Federal Budget 2026: Sovereignty, strategic investment and tax simplification

November 06, 2026

On Nov. 5, 2026 (Budget Day), the Hon. François-Philippe Champagne, Minister of Finance, tabled the federal budget, titled "Masters of Our Destiny" (Budget 2026). As foreshadowed, Budget 2026 focuses on cultural and economic sovereignty, economic growth and affordability measures for Canadians. In addition to significant investments in defence and economic development, Budget 2026 includes allocations to build more homes, with a commitment to end homelessness in 10 years.

On Sept. 15, the government announced the Productivity Mega Deduction (PMD), extending immediate expense to almost two-thirds of capital assets. This measure on its own constituted major tax policy support for Canadian business, in terms of reducing the after-tax cost of new business investment and (equally as important) bettering the comparable U.S. move made in July 2025. Most importantly, it signaled a more activist approach to tax policy: in the government's words, "a sea change in how Canada intends to stimulate business investment decisions."

Budget 2026 continues this theme and includes several tax measures aimed at increasing investment in Canada, in addition to the previously announced "mega-deduction". A new "Canada Growth Incentive" is meant to encourage Canadians to invest in home-grown companies, including a new C$15 million capital gains exemption along with enhanced rollover provisions for reinvestment in certain Canadian companies. Enhancements to mineral exploration tax credits aim to expand resource development. Clean electricity and technology credits for corporations are being augmented, and Budget 2026 proposes to broaden the Scientific Research and Experimental Development (SR&ED) tax incentive program. The government is also inviting consultations on sharing corporate losses within corporate groups and has introduced certain preliminary measures.

Further, in response to calls to simplify the Canadian tax system, Budget 2026 is "…launching the most ambitious effort in a generation to improve how Canadians interact with the tax system and reduce the time spent on complying with tax obligations…". While tax measures in Budget 2026 fall short of a full-scale review, they include significant steps in this direction. The government has proposed to merge registered retirement savings plans (RRSPs) and registered retirement income funds (RRIFs), limiting the need to transition between plans as account holders age.

Revisions to tax filing deadlines, taxpayers objection windows, and instalment requirements will reduce late filings and unnecessary interactions with the Canada Revenue Agency (CRA). Various tax credits have been expanded or made refundable, putting additional funds in the pockets of lower- and middle-income Canadians.

At the same time, **a new flat-credit option for numerous boutique tax credits replaces receipt-based calculations, streamlining tax filing**. The excess corporate business holdings regime for private foundations is also being eliminated, in favour of rules consistent with public foundations, and the taxable preferred share regime is generally being eliminated for Canadian-controlled private corporations. These measures will certainly help reduce tax complexity and compliance costs for several Canadians.

Budget 2026 includes these and several other tax measures, alongside the implementation of many of the previously announced, as detailed below.

Personal tax measures

1. Canada Growth Incentive – capital gains exemption

Budget 2026 proposes a significant new Canada Growth Incentive (CGI) capital gains exemption intended to help businesses attract investment and grow in Canada. The exemption would permit a Canadian-resident individual to shelter up to C$15 million in capital gains from tax for each qualifying business.

The exemption would apply to qualifying shares issued on or after Budget Day and before 2037. Among other requirements, the corporation must generally be a Canadian-controlled private corporation when the shares are issued, have no more than C$100 million of assets, (calculated on a carrying-value basis alongside related corporations), immediately before and after issuance, and satisfy detailed Canadian active-business asset tests. The shares generally must be issued directly to the individual, or a partnership of which the individual is a member, for cash or qualifying employment services, and must be held for at least 36 consecutive months before disposition. Corporate reorganizations and share exchanges following the original issuance may be accommodated by proposed continuity rules.

The CGI exemption is considerably more targeted than the existing Lifetime Capital Gains Exemption (LCGE). A broad range of businesses would be excluded, including professional practices and consulting businesses, businesses principally dependent on an individual's reputation or skill, and businesses in sectors including agriculture, fishing, forestry, mining, financial services, insurance, utilities, real estate, food and accommodation, arts, recreation and entertainment. Businesses operated under a licensing or franchising arrangement would also be excluded. The new exemption is particularly directed at founders, employees and investors in scalable Canadian operating businesses.

The potential tax benefit is substantial, particularly because the C$15 million limit applies separately to each qualifying individual for each qualifying business. However, the detailed eligibility requirements mean that planning will need to begin when shares are issued rather than only when an exit is contemplated. In addition, claiming the new CGI capital gains exemption would limit a taxpayer from claiming the LCGE on a sale of the subject shares, and vice versa, with one exception being on sale to a qualifying Employee Ownership Trust (EOT). Gains exempted under the CGI would nevertheless

remain subject to a 30 per cent inclusion rate for Alternative Minimum Tax (AMT) purposes. Finance has also proposed additional "integrity rules" to restrict the multiplication of the exemption by using multiple corporations to carry on the same underlying business, and to prevent the exemption from applying in circumstances outside the intention of this new measure.

