KPMG

TaxNewsFlash

Canada

Mutual Fund Dealers — Trailing Commissions and GST/HST

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Mutual fund dealers must start collecting GST/HST on their mutual fund trailing commissions starting July 1, 2026, according to the CRA's new position. The CRA confirmed it was changing its longstanding position in an interpretation letter issued in December 2025, and will now consider mutual fund trailing commissions as consideration for taxable supplies. Due to the various technical and practical issues related to this upcoming change, mutual fund dealers may want to consider postponing significant capital property purchases until after July 1, 2026, if it makes business sense. Quebec has not yet announced whether it will adopt a similar interpretation for mutual fund trailing commissions for QST purposes.

While mutual fund dealers may benefit from lower tax costs under the CRA's new position, they face challenges in applying the new position to their specific facts and adjusting all of their systems and processes. This *TaxNewsFlash* summarizes some of the potential issues that may arise from the CRA's new position. Specifically, many dealers must prepare now to adjust various parts of their operations (systems, processes, agreements, tax functions and billing systems). These dealers must also review their GST/HST registration status and filing reporting periods, financial institution's status, input tax credit (ITC) eligibility and allocation, compliance obligations and any specific selected listed financial institution (SLFI) rules, among other considerations. We expect the CRA will provide further guidance on the implementation of this change in the coming months.

Background
Mutual fund managers generally work with mutual fund dealers to sell mutual funds to investors. Typically, mutual fund managers and dealers enter into agreements where dealers are engaged to sell units of mutual funds to investors. In return, dealers

generally receive up-front trading fees for these transactions, and/or trailing commissions that are paid periodically. While managers are often engaged exclusively in commercial activities and can claim ITCs for all or part of their GST/HST costs, mutual fund dealers were generally considered to make exempt single supplies of "arranging for" the transfer of financial instruments under the CRA's previous position on the tax status of mutual fund trailing commissions. Based on that position, a single supply could have also included other services, such as certain investment advice and account statements, provided by the dealer to the investor after the initial transfer. Accordingly, many dealers could not claim ITCs for GST/HST paid on their operational expenses and capital property related to these GST/HST exempt supplies. Many dealers were also considered as "financial institutions" under the GST/HST rules and subject to specific related rules.

Single and multiple supplies

Mutual fund managers may pay various amounts to mutual fund dealers, including initial or up-front trading fees, trailing commissions, and in some cases, asset-based fees. Typically, interpretation letters and recent case law on multi-component services generally review at great length the single and multiple supplies concept, along with an assessment of the services' predominant element in the case of single supplies.

KPMG observations

Notably, the CRA's December 2025 letter does not provide a detailed analysis on single and multiple supplies in the context of mutual fund dealers. However, the letter distinguishes the initial fees for issuing the units from the trailing commissions. In its letter, the CRA confirms that arranging for the initial issuance of units continues to be an exempt supply, and as such, no GST/HST applies to initial or up-front trading fees. Based on the CRA's December 2025 letter, it appears that mutual fund dealers' services related to trailing commissions are now considered a separate single taxable supply of asset management services.

However, the CRA's letter does not provide any details on no-load funds. In general, dealers receive only trailing commissions from managers for their services for these types of funds. Although the CRA confirms that any up-front trading fees earned by dealers remain consideration for GST/HST exempt supplies of "arranging for", there are no specific details for funds where there are no such up-front trading fees.

It is interesting to note that managers are generally only paid if they sell units. Without the sale of any units, there are no trailing commissions. The question is what is the nature of the services rendered by mutual fund dealers when they sell units of no-load funds. Are these dealers providing GST/HST exempt "arranging for" services, or GST/HST taxable asset management services? Based on the CRA's December 2025 letter, it appears that dealers' services related to no-load funds could potentially be considered GST/HST taxable services. However, it is unclear whether the CRA intends to distinguish trailing commissions paid in respect of no-load funds from those

associated with other types of mutual funds (e.g., funds with initial or up-front trading fees).

Start collecting GST/HST

Mutual fund dealers that are currently not registered under the GST/HST rules may have to register and start collecting GST/HST effective July 1, 2026 as per the CRA's December 2025 letter.

KPMG observations
While the CRA notes that its new administrative position applies effective July 1, 2026, in the absence of related legislative changes to reflect the CRA's new position, it remains unclear whether the interpretation could apply before the CRA's stated effective date. In such a case, mutual fund dealers would have had to collect GST/HST on trailing commissions prior to July 1, 2026.

Also, among various other changes, dealers must update their systems and processes to reflect the CRA's new position. Many mutual fund dealers are currently registered with annual reporting periods, under specific registration rules for financial institutions. If a dealer is no longer considered as a financial institution based on its own facts, its GST/HST reporting periods may have to be adjusted.

Determine "financial institution" status

In addition to new registration and collection obligations, dealers face other operational changes. According to the CRA's new position, some dealers may no longer qualify as "financial institutions" effective July 1, 2026. A person whose "principal business" is to trade financial instruments is generally considered a financial institution for GST/HST purposes.

