



# TaxNewsFlash

Canada

## Dealers — CRA Pushes Trailing Commission GST/HST to 2028

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The CRA has extended the enforcement date for the application of the GST/HST to services related to mutual fund trailing commissions provided by mutual fund dealers to January 1, 2028 (from July 1, 2026). This extension applies where dealers have not claimed input tax credits (ITCs) for GST/HST paid on related business inputs. Where such ITCs have been claimed, dealers will be required to collect and remit GST/HST on services related to mutual fund trailing commissions from the day the supplies are made. These rules are confirmed in a recently updated GST/HST Notice and are intended to help the industry adapt to the CRA's updated position (new position) to consider these services as GST/HST taxable services (instead of exempt financial services). The updated Notice confirms the extended enforcement date and provides details on dealers' GST/HST collection obligations during the transition period prior to January 1, 2028.

Based on the CRA's updated position, services related to mutual fund trailing commissions paid by mutual fund managers to dealers are now considered as GST/HST taxable services (instead of exempt financial services) as a result of what the CRA says are changes in recent years to the mutual fund industry regulations and practices. The CRA intended to enforce this new tax treatment on services supplied on or after July 1, 2026, and encouraged dealers to apply the new tax treatment as soon as possible, as announced on February 10, 2026. As such, some dealers may be GST/HST registered during the transition period, while others may not. Considering the new enforcement date, mutual fund dealers will have to determine their compliance obligations during the transition period based on their specific facts (e.g., GST/HST registration status and ITC claims).

Revenu Québec recently confirmed that it would mirror the CRA's updated position on mutual fund trailing commissions for QST purposes. However, Revenu Québec has not yet announced if it will also extend the enforcement date.

### **Background**

The CRA announced that it was updating its longstanding view on the GST/HST status of services related to mutual fund trailing commissions in an interpretation letter issued in December 2025, citing industry changes and regulations, and that it would enforce the application of GST/HST on such commissions on supplies made on or after July 1, 2026. These services were previously considered GST/HST exempt financial services. The CRA confirmed its updated position in GST/HST Notice 344 "Application of the GST/HST to Mutual Fund Trailing Commissions" released on February 10, 2026. The Notice was updated on May 26, 2026. For more information on the GST/HST tax treatment of mutual fund trailing commissions and initial fees and the industry regulation changes highlighted by the CRA in its Notice, see *TaxNewsFlash-Canada* 2026-09, "[CRA Confirms GST/HST Position on Trailing Commissions](#)", and *TaxNewsFlash-Canada* 2026-06, "[Mutual Fund Dealers — Trailing Commissions and GST/HST](#)".

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 (either directly via their employees or through independent contractors called "advisors"). In return, dealers generally receive up-front trading fees (i.e., initial or one-time fees) for these transactions, and/or trailing commissions that are paid periodically. Dealers using advisors then pay a portion of the trailing commissions they receive to these advisors.

Managers are often engaged in commercial activities and can claim ITCs for all or part of their GST/HST costs, and input tax refunds (ITRs) for QST purposes if applicable. However, under the CRA's previous position on the tax status of mutual fund trailing commissions, dealers were generally considered to make exempt single supplies of "arranging for" the transfer of financial instruments. 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.

Some dealers are also subject to specific GST/HST compliance obligations for financial institutions. Dealers are considered "financial institutions" under the GST/HST rules if their principal business is as a dealer of financial instruments (i.e., mutual fund). The analysis of the principal business test generally takes into account various criteria, including business activities, revenues and assets. Based on their GST/HST registration status, dealers who are financial institutions may have one or two GST/HST annual returns for financial institutions due by June 30, among other GST/HST compliance obligations.

## Dealers — Transition period prior to January 1, 2028

Dealers must determine, based on their specific facts, how the GST/HST rules apply to their mutual fund trailing commissions, and possible ITC and ITR claims, during the interim period leading up to the revised enforcement date. In light of the extended enforcement date and the CRA's encouragement for dealers to implement the updated position early, some dealers may collect GST/HST on their mutual fund trailing commissions before 2028, while others will start after 2027.

### *Transition rules under the extended enforcement date*

The CRA has clarified that it will enforce the application of the GST/HST on dealers' services related to mutual fund trailing commissions as follows:

- Effective on or after January 1, 2028 if no ITCs were claimed on related business inputs prior to 2028
- From the day such supplies of dealer services are made if the dealer has claimed ITCs on related business inputs (i.e., prior to 2028).

The CRA continues to encourage dealers to apply its updated position as soon as possible. Dealers who register and claim ITCs on business inputs related to mutual fund trailing commissions during the transition period prior to January 1, 2028 are required to collect and remit GST/HST on their mutual fund trailing commissions.

