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TaxNewsFlash

Canada

2026 Federal Budget Highlights

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Canada's Finance Minister delivered the 2026 federal budget on November 5, 2026. The budget expects a deficit of $62.3 billion for 2026-27 and forecasts deficits of $62.5 billion for 2027-28 and $57.6 billion for 2028-29. This year's budget does not include personal or corporate income tax rate changes, but does feature several significant tax measures affecting a broad range of corporate and personal taxpayers. In particular, the budget changes the personal income tax return filing deadline and tax payment due date to May 15, increases instalment thresholds for individuals and corporations, and doubles the threshold for the T1135 Foreign Income Verification Statement reporting. In addition, the budget extends the Notice of Objection deadline to one year, but no longer allows for further extensions. The budget also significantly increases administrative penalties.

As expected, the budget announces several new business-friendly measures, including a Canada Growth Incentive which provides up to a $15 million capital gains exemption on certain eligible shares and a reduction of withholding and remittance rates on dispositions of taxable Canadian property.

Personal tax changes

Individuals' tax return filing and balance-due date

The budget changes the T1 personal income tax filing and balance-due dates to May 15 for all individuals, including self-employed individuals and their spouses or common-law partners. These measures will apply to the 2027 and subsequent taxation years.

Instalment thresholds

The budget increases instalment thresholds to $7,500 (from $3,000) for corporations and individuals resident outside Quebec, and to $4,500 (from $1,800) for individuals resident in Quebec. The thresholds will be indexed to inflation and rounded to the nearest $500. Any

remaining tax payable for a taxation year would be due on the applicable balance-due date. This measure applies to taxation years that begin on or after January 1, 2028.

Instalments for individuals with business income

The budget allows individuals whose primary source of income is from a business (including professional or commission income) to make a single annual instalment payment, instead of quarterly instalments. The single instalment payment would equal two-thirds of their combined federal-provincial net tax owing for the year and be due by December 31. The remainder would be due on the applicable balance-due date. This change would extend similar treatment to what is currently available for farming and fishing income to other business income. This measure applies to the 2028 and subsequent taxation years.

Optional flat amounts for personal income tax deductions and credits

The budget introduces optional flat-amount calculation methods for the following deductions and credits:

- *Eligible relocation* — Allows individuals making an eligible relocation to deduct a flat $1,000. The amount deducted would still be limited to the individual's employment or self-employment income earned at the new location, or to the student's taxable income from scholarships, bursaries and research grants. If an individual claims the flat amount in respect of an eligible relocation, that individual's spouse or common-law partner would not be permitted to claim a deduction for the same eligible relocation.

- *Clergy residence deduction* — Allows eligible individuals to deduct a flat amount in a year of $1,000 for each month in which they are eligible for the deduction, up to a maximum of $12,000 for a year, subject to certain conditions.

- *Labour mobility deduction for tradespeople* — Allows eligible tradespeople and apprentices working in the construction industry who undertake an eligible temporary relocation to deduct a flat $1,500 per year instead of claiming actual eligible expenses incurred.

- *Home Accessibility Tax Credit* — Allows eligible individuals who incur qualifying expenses to calculate the credit using a one-time optional flat-expense amount of $1,000 for a year instead of claiming their actual expenses incurred, subject to various conditions.

- *Adoption Expense Tax Credit* — Allows eligible adoptive parents to calculate the credit using an optional flat expense amount of $1,200 per adopted child in the year an adoption is completed.

These measures apply to the 2027 and subsequent taxation years.

Intergenerational farm and fishing property rollover

The budget expands the intergenerational farm and fishing property rollover to include transfers to a niece, nephew, grandniece, or grandnephew (from children, grandchildren, and great-grandchildren) of the taxpayer or the taxpayer's spouse or common-law partner. This measure is effective for transfers that occur on or after January 1, 2027.

Medical Expense Tax Credit

The budget simplifies the documentation requirements for certain expenses that qualify for the medical expense tax credit. Among others, the requirement for prescription is removed for certain expenses that are incurred exclusively for medical purposes. This measure applies to 2026 and subsequent taxation years.

The budget also introduces the option to use a flat-amount method (instead of the detailed method) for the following:

- For the purposes of the medical expense tax credit, an optional flat-amount of $1,000 for gluten-free foods for an individual with celiac disease. This measure applies to 2026 and subsequent taxation years.
- For the purposes of the medical expense tax credit, an optional flat-amount of $500 for incontinence products. This measure applies to 2027 and subsequent taxation years.
- For the purposes of the medical expense tax credit or disability supports deduction, an optional flat-amount of $2,000 for annual service dog expenses (excluding acquisition costs). This measure applies to 2027 and subsequent taxation years.