2. Canada Growth Incentive – rollover for investments in small businesses

Budget 2026 proposes to expand the capital gains deferral available when individuals reinvest proceeds from the sale of eligible small business corporation (ESBC) shares into replacement ESBC shares thereby providing investors with greater flexibility and more time to redeploy capital into Canadian growth businesses while continuing to defer tax on capital gains. The proposed measures would apply to qualifying dispositions occurring on or after Jan. 1, 2027.

Key changes include:

- Investors would have up to three years after the year of disposition to acquire replacement shares, instead of only until the end of the following year;
- In scenarios where proceeds are invested through a Simple Agreement for Future Equity (SAFE), the deferral period could be extended to five years;
- The ongoing asset-use requirement would be relaxed from the current "all or substantially all" threshold (generally at least 90 per cent) to a "primarily" test (generally more than 50 per cent), while the stricter standard would continue to apply at the time the shares are issued and sold. The ongoing asset-use requirement would be relaxed from the current "all or substantially all" threshold (generally at least 90 per cent) to a "primarily" test (generally more than 50 per cent), while the stricter standard would continue to apply at the time the shares are issued and sold; and
- Prescribed-rate interest would apply where qualifying sale proceeds are ultimately not reinvested in replacement shares. Interest would be charged on the deferred tax from the balance-due date for the year of disposition until the taxation year in which the gain becomes taxable.

3. Income tax return filing and Balance-Due Dates for Individuals

Budget 2026 proposes changing the T1 filing and balance-due dates to May 15 for all individuals, starting in the 2027 tax year. This change also applies to self-employed individuals and their spouses or common-law partners.

4. Foreign income verification statement – form T1135

Certain Canadian taxpayers must file a Foreign Income Verification Statement (Form T1135) with the CRA if they own "specified foreign property" (SFP). The current threshold for SFP is C$100,000, and it generally includes property that is income-earning and held outside of Canada (other than personal property or property used in an active business).

There is also currently a simplified reporting method if the total cost of a taxpayer's SFP is less than C$250,000 throughout the year. Budget 2026 proposes to increase threshold of SFP from C$100,000 to C$200,000, and the threshold for simplified reporting from less than C$250,000 to less than C$500,000.

These measures would apply to taxation years or fiscal periods that end after 2026.

5. Registered Retirement Savings Plan

Budget 2026 announces the government's intention to create an "RRSP for life" by merging the core features of RRSPs and RRIFs, eliminating the requirement to convert an RRSP to a RRIF at age 71 while continuing to require minimum withdrawals after age 71. Considerations include whether an RRSP could have a spouse or common-law partner as a successor holder, potentially allowing the plan to remain open following the original holder's death, and whether the existing (and cumbersome) indirect rollover rules on death could be replaced with direct tax-free transfers to qualifying registered plans of surviving spouses and other qualifying survivors. Consequential changes may also be required to federal and provincial pension legislation governing locked-in funds. Written submissions can be made to the Department of Finance by Jan. 8, 2027.

6. Trust distributions to non-residents

Budget 2026 proposes to amend the *Income Tax Act* to broaden the circumstances in which a Canadian-resident trust is prevented from distributing property on a tax-deferred basis. The existing rule generally denies the tax-deferral where trust property is distributed to a non-resident beneficiary (and effectively outside of the Canadian tax net). This restriction will be expanded to apply to distributions to certain Canadian-resident corporations or partnerships that have any direct or indirect non-resident shareholders or partners, thereby preventing the use of an interposed Canadian entity to obtain a tax-deferred distribution that could not have been made directly to the non-resident. If the rule applies, the trust will be deemed to dispose of the distributed property at fair market value.

This measure would apply in respect of distributions of property that occur on or after Budget Day.

7. Mineral exploration tax credit and critical mineral exploration tax credit

Budget 2026 proposes to enhance certain tax incentives to individuals who invest in "flow-through shares" issued by resource corporations. Flow-through shares allow corporations to renounce or "flow through" their "Canadian development expenses" (CDE) to the investor. The investors may deduct the CDE at a 30 per cent rate on a declining balance basis. Budget 2026 proposes to increase the deduction rate to 100 per cent. Budget 2026 proposes to increase the deduction rate to 100 per cent.

Two additional tax incentives are available to investors of eligible flow-through shares: the Mineral Exploration Tax Credit (METC) and the Critical Mineral Exploration Tax Credit (CMETC), both of which are set to expire on March 31, 2027. Budget 2026 proposes extending the METC and CMETC by five years to flow-through share agreements entered on or before March 31, 2032. Budget 2026 also proposes to add antimony as an eligible critical mineral for CMETC purposes, applicable to eligible flow-through share agreements entered after November 5, 2026 and on or before March 31, 2032.

