for an additional two years, for a total replacement period of up to five years. If no ESBC shares are issued to the individual under the agreement by the end of the fifth year following the year of disposition, the deferred gain would be taxed.

For any proceeds of a qualifying disposition that are not ultimately invested in replacement shares, interest would apply at a prescribed rate from the balance-due date for the year of disposition to the last day of the taxation year in which the gain is taxed.

Active Business Requirement

Budget 2026 proposes to lower the threshold from “all or substantially all” to “primarily” for the asset test under the active business requirement, which must be met throughout the period during which the individual owned the shares. However, the “all or substantially all” threshold would still need to be met at the time of issuance and disposition of the shares.

In addition, the active business would need to be carried on primarily in Canada at the time of share issuance and for a continuous period immediately following issuance. That period would be the lesser of two years and the period during which the individual owned the shares.

Coming into Force

These measures would apply to qualifying dispositions that occur on or after January 1, 2027.

Instalment Payments for Individuals and Corporations

For most individuals, instalments are required if their combined federal-provincial net tax owing for the current year and either of the two previous years is more than $3,000 (or $1,800 federal net tax owing for Quebec residents). Budget 2026 proposes to increase the threshold from $3,000 to $7,500 for corporations and for individuals resident outside Quebec, and from $1,800 to $4,500 for individuals resident in Quebec. The thresholds would be indexed to inflation and rounded to the nearest $500. Any remaining tax payable for a taxation year would be due on the applicable balance-due date.

This measure would apply to taxation years that begin on or after January 1, 2028.

Income Tax Return Filing and Balance-Due Dates for Individuals

The *Income Tax Act* requires most individuals to file their personal income tax return and pay any balance owing by April 30 following the end of the taxation year. Self-employed individuals and their spouses or common-law partners have until June 15 to file their returns, although any balance owing remains due by April 30.

Budget 2026 proposes to change the personal income tax (T1) filing and balance-due dates to May 15 for all individuals, including self-employed individuals and their spouses or common-law partners.

These measures would apply to the 2027 and subsequent taxation years.

Expansion of the Intergenerational Farm and Fishing Property Rollover

The *Income Tax Act* allows for a tax deferral ("rollover") of capital gains on intergenerational transfers of certain farming property and fishing property from a taxpayer to the taxpayer's child or the child's spouse or common-law partner. For these purposes, a child includes the taxpayer's grandchild or great-grandchild. Budget 2026 proposes to expand the rollover so that it is available for transfers to a niece, nephew, grandniece, or grandnephew of the taxpayer or of the taxpayer's spouse or common-law partner. This measure would apply to transfers that occur on or after January 1, 2027.

Registered Disability Savings Plan

The Registered Disability Savings Plan (RDSP) is a tax-assisted savings plan designed to support the long-term financial security of a beneficiary who is eligible for the Disability Tax Credit.

Generally, an adult beneficiary is the holder of their own RDSP. If the beneficiary does not have contractual capacity due to a mental impairment, the plan holder must be a legal representative who is authorized under provincial or territorial law to act on the beneficiary's behalf. If the beneficiary does not have a legal representative but, after reasonable inquiry, the RDSP issuer is of the opinion that the beneficiary's contractual capacity to enter into a plan is in doubt, a qualifying family member can open an RDSP and be the plan holder. This temporary measure is in place until the end of 2026. A qualifying family member may be a parent, spouse or common-law partner, or sibling.

Budget 2026 proposes to make the qualifying family member measure permanent.

Optional Flat Amounts for Personal Income Tax Deductions and Credits

Individuals need to keep receipts and satisfy other requirements to claim certain deductions and tax credits.

To reduce the need for individuals to keep receipts and itemize their expenses to support their claims, Budget 2026 proposes to introduce optional flat-amount calculation methods for certain deductions and credits. Individuals would still need to establish their eligibility.

These measures, described below, would apply to the 2027 and subsequent taxation years.

Moving Expense Deduction

The Moving Expense Deduction allows individuals to deduct moving expenses for an eligible relocation to carry on a business or to be employed. The deduction is limited to the employment or self-employment income the individual earns at the new location. For students, the limit is their taxable income from scholarships, bursaries, and research grants, plus any employment or self-employment income earned at the new location.

Budget 2026 proposes to allow individuals making an eligible relocation to deduct a flat $1,000 for the relocation instead of tracking and claiming their deductible moving expenses. The amount deducted would still be limited to the individual's income. If an individual claims the flat amount for an eligible relocation, that individual's spouse or common-law partner would not be permitted to claim a deduction for the same relocation.

Clergy Residence Deduction

The Clergy Residence Deduction is available to individuals who are members of the clergy, members of a religious order, or regular ministers of a religious denomination. Budget 2026 proposes to allow eligible individuals to deduct a flat $1,000 for each month of the year in which they are eligible for the deduction, up to a maximum of $12,000 a year, instead of claiming under the existing detailed method. The amount deducted would still be limited to the individual's remuneration for the year from their office or employment.

Labour Mobility Deduction for Tradespeople

Eligible tradespeople and apprentices working in the construction industry who undertake an eligible temporary relocation are entitled to deduct up to $10,000 in eligible temporary relocation expenses in 2026. For each relocation, the deduction is limited to 50% of the individual's employment income related to the relocation.

Budget 2026 proposes to allow these individuals to deduct a flat $1,500 per year instead of claiming their actual eligible expenses incurred.

Home Accessibility Tax Credit

The Home Accessibility Tax Credit allows eligible individuals to claim up to $20,000 in qualifying home renovation or alteration expenses per calendar year. Expenses must be incurred to improve the safety, accessibility, or functionality of an eligible dwelling for a qualifying individual who is 65 years of age or older or who is eligible for the Disability Tax Credit. The credit may be claimed by qualifying individuals and supporting family members who incur eligible expenses.

Subject to certain conditions, Budget 2026 proposes to allow eligible individuals who incur qualifying expenses to calculate the Home Accessibility Tax Credit using a one-time optional flat-expense amount of $1,000 for a year instead of claiming their actual expenses.

Adoption Expense Tax Credit

The Adoption Expense Tax Credit allows adoptive parents to claim up to $19,972 in eligible adoption expenses in 2026 relating to the adoption of a child under the age of 18. The credit may be claimed for expenses incurred during the adoption period, in the taxation year in which an adoption is completed.