Registered Disability Savings Plan (RDSP)

The budget makes permanent the temporary measure that is currently in place up to the end of 2026, which allows a qualifying family member of the adult beneficiary of the plan to open an RDSP and be the plan holder.

T1135 reporting

The budget increases thresholds relating to the Foreign Income Verification Statement (Form T1135). Form T1135 is required if taxpayers own specified foreign property with a total cost greater than $200,000 during the fiscal year (from $100,000). The threshold for simplified reporting is also increased to specified foreign property with a total cost of less than $500,000 (from less than $250,000). This measure applies to taxation years that end after 2026.

Deductibility of expenses against commission income

The budget eliminates the rules that prevent commission employees from deducting travel and motor vehicle expenses under the general employee provisions when they also claim

expenses under the commission-employee rules. This measure applies to the 2027 and subsequent taxation years.

Lump-sum thresholds for periodic payment of benefits

The budget increases the lump-sum payment threshold to $50 per month (from $20 per month) for the Canada Child Benefit (CCB), to $70 per quarter (from $50 per quarter) for the Canada Groceries and Essentials Benefit (CGEB) and, for the 2027 taxation year only, to $70 per payment (from $33 per payment) for the Advance Canada Workers Benefit (CWB). This measure applies to benefits paid after June 2027. The budget also indexes the CCB and CGEB thresholds annually to inflation as of July 2028.

Advance Canada Workers Benefit

For the 2027 taxation year, the budget reduces the Advance CWB to 25% (from 50%) of the individual's CWB entitlement for the 2026 taxation year. The Advance CWB would be eliminated beginning in the 2028 taxation year.

Build Canada Workers Benefit

The budget enhances and renames the CWB to the Build Canada Workers Benefit (BCWB) for the 2027 and subsequent taxation years.

Scholarship, fellowship, and bursary income

The budget allows students to claim a full or partial tax exemption for scholarship, fellowships or bursaries income with respect to specified education programs even if a student received financial assistance from an arm's-length person, such as an employer. This measure applies to the 2027 and subsequent taxation years.

Deductibility of expenses by employed artists

The budget replaces the existing cap on the deduction for employed artists (the lesser of $1,000 and 20% of the artist's employment income for the year from specified artistic activities) with a limit equal to the amount of the artist's employment income for the year from the specified artistic activities. This limit is reduced by other employment expenses. Expenses can be carried forward and deducted in future years. This measure applies to the 2027 and subsequent taxation years.

Registered Retirement Savings Plans (RRSPs)

The budget announces a consultation on merging the core features of the RRSP and RRIF into a single "RRSP for life", eliminating the need for individuals to convert their RRSP to a RRIF at age 71. Individuals over the age of 71 would continue to be required to make minimum withdrawals. The consultation would also explore whether and how the RRSP rules could include a "successor holder" (i.e. a spouse or common law partner) and whether the current RRSP indirect "rollover" provisions could be replaced to permit direct

tax-free transfers on death to qualified registered vehicles of qualifying survivors. Interested parties are invited to send written representations to Finance by January 8, 2027.

Canada Groceries and Essentials Benefit supplement

The budget announces a one-time Canada Groceries and Essentials Benefit (CGEB) supplement. This supplement, which will be delivered in early 2027, will be equal to half of the maximum annual CGEB amounts for the 2026-27 benefit year. The maximum amounts of this supplement would be $223 per adult, $117 per child and $117 for the single supplement. For this supplement only, the phase-in and phase-out rates would be adjusted to 6% and 15%, respectively.

Registered Pension Plans

The budget specifies the tax consequence where the CRA revokes the registration of a registered pension plan (RPP), including:

- A special tax equal to 10% of the fair market value of the RPP's property immediately before the revocation, and
- The fair market value of the plan less the special tax is deemed to be a contribution to a retirement compensation arrangement (RCA), which results in a 50% tax under the RCA rules.

This measure applies to revocations occurring after 2026.