8. Objections to assessments

When a taxpayer receives a Notice of Assessment or Reassessment and wishes to object, the legislative scheme under the *Income Tax Act* generally provides 90 days to do so. Budget 2026 proposes, for most taxpayers, to increase the deadline to file a

notice of objection from 90 days to one year. 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. The ability to apply for an extension would also be nullified.

This amendment would apply to assessments sent on or after the day that is three months after royal assent.

9. Disclosure of tax debt to credit bureau

The CRA is currently unable to report taxpayer debts to credit bureaus because the *Income Tax Act* rules limit the disclosure of taxpayer information. 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 in certain circumstances. These circumstances include the taxpayer's outstanding tax debt exceeding C$50,000, the debt in question not being subject to objection or appeal, and the CRA notifying the taxpayer in writing at least 30 days prior to disclosure. Similar amendments are proposed under the *Excise Tax Act*. This measure would apply on royal assent of the enacting legislation.

10. Instalment payments for individuals and corporations

Budget 2026 proposes to increase the thresholds at which taxpayers are required to make income tax instalment payments. With the result that fewer taxpayers will be required to make tax instalment payments.

Currently, an individual is required to pay income tax in quarterly instalments if the individual's combined provincial and federal tax liability, minus any amount deducted or withheld (e.g. by an employer), exceeds C$3,000 in the current year and at least one of the two preceding years. There is a similar C$3,000 federal tax threshold for corporations to make tax instalment payments. It is proposed that this threshold be increased for individuals and corporations from C$3,000 to C$7,500 for taxation years beginning in the year 2028 or later. The threshold amount for individuals in Quebec is currently C$1,800, and it is proposed that it be increased to C$4,500.

Budget 2026 also proposes that individuals whose primary source of income is business income should be allowed to pay their instalments on an annual basis instead of a quarterly basis. The annual instalment payment would be due on Dec. 31 and would be in the amount of two-third of the individual's combined provincial and federal net tax owing for the year, with the remainder due on the balance-due date.

11. Excess corporate holdings regime for private foundations (the "Regime")

The Regime is designed to limit the risk of self-dealing associated with private foundations registered as charities, by placing limits on the shareholdings of these foundations.

The Regime prevents private foundations from acquiring more than 20 per cent of a class of shares of any corporation, in combination with all relevant persons (generally, non-arm length individuals). Under these rules, private foundations must track their shareholdings, and the shareholdings of any relevant person. 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 per cent, and the private foundation itself holds more than 2 per cent 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 Regime. Instead, the rules that currently prohibit public foundations from acquiring control of a corporation would be extended to private foundations.

The proposed repeal of the Regime would be a welcome simplification for private foundations, reducing the administrative burden associated with monitoring the shareholdings of the foundation and relevant persons, and complying with the Regime's specialized reporting requirements. This will allow foundations to devote fewer resources to compliance and more to their charitable purposes. The proposal would broaden investment opportunities for private foundations and make gifts of corporate shares to private foundations more attractive.

This measure would apply to taxation years that begin on or after Jan. 1, 2027.

12. Information sharing – pension administrators

Pension administrators have obligations under applicable pension standards legislation to pay pension and survivor benefits, but where a former employee cannot be located, the administrator may not know whether the member has died and whether benefits should instead be paid to a surviving spouse or other beneficiary. Budget 2026 proposes to amend the confidentiality provisions of the *Income Tax Act*, effective upon the enacting legislation receiving Royal Assent, to permit the CRA to confirm to the administrator that a plan member is deceased.

13. Registered Pension Plans (RPP)

Tax consequences of revocation of a registered pension plan

Budget 2026 proposes to impose specific and clear tax consequences where the CRA revokes an RPP's registration for failing to comply with required registration conditions. For revocations after 2026, a revoked pension plan would be subject to a 10 per cent tax on the fair market value of its property immediately before revocation (subject to CRA waiver or cancellation), would be deemed to become a retirement compensation arrangement (RCA), and would be deemed to contribute its remaining assets to the RCA, triggering the RCA's 50 per cent refundable tax on the deemed contribution.

Individual Pension Plans

Budget 2026 targets several proposals at individual pension plans (IPPs). First, the definition of an IPP will be expanded, effective Jan. 1, 2027, to include defined benefit registered pension plans under which all members are related to a participating employer or do not deal at arm's length with any member related to a participating employer.