Subject to certain conditions, Budget 2026 proposes to allow eligible adoptive parents to calculate the Adoption Expense Tax Credit using an optional flat-expense amount of $1,200 per adopted child in the year an adoption is completed, instead of claiming their actual eligible adoption expenses.

Foreign Income Verification Statement – Form T1135

Canadian-resident individuals, corporations, and trusts, as well as certain partnerships, must file a Foreign Income Verification Statement (Form T1135) with the Canada Revenue Agency (CRA) if they own specified foreign property. Currently, the form must be filed when the total cost of that property exceeds $100,000. Budget 2026 proposes to raise this threshold to $200,000. The CRA would also increase the threshold for simplified reporting from less than $250,000 to less than $500,000. These measures would apply to taxation years or fiscal periods that end after 2026.

Apprentice Vehicle Mechanics' Tools

Under the deduction for tradespeople's tool expenses, a tradesperson (including an apprentice vehicle mechanic) can claim a deduction of up to $1,000 for the cost of eligible new tools acquired in a taxation year as a condition of employment, to the extent that the total cost exceeds the Canada Employment Credit amount ($1,501 in 2026).

Budget 2026 proposes to allow apprentice vehicle mechanics to deduct all eligible expenses under the apprentice vehicle mechanics' tools deduction. Subject to certain other existing rules, the deduction would equal the total cost of eligible new tools acquired in the taxation year, less the Canada Employment Credit amount. It would no longer be reduced by the $1,000 amount available under the deduction for tradespeople's tool expenses or by an amount based on the apprentice's income.

Apprentice vehicle mechanics' tools would no longer qualify for the deduction for tradespeople's tool expenses. However, an apprentice vehicle mechanic could continue to claim both deductions if they also incurred eligible tool expenses in the course of employment as a tradesperson other than as an apprentice vehicle mechanic. This measure would apply to the 2027 and subsequent taxation years.

Medical Expense Tax Credit and Disability Supports Deduction

The Medical Expense Tax Credit (METC) is a non-refundable tax credit that recognizes the effect of above-average medical expenses on an individual's ability to pay tax. For 2026, the METC is available for eligible medical expenses in excess of the lesser of $2,890 and 3% of the individual's net income.

The Disability Supports Deduction (DSD) allows an individual with an impairment in physical or mental functions to deduct certain expenses that enable them to earn business or employment income, attend school, or carry on research.

Budget 2026 proposes to simplify the METC while maintaining the integrity of the credit by reducing the documentation requirements for certain eligible expenses. Specifically, it would:

- For certain expenses that are incurred exclusively for medical purposes, remove the requirement for a prescription; a certification of the individual's medical condition would continue not to be required.
- For certain expenses that may be incurred for non-medical purposes, replace the prescription requirement with a requirement that an authorized medical practitioner certify the individual's medical condition.

The CRA would continue to have the authority to ask for additional documentation or information to verify that all requirements for claiming the METC are met. This measure would apply to the 2026 and subsequent taxation years.

Gluten-Free Food Expenses

Budget 2026 proposes to allow an METC claim for individuals with celiac disease based on an optional flat amount of $1,000 for incremental gluten-free food expenses incurred over a particular year. This measure would apply to the 2026 and subsequent taxation years.

Incontinence Product Expenses

Budget 2026 proposes to allow an METC claim based on an optional flat amount of $500 in respect of incontinence product expenses incurred over a particular year. This measure would apply to the 2027 and subsequent taxation years.

Service Dog Expenses

Budget 2026 proposes to allow an METC or DSD claim based on an optional flat amount of $2,000 for expenses that are incurred in relation to a service dog over a particular year. The cost incurred to acquire a service dog could be itemized and claimed separately in addition to the flat amount in a particular year. The flat-amount method would not be allowed for eligible expenses in respect of a service animal other than a dog. It would continue to be necessary, under the METC and the DSD, to itemize expenses incurred in respect of these other service animals and retain receipts. This measure would apply to the 2027 and subsequent taxation years.

Deductibility of Expenses Against Commission Income

Under a provision specific to commission employees, employees who earn commission income and meet certain conditions are permitted to deduct employment expenses up to their commission income for the year. A commission employee who claims any amount under this provision may not deduct any travel or motor vehicle expenses under general provisions that apply to all employees. As a result, in some cases it is advantageous for a taxpayer to forgo claiming any expenses under the commission-employee rules and instead claim a larger deduction under the general travel provisions available to all employees.

Budget 2026 proposes to eliminate the rules that prevent commission employees from deducting travel and motor vehicle expenses under the general employee provisions when they also claim expenses under the commission-employee rules. This would allow a commission employee claiming travel or motor vehicle expenses under the general provisions to additionally claim other employment expenses as a commission employee up to the amount of their commission income. This measure would apply to the 2027 and subsequent taxation years.

Lump-Sum Thresholds for Periodic Payment of Benefits

The Canada Child Benefit (CCB) and Canada Groceries and Essentials Benefit (CGEB) provide targeted, income-tested support to eligible individuals and families through regular payments. These are based on a July 1 to June 30 benefit year. The CCB is paid monthly and provides support for eligible families with children under the age of 18, while the CGEB is paid quarterly and helps offset the impact of the GST on low- and modest-income individuals and families.

For individuals and families entitled to small payment amounts under the CCB, CGEB, and Advance Canada Workers Benefit (Advance CWB) (discussed later) in a given benefit year, the *Income Tax Act* specifies that the annual entitlement be issued as a lump sum, rather than regular payments throughout the year. This payment is equal to the eligible individual's total benefit entitlement for the benefit year and is issued with the first payment for that benefit year (usually in July). A lump-sum payment is made to an eligible individual for:

- the CCB if the individual's monthly CCB entitlement is expected to be less than $20;
- the CGEB if the individual's quarterly CGEB entitlement is expected to be less than $50; and
- the Advance CWB if each of the individual's advance payments is expected to be less than $33.

Budget 2026 proposes to increase the lump-sum payment threshold to $50 per month for the CCB, to $70 per quarter for the CGEB and, for the 2027 taxation year only, to $70 per payment for the Advance CWB. This measure would apply to benefits paid after June 2027.

Budget 2026 also proposes to index the CCB and CGEB thresholds annually to inflation, rounded to the nearest $5, as of July 2028.

