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PROFESSIONNELS AGRÉÉS

FEDERAL BUDGET

NOVEMBER 5, 2026

SUMMARY

By: Tax Service



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INTRODUCTION

On November 5, 2026, the Minister of Finance and National Revenue of Canada, Mr. François-Philippe Champagne, presented his 2026 Federal Budget, which proposes the following measures.

INDIVIDUALS

2027 CANADA GROCERIES AND ESSENTIALS BENEFIT SUPPLEMENT

Budget 2026 proposes to deliver a one-time Canada Groceries and Essentials Benefit supplement, to be delivered in early 2027, equal to half of the maximum annual Canada Groceries and Essentials Benefit 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.

MINERAL EXPLORATION TAX CREDIT AND CRITICAL MINERAL EXPLORATION TAX CREDIT

Budget 2026 proposes to extend eligibility for the Mineral Exploration Tax Credit and Critical Mineral Exploration Tax Credit for five years, to flow-through share agreements entered into on or before March 31, 2032.

Budget 2026 also proposes to expand the Critical Mineral Exploration Tax Credit to include antimony as an eligible critical mineral. This expansion would apply to expenditures renounced under eligible flow-through share agreements entered into after Budget Day and on or before March 31, 2032.

CANADA CAREGIVER CREDIT

Budget 2026 proposes to make the Canada Caregiver Credit refundable to ensure that eligible caregivers can receive the full amount even if they have little or no tax liability.

This measure would apply to the 2027 and subsequent taxation years.

CANADA GROWTH INCENTIVE – CAPITAL GAINS EXEMPTION

Budget 2026 proposes to introduce a new Canada Growth Incentive (“CGI”) capital gains exemption which would 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 $15 million would apply separately to each qualifying individual in respect of each business.

Qualifying Individual

A qualifying individual would have to be an individual other than a trust and be at least 18 years old at the time they acquired a qualifying share. The individual would have to be resident in Canada throughout the year in which they claimed the exemption.

Qualifying Shares

A share of the capital stock of a corporation would be a qualifying share of a qualifying corporation if the following conditions were met:

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- At the time of share issuance: the corporation must be a Canadian-controlled private corporation; and all or substantially all of the fair market value of the corporation's assets must be attributable to assets used, or reasonably intended to be used within 36 months, principally in a qualifying business carried on primarily in Canada;
- Immediately before and after the share's issuance, the combined carrying value of the assets of the corporation and all corporations related to it must not exceed $100 million;
- The share must have been issued either solely for cash consideration or in exchange for employment services provided by the qualifying individual to the qualifying corporation. Continuity rules would be proposed to accommodate certain share-for-share exchanges and other corporate reorganizations that could occur after qualifying shares have been issued;
- Throughout the period during which the qualifying individual or a partnership of which the qualifying individual is a member owned the qualifying share, 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 a minimum period of 24 consecutive months immediately following share issuance, the qualifying business would be required to be carried on primarily in Canada;
- For a minimum period of 36 consecutive months immediately before the disposition, the share must have been held by the qualifying individual or the partnership of which the qualifying individual was a member;
- At the time of disposition:
    - The corporation must be a Canadian-resident corporation that is either a private corporation or a public corporation listed on a designated 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.

Qualifying Business

A qualifying business would be an active business other than:

- A business providing consulting services, a professional practice of an accountant, lawyer, notary, physician or 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.

Integrity rules and Alternative Minimum Tax

Additional rules will be proposed to prevent individuals from accessing the CGI exemption in circumstances that do not align with the intent of the measure, including the multiplication of the exemption limit through the use of multiple corporations that carry on the same underlying business. Capital gains exempted through this measure would be subject to an inclusion rate of 30% for the purposes of the Alternative Minimum Tax, consistent with the treatment of gains eligible for the Lifetime Capital Gains Exemption.

A CGI exemption claimed on qualifying shares of a qualifying corporation would limit the ability of a qualifying individual to claim the Lifetime Capital Gains Exemption for a sale of shares of the same corporation. Similarly, a Lifetime Capital Gains Exemption claimed on the sale of shares of a corporation

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would limit the ability of a qualifying individual to claim the CGI exemption on the sale of shares of that same corporation.