Second, effective Jan. 1, 2028, the advantage, prohibited investment and non-qualified investment rules that currently apply to registered plans such as Tax-Free Savings Accounts (TFSAs), RRSPs and RRIFs will be extended to IPPs. An advantage generally involves a transaction or benefit that exploits the registered plan's tax-preferred status, for example by artificially shifting investment returns or value that would otherwise arise outside the plan into the plan. Prohibited investment generally captures a non-arm's-length investment or an investment in an entity in which the controlling individual has a significant interest; and a non-qualified investment is an investment that is not within the classes of property that registered plans are permitted to hold. Budget 2026 would make the IPP's controlling individual liable for tax equal to 50 per cent of the fair market value of a prohibited or non-qualified investment acquired

by the IPP and 100 per cent of the value of an advantage. This measure would apply as of Jan. 1, 2028.

Finally, Budget 2026 proposes that, effective Jan. 1, 2028, an IPP would become a revocable registered pension plan if the fair market value of its assets exceeds 200 per cent of its liabilities. This effectively places a ceiling on the amount of surplus that can accumulate within an IPP and, when combined with Budget 2026 separate proposed adverse consequences of RPP revocation, creates potentially severe tax exposure if the threshold is exceeded. The proposed rules permit the plan to pay out excess surplus on a taxable basis within 90 days after the end of the year, with an election available to have the payment treated as having been made in the preceding year, allowing the IPP to reduce its assets below the 200 per cent threshold and avoid revocation. This measure would apply as of Jan. 1, 2028.

14. Optional flat amounts for personal income tax deductions and credits

To make tax filing easier, Budget 2026 proposes allowing taxpayers to claim fixed amounts for certain deductions and credits instead of keeping receipts and calculating actual expenses. Taxpayers would still need to qualify for the deduction or credit, but they would generally not need to track all their costs. These measures are proposed to apply beginning with the 2027 taxation year.

Deduction / Credit	Flat amount	Main conditions
Moving expenses	**C$1,000 per move**	Available for an eligible work- or education-related move. The claim is still limited to income earned at the new location or certain student income. A spouse or common-law partner cannot claim a separate amount for the same move.
Clergy residence deduction	**C$1,000 per month, up to $12,000 per year**	Available to eligible clergy members. The deduction cannot exceed employment income from the qualifying position. Where both spouses qualify and live together, only one can claim the monthly amount for a particular month.
Labour mobility deduction for tradespeople	**C$1,500 per year**	Available to eligible construction tradespeople and apprentices who temporarily relocate for work.

Home accessibility tax credit	**C$1,000**	Available instead of claiming actual renovation costs. Only one person can claim the amount for a home in a particular year, and the flat amount can only be claimed once in a person's lifetime.
Adoption expense tax credit	**C$1,200 per adopted child**	Available in the year the adoption is finalized. Only one taxpayer can claim the flat amount for a child.

Business tax measures

1. Clean electricity and clean technology

As a major element of Canada's efforts to reduce carbon emissions and move towards a "net zero" economy, Canada has enacted a number of "clean economy" investment tax credits (ITCs). These effectively entitle the taxpayer to receive a cheque from the government for a specified percentage of the cost to the taxpayer of making various qualified expenditures on prescribed properties. For example, a C$100 expenditure on a property that qualifies for a 30 per cent ITC generates a C$30 payment. See The Clean Economy ITCs are summarized in detail here.

The 15 per cent Clean Electricity ITC and the 30 per cent Clean Technology ITC are two of the five clean economy ITCs. A fair bit of overlap exists in terms of what type of property qualifies for them, most notably non-CO_2 emitting electricity generation equipment (e.g., wind turbines, solar panels, nuclear energy, etc.). Notably, the Clean Electricity ITC is unique in terms of (1) allowing some tax-exempt entities to claim the ITC and (2) including within its eligibility scope various inter-provincial electricity transmission equipment and structures.

Budget 2026 announces several helpful improvements to these ITCs. First, for both ITCs the existing end date for qualifying expenditures is being extended 5 years, from Dec.31, 2034 to Dec. 31, 2040. In the case of the Clean Technology ITC, the final year of eligibility (2040) will have a reduced ITC rate of 15 per cent rather than 30 per cent.

As previously announced in May 2026 as part of the government's national electricity strategy, the scope of what qualifies for the Clean Electricity ITC is being expanded to encompass high-voltage intra-provincial electricity transmission property, with minimum kilovolt capacity varying from province to province. Eligible property would include certain equipment and structures related to transmission lines and substations, including cables, towers, lattices, and transformers. Buildings and electricity distribution equipment would be excluded, as would certain property that is used for international transmission (further details on eligibility will be announced later).

Finally, the Government is considering a "buy Canadian" bonus for both ITCs. Specifically, the Department of Finance will conduct targeted consultations with stakeholders over the next 60 days to determine the scope and parameters of a domestic content bonus of up to 10 percentage points under the Clean Technology investment tax credit and up to 5 percentage points under the Clean Electricity

investment tax credit. This measure would support the use of Canadian industrial products in these electricity projects.