Scholarship, Fellowship, and Bursary Income

An individual can claim a full or partial tax exemption for scholarship, fellowship, and bursary income connected with enrolment in an elementary or secondary school educational program or a program in respect of which the individual is a qualifying student. Under the current rules, a program generally does not qualify as a qualifying or specified educational program if the student receives financial assistance for it from an arm's-length person, such as an employer.

Budget 2026 proposes to allow a program to qualify even where a student receives financial assistance from an arm's-length person. As a result, receiving employer or other arm's-length assistance for a program would no longer prevent students from claiming the exemption for scholarships, fellowships, or bursaries received for that program. This measure would apply to the 2027 and subsequent taxation years.

Deductibility of Expenses by Employed Artists

Employed artists are permitted to deduct expenses incurred in the course of employment in specified artistic activities. The deduction is generally limited to the lesser of $1,000 and 20% of the artist's employment income for the year from specified artistic activities. This limit is reduced by amounts deducted for certain other employment expenses. Any artists' expenses that are not deductible in the year because of the cap can be carried forward and deducted in a future year.

Budget 2026 proposes to replace the existing cap on the deduction with a limit equal to the amount of the artist's employment income for the year from the specified artistic activities. This measure would apply to the 2027 and subsequent taxation years.

Volunteer Firefighters and Search and Rescue Volunteers Tax Credit

The Volunteer Firefighters Tax Credit and the Search and Rescue Volunteers Tax Credit are each 14% non-refundable tax credits calculated on an amount of $6,000. An individual who performs a combined total of at least 200 hours of eligible services as either a volunteer firefighter or a search and rescue volunteer in the year may claim either credit, but not both.

Budget 2026 proposes to combine the Volunteer Firefighters Tax Credit and the Search and Rescue Volunteers Tax Credit into a single 14% non-refundable Volunteer Firefighters and Search and Rescue Volunteers Tax Credit calculated on an amount of $6,000. Eligible volunteer firefighter and search and rescue services would both count towards the 200-hour requirement for the combined credit. This measure would apply to the 2027 and subsequent taxation years.

Registered Retirement Savings Plan

A Retirement Savings Plan (RRSP) is a tax-assisted vehicle for retirement savings accumulation. Most Canadians convert their RRSP to a Registered Retirement Income Fund (RRIF) by age 71. A RRIF is a vehicle for decumulation of retirement savings via annual minimum withdrawals.

Budget 2026 announces the government's intention to merge the core features of the RRSP and RRIF under the *Income Tax Act* into a single "RRSP for life" and to make other changes to improve and modernize the RRSP tax rules. This would eliminate the need for individuals to convert their RRSP to a RRIF at age 71. Individuals over the age of 71 would continue to be required to make minimum withdrawals.

The government is seeking Canadians' views on this proposal. Interested parties are invited to send written representations to the Department of Finance Canada at RRSP-consultation-REER@fin.gc.ca by January 8, 2027.

Excess Corporate Holdings Regime for Private Foundations

The *Income Tax Act* contains rules designed to limit the risk of self-dealing associated with private foundations registered as charities, by placing limits on the shareholdings of these foundations. These rules are known as the excess corporate holdings regime. The excess corporate holdings regime prevents private foundations from acquiring more than 20% of a class of shares

of any corporation, in combination with all relevant persons (generally, non-arm's-length individuals). Under these rules, private foundations must track their shareholdings, and the shareholdings of any relevant persons. Private foundations must report these holdings, and any material transaction involving these holdings within the year, to the CRA. If those total holdings exceed 20%, and the private foundation itself holds more than 2% of the class of shares, it is obligated to divest itself of its excess shareholdings within a particular timeframe.

Budget 2026 proposes to eliminate the excess corporate holdings regime. Instead, the rules that currently prohibit public foundations from acquiring control of a corporation would be extended to private foundations. This measure would apply to taxation years that begin on or after January 1, 2027.

Objections to Assessments

Budget 2026 proposes, for most taxpayers, to amend the deadline to file a notice of objection to an income tax assessment to one year after the day the notice of assessment is sent. For individuals and graduated rate estates, Budget 2026 proposes to amend the deadline to the later of one year after the notice of assessment is sent and two years from the tax return filing due date for the taxation year being assessed. Consequently, taxpayers would no longer need to apply for an extension of time, and the ability to do so would be eliminated. This amendment would apply to assessments sent on or after the day that is three months after royal assent.

Disclosure of Tax Debt to Credit Bureaus

The CRA is unable to report taxpayer debts to credit bureaus because the *Income Tax Act* limits the disclosure of taxpayer information to specific circumstances. To support the collection of outstanding tax debts and more accurate assessments of credit risk, Budget 2026 proposes to amend the *Income Tax Act* to allow the CRA to disclose information about a taxpayer's tax debts to credit bureaus.

The CRA would be permitted to disclose a taxpayer's tax debt only where:

- the taxpayer's outstanding tax debt exceeds $50,000;
- the assessments or reassessments giving rise to the tax debt are not under objection or appeal, and all rights of objection and appeal in respect of them have expired or been exhausted;
- the CRA has notified the taxpayer in writing of its intention to disclose the tax debt at least 30 days prior to disclosure; and
- before the disclosure, the CRA has taken reasonable steps to collect the tax debt and has given the taxpayer an opportunity to make reasonable repayment arrangements.

Similar amendments would be made to the *Excise Tax Act* on the same conditions to allow the CRA to disclose information about Goods and Services Tax/Harmonized Sales Tax (GST/HST) debts to credit bureaus. This measure would apply on royal assent of the enacting legislation.

Trust Distributions to Non-Residents

A trust that distributes property to its beneficiaries is generally deemed to have disposed of the property at fair market value under the *Income Tax Act*. However, a personal trust (often referred to as a "family trust") and certain other prescribed trusts may transfer property to a Canadian-resident beneficiary on a tax-deferred basis (i.e., a "rollout") in satisfaction of all or part of the beneficiary's capital interest in the trust. A trust cannot roll out property to a non-resident beneficiary (except a limited group of assets that remain subject to Canadian tax). This ensures that Canada can tax any gain that accrued on property while held in the trust, either when the property is distributed from the trust or at a later date when it is disposed of by the beneficiary.

Budget 2026 proposes to broaden the current rollout denial rule to include indirect distributions of trust property to non-resident beneficiaries. The rollout would be denied for any property that is transferred to a corporation (or partnership) that has a direct or indirect non-resident shareholder (or partner). This measure would apply to distributions of property that occur on or after Budget Day.