The budget also:

- Expands the definition of individual pension plan (IPP) to include certain defined benefit RPPs under which all members are either related to a participating employer or do not deal at arm's length with any member related to a participating employer as of January 1, 2027.
- Extends the same advantage rules, non-qualified investment rules, and prohibited investment rules that currently apply to other registered plans of controlling individuals as of January 1, 2028.
- Introduces a new condition for IPPs, such that if the value of an IPP's assets exceeds 200% of its pension liabilities the plan would become a "revocable plan" as of January 1, 2028.

Trust distributions to non-residents

The budget broadens the trust rollout denial rules to include indirect distributions of trust property to non-resident beneficiaries. The rollout would be denied for distributions to a corporation or partnership that has a direct or indirect non-resident shareholder or partner. This measure applies to distributions of property that occur on or after November 5, 2026.

Apprentice vehicle mechanics' tools deduction

The budget allows apprentice vehicle mechanics to deduct all eligible expenses under the apprentice vehicle mechanics' tools deduction, rather than claiming these expenses under two deductions. This measure applies to 2027 and subsequent taxation years.

Mineral Exploration Tax Credit (METC)

The budget extends eligibility for the METC and the Critical Mineral Exploration Tax Credit (CMETC) for five years. As a result, flow-through share agreements entered into on or before March 31, 2032 will qualify for these credits.

In addition, the budget expands the CMETC to include antimony as an eligible critical mineral. This expansion applies to expenditures renounced under eligible flow-through share agreements entered into after November 5, 2026 and on or before March 31, 2032.

Canada Caregiver Credit

The budget makes the Canada Caregiver Credit refundable. This modified credit retains the same design parameters of the current non-refundable credit, including the annual indexation of the maximum amounts and income threshold. This measure applies to the 2027 and subsequent taxation years.

Northern Residents Residency and Travel Deduction

The budget enhances the Residency Deduction by eliminating the restrictions that reduce the amount of the residency deduction by the amount of non-taxable employer-provided benefits and to limit the residency deduction to not exceed 20% of the individual's net income. In addition, the budget eliminates the Travel Deduction limitation for either the total amount of employer-provided travel benefits received in respect of the trip or the portion of a $1,200 "standard amount" allocated to the trip. These measures apply to the 2027 and subsequent taxation years.

Volunteer Firefighters and Search and Rescue Volunteers Tax Credit

The budget combines the current separate Volunteer Firefighters Tax Credit and the Search and Rescue Volunteers Tax Credits into a single 14% non-refundable Volunteer Firefighters and Search and Rescue Volunteers Tax Credit calculated on an amount of $6,000. Eligible volunteer firefighter and search and rescue services would both count towards the 200-hour requirement for the combined credit. This measure applies to the 2027 and subsequent taxation years.

Business tax changes

Canada Growth Incentive capital gains exemption

The budget introduces a new Canada Growth Incentive (CGI) capital gains exemption to allow a Canadian-resident individual to claim a tax exemption on capital gains realized on

the disposition of qualifying shares of a qualifying corporation, up to a $15-million limit. This measure applies in respect of qualifying shares of a qualifying corporation issued on or after November 5, 2026 and before 2037.

This $15 million applies separately to each qualifying individual in respect of each business. A qualifying individual cannot claim both the CGI exemption and the Lifetime Capital Gains Exemption on a sale of shares of the same corporation. However, a qualifying individual could generally claim both the capital gains exemption on a sale to an Employee Ownership Trust or a worker cooperative and the CGI exemption on the same sale of shares, with each exemption having no impact on the limit available on the other.

A qualifying individual is defined as an individual other than a trust that is at least 18 years old at the time they acquired the qualifying share and would have to be resident in Canada throughout the year in which they claimed the exemption. The claim could relate to a capital gain realized on the disposition of a qualifying share in that year or a preceding taxation year.

A qualifying business is defined as an active business other than:

- A business providing consulting services, a professional practice of an accountant, lawyer, notary, physician, other health care practitioner, engineer, architect, and any business whose principal asset is the reputation or skill of one or more employees

- A business operating in the agricultural, fishing, forestry, mining, financial, insurance, utilities, real estate, food and accommodation, arts, recreation, or entertainment sectors, and

- A business operating under a licensing or franchising agreement.

A CGI qualifying share must meet certain tests:

- The share has to be held by a qualifying individual or member of a qualifying partnership for 36 months immediately before the disposition

- Throughout the period the qualifying individual or member of a qualifying partnership holds the shares, 50% or more of the fair market value of the corporation’s assets must be attributable to assets used, or reasonably intended to be used, principally in a qualifying business

- For 24 consecutive months following share issuance, the qualifying business must actively carry on business primarily in Canada

- At the time of disposition, the corporation must be a Canadian resident private or public corporation listed on a stock exchange located in Canada and all or substantially all of the fair market value of the corporation’s assets must be attributable to assets used principally in a qualifying business.