2. Scientific Research and Experimental Development tax incentive program

Qualifying expenditures under the Scientific Research and Experimental Development (SR&ED) program may either be fully deducted in the year incurred or be eligible for a tax credit (35 per cent for small- and medium-sized corporations and 15 per cent for other qualifying expenditures). Budget 2026 proposes to expand the activities and expenditures on which SR&ED deductions and tax credits can be claimed to include:

a. Regulatory and Certification Requirements: Tests, technological validations, and studies conducted to meet regulatory requirements for obtaining the initial approval or certification necessary to commercialize a product or process. These activities must directly relate to a project that is eligible under the current SR&ED rules and may include activities currently prescribed in the program (e.g., wages and salaries, materials, contracting costs, overhead costs, and machinery and equipment).

b. Intellectual Property Protection: Costs related to the registration and maintenance of intellectual property ("IP") protection in respect of IP developed under a project that would be eligible under the current SR&ED requirements. These costs may include expenses directly related to preparing and filing an application for IP protection and the maintenance of IP rights. Costs incurred to enforce IP rights or that are not directly connected to securing or maintaining IP rights are excluded. Fees payable to an IP office outside Canada would be eligible. However, costs for supporting activities (e.g., preparing an application) would be eligible only if those activities are conducted in Canada. If the IP on which SR&ED deductions or tax credits have been claimed is disposed of, such deductions or tax credits may be recaptured.

These changes to the SR&ED program would apply to taxation years that begin on or after Budget Day.

3. 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. Tax planning options exist to effectively allow losses in one group member to offset income in another, such as amalgamation, wind-ups, or intra-group financing transactions. However, these transactions can be complex, costly or impractical in some situations. Budget 2026 introduces a new corporate loss transfer rule. The envisioned rule would:

- permit **current-year non-capital losses** to be transferred in the following cases:
    - between a parent corporation and a wholly owned subsidiary corporation, directly or indirectly, by the parent corporation; and
    - between two subsidiary corporations that are wholly owned, directly or indirectly, by the same parent corporation.
- only apply to corporations that are 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 transferor and transferee would be required to make a joint election, and the transferee would be permitted to deduct the elected amount in computing its income for the relevant taxation year. Importantly, any portion of the transferred amount that is not deducted by the transferee in that year would not be made available for carryback or carryforward.

The ability to transfer losses within a corporate group was the subject of two previous Department of Finance consultations announced in 1985 and 2010. In addition to important federal fiscal impacts, these consultations faced two main impediments to creating a loss transfer rule for corporate loss transfers: (1) provincial and territorial corporate tax bases could be adversely affected (2) tax integrity. Under the proposed rules:

- **Provincial allocation:** Loss transfers would be limited to corporations that each have a permanent establishment in only one province or territory, with both located in the same jurisdiction. The government seeks views on broader access while protecting provincial and territorial tax bases.
- **Tax integrity:** Safeguards are necessary, such as adjustments to share or asset tax costs or recalculation of tax attributes, to avoid duplicating tax benefits.

Interested parties are invited to send written representations to the Department of Finance Canada at clt-consultation-tpes@fin.gc.ca by Jan. 8, 2027.

4. Interest deductibility limits

The 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. Budget 2026 proposes to expand two proposed but not yet enacted exceptions to the excessive interest and financing expenses limitation (EIFEL) rules.

In 2024, the government proposed two exceptions to the EIFEL rules for interest and financing expenses (a) incurred before 2036 to acquire or build purpose-built rental housing in Canada, or convert a property into such housing, and (b) incurred to carry on a “regulated energy utility business” in Canada. The taxpayer must use the borrowing for eligible activities to qualify for these exceptions. Neither exception has been enacted into law.

Budget 2026 proposes to expand the exceptions to cover interest and financing expenses where the borrowed fund is used for eligible activities carried on by a corporation, trust or partnership within the same affiliated group, or a partnership where the borrower has at least a 40 per cent interest. Budget 2026 also proposes to expand the scope of “regulated energy utility business” to include cases where prices of the business’s products or services are established by the government (including sales to Crown corporations) or 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.

5. Taxable preferred shares

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 C$500,000 dividend allowance threshold. The threshold is reduced to the extent dividends paid in the prior calendar year exceeded C$ 1million.

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 C$500,000 to C$1.5 million and the threshold for the reduction of the dividend allowance from C$1 million to C$3 million. This measure would apply to taxation years that end after 2026.

The Department of Finance is also reviewing the broader preferred share regime and is seeking stakeholders' views on the impact of the rules and on potential improvements. Written submissions may be sent by Jan. 8, 2027 to the Tax Policy Branch, Department of Finance Canada, at consultation-legislation@fin.gc.ca.

6. Corporate tax elections

Under various provisions in the *Income Tax Act* and *Income Tax Regulations*, corporations may file elections or agreements with the Canada Revenue Agency that determine the tax consequences of specific transactions or events. Budget 2026 proposes to eliminate the existing requirements for corporations to file a certified copy of a resolution (e.g., certified resolutions for capital dividend elections) 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.