Information Sharing – Pension Administrators

Employer-sponsored pension plans are registered under the *Income Tax Act* and pension standards rules (e.g., the federal Pension Benefits Standards Act and similar provincial statutes). Under those laws, pension plan administrators have an obligation to pay out retirement benefits (or survivor benefits) in a timely manner. In some cases, pension plan administrators may be unable to locate former employees who are entitled to pension benefits. If a former employee has died, a surviving spouse or other beneficiary may instead be entitled to survivor benefits. Although the CRA may have information indicating that the former employee is deceased, the *Income Tax Act* currently does not permit the CRA to confirm the death to the pension plan administrator.

Budget 2026 proposes to amend the *Income Tax Act* to permit the CRA to confirm to the administrator of a registered pension plan that a plan member is deceased.

Registered Pension Plans

A registered pension plan (RPP) is an arrangement registered by the CRA under which an employer makes contributions to a fund that provides periodic payments to retired employees. At all times, an RPP must comply with registration conditions. If those conditions are not met, the plan becomes a "revocable plan" and the CRA may ultimately notify the plan administrator that the plan's registration is revoked as of a specified date. The tax consequences of a revocation are not fully specified under the current rules.

Budget 2026 proposes to provide express tax consequences under the *Income Tax Ac*t and Income Tax Regulations where the CRA revokes the registration of an RPP.

- A revoked plan would be liable to pay a special tax, equal to 10% of the fair market value of its property immediately prior to the revocation, subject to waiver or cancellation by the CRA.
- A revoked plan would be deemed to become a "retirement compensation arrangement" (RCA)—another type of retirement savings vehicle under the *Income Tax Act*.
- An amount equal to the fair market value of its property (less any revocation tax assessed) would be deemed to be contributed to the RCA. As a result, the RCA would be required to remit a 50% refundable tax on the deemed contribution.

These measures would apply to revocations of RPPs after 2026.

Individual Pension Plans

An individual pension plan (IPP) is a defined benefit RPP that has fewer than four members, at least one of whom is related to an employer that participates in the plan (e.g., a controlling shareholder). IPPs provide businesses with a mechanism to provide pension benefits to owner-managers in respect of their employment.

Budget 2026 proposes to expand the IPP definition to include defined benefit RPPs under which all members are either related to a participating employer or do not deal at arm's length with any member related to a participating employer. This measure would apply as of January 1, 2027.

Non-Qualified Investments

Budget 2026 proposes to subject IPPs to the same advantage rules, non-qualified investment rules, and prohibited investment rules that currently apply to other registered plans of controlling individuals. Consequently, if the IPP acquires a non-qualified or prohibited investment, or if it receives an advantage, the controlling individual of the IPP would be liable to pay a tax equal to:

- 50% of the fair market value of a non-qualified investment or prohibited investment acquired by the IPP; and
- 100% of the value of an advantage in relation to the IPP.

This measure would apply as of January 1, 2028. Transitional rules would apply to investments acquired before 2028 that become non-qualified or prohibited on January 1, 2028.

Excessive Surplus

Budget 2026 proposes to impose a new condition that an IPP must satisfy to maintain its RPP registration. If the value of an IPP's assets exceeds 200% of its pension liabilities, the plan would become a "revocable plan" for RPP registration purposes. The CRA is required to issue a notice of intent to revoke at least 30 days prior to issuing a revocation letter. This would give the plan administrator time to take steps (such as withdrawing excess amounts) to comply with the registration condition so that the plan is no longer revocable. If the CRA ultimately revoked the plan's registration, the tax consequences for revoked plans would apply. This measure would take effect on January 1, 2028.

Build Canada Workers Benefit

The Canada Workers Benefit (CWB) is a refundable tax credit that supplements the earnings of low- and modest-income workers and improves incentives to work. Budget 2026 proposes to phase out the Advance Canada Workers Benefit, reinvest a portion of the resulting savings to enhance the Canada Workers Benefit and rename the enhanced benefit the Build Canada Workers Benefit.

Advance Canada Workers Benefit

Under current law, individuals who received the CWB for the previous taxation year are automatically entitled to receive the Advance CWB for the current taxation year, totaling half of the previous year's CWB entitlement. For the 2027 taxation year, Budget 2026 proposes to reduce the Advance CWB from 50% to 25% of the individual's CWB entitlement for the 2026 taxation year. The Advance CWB would be eliminated beginning in the 2028 taxation year.

Enhancing the Benefit

Under current law, for the 2027 taxation year, the CWB grows by 27 cents for every dollar of working income (from both employment and self-employment) above a phase-in threshold of $3,000, up to a maximum benefit of $1,709 for single individuals without children, or $2,943 for families (couples and single parents). The benefit is reduced by 15 cents for every dollar of adjusted net income above a phase-out threshold of $28,104 for single individuals without children or $32,064 for families.

Budget 2026 proposes to enhance the benefit and rename it the Build Canada Workers Benefit. For the 2027 taxation year, the enhanced benefit would:

- reduce the phase-in threshold to $500;
- increase the maximum benefit amounts to $1,859 for single individuals without children and to $3,143 for families; and
- adjust the phase-out thresholds to $27,104 for single individuals without children and to $30,731 for families, so that the benefit is still fully phased out at the same income levels as before.

These measures would apply to the 2027 and subsequent taxation years.

CORPORATE TAX MATTERS

Corporate Income Tax Rates

There were no changes to federal corporate income tax rates or the small business limit for 2026. The table below outlines the federal tax rates and the small business limit for 2026.

Category	2026 Tax Rates
General rate	15.0%
Manufacturing & processing rate	15.0%
Small business rate	9.0%
Small business limit	$500,000

Clean Electricity and Clean Technology Investment Tax Credits

The Clean Electricity investment tax credit is a refundable credit of up to 15% on the capital cost of eligible investments in low-emitting electricity generation, electricity storage, and the transmission of electricity between provinces and territories. The credit is generally available in respect of property that is acquired and becomes available for use on or after April 16, 2024, and before 2035, for projects that started construction on or after March 28, 2023.

The Clean Technology investment tax credit is a refundable credit of up to 30% on the capital cost of eligible investments in low-emitting electricity generation, electricity storage, and low-carbon heating, as well as non-road zero-emission automotive equipment and related charging and refuelling equipment. The credit generally applies to property that is acquired and becomes available for use on or after March 28, 2023, and before 2035. The credit rate is reduced to 15% for property that becomes available for use in 2034.