The budget announces that Finance will propose additional rules to prevent individuals from multiplying or accessing the CGI exemption in circumstances that do not align with the intent of the measure. Finance notes that it will provide more details at a later date.

Eligible small business corporation (ESBC) rollover

The budget expands the replacement period to utilize the eligible small business corporation (ESBC) rollover. The period to acquire replacement shares is increased to include the three calendar years following the year of disposition (from one calendar year) as well as the year of disposition.

The budget further expands the replacement period where an individual enters into an agreement with an ESBC and provides upfront capital in return for shares to be issued at a future date, such as a simple agreement for future equity (SAFE). Taxpayers who enter into a SAFE can defer the capital gain for an additional two years, resulting in a total replacement period of up to five years. If no ESBC shares are issued to the individual under the SAFE by the end of the fifth year following the year of disposition, the deferred gain would be taxed.

The budget also lowers the active business condition to qualify as an ESBC. The assets of the corporation must now be used "primarily" in active business throughout the period of ownership (instead of "all or substantially all").

These measures apply to qualifying dispositions that occur on or after January 1, 2027.

Part VI.1 tax

The budget exempts Canadian-controlled private corporations from the taxable preferred share regime by excluding dividends they pay from Part VI.1 tax. This measure applies to dividends paid on or after November 5, 2026. It also increases the dividend allowance from $500,000 to $1.5 million and the threshold for the reduction of the dividend allowance from $1 million to $3 million. This measure applies to taxation years that end after 2026. Finance is reviewing the broader preferred share regime and is seeking written submissions from stakeholders to be sent by January 8, 2027.

Corporate non-capital loss transfer rules

The budget announces a consultation for the transfer of current year non-capital corporate losses between a parent corporation and a subsidiary corporation that is wholly owned, directly or indirectly, by the parent corporation; and between two subsidiary corporations that are wholly owned, directly or indirectly, by the same parent corporation. The corporation could elect to transfer all or part of the losses by way of a joint election.

The rules apply only to corporations resident in Canada that are subject to tax under Part I of the *Income Tax Act,* excluding certain conduit corporations such as mutual fund corporations.

The loss transfer rules would be available only where:

- The transferor has a permanent establishment in only one province or territory
- The transferee has a permanent establishment in only one province or territory, and
- The permanent establishments of the transferor and transferee are located in the same province or territory

Interested parties are invited to send comments to Finance by January 8, 2027.

Tax elections

The budget eliminates the existing requirements for corporations to file a certified copy of a resolution or authorization when making certain elections or agreements, such as capital dividend elections, transfers of tax liability on certain taxable dividends, transfers of qualified scientific research and experimental development (SR&ED) expenditures and allocations of wages and salary of SR&ED employees. This measure applies to elections and agreements made on or after the date of Royal Assent of the enacting legislation.

Excessive Interest and Financing Expenses Limitation (EIFEL)

For taxation years that begin on or after October 1, 2023, the budget expands the two proposed EIFEL exceptions on borrowings used to acquire or build purpose-built rental housing in Canada or convert a property into such housing and on borrowings used by the taxpayer to carry on a regulated energy utility business in Canada. The budget also expands and clarifies the definition of a regulated energy utility business in Canada.

The budget also broadens the exceptions to cover a borrower's interest and financing expenses where the borrowed funds are used for eligible activities carried on by another corporation, trust or partnership within the same group of affiliated entities and where the eligible activities are carried on by a partnership in which the borrower (together with affiliated entities) has at least a 40% interest.

Clean Electricity and Clean Technology Investment Tax Credits

The budget extends the Clean Electricity and Clean Technology investment tax credits to eligible property that becomes available for use before 2041 (from before 2035). The credit rate of the Clean Technology investment tax credit would continue to be reduced to 15% for its last year of availability (i.e., property that becomes available for use in 2040 instead of 2034). The government will also conduct consultations over the next 60 days to determine scope and parameters of a domestic content bonus of up to 10% under the Clean Technology investment tax credit and up to 5% under the Clean Electricity investment tax credit.