7. Administrative penalties

Budget 2026 proposes several amendments to administrative penalties under federal tax statutes:

- Budget 2026 increases most fixed-dollar penalties in the *Income Tax Act* and *Excise Tax Act* to broadly account for inflation since their enactment.
- In addition to the increases in inflation, Budget 2026 proposes to "calibrate" certain penalty amounts by taxpayer size. This means that individuals and smaller corporations and partnerships would remain subject to a "base level" penalty, while medium corporations and partnerships would be subject to the base amount x3, and large corporations the base amount x8. A medium corporation would be any corporation, together with any related corporations, that has a combined total of more than C$10 million and up to C$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 C$50 million of taxable capital employed in Canada. Medium partnerships would be those that have C$2 million but less than C$10 million in gross revenue and large partnerships would be those that have C$10 million or more in gross revenue.

- Generally, older penalties will be increasing by a factor of two or three. For example, when a person makes a false statement in a T1135 knowingly or under circumstances amounting to gross negligence, the penalty is generally at least C$24,000, but this minimum penalty amount is proposed to increase to C$45,000. However, more recently enacted penalties will remain unchanged, such as the penalty enacted in 2023 for an advisor or promoter's failure to report a notifiable transaction. Budget 2026 also proposes to index these fixed amounts to inflation once every five years.
- In addition, Budget 2026 proposes new penalties that apply to repeated failures to file tax forms and repeated failures to comply with obligations that do not have a more specific penalty. Penalties are proposed to 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, stacking the impact of the proposed changes.

These measures would apply to taxation years or fiscal periods ending after 2027.

Other business tax measures

- **Helium Exploration, Development and Resource Expenses (CDE):** Budget 2026 proposes to extend the CDE and Canadian oil and gas property expense regimes to eligible helium exploration, development and resource property acquisition expenses, respectively. These expenses would be deductible at rates of 100 per cent, 30 per cent and 10 per cent, respectively, with the proposed Productivity Mega Deduction increasing the CDE deduction rate to 100 per cent. The measure would apply to expenses incurred on or after Nov. 5, 2026.
- **Canadian Journalism Labour Tax Credit (CJLTC):** Budget 2026 proposes to expand eligibility for the CJLTC to include the production of audio and audiovisual news. This measure would apply to qualifying labour expenses incurred on or after Nov. 5, 2026. Budget 2026 also proposes to extend the temporarily increased CJLTC rate of 35 per cent, which was scheduled to revert to 25 per cent on Jan. 1, 2027, until Dec. 31, 2028.

Other personal measures

Budget 2026 proposes to:

- Make the current non-refundable Canadian Caregiver Credit (CCC) into a refundable tax credit. This measure would apply to the 2027 and subsequent taxation years;
- Provide a one-time supplemental benefit equal to 50 per cent of the maximum Canada Groceries and Essentials Benefit (CGEB) for the 2026-27 benefit year, providing up to C$223 per adult, C$117 per child and C$117 for the single supplement, to be delivered in early 2027;
- Address gaps that persist in the Registered Disability Savings Plan (RDSP) in the provincial and territorial legal representation mechanisms;
- Introduce optional annual flat-rate claims for gluten-free food (C$1,000 from 2026), incontinence products (C$500 from 2027), and service dog expenses

(C$2,000), with separate claims permitted for service dog acquisition costs and other service animals excluded;

- Permit commission employees to deduct certain expenses under both the commission-employee rules and the general provisions for travel and motor vehicle expenses applicable to employees;Increase annual lump-sum payment thresholds for the Canada Child Benefit (CCB) (C$20 to C$50 monthly), CGEB (C$50 to C$70 quarterly), and Advance Canada Workers Benefit (ACWB) (C$33 to C$70 per payment) after June 2027, with the latter increase limited to 2027 and inflation indexing for the first two benefits beginning July 2028;
- Expand the scholarship exemption to eligible scholarship, fellowship, and bursary income where students receive financial assistance from an arm's-length person, including an employer, beginning in the 2027 taxation year;
- Increase the deduction limit for employment expenses incurred in specified artistic activities to 100 per cent of income from those activities, beginning in the 2027 taxation year;
- Combine the Volunteer Firefighters Tax Credit (VFTC) and Search and Rescue Volunteers Tax Credit into a single 14 per cent non-refundable credit on C$6,000, with both activities counting toward the 200-hour requirement, beginning in the 2027 taxation year; and
- Rename the Canada Workers Benefit as the Build Canada Workers Benefit, reduce phase-in and phase-out thresholds, increase maximum benefits, and reduce advance payments from 50 per cent to 25 per cent in 2027 before eliminating them in 2028.