Budget 2026 proposes to:

- extend the Clean Electricity and Clean Technology investment tax credits to eligible property that becomes available for use before 2041; and
- clarify that the credit rate of the Clean Technology investment tax credit would continue to be reduced to 15% for its last year of availability (property available for use in 2040).

Budget 2026 proposes to expand eligibility for the Clean Electricity investment tax credit to include intra-provincial electricity transmission property built to operate at or above the highest voltage currently used for transmission lines in each province, and at or above 69 kilovolts in the territories.

Eligible property would include certain equipment and structures related to transmission lines and substations, including cables, towers, lattices, and transformers. Eligible property would exclude buildings and electricity distribution equipment, as well as certain property that is used for international transmission. This measure would apply to property that is acquired on or after Budget Day.

Scientific Research and Experimental Development Tax Incentive Program

Under the Scientific Research and Experimental Development (SR&ED) tax incentive program, qualifying expenditures are fully deductible in the year they are incurred. Qualifying expenditures are also eligible for an investment tax credit.

For the purposes of the tax incentive program, SR&ED generally means systematic investigation or search that is carried out in a field of science or technology by means of experiment or analysis, and that is basic research, applied research, or experimental development. Work undertaken beyond the experimental development stage is generally excluded from eligibility for SR&ED tax incentives.

Budget 2026 proposes to expand the scope of eligible activities to include tests, technological validations, and studies conducted to meet regulatory requirements for obtaining the initial approval or certification necessary to commercialize a product or process. To be eligible, these activities would need to directly relate to a project that is eligible under the SR&ED program's existing rules.

Budget 2026 proposes to expand the scope of eligible expenditures to include costs related to the registration and maintenance of intellectual property (IP) protection in respect of IP developed in the course of conducting a project that is eligible under the existing scope of activities under the SR&ED program.

These measures would apply to taxation years that begin on or after Budget Day.

Interest Deductibility Limits

The Excessive Interest and Financing Expenses Limitation (EIFEL) rules restrict the amount of net interest and financing expenses that may be deducted by certain taxpayers in computing taxable income. These rules apply to taxation years that begin on or after October 1, 2023. Many taxpayers that have no international structure (those solely based in Canada) are usually exempt from these rules.

Budget 2024 announced an exception to the EIFEL rules for interest and financing expenses incurred before 2036 by a taxpayer on borrowings used by the taxpayer to acquire or build purpose-built rental housing in Canada, or convert a property into such housing. On August 12, 2024, an EIFEL exception for energy utilities was announced for interest and financing expenses incurred by a taxpayer on borrowings used by the taxpayer to carry on a regulated energy utility business in Canada. Neither exception has been enacted into law.

Budget 2026 proposes to expand the two EIFEL exceptions to cover a borrower's interest and financing expenses where the borrowed funds are used for eligible activities carried on by another corporation, trust, or partnership within the same group of affiliated entities. The exceptions would also be available for activities carried on by certain partnerships.

Budget 2026 also proposes to expand and clarify the definition of a regulated energy utility business in Canada to cover cases where the prices of all or substantially all of the products or services of the business are:

- government-established, approved, or guaranteed (including sales to Crown corporations); or
- established through a government-operated market that facilitates delivery for consumption or use in Canada.

These measures would apply to taxation years that begin on or after October 1, 2023.

Canadian Journalism Labour Tax Credit

The Canadian Journalism Labour Tax Credit (CJLTC) provides qualifying journalism organizations with a refundable 35% tax credit on certain salary or wages paid to eligible newsroom employees. To access the CJLTC, an organization must first meet the requirements for designation as a qualified Canadian journalism organization (QCJO).

The CJLTC applies exclusively to the production of original written news content. Broadcasters and organizations that produce only audio and/or audiovisual original news content are therefore not currently able to claim the credit. Budget 2026 proposes to extend eligibility for the CJLTC to the production of audio and audiovisual news. Audio and audiovisual news organizations

that qualify as a QCJO and meet existing CJLTC-specific Canadian ownership requirements would be eligible to claim the tax credit in respect of the salary or wages of an eligible newsroom employee.

All other existing eligibility criteria under the CJLTC in respect of an eligible newsroom employee would continue to apply. This measure would apply to qualifying labour expenses incurred on or after Budget Day.

The CJLTC rate was temporarily increased from 25% to 35% from January 1, 2023, to December 31, 2026. The rate is currently scheduled to return to 25% on January 1, 2027. Budget 2026 proposes to extend the 35% rate until December 31, 2028.

Taxable Preferred Shares

The *Income Tax Act* contains a regime designed to prevent the erosion of corporate tax revenues through after-tax financing that involves the issuance of shares with debt-like characteristics (referred to as "taxable preferred shares") in lieu of debt instruments. This can arise when the issuer corporation is non-tax-paying (e.g., it has unused deductions, losses, or credits) and is unable to immediately benefit from the tax deduction for interest expense. Consequently, the investor's tax benefit from receiving a tax-free intercorporate dividend (instead of taxable interest income) may exceed the issuer corporation's tax benefit from claiming an equivalent interest expense deduction.

To make the tax system more neutral between debt and preferred share financing, the taxable preferred share regime imposes a special tax (Part VI.1 tax) on dividends paid on taxable preferred shares. To provide relief for tax-paying corporations (that gain no advantage from after-tax financing), Part VI.1 tax can be offset against tax payable under Part I of the Act. Part VI.1 tax is also only payable for dividends paid in excess of a $500,000 dividend allowance threshold. The threshold is reduced to the extent dividends paid in the prior calendar year exceeded $1,000,000.

Budget 2026 proposes to introduce the following measures:

- Exempt Canadian-controlled private corporations from the taxable preferred share regime by excluding dividends they pay from Part VI.1 tax. This measure would apply to dividends paid on or after Budget Day.
- Increase the dividend allowance from $500,000 to $1,500,000 and the threshold for the reduction of the dividend allowance from $1,000,000 to $3,000,000. This measure would apply to taxation years that end after 2026.

The government is also reviewing the broader preferred share regime and is seeking stakeholders' views on the impact of the rules and on potential improvements.

Helium Exploration, Development, and Resource Expenses

Under the *Income Tax Act*, certain expenses related to petroleum and natural gas exploration, development, and property acquisition are classified as Canadian exploration expense (CEE), Canadian development expense (CDE), or Canadian oil and gas property expense (COGPE). These expenses are deductible at rates of 100%, 30% and 10%, respectively. The proposed Productivity Mega Deduction would increase the deduction rate for CDE from 30% to 100%.