Clean Electricity ITC for intra-provincial electricity transmission property

The budget expands eligibility for the Clean Electricity investment tax credit to include intra-provincial electricity transmission property built to operate at or above the highest voltage currently used for transmission lines in each province, and at or above 69 kilovolts in the territories. For purposes of this change, eligible property includes certain equipment and structures related to transmission lines and substations. Eligible property would exclude buildings and electricity distribution equipment, as well as certain property that is used for international transmission. This measure applies with respect to property that is acquired on or after November 5, 2026. The budget notes that Finance will provide further details on what constitutes eligible intra-provincial electricity transmission property at a later date.

Helium exploration, development and resource expenses

The budget allows helium exploration and development expenses to qualify as Canadian exploration expense (CEE) and Canadian development expense (CDE). Expenses incurred to acquire helium resource properties would qualify as Canadian oil and gas property expense (COGPE). Generally, CEE, CDE and COGPE are deductible at rates of 100%, 30% and 10%, respectively. The proposed Productivity Mega Deduction would increase the deduction rate for CDE to 100% (from 30%). This measure applies to expenses incurred on or after November 5, 2026.

International tax changes

Common reporting standard (CRS)

The budget announces that the government intends to consult on potential measures to strengthen Canada's implementation of the CRS. Canada's rules implementing the CRS depart from the global standard in certain areas. Finance welcomes comments on amendments to Canada's CRS rules by December 31, 2026.

Taxable Canadian property

The budget adjusts the taxable Canadian property rules as follows:

- *Corporate vendors* — The budget reduces the withholding and remittance rates on dispositions of taxable Canadian property (TCP). For capital property other than specified TCP, a purchaser's withholding rate is reduced from 25% of the purchase price to 15% and the vendor's remittance rate for issuance of a clearance certificate is reduced from 25% of the capital gain to 15%. For specified TCP, a purchaser's withholding rate is reduced from 50% of the purchase price to 30% and the vendor's remittance amount for issuance of a clearance certificate is unchanged as such amount as is acceptable to the CRA. These measures apply to dispositions that occur on or after January 1, 2027.

- *Section 85 rollovers* — The budget exempts vendors and purchasers from the withholding and tax remittance requirements for fully tax-deferred section 85

rollovers of TCP provided that, within 30 days of the disposition, the section 85 election form is filed and the purchaser provides a notice to the CRA setting out information regarding the transaction and the vendor. Currently, obtaining clearance certificates can present an administrative burden for fully tax-deferred section 85 rollovers due to documentary requirements.

- *Anti-avoidance rules* — The budget also strengthens anti-avoidance rules for rollovers of TCP by non-residents by extending the three-year period to five years and ensuring that a subsequent disposition of a property that principally derives its value from the transferred property or substituted property is also subject to the anti-avoidance rule. The current anti-avoidance rules deny a tax-deferred rollover if, within three years, there is a subsequent disposition of the transferred property or substituted property, and one of the main purposes of the series was to benefit from an exemption from Canadian tax (e.g., under a tax treaty).

These measures apply to dispositions that occur on or after January 1, 2027.

Charities tax changes

Excess corporate holdings regime for private foundations

The budget eliminates the excess corporate holdings regime. Instead, the rules that currently prohibit public foundations from acquiring control of a corporation would be extended to private foundations. This measure applies to taxation years that begin on or after January 1, 2027.

Tax incentives

Scientific Research and Experimental Development

The budget expands the activities that are eligible for the SR&ED investment tax credit (ITC). Specifically, these activities include expenditures relating to regulatory certification, including tests, technological validations, and studies, as well as to establish and maintain intellectual property protection. This measure applies to taxation years that begin on or after November 5, 2026.

Canadian Journalism Labour Tax Credit

The budget extends the eligibility for the Canadian Journalism Labour Tax Credit to the production of audio and audiovisual news. Qualifying organizations would be entitled to the same 35% credit rate and annual labour expenditure limit of $85,000 per employee that apply to written news production. An eligible newsroom employee would need to spend at least 75% of their time engaged in the production or post-production of original news content, in addition to meeting other conditions. This measure applies to qualifying labour expenses incurred on or after November 5, 2026.

The budget also extends the credit's 35% rate until December 31, 2028. Previously, this credit was temporarily increased to 35% (from 25%) to December 31, 2026.

