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# 2026 Federal budget: Innovation and simplification

November 5, 2026

## In brief

On November 5, 2026, the Minister of Finance and National Revenue, François-Philippe Champagne, presented the government's budget. The budget:

- introduces a new capital gains exemption for individuals — the Canada Growth Incentive — for up to $15 million of capital gains on the disposition of certain shares of qualifying corporations
- extends the Clean Electricity and Clean Technology investment tax credits (ITCs) to eligible property that becomes available for use before 2041 and expands these credits to apply to certain intra-provincial electricity transmission property
- expands the activities and expenditures eligible for scientific research & experimental development (SR&ED) tax incentives to include certain activities conducted to meet regulatory or certification requirements to commercialize a product or process and certain expenditures related to the registration and maintenance of intellectual property (IP) protection for IP developed as a result of SR&ED activities
- invites comments on a proposed corporate loss transfer system that would apply only to current-year non-capital losses between certain eligible corporations
- proposes to reduce the required withholding tax for dispositions of taxable Canadian property (TCP) by non-resident corporate vendors to 15% or 30% (depending on the type of property), from the current 25% or 50% rates, and to streamline the clearance certificate process for certain tax-deferred dispositions
- expands the existing exceptions to the excessive interest and financing expenses limitations (EIFEL) rules for purpose-built rental housing or regulated energy utility businesses to cover a borrower's expenses for borrowed funds used for eligible activities carried on by an affiliated corporation, trust or partnership or by a partnership in which the borrower and affiliated entities together have at least a 40% interest

Many of the tax measures in the budget are aimed at improving how Canadians interact with the tax system and at reducing the time spent on complying with tax obligations. In the budget, the government commits to making further progress toward a simpler tax system recognizing that deeper reforms will take time. More specifically, the government notes that a second tranche of measures toward tax simplification will be announced in the 2027 spring economic update.

This *Tax Insights* discusses these and other tax initiatives proposed in the budget.

# In detail

## Business tax measures

### Corporate loss transfers

Under the Canadian income tax system, corporations are taxed on a stand-alone basis. A corporation may offset its non-capital losses against its own income, subject to the rules in the *Income Tax Act* (ITA), but it cannot directly deduct a loss incurred by another corporation. As a consequence, the overall tax payable by a corporate group may differ depending on whether business activities are conducted through a single corporation or through multiple corporations.

Corporate groups may enter into transactions that effectively allow losses in one group member to offset income in another, such as amalgamations, wind-ups, or intra-group financing transactions. However, these transactions can be complex, costly, or unsuitable where separate corporate entities must be maintained for commercial, financing, regulatory, or liability reasons.

The taxation of corporate groups — in particular, the ability to transfer losses within a corporate group — was the subject of two previous Department of Finance consultations. These consultations identified two main issues with respect to corporate loss transfers. First, provincial and territorial corporate tax bases could be adversely affected; and second, tax integrity concerns could arise.

The budget invites stakeholders to comment on the introduction of a corporate loss transfer rule.

Stakeholders' submissions are encouraged to consider concerns identified in previous consultations regarding tax integrity and protecting the provincial and territorial tax bases. The basic design parameters of the loss transfer mechanism, and certain key considerations, are described below.

**Qualifying corporate group**

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.

**Eligible corporations**

The rule would apply only to corporations resident in Canada that are subject to tax under Part I of the ITA. 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.

**Eligible losses and annual joint election**

The rule would permit current-year non-capital losses to be transferred. A corporation could elect to transfer all or part of its current-year non-capital loss.

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. The transferor's non-capital loss for the relevant taxation year would be reduced by the elected amount. Any portion of the transferred amount that is not deducted by the transferee in that year would not be made available for carryback or carryforward.

**Provincial allocation**

The corporate loss transfer rule could affect provincial and territorial tax bases if a loss arising in one jurisdiction were used to reduce taxable income allocated to another jurisdiction. As such, a loss arising in a province or territory could only be transferred to offset income arising in that same jurisdiction. In particular, the rule 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.

The government invites views on whether, and if so how, the rule could be broadened while protecting provincial and territorial tax bases.

**Tax integrity**

Allowing corporate loss transfers may give rise to tax integrity concerns. The purpose of a loss transfer rule would be to provide a more efficient mechanism by which income of a corporate group could be offset by non-capital losses of the group. However, applying a loss transfer mechanism to a group of corporate entities, each of which is taxed on a stand-alone basis, may result in other unintended tax benefits.

The government invites views on how the loss transfer mechanism should address tax integrity concerns.

## Clean Electricity and Clean Technology Investment Tax Credits

The Clean Electricity investment tax credit (ITC) is a refundable credit of up to 15% on the capital cost of eligible investments in low-emitting electricity generation, electricity storage, and the transmission of electricity between provinces and territories. The Clean Technology ITC is a refundable credit of up to 30% on the capital cost of eligible investments in low-emitting electricity generation, electricity storage, and low-carbon heating, as well as non-road zero emission automotive equipment and related charging and refuelling equipment.

**Extension to 2040**

Both credits are available for property that is acquired and becomes available for use before 2035. The budget proposes to extend this date to 2041. The credit rate of the Clean Technology ITC 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.