### **KPMG observations**

The transition rules do not appear to rely on whether dealers are GST/HST registered or not. Instead, the rules in the updated Notice appear to rely on ITC claims to determine the effective enforcement date of the CRA's updated position. Based on the updated Notice, dealers who already registered in anticipation of the original July 1, 2026 enforcement day, may not be subject to CRA's updated position until January 1, 2028 as long as they have not claimed any related ITCs before that date. If dealers treated their services related to mutual fund trailing commissions as taxable supplies by claiming ITCs on related business inputs, these dealers must collect GST/HST on these services during the transition period.

The CRA also clarified that dealers who collect GST/HST on mutual fund trailing commissions earned prior to January 1, 2028 may be eligible to claim ITCs related to their business inputs attributable to those services.

In some cases, mutual fund dealers who are not registered or who will not claim ITCs on business inputs related to mutual fund trailing commissions prior to 2028 may want to consider postponing, if it makes business sense, significant capital property purchases until they start to apply the CRA's updated position.

It is currently unclear if dealers that have already claimed related ITCs since the CRA announced its updated position could switch to the new extended enforcement date of

January 1, 2028 by not claiming any further related ITCs for the remainder of the transition period.

### Dealers that are FIs — File annual GST/HST and QST returns by June 30, 2026

Dealers with a December 31 year-end that qualify as financial institutions under the GST/HST rules may have to file one or two annual GST/HST returns for financial institutions by June 30, 2026 if they meet all the related criteria. Dealers and other financial institutions with different year-ends have different filing deadlines for these returns. Similar rules apply for QST purposes.

The updated Notice does not provide any details on the GST/HST “financial institution” status of dealers whether during or after the transitional period. Dealers will have to determine their “financial institution” status in light of the CRA’s updated position to determine if they must file any annual GST/HST and QST returns for FIs, in addition to their regular GST/HST and QST returns.

#### *GST/HST annual information returns for FIs due June 30*

Generally, a person that qualifies as a financial institution at any time during the year, who is registered for GST/HST, and with an annual income of more than \$2 million, must file an annual GST/HST information return for financial institutions no later than six months after their year-end. Businesses that are deemed to be a financial institution are also subject to these filing obligations. As a result, an affected GST/HST registered dealer with a December 31 year-end must file form GST111, “Financial Institution GST/HST Annual Information Return”, or the combined form RC7291, “GST/HST and QST Annual Information Return for Selected Listed Financial Institutions” by June 30, 2026 for its 2025 fiscal year, unless an exception applies.

If a dealer that qualifies as a financial institution registered for GST/HST only in 2026, the dealer may be required to file a GST/HST annual information return for financial institutions for its 2026 fiscal year no later than six months after its year-end if all relevant criteria are met.

As previously noted, a mutual fund dealer may be considered a financial institution based on its principal business. A business may also be a deemed financial institution for GST/HST purposes if the business has more than \$1 million of income from financial types of services, like interest, fees or other charges generated from lending money, money advances, granting credit or credit card operations.

#### **KPMG observations**

The CRA has not issued guidance with respect to its updated position on mutual fund trailing commissions regarding the financial institution status of dealers. If a dealer no longer qualifies as a financial institution under the CRA’s updated position, the GST/HST registered dealer may still be required to file the GST/HST annual information return for the current fiscal year. This is because, based on the current rules, dealers that are financial

institutions for any period during their fiscal year must file the GST/HST annual information return for financial institution if they meet all other criteria (e.g., registration status and minimum \$2 million of annual income). If dealers are no longer financial institutions under the CRA's updated position, dealers will have to carefully determine their GST/HST filing obligations during and after the transitional period.

### [Annual GST/HST final returns for SLFIs](#)

Dealers and other affected financial institutions that qualify as selected listed financial institutions (SLFIs) may have to file annual returns specific for SLFIs under the GST/HST and QST rules. In addition to having to file the annual GST/HST information return for financial institutions in some cases, SLFIs are generally also required to file the annual GST/HST and QST final return for SLFIs no later than six months after their year-end. This filing obligation applies to both GST/HST registered or non-registered SLFIs, in addition to any regular GST/HST and QST filing requirements. As a result, SLFIs that have a December 31 year-end must file the annual GST/HST and QST final return for SLFIs for their 2025 fiscal year by June 30, 2026. In general, a financial institution qualifies as a SLFI if it has a permanent establishment in an HST province and in another province for GST/HST purposes, or in Québec and in another province for QST purposes.

Based on their facts and SLFI status, certain financial institutions may have to file specific separate QST forms based on the QST rules.

### **KPMG observations**

Similar to the rules for the annual GST/HST information return for financial institutions, a financial institution that qualifies as a SLFI during the year is generally a SLFI for the entire particular fiscal year. As such, dealers that start to qualify as a non-SLFI (changed from a SLFI) at any time during a fiscal year will generally still have to file the annual GST/HST final returns for SLFIs for that particular fiscal year. Dealers will have to determine how the CRA's updated position will affect their SLFI status and filing obligations with regards to the annual GST/HST final returns for SLFIs.

### **We can help**

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