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 the use of one exemption having no impact on the limit available under the other exemption.

This measure would apply in respect of qualifying shares of a qualifying corporation issued on or after Budget Day and before 2037.

CANADA GROWTH INCENTIVE – ROLLOVER FOR INVESTMENTS IN SMALL BUSINESSES

Budget 2026 proposes to increase the period to acquire replacement shares and to introduce a special provision for individuals who have entered into agreements for future equity. The period to acquire replacement shares would be extended to encompass the year of disposition and the three following calendar years.

An individual who, before the end of the proposed three-year replacement period, enters into an agreement with an eligible small business corporation ("ESBC") under which the investor provides upfront capital in return for shares to be issued at a future date (e.g., a simple agreement for future equity or SAFE), would be able to defer the capital gain for an additional two years, for a total replacement period of up to five years. If no ESBC shares are issued to the individual under the agreement by the end of the fifth year following the year of disposition, the deferred gain would be taxed.

Budget 2026 proposes to lower the threshold from "all or substantially all" to "primarily" for the active business requirement's asset test that must be met throughout the period during which the individual owned the shares. However, the "all or substantially all" threshold would need to be met at the time of issuance and disposition of the shares.

The active business would be required to be carried on primarily in Canada at the time of share issuance and for a continuous period immediately following issuance. That period would be the lesser of two years and the period during which the individual owned the shares.

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

INSTALMENT PAYMENTS FOR INDIVIDUALS AND CORPORATIONS

For most individuals, instalments are required if their combined federal-provincial net tax owing on income from such sources for the current year and either of the two previous years is more than $3,000 (or $1,800 net federal tax owing for Quebec residents). The income tax instalment thresholds are lower for Quebec residents because the federal government does not collect provincial income tax in Quebec.

Corporations generally must make monthly or quarterly tax instalment payments in respect of their federal tax liability unless their total federal tax payable is $3,000 or less for either the current or previous year.

Budget 2026 proposes to increase the threshold from $3,000 to $7,500 for corporations and individual residents outside Quebec, and from $1,800 to $4,500 for individual residents in Quebec. The thresholds would 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 would apply to taxation years that begin on or after January 1, 2028.

Budget 2026 proposes that individuals whose primary source of income is from a business (including professional or commission income) be allowed to make a single annual instalment payment, instead of

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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 measure would apply to the 2028 and subsequent taxation years.

INCOME TAX RETURN FILING AND BALANCE-DUE DATES FOR INDIVIDUALS

Budget 2026 proposes to change the T1 filing and balance-due dates to May 15 for all individuals, including self-employed individuals and their spouses or common-law partners.

These measures would apply to the 2027 and subsequent taxation years.

NORTHERN RESIDENTS DEDUCTIONS

The residency deduction is generally based on the number of days that an individual lives in a prescribed zone, subject to two rules that reduce the value of the deduction in certain situations.

- The amount of the residency deduction is reduced by the amount of non-taxable employer-provided benefits received by the taxpayer for board and lodging at special work sites in the north;
- The residency deduction cannot exceed 20% of the individual's net income.

Budget 2026 proposes to eliminate both of these restrictions. Budget 2026 also proposes to eliminate the limit, which is based on employer-provided travel benefits or the portion of the $1,200 standard amount allocated to the trip.

These measures would apply to the 2027 and subsequent taxation years.

EXPANSION OF THE INTERGENERATIONAL FARM AND FISHING PROPERTY ROLLOVER

The Income Tax Act allows for a tax deferral ("rollover") of capital gains on intergenerational transfers of certain farming property and fishing property from a taxpayer to the taxpayer's child or the child's spouse or common-law partner. For these purposes, a child includes the taxpayer's grandchild or great-grandchild.

Budget 2026 proposes to expand the rollover so that it is available for transfers to a niece, nephew, grandniece, or grandnephew of the taxpayer or the taxpayer's spouse or common-law partner. This measure would be effective for transfers that occur on or after January 1, 2027.

REGISTERED DISABILITY SAVINGS PLAN

A temporary measure is in place up to the end of 2026 to allow a qualifying family member of the individual to open a Registered Disability Savings Plan and be the plan holder. A qualifying family member may be a parent, spouse or common-law partner, or sibling. Budget 2026 proposes to make the qualifying family member measure permanent.