International tax measures

1. Common reporting standard

In the Dec. 19, 2025 release of Canada's Common Reporting Standard (CRS) Guidance, the CRA amended the requirements for partnership residence to include two new bases: 1) where all the partners, including all end members, are resident in Canada, and 2) if the partnership was formed under the laws of province or territory of Canada. Prior to this release, the CRS Guidance had only referred to a partnership being resident in Canada for purposes of CRS due diligence and reporting obligations where the place of effective management and control of a partnership's business was situated in Canada. Following industry feedback, on April 10, 2026, the CRA published a temporary reprieve and reinstated the CRS Guidance to only refer to the place-of-effective management test.

Budget 2026 addresses the fact that Canada's rules implementing CRS have been identified as departing from the OECD Global Standard not just on the residency conditions for partnerships, but also on the narrowing of the financial institution category to only refer to entities established to invest or trade in financial assets where the entity is represented or promoted to the public as an investment vehicle. For example, currently a family trust that is trusteed by a corporate trustee is not considered a "listed financial institution" for purposes of Canada's CRS or FATCA regimes.

To address these concerns raised by the OECD, Budget 2026 announces the government's intention to consult on potential measures to strengthen Canada's implementation of CRS and on the following questions:

- How should Canada's CRS rules be amended to bring them into line with the international standard provided in the model rules, including by addressing the departures described above?
- How could these amendments be designed and implemented without imposing unnecessary compliance burdens?

Interested parties are invited to send written representations to the Department of Finance Canada by emailing consultation-legislation@fin.gc.ca by Dec.31, 2026.

2. Taxable Canadian property

Canada generally taxes non-residents on their income and gains from the disposition of taxable Canadian property (TCP). The *Income Tax Act* requires a purchaser that acquires TCP from a non-resident person (vendor) to withhold and remit an amount to the CRA on account of the vendor's potential tax liability, imposing a liability on the purchaser for any failure to do so. In general terms, lower rates (25 per cent) apply to property subject to the one-half inclusion rate for capital gains while higher rates (50 per cent) apply to property (specified TCP) where the disposition may give rise to fully taxable ordinary income (e.g., depreciable property, Canadian life insurance policy, Canadian resource property and real property held as inventory). The withholding and remittance rules generally do not account for the different income tax rates applicable to different types of taxpayers (e.g., individuals/trusts and corporations). Consequently, the amounts withheld and remitted may exceed the income tax that could be payable by a corporate vendor. To better align withholding requirements with actual corporate tax liabilities, Budget 2026 proposes to reduce the withholding and remittance rates for corporate taxpayers from 25 and 50 per cent to 15 and 30 per cent, respectively.

Section 85 rollovers

If TCP is transferred by the vendor on a fully tax-deferred basis, the current withholding and remittance rules continue to apply to the purchaser and vendor as if no tax deferral was available. Budget 2026 proposes to exempt vendors and purchasers from the withholding and tax remittance requirements for fully tax-deferred section 85 rollovers of TCP provided that, within 30 days of the disposition, the section 85 election form is filed and the purchaser provides a notice to the CRA setting out information regarding the transaction and the vendor.

An existing anti-avoidance rule denies a tax-deferred rollover if, within three years, there is a subsequent disposition of the transferred property or substituted property, and one of the main purposes of the series was to benefit from an exemption from Canadian tax (e.g., under a tax treaty). Budget 2026 proposes to strengthen this rule for rollovers of TCP by non-residents by extending the three-year period to five years and ensuring that a subsequent disposition of a property that principally derives its value from the transferred property or substituted property is also subject to the rule.

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

Sales and excise tax measures

1. GST/HST health measures

Budget 2026 proposes to exempt qualifying massage therapy services from GST/HST when supplied by appropriately licensed, certified or equivalently qualified massage therapists, effective for qualifying supplies made after Budget Day. It also proposes to zero-rate alternating electric field therapy devices specially designed for use by individuals with cancer, also for qualifying supplies made after Budget Day.

2. Pre-approval regime for ITC allocation methods of certain financial institutions

Certain large financial institutions would be permitted to seek advance approval of their GST/HST input tax credit allocation methods for up to three consecutive fiscal years, rather than annually. The Minister could nevertheless limit approval to the first year. The measure would apply to fiscal years of applicable financial institutions beginning after June 30, 2027.

