Canada Revenue Agency reverses its long-standing position on the GST/HST Status of Mutual Fund Trailing Commissions

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The Canada Revenue Agency (CRA) has announced a major change to the goods and services tax/harmonized sales tax (GST/HST) treatment of mutual fund trailing commissions (Trailing Commissions). Effective July 1, 2026, Trailing Commissions will be treated as taxable supplies, reversing the CRA's long-standing position that these payments were in respect of exempt financial services.

This change will have significant implications for mutual fund managers (Managers), dealers, and advisors, including new GST/HST registration requirements, system changes, and potential cost impacts.

Background

For decades, the CRA viewed trailing commissions as consideration for an exempt financial service, relying on paragraph 123(1)(l) of the *Excise Tax Act*, which exempts services of "arranging for" the sale or issuance of financial instruments.

This position was reaffirmed as recently as 2022 in GST/HST Interpretation 187184, where the CRA confirmed that Trailing Commissions paid to dealers and agents were generally exempt on the basis that:

- They were paid to dealers for their role in initially arranging the sale of mutual fund units.
- The ongoing nature of the payments did not alter their character as consideration for an exempt financial service.
- The dealer's ongoing client contact was viewed as incidental to the exempt arranging activity.

However, on December 22, 2025, the CRA informed industry stakeholders that it will reverse its long-standing administrative position and treat trailing commissions as taxable for GST/HST purposes beginning July 1, 2026. In its interpretation, the CRA also indicated that the arranging for the initial issuance of units remains an exempt

supply, so any up-front trading fees earned by dealers should not be subject to GST/HST.

According to the CRA:

- Trailing commissions reflect ongoing taxable services provided by dealers and agents, rather than exempt services connected to the original sale of mutual fund units.
- This applies to payments made to both original dealers and new dealers who acquire client accounts.

The CRA's updated view is that trailing commissions compensate dealers for ongoing client servicing, advice, and administrative support—activities that do not fall within the definition of an exempt "financial service."

Implications for industry participants

Dealers and advisors who exceed the C$30,000 taxable supply threshold will now be required to register for GST/HST if they are not already registered, and to begin charging, collecting, and remitting GST/HST on Trailing Commissions received from Managers on or after July 1, 2026.

This represents a significant operational shift: systems must be updated to track taxable commissions, determine the correct GST/HST rate based on billing address, issue tax compliant documentation that supports mutual fund manager's entitlement to inputs tax credits (ITCs), and track GST/HST paid to claim ITCs on related expenses.

The CRA's new position on Trailing Commissions also introduces additional compliance risks. Dealers and advisors must ensure that they correctly classify all revenue streams, distinguish between exempt and taxable services, and maintain adequate documentation to support GST/HST filings. Any failure to collect and remit GST/HST could result in assessments, penalties, and interest. Firms will need to revisit client service models, compensation arrangements, and internal tax controls to ensure alignment with the CRA's revised interpretation and to mitigate exposure as the industry transitions to this new GST/HST regime.

For Managers, GST/HST paid on input costs – including newly taxable Trailing Commissions – may be fully or partially unrecoverable due to the exempt nature of financial instruments which they supply. Although ITC entitlement of Managers is a highly fact specific analysis depending on factors including registration status, Select Listed Financial Institution (SLFI) status, and attribution methodology, Managers should assume GST/HST paid in respect of Trailing Commissions will impact fund economics, either through unrecoverable tax or increased compliance cost and audit risk.

Managers that successfully establish ITC entitlement are still subject to legislative ITC documentary evidence requirements. In our experience existing Dealer Agreements rarely include requirements for parties to furnish Managers with such documentation and Trailing Commissions, as well as the methods by which they are calculated and paid, may present difficulty satisfying these requirements. To address these issues, Managers will likely need to revisit Dealer Agreements.

With respect to investors, while the change does not directly impose GST/HST on investors themselves, Managers may adjust fee structures, potentially affecting overall fund costs.

Transitional considerations

As industry stakeholders begin to digest these changes and determine how their operations may be impacted, they should begin assessing system, contract, and compliance impacts well ahead of the effective date of July 1, 2026. This is particularly true for businesses with new registration requirements, as they may experience processing delays with the CRA.

As the new rules apply to payments made on or after July 1, 2026, regardless of when the underlying fund units were sold, existing agreements may also require renegotiation and amendments to address GST/HST compliance obligations resulting from this change.

Takeaways

This change will have significant implications for Managers and Dealers. Impacted business should:

- Assess GST/HST registration requirements
- Review compensation agreements between Managers and dealers
- Update billing and accounting systems to ensure GST/HST is correctly applied and remitted and ITCs can be validly claimed.
- Model financial impacts on fund operations and investor cost structures.
- Communicate changes to stakeholders, including advisors and distribution partners.

If you have questions about the CRA's new position and its implications for the industry, reach out to any of the key contacts below, or a member of BLG's Tax Group.

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