KPMG observations
The "principal business" test is fact specific, and the analysis generally takes into consideration the person's revenues, activities and assets, among other characteristics. A number of questions arise surrounding the "principal business test", including how the CRA would weigh the revenues related to GST/HST exempt up-front trading fees against revenues from periodic GST/HST taxable trailing commissions when these commissions are so intertwined with the initial sales of the units. As noted previously, where a dealer does not have any unit sales, dealers do not collect any trailing commissions. Under the CRA's new position, it is unclear whether a dealer will qualify as a "financial institution" if all or most of its revenues consist only of GST/HST taxable trailing commissions (e.g., with no GST/HST exempt up-front trading fees). For example, if the new position applies to no-load funds, any activity connected to the actual sale of units may form part of the GST/HST taxable

supply of asset management services. The question is what is the "principal business" of the dealers in such cases.

SLFI part of the year means SLFI for the entire fiscal year

If a dealer no longer qualifies as a financial institution, they may no longer be subject to specific rules for listed financial institutions and selected listed financial institutions (SLFIs), and related restrictions and filing obligations.

KPMG observations
Dealers must consider that in certain situations the rules for financial institutions and SLFIs apply for the entire fiscal year, even if their financial institutions or SLFI status changes during that year.

Dealers must also remember that some GST/HST calculations and rules apply specifically for SLFIs. If they are no longer financial institutions or SLFIs, they may have to review some of their obligations (e.g., the GST/HST pension plan rules for certain employers).

Also, dealers who are no longer subject to SLFI rules may have to review their returns as some SLFI adjustments are not made in the current fiscal year but rather in their next reporting period. Changing SLFI status could impact these calculations and obligations.

Filing obligations for GST/HST annual information return

Certain dealers may be required to file an additional GST/HST return due to the mid-year effective date of July 1, 2026 under the CRA's new position. Mutual fund dealers that were considered financial institutions before July 1, 2026 and become registrants on that date may be required to file the GST/HST Annual Information Return for financial institutions for the first time for the fiscal year that includes July 1, 2026.

KPMG observations
This annual filing requirement applies where a person was both a financial institution and a registrant at any time in the fiscal year, and meets certain revenue thresholds. Mutual fund dealers with a June 30 fiscal year-end that cease to be financial institutions on July 1, 2026 may not be affected by this timing issue. Similar rules apply for QST purposes.

De minimis financial institution test

In certain circumstances, dealers who no longer qualify as financial institutions under the "principal business" test, may still qualify as such under the *de minimis* test, depending on their threshold of financial revenues.

KPMG observations
While the GST/HST rules and restrictions for *de minimis* financial institutions are generally less stringent than the ones for SLFIs, dealers must determine if they still qualify as financial institutions, and if so, must understand any changes related their GST/HST filing and compliance obligations.

Allocate and claim ITCs

Based on the CRA's new position, mutual fund dealers will be making more taxable supplies in the course of their commercial activities starting July 1, 2026 which will allow more dealers to claim ITCs on the GST/HST paid on their expenditures. Some dealers may be making both taxable and exempt supplies and will have to allocate their costs between these supplies.

KPMG observations
The CRA's December 2025 letter does not provide details on whether dealers will be eligible to claim ITCs under the "change of use" rules for capital property acquired before July 1, 2026. This uncertainty is further complicated because the particular "change of use" is potentially triggered by a change of interpretation, rather than an amendment to the legislation or an actual change in the services rendered by the dealers. If the change of use rules apply, dealers may be eligible to claim ITCs on capital property acquired before July 1, 2026. If the rules do not apply, the question is whether a dealer currently registered for GST/HST may be entitled to claim an ITC under the general four-year deadline rules. However, the other side of the ITC entitlement is that dealers have not collected GST/HST on trailing commissions during those four years, which could potentially also raise some compliance challenges.

Closely related entity elections

In some closely related groups, mutual fund dealers that qualify as financial institutions may have section 150 GST/HST elections in place with managers to deem certain services to be GST/HST exempt. These elections cease to apply on the date the dealer no longer qualifies as a financial institution.

KPMG observations
Where a section 150 GST/HST election ceases to apply, the dealer and the manager may be eligible to make the section 156 GST/HST election under which qualifying supplies are deemed made for nil consideration. However, the parties should note that the section 156 election has different rules and restrictions and must be filed with the CRA by a specific deadline.

Applying new rules to existing agreement on July 1, 2026

Based on the December 2025 letter, the CRA's new position applies to supplies made on or after July 1, 2026.

KPMG observations
It remains unclear whether an agreement signed prior to July 2026 would be treated as entirely "made" before the effective date under the deemed provision for agreements under the GST/HST rules, or whether the services relating to trailing commissions under such an agreement would instead be viewed as separate supplies of ongoing services for GST/HST purposes.

We can help

Your KPMG adviser can help you manage the impact of these administrative changes and upcoming deadlines that may affect your business. For details, contact your KPMG adviser.