OPTIONAL FLAT AMOUNTS FOR PERSONAL INCOME TAX DEDUCTIONS AND CREDITS

To reduce the need for individuals to keep receipts and itemize their expenses to support their amounts claimed, Budget 2026 proposes optional flat-amount calculation methods for certain deductions and credits. Individuals would still need to establish their eligibility. These measures would apply to the 2027 and subsequent taxation years.

- Moving Expense Deduction: deduct a flat $1,000 in respect of the relocation instead of tracking and claiming their deductible moving expenses;

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- Clergy Residence Deduction: 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;
- Labour Mobility Deduction for Tradespeople: deduct a flat $1,500 per year instead of claiming actual eligible expenses incurred;
- Home Accessibility Tax Credit: calculate the Home Accessibility Tax Credit using a one-time optional flat-expense amount of $1,000 for a year;
- Adoption Expense Tax Credit: calculate the Adoption Expense Tax Credit using an optional flat expense amount of $1,200 per adopted child in the year an adoption is completed.

FOREIGN INCOME VERIFICATION STATEMENT – FORM T1135

Budget 2026 proposes to increase the threshold above which Form T1135 must be filed from $100,000 to $200,000. The Canada Revenue Agency ("CRA") would also increase the threshold for simplified reporting from less than $250,000 to less than $500,000.

These measures would apply to taxation years or fiscal periods that end after 2026.

APPRENTICE VEHICLE MECHANICS' TOOLS DEDUCTION

Budget 2026 proposes to allow apprentice vehicle mechanics to deduct all eligible expenses under the apprentice vehicle mechanics' tools deduction. Subject to certain other existing rules, the deduction would equal the total cost of new eligible tools acquired in the taxation year, less the Canada Employment Credit amount.

This measure would apply to the 2027 and subsequent taxation years.

MEDICAL EXPENSE TAX CREDIT AND DISABILITY SUPPORTS DEDUCTION

Budget 2026 proposes to simplify the Medical Expense Tax Credit while maintaining the integrity of the credit by reducing the documentation requirements for certain eligible expenses. This measure would apply to the 2026 and subsequent taxation years.

Budget 2026 proposes to allow individuals to claim an optional flat amount in respect of the following categories of expenses:

- Gluten-free Food Expenses: an optional flat amount of $1,000 for incremental gluten-free food expenses incurred over a particular year. This measure would apply to the 2026 and subsequent taxation years;
- Incontinence Product Expenses: an optional flat amount of $500 in respect of these expenses incurred over a particular year. This measure would apply to the 2027 and subsequent taxation years;
- Service Dog Expenses: an optional flat amount of $2,000 for expenses that are incurred in relation to a service dog over a particular year. This measure would apply to the 2027 and subsequent taxation years.

DEDUCTIBILITY OF EXPENSES AGAINST COMMISSION INCOME

Budget 2026 proposes to eliminate 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.

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This measure would apply to the 2027 and subsequent taxation years.

LUMP-SUM THRESHOLDS FOR PERIODIC PAYMENT OF BENEFITS

Budget 2026 proposes to increase the lump-sum payment threshold to $50 per month for the Canada Child Benefit, to $70 per quarter for the Canada Groceries and Essentials Benefit and, for the 2027 taxation year only, to $70 per payment for the Advance Canada Workers Benefit.

This measure would apply to benefits paid after June 2027.

SCHOLARSHIP, FELLOWSHIP, AND BURSARY INCOME

Budget 2026 proposes to allow a program to qualify even where a student received financial assistance from an arm's-length person.

As a result, receiving employer or other arm's-length assistance for a program would no longer prevent students from claiming the exemption for scholarships, fellowships or bursaries received for that program.

This measure would apply to the 2027 and subsequent taxation years.

DEDUCTIBILITY OF EXPENSES BY EMPLOYED ARTISTS

Budget 2026 proposes to replace the existing cap on the deduction with a limit equal to the amount of the artist's employment income for the year from the specified artistic activities.

This measure would apply to the 2027 and subsequent taxation years.

