CRA overhauls the voluntary disclosure program

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The voluntary disclosure program (VDP) administered by the Canada Revenue Agency (CRA) allows taxpayers to disclose errors or omissions under various tax statutes. Successful VDP applications receive penalty and interest relief and are not referred for criminal prosecution.

The CRA recently published new guidelines for administering the VDP that take effect for applications received by CRA on or after Oct. 1, 2025. The changes are intended to simplify the VDP process to make it easier for taxpayers and registrants to come forward and correct past errors or omissions.

What you need to know

- **Increased eligibility:**
  - The new guidelines allow “prompted applications” - where CRA has already notified the taxpayer about a compliance issue or CRA has received information from third parties. Prompted applications are eligible for up to 100 per cent penalty relief, and 25 per cent interest relief. This is a new and welcome development. Previous guidelines all but forbade VDP in this context.
  - Taxpayers can now apply to the VDP for interest relief even where there is no penalty. Previous guidelines required a penalty assessment for VDP eligibility.
  - The new guidelines lower the threshold for a second VDP application by the same taxpayer.
- **More interest relief**: For "unprompted applications", the new guidelines allow for up to 75 per cent interest relief, including in the three most recent years. This is another welcome development given the high prescribed rate of interest for tax, that compounds daily. Previous guidelines allowed for a maximum of 50 per cent for interest relief and did not provide for interest relief in the 3 most recent years.
- **Simplified document requirements:** CRA has simplified the document requirements for a successful VDP application. Depending on the nature of the tax issue, under the new guidelines taxpayers will need to provide documentation (*e.g.*, returns, forms, statements, schedules) for the most recent four to ten years. Previous guidelines did not provide for such time limits.

Increased eligibility

The new guidelines separate applications into two different types: the “prompted applications” and the “unprompted applications”. The differences between the two types of applications are the following:

- **Unprompted Application:** An application is made when there has been no communication (verbal or written) about an identified compliance issue related to the disclosure. An application would fall under this category if it is made following an education letter or notice that offers general guidance and filing information related to a particular topic.
- **Prompted Application:** An application is made following (i) verbal or written communication about an identified compliance issue related to the disclosure or (ii) after the CRA has already received information from third party sources regarding the potential involvement of a specific taxpayer (or of a related taxpayer) in tax non-compliance.

The relief granted for prompted applications is a new and welcome development, as the previous guidelines all but forbade applications where the CRA had already received information regarding the taxpayer’s potential non-compliance.

Additionally, under the new guidelines, the conditions for eligibility are met even if the error or omission gives rise to interest only (*i.e*., no penalties). Under the previous guidelines the VDP application had to involve the application or potential application of a penalty.

The CRA has also lowered the threshold for the eligibility of a second application by the same taxpayer. Under the previous guidelines, a second application would normally only be considered by the CRA if *both* (i) the circumstances were beyond the taxpayer’s control *and* (ii) the second application relates to a different matter than the first application. Under the new guidelines, the CRA may consider a second application if either one of these conditions is met.

Under the new guidelines, both prompted and unprompted applications must still be voluntary for a successful VDP application. Specifically, an application will be considered involuntary if an audit or investigation has been initiated against the taxpayer or a related taxpayer in respect of the information being disclosed by the CRA, a law enforcement agency, securities commission, or other federally or provincially regulated authority.

Relief under the new guidelines

Under the new guidelines, the VDP will offer two categories of relief:

- **General relief** will generally apply to applications that are considered “unprompted applications”. In such instances, the applicant will receive 100 per cent relief from applicable penalties, and 75 per cent relief of the applicable interest. The previous guidelines only allowed for up to 50 per cent interest relief in the years preceding the 3 most recent years of returns required to be filed.

- **Partial relief** will generally apply to applications that are considered "prompted applications". In these circumstances, the applicant will receive *up to* 100 per cent relief of the applicable penalties, and 25 per cent relief of the applicable interest. It's worth noting that under the new guidelines CRA does not commit to full penalty relief for prompted applications – partial penalty relief is a possibility.

CRA can only grant penalty and interest relief for the most recent ten years as permitted by statute.

Simplified application process & reduced documentation

According to CRA, the application form for the VDP has been overhauled to make it simpler and more user-friendly. The new form will be released on Oct.1, 2025, when the new guidelines come into effect.

The CRA has also reduced the documentation requirements for VDP applications. Under the new guidelines, supporting documentation (for example, returns, forms, statements, schedules) needed to correct the non-compliance will need to be provided for the following:

- The most recent **10 years** for disclosures involving foreign-sourced income or assets;
- The most recent **6 years** for disclosures involving Canadian-sourced income or assets; and
- The most recent **4 years** for disclosures involving GST/HST matters.

CRA nonetheless reserves the right to request records for additional years or reporting periods outside of these years.

Additional tax statutes

Previous guidelines allowed taxpayers to apply for relief under the VDP in respect of their obligations under the following legislation:

- *Income Tax Act*;
- *Excise Act, 2001*;
- *Excise Tax Act*;
- *Air Travellers Security Charge Act*; and
- *Softwood Lumber Products Export Charge Act, 2006*.

The new guidelines allow taxpayers to apply for relief under the VDP in respect of their obligations under the same tax legislation provided for in the previous guidelines, but they also explicitly mention the CRA providing relief in respect of the following taxes:

- Fuel charge under Part I of the *Greenhouse Gas Pollution Pricing Act*;
- Luxury tax under the *Select Luxury Items Tax Act*;
- Underused housing tax under the *Underused Housing Tax Act*;
- Digital services tax under the *Digital Services Tax Act*; and

- Tax under the *Global Minimum Tax Act*.

Contact us

If you are aware of a tax non-compliance issue and would like to obtain relief from interest and penalties by submitting a VDP application, please reach out to Patrick Reynaud, Tony Zhang, Robert Dziarmaga or another member of BLG's Tax Group to assist you.

By

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