CEE includes expenses related to seismic and other geophysical exploration work and the drilling of exploratory wells that are later abandoned or found to be non-producing. CDE includes expenses related to the development of oil and gas wells, including certain expenses for drilling and completing wells and for injection, monitoring, and waste-disposal wells. COGPE includes the costs of acquiring certain Canadian resource properties related to petroleum or natural gas.

Budget 2026 proposes to allow helium exploration and development expenses to qualify as CEE and CDE, consistent with the treatment of similar expenses in the petroleum and natural gas sector. Expenses incurred to acquire helium resource properties would qualify as COGPE. This measure would apply to expenses incurred on or after Budget Day.

Corporate Tax Elections

Under various provisions in the *Income Tax Act* and *Income Tax Regulations*, corporations may file elections or agreements with the CRA that determine the tax consequences of specific transactions or events. Certain rules require corporations to provide a certified copy of a resolution of their directors authorizing the election or agreement (for example, to capital dividend elections) or, in certain cases, a certified copy of the authorization of the person entitled to administer the affairs of the corporation.

Budget 2026 proposes to eliminate the existing requirements for corporations to file a certified copy of a resolution or authorization when making certain elections or agreements. This measure would apply to elections and agreements made on or after the date of royal assent of the enacting legislation.

Corporate Loss Transfers

Under the Canadian income tax system, corporations are taxed on a stand-alone basis. A corporation may offset its non-capital losses against its own income, subject to the rules in the *Income Tax Act*, but it cannot directly deduct a loss incurred by another corporation. As a consequence, the overall tax payable by a corporate group may differ depending on whether business activities are conducted through a single corporation or through multiple corporations.

Corporate groups may enter into transactions that effectively allow losses in one group member to offset income in another, such as amalgamations, wind-ups, or intra-group financing transactions. However, these transactions can be complex, costly, or unsuitable where separate corporate entities must be maintained for commercial, financing, regulatory, or liability reasons.

Two main issues were identified with respect to corporate loss transfers. First, provincial and territorial corporate tax bases could be adversely affected. Second, tax integrity concerns could arise. Budget 2026 invites stakeholders to comment on the introduction of a corporate loss transfer rule.

Loss transfers would be permitted in the following cases:

- between a parent corporation and a subsidiary corporation that is wholly owned, directly or indirectly, by the parent corporation; and
- between two subsidiary corporations that are wholly owned, directly or indirectly, by the same parent corporation.

The rule would apply only to corporations resident in Canada that are subject to tax under Part I of the *Income Tax Act*. However, certain types of corporations that are considered conduits for their shareholders or members (e.g., mutual fund corporations) would not be able to transfer or receive losses.

The rule would permit current-year non-capital losses to be transferred. A corporation could elect to transfer all or part of its current-year non-capital loss. The transferor and transferee would be required to make a joint election.

The corporate loss transfer rule could affect provincial and territorial tax bases if a loss arising in one jurisdiction were used to reduce taxable income allocated to another jurisdiction. As such, a loss arising in a province or territory could only be transferred to offset income arising in that same jurisdiction.

Allowing corporate loss transfers may give rise to tax integrity concerns and may result in other unintended tax benefits. Various approaches have been taken in other countries to address such integrity concerns, with varying degrees of complexity. These tax integrity concerns could be addressed through rules that adjust the tax cost of a group member's shares or underlying assets, or that recalculate tax attributes when a corporation enters or leaves a wholly owned corporate group.

Administrative Penalties

Administrative penalties are imposed under tax statutes when taxpayers do not comply with their tax obligations. The *Income Tax Act* provides for two types of administrative penalties: those based on fixed-dollar amounts and those based on percentages, such as the late-filing penalty, which is calculated as a percentage of the unpaid tax at the filing deadline.

Budget 2026 proposes to increase most fixed-dollar penalties to broadly account for inflation since their enactment, so that they remain meaningful and proportionate. Generally, older penalties would increase by a factor of two or three, depending on when they were enacted, while more recent penalties would remain unchanged, subject to limited exceptions. Budget 2026 also proposes to index these fixed amounts to inflation once every five years.

The *Income Tax Act* provides for some fixed-amount penalties that apply equally to all taxpayers, regardless of their ability to pay. Budget 2026 proposes to calibrate certain penalty amounts by taxpayer size. These would apply to penalties for failing to provide required information on a form, failing to file certain tax forms, and failing to comply with certain other obligations under the *Income Tax Act*.

Individuals and smaller corporations and partnerships would remain subject to a base level of fixed penalty amounts. Medium corporations and partnerships would be subject to penalties equal to three times the base amounts. Large corporations and partnerships would be subject to penalties equal to eight times the base amounts.

Medium corporations would be those that, together with any related corporations, have a combined total of more than $10 million and up to $50 million of taxable capital employed in Canada. Large corporations would be those that, together with any related corporations, have a combined total of more than $50 million of taxable capital employed in Canada. Medium partnerships would be those that have $2 million or more but less than $10 million in gross revenue, and large partnerships would be those that have $10 million or more in gross revenue.

The *Income Tax Act* imposes higher penalties in some cases of repeated non-compliance, including repeated failures to file an income tax return. Budget 2026 proposes new penalties that would apply to repeated failures to file tax forms and repeated failures to comply with obligations that do not have a more specific penalty. These penalties would generally double the base penalty that applies in respect of the first failure. The amount of the penalty would be further increased in accordance with the calibration rules for corporations and partnerships discussed above.

The Common Reporting Standard, the Reporting Rules for Digital Platform Operators, and the Crypto-Asset Reporting Framework proposed in Budget 2024 support the collection and exchange of taxpayer information between tax administrations to help combat tax evasion and other forms of tax non-compliance. Budget 2026 proposes to strengthen the penalties applicable under these information reporting regimes by amending the *Income Tax Act* to ensure that a penalty would apply for failing to comply with a duty or obligation imposed under these regimes. In particular, this would ensure that penalties apply to reporting entities and individuals for failing to obtain or validate a self-certification, failing to apply due diligence or review procedures, or failing to keep, maintain or retain records as required under these regimes.