VOLUNTEER FIREFIGHTERS AND SEARCH AND RESCUE VOLUNTEERS TAX CREDIT

Budget 2026 proposes to combine the Volunteer Firefighters Tax Credit and the Search and Rescue Volunteers Tax Credit into a single 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 would apply to the 2027 and subsequent taxation years.

REGISTERED RETIREMENT SAVINGS PLAN

Budget 2026 announces the government's intention to merge the core features of the Registered Retirement Savings Plan ("RRSP") and Registered Retirement Income Fund ("RRIF") under the *Income Tax Act* into a single "RRSP for life" and to make other changes to improve and modernize the RRSP tax rules. This would eliminate 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.

Interested parties are invited to send written representations to the Department of Finance Canada by January 8, 2027.

EXCESS CORPORATE HOLDINGS REGIME FOR PRIVATE FOUNDATIONS

Budget 2026 proposes to eliminate 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 would apply to taxation years that begin on or after January 1, 2027.

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OBJECTIONS TO ASSESSMENTS

Budget 2026 proposes, for most taxpayers, to amend the deadline to file a notice of objection to an income tax assessment to one year after the day the notice of assessment is sent. For individuals and graduated rate estates, Budget 2026 proposes to amend 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 would no longer need to apply for an extension of time and the ability to do so would be eliminated.

This amendment would apply to assessments sent on or after the day that is three months after royal assent.

DISCLOSURE OF TAX DEBT TO CREDIT BUREAUS

Budget 2026 proposes to amend the *Income Tax Act* to allow the CRA to disclose information about a taxpayer's tax debts to credit bureaus. The CRA would be permitted to disclose a taxpayer's tax debt only where:

- The taxpayer's outstanding tax debt exceeds $50,000;
- 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;
- The CRA has notified the taxpayer in writing of its intention to disclose the tax debt at least 30 days prior to disclosure; and
- Before the disclosure, the CRA has taken reasonable steps to collect the tax debt and has given the taxpayer an opportunity to make reasonable repayment arrangements.

Similar amendments would be made to the *Excise Tax Act* on the same conditions to allow the CRA to disclose information about Goods and Services Tax/Harmonized Sales Tax ("GST/HST") debts to credit bureaus. This measure would apply on royal assent of the enacting legislation.

TRUST DISTRIBUTIONS TO NON-RESIDENTS

A trust cannot roll out property to a non-resident beneficiary (except a limited group of assets that remain subject to Canadian tax). Certain tax avoidance planning techniques have been employed to roll out trust property to a non-resident beneficiary indirectly.

Budget 2026 proposes to broaden the current rollout denial rule to include indirect distributions of trust property to non-resident beneficiaries. The rollout would be denied for any property that is transferred to a corporation (or partnership) that has a direct or indirect non-resident shareholder (or partner). This measure would apply in respect of distributions of property that occur on or after Budget Day.

INFORMATION SHARING – PENSION ADMINISTRATORS

Budget 2026 proposes to amend the *Income Tax Act* to permit the CRA to confirm to the administrator of a registered pension plan that a plan member is deceased.

This measure would apply on royal assent of the enacting legislation.

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REGISTERED PENSION PLANS

Revocation of RPP registration

Budget 2026 proposes to provide express tax consequences under the *Income Tax Act* and *Income Tax Regulations* where the CRA revokes the registration of a registered pension plan ("RPP").

- A revoked plan would be liable to pay a special tax, equal to 10% of the fair market value of its property immediately prior to the revocation, subject to waiver or cancellation by the CRA;
- A revoked plan would be deemed to become a "retirement compensation arrangement" ("RCA")—another type of retirement savings vehicle under the *Income Tax Act*;
- An amount equal to the fair market value of its property (less any revocation tax assessed) would be deemed to be contributed to the RCA. As a result, the RCA would be required to remit a 50% refundable tax on the deemed contribution.

These measures would apply to revocations of RPPs after 2026.

Individual pension plans

Budget 2026 proposes to expand the individual pension plan ("IPP") definition to include 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. This measure would apply as of January 1, 2027.

Budget 2026 proposes to subject IPPs to the same advantage rules, non-qualified investment rules, and prohibited investment rules that currently apply to other registered plans of controlling individuals. This measure would apply as of January 1, 2028.

