Federal Budget 2025: Department of Justice to explore changes to Tax Court rules

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Federal Budget 2025 (Budget 2025), released on Nov. 4, 2025, includes an announcement by the Department of Justice detailing their intention to realize a 15 per cent savings in department spending over the next three years.

To achieve this savings goal, Budget 2025 suggests various changes will be implemented within the Department of Justice, including creating a leaner management structure and "reducing redundancies." However, it is not clear how the proposed changes will lead to the touted efficiencies and cost savings, and may lead to additional administrative costs in the long run.

Investment in AI

Budget 2025 states that the Department of Justice is planning to leverage AI to boost cost savings, with a total of $140M to be injected into "modernizing government operations" over the next four years (see Budget 2025, Annex 3, Table A3.17). The announcement is timely, in the wake of the expansion of AI infrastructure across Canada and Budget 2025's overall commitment to doubling down on AI technologies. Investment in modernization should be applauded, but it remains to be seen if the proposed efficiencies will be realized within the Department of Justice and are worth the significant upfront cost.

Informal procedure

Budget 2025 also states that the Department of Justice will "explore" changes to the informal procedure rules at the Tax Court of Canada as a way to "effectively deliver legal services" specifically, this by looking at raising the monetary thresholds for the informal procedure process that have been in place since 2013.

For taxpayers with smaller tax disputes ($25,000 or less if income tax-related, and $50,000 or less if GST/HST-related), the informal procedure rules offer a streamlined procedure that is intended to increase access to justice and be available to self-represented litigants. So long as the disputed amounts fall below these limits, a taxpayer is able to access this informal procedure. Informal procedure appeals can be

more cost-effective to pursue than a general procedure appeal: one example of this is that informal appeals do not include the discovery process, which can be costly.

While a review of the informal procedure rules may be necessary to minimize procedural hurdles and keep up with inflation, increasing the dollar value threshold may only raise the government's overall spend, not lower it. With a lower threshold, it is likely that more taxpayers will be seeking relief at the Tax Court, putting more strain on an already overloaded system.

Lower costs, but for whom?

Budget 2025 suggests that updates to the informal procedure rules will "lower litigation cost for Canadians and Canadian businesses and the federal government." These hypothetical cost savings appear to assume that the number of appeals being heard will remain consistent and that by raising the limits, matters bound for general procedure would be subject to the truncated informal procedure process. The reality is that there are likely to be many more matters heard under the informal procedure rules that would not otherwise be heard at all.

In an informal appeal, corporations can appear with self-represented counsel. Self-represented persons are generally not familiar with the complex rules that apply to general procedure. This can cause delays as the appeal progresses, with self-represented persons often needing assistance in navigating the court process. These delays cause additional time and costs being incurred by the Department of Justice.

If the threshold is hypothetically raised from $25,000 to $100,000, many more cases could be heard under the expedited process of informal procedure, likely increasing the number of delays. Both the Department of Justice and Tax Court of Canada resources and spending would likely increase in order to manage the influx of appellants.

Takeaways

Although changes to the informal procedure rules would be admirable and welcome from an access to justice perspective, it is doubtful any changes to the informal procedure rules would represent a cost savings to the federal government. The initial cost savings lies with persons who would have expanded access to the streamlined informal process, but the potential for an additional burden on the system means that Canadians will pay the costs for administering tax appeals one way or another.

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