Indirect tax changes

Federal Fuel Excise Tax Licensing Framework

The budget expands the eligibility for a wholesaler licence to certain businesses that resell fuel. To qualify, the entity must be in the business of selling or delivering fuel and, in the normal course of that business, must deliver fuel to a purchaser that is a licensed manufacturer, a licensed wholesaler, or another entity that will resell the fuel in the normal course of their business. These changes would come into force on the first day of the month following Royal Assent of the enacting legislation.

The budget also allows licensed manufacturers to import fuel without paying the tax, or to purchase fuel without triggering the tax for the vendor, if they intend to resell the fuel. In the case of purchased fuel, relief would be available whether the fuel is acquired from a licensed manufacturer or a licensed wholesaler. These proposed changes would come into force on November 6, 2026.

In addition, the budget announces a time-limited payment to provide relief in certain past cases where the tax effectively applied more than once to the same quantity of fuel, subject to certain conditions.

GST/HST health measures

The budget amends the GST/HST treatment of certain health care services and devices, including:

- *Massage therapists* — The budget expands the list of health care practitioners whose professional services are exempt from the GST/HST to include qualifying massage therapists. This measure applies to qualifying supplies of massage therapy services made after November 5, 2026.

- *Alternating electric field therapy devices* — The budget expands the list of medical devices eligible for zero-rating under the GST/HST to include certain devices that are specially designed for alternating electric field therapy for use by an individual with cancer. This measure applies to qualifying supplies made after November 5, 2026.

Pre-Approval Regime for GST/HST ITC Allocation Methods

The budget generally allows certain large financial institutions to apply for pre-approval of their GST/HST input tax credit allocation methods for three consecutive fiscal years (rather than only one fiscal year). This measure applies to fiscal years of a financial institution beginning after June 30, 2027.

Cannabis taxation

The budget revises the cannabis excise duty stamping regime. Under this change, a new common stamp would be used for products sold in all provinces and territories with the same duty rate (i.e., Quebec, Nova Scotia, New Brunswick, British Columbia, Prince Edward Island, Newfoundland and Labrador, the Northwest Territories and Yukon) and in other participating jurisdictions that choose to adopt the common stamp in their jurisdictions. Provinces and territories would have until January 31, 2027 to confirm their participation to the Minister of Finance and National Revenue. This change, which includes several related rules for licensed producers, also includes a new civil penalty and changes to the calculation of fines and penalties for certain cannabis products. These measures would come into force upon Royal Assent of the enacting legislation.

Spirits licence security requirements

The budget requires certain excise warehouse licensees authorized to possess non-duty-paid packaged spirits to provide security as a condition of licensing. These security amounts will be based on monthly excise duty liabilities. Security would be subject to a minimum of $5,000 and a maximum of $2 million for each licence. The measure would apply to spirits licences and excise warehouse licences issued on or after the date of Royal Assent of the enacting legislation.

Product descriptions and regulatory cross-references

The budget updates certain outdated HS codes and regulatory cross-references in the sales and excise tax rules related to the following, among others:

- Specified motor vehicle
- Cargo containers engaged in international commercial transportation
- Goods Relieved or Partially Relieved from GST/HST on Importation
- Goods Brought into an HST Participating Province.

Other tax changes

Indigenous tax jurisdiction arrangements

The budget increases the First Nations Personal Income Tax revenue-sharing rate to 99% of revenues attributable to a participating government (from 95%), in conjunction with a revised revenue-sharing mechanism. Further, the budget establishes an annual ceiling on a participating Indigenous government's share of the cost of the Canada Groceries and Essentials Benefit under First Nations Goods and Services Tax arrangements. These enhancements will be implemented through negotiations between the federal government and interested Indigenous governments.

Administrative changes

Notice of Objections

The budget amends the deadline to file a notice of objection to an income tax assessment for most taxpayers to one year after the day the notice of assessment is sent (from 90 days). For individuals and graduated rate estates, the budget amends the deadline to the later of one year after the notice of assessment is sent and two years from the tax return filing due date for the taxation year being assessed. Consequently, taxpayers can no longer apply for an extension. This change applies to assessments sent on or after the day that is three months after Royal Assent.

Disclosure of tax debt to credit bureaus

The budget amends the *Income Tax Act* to allow the CRA to disclose information about a taxpayer's tax debts to credit bureaus. Under this change, the CRA would be permitted to disclose a taxpayer's tax debt only under certain conditions including where the taxpayer's outstanding tax debt exceeds $50,000 and the assessments or reassessments giving rise to the tax debt are not under objection or appeal, and all rights of objection and appeal in respect of them have expired or been exhausted. Similar amendments would be made to the *Excise Tax Act.* This measure applies on Royal Assent of the enacting legislation.