Budget 2026 proposes to impose a new condition that an IPP must satisfy to maintain its RPP registration. If the value of an IPP's assets exceeds 200% of its pension liabilities, the plan would become a "revocable plan" for RPP registration purposes. This measure would apply as of January 1, 2028.

BUILD CANADA WORKERS BENEFIT

Budget 2026 proposes to phase out the Advance Canada Workers Benefit, reinvest a portion of the resulting savings to enhance the Canada Workers Benefit and rename the enhanced benefit the Build Canada Workers Benefit.

For the 2027 taxation year, Budget 2026 proposes to reduce the Advance Canada Workers Benefit from 50% to 25% of the individual's Canada Workers Benefit entitlement for the 2026 taxation year. The Advance Canada Workers Benefit would be eliminated beginning in the 2028 taxation year.

For the 2027 taxation year, the enhanced benefit would reduce the phase-in threshold to $500 and increase the maximum benefit amounts up to $1,859 for single individuals without children and up to $3,143 for families. These measures would apply to the 2027 and subsequent taxation years.

CORPORATIONS

PRODUCTIVITY MEGA DEDUCTION

On September 15, 2026, in a news release, the Government of Canada proposed to implement the Productivity Mega Deduction, which will provide immediate expensing for a broad-based range of depreciable property on a permanent basis.

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Depreciable property eligible for immediate expensing would include all capital property that is subject to the capital cost allowance ("CCA") rules acquired on or after September 15, 2026, except buildings (and additions to buildings) included in CCA classes 1 and 3; property included in CCA classes 14 and 14.1, and class 51; certain vehicles in classes 10 and 10.1; and property depreciated under Schedule V and VI of the *Income Tax Regulations*.

Eligible property that has been used, or acquired for use, for any purpose before it is acquired by the taxpayer would be eligible for immediate expensing only if both of the following conditions are met:

- Neither the taxpayer nor a non-arm's-length person previously owned the property; and
- The property has not been transferred to the taxpayer on a tax-deferred "rollover" basis.

This measure applies to eligible depreciable property that is acquired on or after September 15, 2026.

CLEAN ELECTRICITY AND CLEAN TECHNOLOGY INVESTMENT TAX CREDITS

Budget 2026 proposes to extend the Clean Electricity and Clean Technology investment tax credits to eligible property that becomes available for use before 2041. The credit rate of the Clean Technology investment tax credit would continue to be reduced to 15% for its last year of availability, which would be for property that becomes available for use in 2040 instead of 2034.

Budget 2026 proposes to expand 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. Specifically, eligible intra-provincial electricity transmission property would include property that is built to operate at no less than 735 kilovolts if installed in Quebec.

This measure would apply with respect to property that is acquired on or after Budget Day.

SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT TAX INCENTIVE PROGRAM

Budget 2026 proposes to expand the activities and expenditures eligible under the Scientific Research and Experimental Development ("SR&ED") program.

The expanded scope of eligible activities would include tests, technological validations, and studies conducted to meet regulatory requirements for obtaining the initial approval or certification necessary to commercialize a product or process. To be eligible, these activities would need to directly relate to a project that is eligible under the SR&ED program's existing rules.

Eligible expenditures would be expanded to include costs related to the registration and maintenance of intellectual property ("IP") protection in respect of IP developed in the course of conducting a project that is eligible under the existing scope of activities under the SR&ED program. Eligible expenditures would not include those incurred to enforce IP rights, such as litigation costs in respect of alleged IP infringement, or those not directly connected to securing and maintaining IP rights. In the event that a taxpayer disposes of IP in respect of which SR&ED support was provided for IP protection costs, recapture rules would apply in respect of the related SR&ED deduction and investment tax credit amounts.

This measure would apply to taxation years that begin on or after Budget Day.

INTEREST DEDUCTIBILITY LIMITS

The Excessive Interest and Financing Expenses Limitation rules provide Canada's response to the recommendation under Action 4 of the OECD/G20 Base Erosion and Profit Shifting Project. These rules

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restrict the amount of net interest and financing expenses that may be deducted by certain taxpayers in computing taxable income.