Changes are also proposed to certain penalties under the Goods and Services Tax/Harmonized Sales Tax (GST/HST) provisions of the *Excise Tax Act*, the *Excise Act, 2001*, the *Air Travellers Security Charge Act,* and the *Select Luxury Items Tax Act* to align them with inflation adjustments proposed under the *Income Tax Act*. Under the *Excise Act, 2001*, the Minister may issue a demand for any person to file a return within a reasonable period of time. Budget 2026 proposes to increase the amount for the penalty for failing to file a return following a ministerial demand from $250 to $1,000.

These *Income Tax Act* measures would apply to taxation years or fiscal periods ending after 2027. For the Common Reporting Standard and other frameworks, these measures would apply to the 2028 and subsequent calendar years. Changes to penalties

under the *Excise Tax Act, Excise Act, 2001*, *Select Luxury Items Tax Act,* and *Air Travellers Security Charge Act* would generally apply to reporting periods ending after 2027.

INTERNATIONAL TAX MATTERS

Common Reporting Standard

The Common Reporting Standard (CRS) provides for the automatic exchange of financial account information between participating jurisdictions to promote tax compliance and combat offshore tax evasion. More than 120 jurisdictions, including Canada, participate in the CRS.

A peer review identified two areas in which Canada's CRS rules are narrower than the international standard. First, an entity established to invest or trade in financial assets may be excluded from the Canadian reporting requirements if it is not represented or promoted to the public as an investment vehicle. Second, Canada's residency conditions exclude certain partnerships that would otherwise qualify as financial institutions under the CRS model rules. These differences may create reporting gaps that could be used to avoid the disclosure of financial account information.

Budget 2026 announces the government's intention to consult on possible amendments that would more closely align Canada's CRS rules with the international standard, while avoiding unnecessary compliance burdens. Interested parties may submit written comments to the Department of Finance Canada at consultation-legislation@fin.gc.ca by December 31, 2026.

Taxable Canadian Property

Canada generally taxes non-residents on income and gains arising from the disposition of taxable Canadian property (TCP). TCP generally includes property with a significant connection to Canada, such as Canadian real estate, resource property, and certain shares or interests whose value is derived primarily from Canadian real property or resource assets.

When TCP is acquired from a non-resident vendor, the purchaser is generally required to withhold and remit part of the purchase price to the CRA in respect of the vendor's potential Canadian tax liability. The purchaser may be liable if the required amount is not withheld, unless the vendor obtains a clearance certificate from the CRA.

The current withholding rate is generally 25% of the purchase price for capital property other than specified TCP and 50% for specified TCP. Specified TCP includes property that may produce fully taxable income rather than a capital gain, such as depreciable property, Canadian resource property, a Canadian life insurance policy, and real property held as inventory.

Corporate Vendors

The existing withholding rules generally do not distinguish between individual, trust, and corporate vendors, even though their applicable income tax rates may differ significantly. As a result, the amount withheld from a non-resident corporate vendor may substantially exceed its ultimate Canadian tax liability.

Budget 2026 proposes to reduce the withholding and remittance rates as follows:

Type of Taxable Canadian property	Current purchaser withholding obligation	Proposed purchaser withholding obligation	Current vendor remittance for Issuance of a clearance certificate	Proposed vendor remittance for Issuance of a clearance certificate
Capital property other than specified TCP	25% of purchase price	**15% of purchase price**	25% of capital gain	**15% of capital gain**
Specified TCP	50% of purchase price	**30% of purchase price**	Amount acceptable to the CRA	No change

The lower rates are intended to better reflect the Canadian income tax that may ultimately be payable by a non-resident corporate vendor and reduce potential over-withholding.

Section 85 Rollovers

In certain circumstances, a vendor and purchaser may jointly elect under section 85 of the *Income Tax Act* to transfer property on a tax-deferred basis. The elected transfer amount may be less than the property's fair market value, allowing all or part of the capital gain or income that would otherwise arise on the transfer to be deferred.

Under the current rules, when taxable Canadian property is transferred by a non-resident vendor under section 85 on a fully tax-deferred basis, the purchaser's withholding obligation and the vendor's remittance requirement continue to apply as though the rollover were unavailable. The CRA may administratively issue a clearance certificate without requiring the vendor to remit tax if sufficient supporting documentation is provided and the rollover results in no tax being payable. However, until the certificate is issued, the purchaser may choose to withhold the applicable amount to avoid potential liability. This can create additional administrative work and delay the release of funds to the vendor.

Budget 2026 proposes to exempt a vendor and purchaser from these withholding and remittance requirements where the transfer of taxable Canadian property qualifies as a fully tax-deferred section 85 rollover, provided that, within 30 days of the disposition:

- the section 85 election form is filed; and
- the purchaser provides the CRA with a notice containing information about the transaction and the vendor.

Budget 2026 also proposes to strengthen an existing anti-avoidance rule applicable to rollovers of taxable Canadian property by non-residents. Under the existing rule, a tax-deferred rollover may be denied where, within three years, there is a subsequent disposition of the transferred property or substituted property and one of the main purposes of the series of transactions was to obtain an exemption from Canadian tax, including under a tax treaty.

The proposed amendments would:

- extend the relevant period from three years to five years; and
- expand the rule to cover a subsequent disposition of property that principally derives its value from the transferred property or substituted property.

These measures would apply to dispositions occurring on or after January 1, 2027.

SALES & EXCISE TAX MEASURES

GST/HST Treatment of Massage Therapy Services

Budget 2026 proposes that qualifying massage therapists be added to the list of health care practitioners whose professional services are exempt from the GST/HST. This measure would apply to qualifying supplies of massage therapy services made after Budget Day.

GST/HST Treatment of Alternating Electric Field Therapy Devices

Budget 2026 proposes to add devices that are specifically designed for alternating electric field therapy for use by an individual with cancer to the list of medical devices eligible for zero-rating under the GST/HST. This measure would apply to qualifying supplies made after Budget Day.

Pre-Approval Regime for GST/HST Input Tax Credit Allocation Methods of Financial Institutions

Certain large financial institutions that make both taxable and exempt supplies are permitted to use their own GST/HST input tax credit allocation methods for a given year if they obtain approval from the Minister of National Revenue before the start of the fiscal year. Budget 2026 proposes to amend the *Excise Tax Act* to allow certain large financial institutions to apply for pre-approval of their GST/HST input tax credit allocation methods for three consecutive fiscal years. This measure would apply to fiscal years of a financial institution beginning after June 30, 2027.