Pension administrators and information sharing

The budget allows the CRA to confirm to the administrator of a registered pension plan that a plan member is deceased. This measure applies on Royal Assent of the enacting legislation.

Administrative penalties

The budget amends administrative penalties under federal tax statutes, following budget 2025's review of these matters.

- *Inflation adjustment of fixed-dollar administrative penalties* — The budget increases most fixed-dollar penalties to broadly account for inflation since their enactment. Generally, older penalties would increase by a factor of two or three, depending on when they were enacted, while most recent penalties remain unchanged, subject to limited exceptions. The budget also indexes these fixed amounts to inflation once every five years.

- *Medium and large corporations and partnerships* — The budget calibrates certain penalty amounts by taxpayer size to ensure that penalties are effective deterrents for larger corporations or partnerships. These apply to penalties for failing to provide required information on a form, failing to file certain tax forms, and failing to comply with certain other obligations under the *Income Tax Act.* Individuals and smaller corporations and partnerships would remain subject to a base level of fixed penalty amounts. Medium corporations and partnerships are subject to penalties

equal to three times the base amounts. Large corporations and partnerships are subject to penalties equal to eight times the base amounts. Medium and large corporations and partnerships are determined by reference to certain taxable capital employed in Canada and revenue metrics.

- *Repeated failures* — The budget introduces new penalties that would apply to repeated failures to file tax forms and repeated failures to comply with obligations that do not have a more specific penalty. These penalties would generally double the base penalty that applies in respect of the first failure. The amount of the penalty would be further increased in accordance with the calibration rules for larger corporations and partnerships. These penalties apply only to a failure in respect of a particular taxation year if the person or partnership has been liable for a penalty for the same type of failure in any of the three preceding taxation years. In addition, the person or partnership must have failed to remedy the current failure after being sent a notice, requirement or demand by the CRA.

- *CRS and other frameworks* — The budget strengthens the penalties applicable under certain information reporting regimes by applying a penalty for failing to comply with a duty or obligation imposed under these regimes. In particular, penalties would apply to reporting entities and individuals for failing to obtain or validate a self-certification, failing to apply due diligence or review procedures, or failing to keep, maintain or retain records as required under the CRS, the Reporting Rules for Digital Platform Operators and the Crypto-Asset Reporting Framework.

- *Other tax statutes* — The budget changes certain penalties under the *Excise Tax Act*, *Excise Act*, *2001*, the *Air Travellers Security Charge Act*, the *Select Luxury Items Tax Act* to align them with inflation adjustments proposed under the *Income Tax Act*. Specifically, the budget increases most fixed-dollar administrative penalties under these statutes and indexes them to inflation once every five years in line with proposed income tax penalties. These amounts would be increased by a factor of two or three, or otherwise adjusted as necessary to ensure consistency across the federal tax statutes.

These measures would apply to taxation years or fiscal periods ending after 2027. For the CRS and other frameworks, these measures would apply to the 2028 and subsequent calendar years. Changes to penalties under the *Excise Tax Act, Excise Act, 2001*, *Select Luxury Items Tax Act* and *Air Travellers Security Charge Act* would generally apply to reporting periods that end after 2027.

Previously announced tax changes

The budget confirms that Finance intends to proceed with numerous previously announced tax measures including, among others:

- Legislative and regulatory proposals released on September 15, 2026, to implement the Productivity Mega Deduction.
- Legislative and regulatory proposals released on July 23, 2026, including measures related to:
    - Investment Tax Credit for Carbon Capture, Utilization and Storage;
    - Investment Income Derived from Assets Supporting Canadian Insurance Risks;
    - Transfer Pricing;
    - Hybrid Mismatch Arrangements;
    - Goods and Services Tax/Harmonized Sales Tax (GST/HST) reverse charge mechanism;
    - Technical amendments to the Income Tax Act and Income Tax Regulations;
    - Technical amendments to the Global Minimum Tax Act; and
- Legislative proposals released on January 29, 2026, to implement reporting requirements for non-profit organizations.
- Legislative proposals released on August 12, 2024, with respect to technical amendments to the Income Tax Act.

We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's federal budget on your personal finances or business affairs, and point out ways to realize any benefits or ease their impact. We can also keep you abreast of the progress of these proposals as they make their way into law.

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