Budget 2024 announced an exception to the Excessive Interest and Financing Expenses Limitation ("EIFEL") rules for interest and financing expenses incurred before 2036 by a taxpayer on borrowings used by the taxpayer to acquire or build purpose-built rental housing in Canada, or convert a property into such housing. On August 12, 2024, an EIFEL exception for energy utilities was announced.

Budget 2026 proposes to expand the two EIFEL 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. The exceptions would also be available where the eligible activities are carried on by a partnership in which the borrower (together with affiliated entities) has at least a 40% interest.

Budget 2026 also proposes to expand and clarify the definition of a regulated energy utility business in Canada to cover cases where the prices of all or substantially all of the products or services of the business are government-established, approved or guaranteed, or established through a government-operated market that facilitates delivery for consumption or use in Canada. These measures would apply to taxation years that begin on or after October 1, 2023.

CANADIAN JOURNALISM LABOUR TAX CREDIT

Budget 2026 proposes to extend eligibility for the Canadian Journalism Labour Tax Credit to the production of audio and audiovisual news. This measure would apply to qualifying labour expenses incurred on or after Budget Day. Budget 2026 proposes to extend the 35% rate until December 31, 2028.

TAXABLE PREFERRED SHARES

Budget 2026 proposes to introduce the following measures:

- Exempt Canadian-controlled private corporations from the taxable preferred share regime by excluding dividends they pay from Part VI.1 tax. This measure would apply to dividends paid on or after Budget Day;
- Increase the dividend allowance from $500,000 to $1,500,000 and the threshold for the reduction of the dividend allowance from $1,000,000 to $3,000,000. This measure would apply to taxation years that end after 2026.

HELIUM EXPLORATION, DEVELOPMENT AND RESOURCE EXPENSES

Budget 2026 proposes to allow helium exploration and development expenses to qualify as a Canadian exploration expense and Canadian development expense, consistent with the treatment of similar expenses in the petroleum and natural gas sector. Expenses incurred to acquire helium resource properties would qualify as Canadian oil and gas property expense. This measure would apply to expenses incurred on or after Budget Day.

CORPORATE TAX ELECTIONS

Budget 2026 proposes to eliminate the existing requirements for corporations to file a certified copy of a resolution or authorization when making certain elections or agreements. This measure would apply to elections and agreements made on or after the date of royal assent of the enacting legislation.

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CORPORATE LOSS TRANSFERS

Budget 2026 invites stakeholders to comment on the introduction of a corporate loss transfer rule between corporations resident in Canada that are subject to tax under Part I of the *Income Tax Act*. This mechanism would allow the transfer of current-year non-capital losses between corporations under certain conditions. Loss transfers would be permitted in the following cases:

- 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.

However, certain types of corporations that are considered conduits for their shareholders or members (e.g., mutual fund corporations) would not be able to transfer or receive losses.

The transferor and transferee would be required to make a joint election. The transferee would be permitted to deduct the elected amount in computing its income for the relevant taxation year. A loss arising in a province or territory could only be transferred to offset income arising in that same jurisdiction.

Interested parties are invited to send written representations to the Department of Finance Canada by January 8, 2027.

ADMINISTRATIVE PENALTIES

Budget 2026 proposes to increase most fixed-dollar penalties to broadly account for inflation since their enactment, so that they remain meaningful and proportionate. Generally, older penalties would increase by a factor of two or three, depending on when they were enacted, while most recent penalties would remain unchanged, subject to limited exceptions. Budget 2026 also proposes to index these fixed amounts to inflation once every five years.

Budget 2026 proposes to calibrate certain penalty amounts by taxpayer size. Individuals and smaller corporations and partnerships would remain subject to a base level of fixed penalty amount. Medium corporations and partnerships would be subject to penalties equal to three times the base amount. Large corporations and partnerships would be subject to penalties equal to eight times the base amount.

- Medium corporations would be those that, together with any related corporations, have a combined total of more than $10 million and up to $50 million of taxable capital employed in Canada;
- Large corporations would be those that, together with any related corporations, have a combined total of more than $50 million of taxable capital employed in Canada;
- Medium partnerships would be those that have $2 million but less than $10 million in gross revenue and large partnerships would be those that have $10 million or more in gross revenue.