3. GST/HST and excise tax importation rules

Budget 2026 proposes extensive modernization of outdated HS codes and Customs Tariff regulatory cross-references used in the GST/HST and excise tax rules. While largely preserving existing relief, certain amendments would broaden or simplify it, including:

- Updating the definition of “specified motor vehicle” and excluding certain electric cycles, wheelchairs and pedestrian-moved vehicles;
- Expanding relief for international cargo containers to containers with an internal volume of at least 1 m^3 and extending the permitted export period from 30 to 365 days;
- Extending the maximum period of GST/HST relief for qualifying temporary importations from 12 to 18 months;
- Preserving or modernizing relief for display goods, commercial samples, advertising films, international bridge and tunnel authorities, foreign library books and railway assets, including simplifying certain partial railway relief using 1/120 of value for duty;
- Extending temporary-importation relief for certain live entertainment, side-show, concession and amusement-ride equipment;
- Making corresponding updates to HST rules for goods brought into participating provinces and federal excise tax importation rules; and
- Updating HS codes and regulatory references in the federal excise tax importation rules to preserve existing relief for qualifying importations, including goods used in international commercial transportation, personal and household effects, government and international body imports, and temporary imports.

These amendments would generally take effect on the first day of the second month following the day on which the applicable enabling legislation receives Royal Assent.

4. Cannabis taxation

Budget 2026 proposes a new common cannabis excise stamp for participating provinces and territories with equivalent duty rates. Participating jurisdictions would have until Jan. 31, 2027 to opt in, producers could begin using the common stamp on Jan. 1, 2028, and transitional rules would apply through 2029.

The Budget also proposes strengthened compliance measures, including penalties for incorrect destination reporting and unauthorized interprovincial movements, and a new penalty equal to twice the duty on certain unaccounted-for cannabis. These measures would apply on Royal Assent.

5. Spirits licence security requirements

Excise warehouse licensees authorized to possess non-duty-paid packaged spirits would generally be required to post security, with security determined by monthly excise duty liabilities and subject to a C$5,000 minimum and C$2 million maximum per licence. The new requirements would apply to relevant licences issued on or after Royal Assent.

6. Federal fuel excise tax licensing framework

Budget 2026 proposes to modernize the fuel excise tax licensing and relief regime by:

- Expanding eligibility for wholesaler licenses to businesses that resell fuel in the ordinary course;
- Allowing licensed manufacturers to acquire or import fuel without triggering tax where the fuel is intended for resale, not only further manufacture; and
- Introducing a time-limited payment mechanism for certain historical cases since Jan. 1, 2017 where excise tax effectively applied twice to the same fuel and specified conditions are satisfied.

The proposed measures would apply as follows:

- The manufacturer resale relief would apply the day after Budget Day;
- The expanded wholesaler framework would generally apply beginning on the first day of the month following Royal Assent; and
- Applications for the historical payment would generally be required within two years after Royal Assent.

Other tax measures

Budget 2026 also proposes several administrative and other tax measures, including:

- **Indigenous tax arrangements:** Increasing the First Nations Personal Income Tax revenue-sharing rate from 95 per cent to 99 per cent and introducing a ceiling on participating Indigenous governments' share of the cost of the Canada Groceries and Essentials Benefit under First Nations GST arrangements. The changes would be implemented through negotiations with participating Indigenous governments.
- **Ministerial delegations:** Streamlining tax administration by permitting certain matters currently requiring updated regulations to instead be dealt with by the Minister of Finance or Minister of National Revenue. These include designating

regions eligible for the livestock tax deferral, automobile expense limits and rates, eligible foreign spin-offs, and certain administrative requirements applicable to charities and other qualified donees. The requirement for consultation with the Minister of Finance before registration of certain foreign charities as qualified donees would also be removed.

- **Sales tax & excise duty agreements with provinces and territories:** Allowing the Minister of Finance, rather than the Governor in Council, to approve amendments to federal-provincial and territorial agreements concerning GST/HST and cannabis and vaping excise duties, as well as related regulatory amendments implementing provincial or territorial tax policy decisions.
- **Tax administration agreements with provinces and territories:** Removing the requirement for Governor-in-Council approval before the Minister of Finance or Minister of National Revenue may amend federal-provincial or territorial tax administration agreements, including agreements for the federal administration of provincial income taxes.
- **Indigenous tax administration agreements:** Removing the requirement for Governor-in-Council approval for the Minister of Finance to enter into or amend tax administration agreements with Indigenous governments, including arrangements permitting participating governments to levy personal income taxes or value-added sales taxes within their lands.
- **Previously announced measures:** Budget 2026 confirms the government's intention to proceed with numerous previously announced tax measures, subject to modifications arising from consultation. These include the Productivity Mega Deduction; certain legislative and regulatory proposals released on July 23, 2026, including those relating to the Disability Tax Credit, Transfer Pricing, Hybrid Mismatch Arrangements, Investment Tax Credit for Carbon Capture, Utilization and Storage, and others; non-profit organization reporting requirements proposals released on Jan. 29, 2026; measures addressing non-compliance with information requests announced in Budget 2024; and various other technical amendments to federal tax and excise legislation.
- **Advance Tax Rulings:** Budget 2026 also noted changes to the Advance Income Tax Rulings program, which fast-track CRA rulings and providing greater certainty, for investments of C$1 billion or more in Canada.

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