# Budget 2026: Forgetting to file tax forms could cost up to eight times more

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On Nov. 5, 2026, the Canadian Federal Government released the 2026 Federal Budget with the aspirational title “Masters of our Destiny”, introducing a medley of new tax measures (Budget 2026). Read BLG’s comprehensive analysis for a broader overview of the 2026 federal budget measures.

Budget 2026 features some positive headline ideas but also quietly introduces a significant increase in administrative penalties.

## What you need to know

1. Standard administrative penalties are increasing across the board;
2. Large-sized corporations are now subject to higher penalties than small corporations or individuals; and
3. There are new penalties being introduced for “repeated” offences.

## What administrative penalties are impacted?

Most of the administrative penalties targeted by Budget 2026 apply when a taxpayer fails to file a tax form correctly and on time (or alternatively where forms do not contain all required information). The affected forms include standard tax returns such as T1’s for individuals and T2’s for corporations, and information forms such as T4’s issued to employees or T5013’s which provide information about partnership income. For a full list of provisions affected by the proposed changes, see the reference list at the end of this insight.

The administrative penalties targeting information returns have increased substantially. This trend aligns with recent changes that propose measures to compel taxpayers to provide information, as seen in recent amendments to Reportable and Notifiable Transactions, and proposed changes to the Canada Revenue Agency (CRA) audit powers.

The changes proposed in Budget 2026 shift additional administrative compliance burdens onto taxpayers who must now take on additional financial risk and responsibility in their compliance efforts.

## Indexing penalties to account for inflation

Budget 2026 proposes a two-pronged approach that increases penalties for non-compliance:

- First, the fixed dollar amounts of most administrative penalties will increase to account for historic inflation; and
- Second, these same fixed dollar amounts will adjust every five years to match changes in the Consumer Price Index.

Notably, although many penalty amounts are increasing, Budget 2026 does not propose to increase or index the fixed dollar amount of unindexed tax credits. In Aug. 2026, STEP Canada recommended to the Department of Finance that certain benefits, credits and deductions be indexed to inflation to provide taxpayers with the monetary value intended by Parliament when these provisions were first enacted. STEP Canada's recommendations were not adopted in Budget 2026.

This results in a somewhat inconsistent approach as administrative penalties have been increased and indexed, but there is no corresponding indexation of many benefits, credits and deductions which continue to erode in real value due to inflation.

For example, currently, if personal-use property is sold for proceeds of C$1,000 or less, then there is deemed to be no resulting gain (and therefore no tax liability) on the sale of the property. However, Parliament introduced this C$1,000 figure in 1972 and has not adjusted it for inflation in 54 years. If indexed to inflation, this threshold for the sale of personal-use property would exceed C$3,000.

## New tiered penalty structure

Budget 2026 also introduces a new tiered structure that increases certain penalties proportionally based on the size of the taxpayer. These changes will apply in addition to the aforementioned increases for inflation, making the impact on large corporations significant (often up to eight times the current penalty).

Although the approach is based in fairness and seeks to balance the effect of penalties while maintaining an element of deterrence, the circumstances being targeted are wide-ranging and could lead to compounding results based on the interaction of the provisions. These changes may result in significant economic burdens that punish businesses for relatively simple administrative compliance mistakes.

Budget 2026 adds four new definitions to the *Income Tax Act* related to tiered penalties:

- large-sized corporation: the taxable capital employed in Canada of the corporation and related corporations at the end of the particular taxation year exceeds C$50 million

- medium-sized corporation: the taxable capital employed in Canada of the corporation and related corporations at the end of the particular taxation year exceeds C$10 million but does not exceed C$50 million.
- large-sized partnership: a partnership with gross revenue equal to or greater than C$10 million.
- medium-sized partnership: a partnership with gross revenue equal to or greater than C$2 million and less than C$10 million.

One of the broader penalty provisions introduced in Budget 2026 is titled "Failure to comply – duty or obligation". And although a version of this previously existed in s. 162(7)(b) of the *Income Tax Act*, it is not often used by the CRA. This provision (along with its "repeated failure" counterpart) will allow the CRA to apply penalties for failures such as not responding to audit queries (even in part) under s. 231.1. If the taxpayer is a “large-sized corporation”, those penalties could be up to $25,000 ***per failure***. In a large corporate group, the application of penalties in this instance could compound quickly where multiple entities are under audit and have multiple queries issued across various audits.