Budget 2026 proposes 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.

These *Income Tax Act* measures would apply to taxation years or fiscal periods ending after 2027.

OBJECTIONS TO ASSESSMENTS

Budget 2026 proposes, for most taxpayers, to amend the deadline to file a notice of objection to an income tax assessment to one year after the day the notice of assessment is sent.

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This amendment would apply to assessments sent on or after the day that is three months after royal assent.

INTERNATIONAL TAX MEASURES

COMMON REPORTING STANDARD

Budget 2026 announces the government's intention to consult on potential measures to strengthen Canada's implementation of the Common Reporting Standard. Interested parties are invited to send written representations to the Department of Finance Canada by December 31, 2026.

TAXABLE CANADIAN PROPERTY

Canada generally taxes non-residents on their income and gains from the disposition of taxable Canadian property ("TCP"). TCP generally includes property with a significant connection to Canada, such as Canadian real estate, resource properties, and certain shares or interests whose value is derived primarily from Canadian real property or resource assets.

To facilitate the collection of this tax, the *Income Tax Act* requires a purchaser that acquires TCP from a non-resident person (vendor) to withhold and remit an amount to the CRA on account of the vendor's potential tax liability, imposing a liability on the purchaser for any failure to do so.

In general terms, lower rates apply to property subject to the one-half inclusion rate for capital gains while higher rates apply to property (specified TCP) where the disposition may give rise to fully taxable ordinary income (e.g., depreciable property, Canadian life insurance policy, Canadian resource property and real property held as inventory). In particular, a purchaser must generally withhold 50% of the purchase price for specified TCP and 25% for capital property other than specified TCP.

Budget 2026 proposes to reduce the withholding and remittance rates from 25 and 50% to 15 and 30%, respectively.

Budget 2026 proposes to exempt 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.

This measure would apply to dispositions that occur on or after January 1, 2027.

SALES AND EXCISE TAX MEASURES

GST/HST HEALTH MEASURES

Budget 2026 proposes that qualifying massage therapists be added to the list of health care practitioners whose professional services are exempt from the GST/HST. Qualifying massage therapy services would generally be exempt from the GST/HST if they are supplied by a person who practises the profession of massage therapy and either of the following conditions are met:

- Where the person is required to be licensed or certified to practise the profession in the province in which the service is supplied, the person is so licensed or certified; or

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- Where the person is not required to be licensed or certified to practise the profession in that province, the person has qualifications equivalent to those necessary to be so licensed or certified in another province.

This measure would apply to qualifying supplies of massage therapy services made after Budget Day.

Budget 2026 proposes to add devices that are specially designed for alternating electric field therapy for use by an individual with cancer to the list of medical devices eligible for zero-rating under the GST/HST.

This measure would apply to qualifying supplies made after Budget Day.

PRE-APPROVAL REGIME FOR GST/HST INPUT TAX CREDIT ALLOCATION METHODS OF FINANCIAL INSTITUTIONS

Budget 2026 proposes to amend the *Excise Tax Act* to allow certain large financial institutions to apply for pre-approval of their GST/HST input allocation methods for three consecutive fiscal years, rather than only in respect of one fiscal year.

This measure would apply in respect of fiscal years of a financial institution beginning after June 30, 2027.

PRODUCT DESCRIPTIONS AND REGULATORY CROSS-REFERENCES IN SALES AND EXCISE TAX RULES

Budget 2026 proposes to update outdated HS codes and regulatory cross-references in the sales and excise tax rules. Most of these changes would preserve the existing tax treatment of affected goods while making the rules easier for importers and administrators to interpret and apply.

These changes would generally come into force on the first day of the second month after the enacting legislation receives royal assent.

CANNABIS TAXATION

Budget 2026 proposes changes to the cannabis excise duty stamping regime and measures to strengthen the penalty framework. A new common stamp would be used for products sold in all provinces and territories with the same duty rate (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. Licensed producers would be able to affix the new common stamp to products beginning January 1, 2028.

Budget 2026 proposes two penalty measures. First, it proposes a new civil penalty set at twice the duty that would have been payable on cannabis that a licensed producer reported as being in its possession but is unable to account for.