Product Descriptions and Regulatory Cross-References in Sales and Excise Tax Rules

Sales and excise taxes generally apply to goods imported into Canada; however, certain goods are fully or partially relieved of tax on importation. These goods are often identified in the *Excise Tax Act* rules using the Harmonized Commodity Description and Coding System ("HS codes") or by cross-referencing product descriptions set out in separate regulations under the Customs Tariff.

Budget 2026 proposes to update outdated HS codes and regulatory cross-references in the sales and excise tax rules. Most of these changes would preserve the existing tax treatment of affected goods, while making the rules easier for importers and administrators to interpret and apply.

Goods Brought into an HST Participating Province

Certain goods brought into an HST participating province from another province and certain goods delivered to a person in a participating province from a non-resident may be subject to the provincial component of HST. The *Excise Tax Act* provides relief from the provincial component of HST in these cases for some goods. This relief generally parallels relief provided for importations. Budget 2026 proposes to update HS codes referenced in these rules and ensure consistency with rules for importations.

Key Updates to Excise Tax Rules

Under the *Excise Tax Act*, excise taxes apply to motive fuels, fuel-inefficient automobiles, air conditioners designed for automobiles, and certain insurance premiums. Excise tax relief is generally provided to importations of goods engaged in international commercial transportation, importations of personal or household effects, importations made by government or international bodies, or temporary importations. Updates to HS codes and references to current trade regulations would generally maintain this existing excise tax relief, including similar modifications for temporary importations as described above for GST/HST relief.

These measures would generally come into force on the first day of the second month after the enacting legislation receives royal assent.

Cannabis Taxation

Licensed cannabis producers must remit and report the duty that applies for the province or territory where the product is destined and affix an excise stamp that is specific to the province or territory before it enters the duty-paid market.

Budget 2026 proposes changes to the cannabis excise duty stamping regime. A new common stamp would be used for products sold in all provinces and territories with the same duty rate (Quebec, Nova Scotia, New Brunswick, British Columbia, Prince Edward Island, Newfoundland and Labrador, the Northwest Territories, and Yukon) and in other participating jurisdictions that choose to adopt the common stamp in their jurisdictions. Licensed producers would be able to affix the new common stamp to products beginning January 1, 2028.

A new penalty that would match that of other graduated penalties in the *Excise Act, 2001*, which are currently set at an amount up to $25,000, would be introduced for licensed producers failing to report, or reporting incorrectly, the destination of a cannabis product.

Budget 2026 proposes two penalty measures. First, it proposes a new civil penalty set at twice the duty that would have been payable on cannabis that a licensed producer reported as being in its possession but is unable to account for. Second, it proposes changes to the calculation of fines and penalties for certain cannabis products. For contraventions related to the sale or distribution of unstamped cannabis edibles, topicals, and extracts, applicable fines and penalties would be calculated as two to three times the duty that would be payable if the product had a THC concentration of:

- 10 milligrams per gram for cannabis edibles;
- 15 milligrams per gram for cannabis topicals; and
- 1,000 milligrams per gram for cannabis extracts.

These measures would come into force on royal assent of the enacting legislation.

Spirits License Security Requirements

Budget 2026 proposes to require excise warehouse licensees authorized to possess non-duty-paid packaged spirits to provide security as a condition of licensing. This requirement would not apply to an excise warehouse licence held by His Majesty in right of a province or a liquor authority. Budget 2026 proposes to base security amounts on monthly excise duty liabilities. Security would be subject to a minimum of $5,000 and a maximum of $2 million for each licence.

This measure would apply to spirits licences and excise warehouse licences issued on or after the day that the enacting legislation receives royal assent.

Federal Fuel Excise Tax Licensing Framework

Budget 2026 proposes amendments to the *Excise Tax Act* to expand the eligibility for a wholesaler licence to businesses that resell fuel in the normal course of their business and to broaden the relieving rules for fuel purchased or imported by licensed manufacturers. Budget 2026 also proposes to introduce a time-limited payment for certain past instances in which tax became payable more than once on the same quantity of fuel.

PREVIOUSLY ANNOUNCED MEASURES

Budget 2026 confirms the government's intention to proceed with the following previously announced tax and related measures, with any modifications resulting from consultations and deliberations since their release.

- Legislative and regulatory proposals released on September 15, 2026, to implement the Productivity Mega Deduction.
- Legislative and regulatory proposals released on July 23, 2026, including the following measures:

  - Disability Tax Credit;
  - Red Seal Completion Bonus;
  - Investment Tax Credit for Carbon Capture, Utilization and Storage;
  - Investment Income Derived from Assets Supporting Canadian Insurance Risks;
  - Transfer Pricing;
  - Hybrid Mismatch Arrangements;
  - Goods and Services Tax/Harmonized Sales Tax (GST/HST) reverse charge mechanism;
  - Technical amendments to the *Income Tax Act* and *Income Tax Regulations*;
  - Technical amendments to the *Global Minimum Tax Act*; and
  - Technical amendments to the *Excise Tax Act*, the *Excise Act, 2001*, the *Air Travellers Security Charge Act*, the *Select Luxury Items Tax Act*, and related regulations.
- Legislative proposals released on January 29, 2026, to implement reporting requirements for non-profit organizations.
- Legislative proposals released on August 12, 2024, with respect to technical amendments to the *Income Tax Act*.
- Tax measures relating to non-compliance with information requests, announced in Budget 2024, to be implemented through amendments to the *Excise Tax Act*, the *Air Travellers Security Charge Act*, the *Excise Act, 2001* and the *Select Luxury Items Tax Act*.
- Legislative proposals released on August 4, 2023, with respect to tax-exempt sales of motive fuels for export.
- Legislative and regulatory proposals released on August 9, 2022, including the following measures:
  - Technical amendments to the *Income Tax Act* and *Income Tax Regulations*; and
  - Remaining legislative proposals relating to excise duties.

Budget 2026 also reaffirms the government's commitment to move forward as required with other technical amendments to improve the certainty and integrity of the tax system.

WE CAN HELP

Your Assante advisor can help you assess the impact of these proposals on your personal finances or business affairs and show you ways to take advantage of their benefits or ease their impact. The resources available to you and your advisor include CI Assante Private Client's Wealth Planning Group, a multi-disciplinary team of accountants, lawyers and financial planners.

For more information, we encourage you to speak to your advisor or visit us at assante.com

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