As another example, if a "large-sized corporation" had 100 employees and failed to file T4 slips for each one, a penalty of C$20,000 could be levied. If that same corporation failed to file T4s on time in any of the three preceding years, even if late by a single day, that penalty could increase to C$60,000.

Lastly, the 2026 Budget also proposes to increase the maximum fixed fee penalty for late-filing a section 85(1) rollover election from C$8,000 to C$24,000 and triples the monthly fixed penalty accruing from C$100 to C$300. Such elections can be made up to three years late. Beyond three years, the Minister may exercise his discretion to permit the late-filing of such an election. Currently, the penalty for a late-filed election is the lesser of a calculated percentage amount arising from the difference in fair market value and elected transfer price of the transferred asset, or a fixed fee of C$100 for every month late to a maximum of C$8,000. Most rollovers functionally trip the fixed fee rather than the percentage fee, meaning that each late-filing of a Form T2057 would carry a maximum penalty of C$24,000.

**Overview of *Income tax act* provisions impacted by proposed changes:**

- **Section 66(12.75): Flow-through share prescribed forms;**
- **Paragraph 85(8)(b): Late-filed section 85 rollover elections;**
- **Paragraph 93(6)(b): Late-filed foreign affiliate elections;**
- **Subparagraphs 96(6)(a)(ii) and (b)(ii): Late-filed partnership elections;**
- **Subsection 149(7.1): Labour organization information returns;**
- **Subsections 162(2) and (2.01): Repeated failure to file income tax return;**
- **Subsection 162(2.1): Non-resident corporation failure to file;**
- **Subsection 162(3): Trustee failure to file return;**
- **Subsection 162(4): Failure to file certain certificates;**
- **Subsections 162(5) and (5.01): Missing information on prescribed forms;**
- **Subsection 162(6): Failure to provide identification number;**
- **Subsection 162(7): Failure to file information return;**
- **Subsections 162(7.001) and (7.002): Repeated failure to file information return;**
- **Subsection 162(7.003): Failure to comply with duty or obligation;**

- **Subsections 162(7.004) and (7.005): Repeated failure to comply with duty or obligation;**
- **Subsection 162(7.01): Late filing of prescribed information returns;**
- **Subsection 162(7.02): Failure to file prescribed information returns electronically;**
- **Subsection 162(7.1): Partnership information return failure;**
- **Subsection 162(7.11): Definitions for entity-size penalties (interpretive rule);**
- **Subsection 162(7.3): Tax preparer electronic filing failures;**
- **Subsection 162(7.4): Electronic payment failure;**
- **Subsection 162(8): Repeated partnership information return failure;**
- **Subsection 162(8.1): Administration of partnership penalties (interpretive rule);**
- **Subsection 162(10): Gross-negligence failure to file foreign reporting returns;**
- **Subsection 162(10.1): Additional foreign reporting penalty;**
- **Subsection 162(11): Calculation rule for late-filing penalties (interpretive rule);**
- **Section 162.1: Inflation indexing of administrative penalties (interpretive rule);**
- **Subsection 163(2): Gross negligence / false statement or omission;**
- **Subsection 163(2.4): False statements or omissions in foreign reporting;**
- **Subsection 163.2(3): Third-party planner / preparer penalty;**
- **Subsection 163.2(5): Third-party false statement penalty;**
- **Subsection 163.3(2): Electronic sales suppression device possession or use;**
- **Subsection 163.3(3): Electronic sales suppression device manufacture or development;**
- **Subsection 163.3(4): Electronic sales suppression device supply;**
- **Subsection 188.1(6): Charity / qualified organization failure to file information return;**
- **Subsection 220(3.5): Late or amended elections;**
- **Subsection 237.1(7.4): Tax shelter reporting / identification penalty;**
- **Subsection 281(3): CRS failure to provide TIN;**
- **Subsection 293(3): Digital platform reporting failure to provide TIN; and**
- **Subsection 303(3): Crypto-asset reporting failure to provide TIN.**

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