Second, it proposes changes to the calculation of fines and penalties for certain cannabis products. For contraventions related to the sale or distribution of unstamped cannabis edibles, topicals and extracts, applicable fines and penalties would be calculated as two to three times the duty that would be payable if the product had a THC concentration of:

- 10 milligrams per gram for cannabis edibles;
- 15 milligrams per gram for cannabis topicals; and
- 1000 milligrams per gram for cannabis extracts.

These measures would come into force on royal assent of the enacting legislation.

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SPIRITS LICENSE SECURITY REQUIREMENTS

Budget 2026 proposes to require excise warehouse licensees authorized to possess non-duty-paid packaged spirits to provide security as a condition of licensing. 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 day that the enacting legislation receives royal assent.

FEDERAL FUEL EXCISE TAX LICENSING FRAMEWORK

Entities that manufacture fuel are generally required to obtain a manufacturer licence, while entities that purchase fuel for resale may qualify for a wholesaler licence.

Budget 2026 proposes amendments to the *Excise Tax Act* to expand the eligibility for a wholesaler licence to businesses that resell fuel in the normal course of their business. These proposed changes would come into force on the first day of the month following royal assent of the enacting legislation.

Under the proposed new rules, an entity would be eligible to apply for a wholesaler licence if the entity meets expanded conditions. Specifically, 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.

Budget 2026 also proposes to broaden the relieving rules for fuel purchased or imported by licensed manufacturers. These proposed changes would come into force on the day following Budget Day.

Under the current rules, licensed manufacturers may import fuel without paying the tax, or purchase fuel without triggering the tax for the vendor, only if they intend to further manufacture the fuel (e.g., blending or incorporating additives). The proposed new rules would also permit 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.

Budget 2026 proposes 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. The Minister of National Revenue would be authorized to make a payment to a licensed manufacturer (the “applicant”) when all specific conditions are met.

The proposed amendments for this payment would come into force on the day following royal assent of the enacting legislation.

OTHER MEASURES

STRENGTHENING TAX COMPLIANCE

Budget 2026 proposes to provide funding to the CRA to:

- Expand compliance activities related to individuals and businesses that do not file income tax returns;
- Enhance the Trust Filers Verification Program to improve compliance among trust filers;
- Strengthen pre-assessment validation activities for corporate income tax returns to help prevent unwarranted refunds.

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MORTGAGE INSURANCE

Budget 2026 proposes to amend mortgage insurance rules to raise the home price limit for optional mortgage insurance from $1 million to $1.5 million and permit 30-year amortization for these insured mortgages, provided that at least one borrower is a first-time home buyer or the home is newly built.

INDIGENOUS TAX JURISDICTION ARRANGEMENTS

Budget 2026 proposes enhancements to First Nations Personal Income Tax and First Nations Goods and Services Tax arrangements.

- Increasing the First Nations Personal Income Tax revenue-sharing rate from 95% to 99% of revenues attributable to a participating government, in conjunction with a revised revenue-sharing mechanism;
- Establishing 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. This ceiling would ensure greater revenue stability for participating Indigenous governments.

These enhancements would be implemented through negotiations between the federal government and interested Indigenous governments.

PREVIOUSLY ANNOUNCED MEASURES

Budget 2026 confirms the government's intention to proceed with the following previously announced tax and related measures, with any modifications resulting from consultations and deliberations since their release.

- 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 the following measures: Disability Tax Credit; Red Seal Completion Bonus; 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 Technical amendments to the *Excise Tax Act*, the *Excise Act, 2001*, the *Air Travellers Security Charge Act*, the *Select Luxury Items Tax Act*, and related regulations;
- 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*;
- Tax measures relating to non-compliance with information requests, announced in Budget 2024, to be implemented through amendments to the *Excise Tax Act*, the *Air Travellers Security Charge Act*, the *Excise Act, 2001* and the *Select Luxury Items Tax Act*;
- Legislative proposals released on August 4, 2023, with respect to tax-exempt sales of motive fuels for export;
- Legislative and regulatory proposals released on August 9, 2022, including the following measures: Technical amendments to the *Income Tax Act* and *Income Tax Regulations*; and Remaining legislative proposals relating to excise duties.

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