**High-voltage intra-provincial electricity transmission**

The budget proposes to expand eligibility for the Clean Electricity ITC to include certain 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. Eligible property would include certain equipment and structures related to transmission lines and substations, including cables, towers, lattices, and transformers. Eligible property would exclude buildings and electricity distribution

equipment, as well as certain property that is used for international transmission. Further details on what would constitute eligible intra-provincial electricity transmission property will be available at a later date.

This measure would apply with respect to property that is acquired on or after November 5, 2026.

## SR&ED tax incentive program

Under the SR&ED tax incentive program, qualifying expenditures are fully deductible in the year they are incurred. Qualifying expenditures are also eligible for an investment tax credit. The tax credit is provided at an enhanced rate of 35% for certain small- and medium-sized corporations. A general rate of 15% is available for qualified SR&ED expenditures that do not qualify for the enhanced rate.

The budget proposes to expand the activities and expenditures eligible under the SR&ED program.

**Regulatory and certification requirements**

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.

The types of expenditures that could be claimed in respect of these additional eligible activities would be the same as those eligible under the SR&ED program (e.g. wages and salaries, materials, contracting costs, overhead costs and machinery and equipment).

**Intellectual property protection**

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 IP would include IP registered or protected as patents, certificates of supplementary protection, plant breeders' rights or copyrighted software, under the relevant Canadian legislation or equivalent legislation in another jurisdiction.

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 November 5, 2026.

## Interest deductibility limits

The EIFEL rules provide Canada's response to the recommendation under Action 4 of the OECD/G20 BEPS Project. The EIFEL rules restrict the amount of net interest and financing expenses that may be deducted by certain taxpayers in computing taxable income.

The 2024 budget announced an exception to the 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 for interest and financing expenses incurred by a taxpayer on borrowings used by the taxpayer to carry on a regulated energy utility business in Canada. Neither exception has been enacted into law.

**Indirect borrowings**

Under the existing proposals, the exceptions would apply only if the borrower uses the borrowed funds directly to acquire, build, or convert a property into purpose built rental housing in Canada or to carry on a regulated energy utility business in Canada.

The budget 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. Additional consequential changes would be made to the proposed exceptions.

**Regulated energy utility business**

The budget 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 (including sales to Crown corporations); or
- established through a government-operated market that facilitates delivery for consumption or use in Canada.

These EIFEL measures would apply to taxation years that begin on or after October 1, 2023.

## Canadian Journalism Labour Tax Credit

The Canadian Journalism Labour Tax Credit (CJLTC) provides qualifying journalism organizations with a refundable 35% tax credit on the salary or wages paid to eligible newsroom employees. Labour expenditures are capped at $85,000 per eligible employee for a tax year, resulting in an annual credit of up to $29,750 per employee.

To access the CJLTC, an organization must first meet the requirements for designation as a qualified Canadian journalism organization (QCJO). This principally entails being engaged in the production of original news content, and regularly employing two or more journalists who deal at arm's length with the organization in the production of that content.

**Extension to audio and audiovisual news**

The CJLTC currently applies exclusively to the production of original written news content. The budget proposes to extend eligibility for the CJLTC to the production of audio and audiovisual news.

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, including researching, collecting information, verifying facts, photographing, recording or editing video or sound, writing, editing, designing, presenting a news bulletin or segment and undertaking other activities related to the preparation or presentation of original news content.

All other existing eligibility criteria under the CJLTC in respect of an eligible newsroom employee would continue to apply.

This measure would apply to qualifying labour expenses incurred on or after November 5, 2026.

**Extension of the enhanced credit rate**

The CJLTC rate was temporarily increased from 25% to 35% from January 1, 2023 to December 31, 2026. The rate is currently scheduled to return to 25% on January 1, 2027. The budget proposes to extend the 35% rate until December 31, 2028.

## Taxable Preferred Shares

The ITA contains a regime designed to prevent the erosion of corporate tax revenues through after-tax financing that involves the issuance of shares with debt-like characteristics (referred to as "taxable preferred shares") in lieu of debt instruments. This can arise when the issuer corporation is non-tax paying (e.g., it has unused deductions, losses or credits) and is unable to immediately benefit from the tax deduction for interest expense. Consequently, the tax benefit to the investor of receiving an amount as a tax-free intercorporate dividend (instead of as taxable interest income) may exceed the tax benefit to the issuer corporation of claiming an equivalent interest expense deduction.

To make the tax system more neutral between debt and preferred share financing, the taxable preferred share regime imposes a special tax (Part VI.1 tax) on dividends paid on taxable preferred shares. To provide relief for tax-paying corporations (that gain no advantage from after-tax financing), Part VI.1 tax can be offset against tax payable under Part I of the ITA. Part VI.1 tax is also only payable for dividends paid in excess of a $500,000 dividend allowance threshold. The threshold is reduced to the extent dividends paid in the prior calendar year exceeded $1,000,000.

The budget proposes to introduce the following measures:

- Exempt Canadian controlled private corporations (CCPCs) 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 November 5, 2026.
- 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.

The government is also reviewing the broader preferred share regime and is seeking stakeholders' views on the impact of the rules and on potential improvements.

## Helium exploration, development and resource expenses

Under the ITA, certain expenses related to petroleum and natural gas exploration, development, and property acquisition are classified as Canadian exploration expense (CEE), Canadian development expense (CDE), or Canadian oil and gas property expense (COGPE). These expenses are deductible at rates of 100%, 30% and 10%, respectively. The proposed Productivity Mega Deduction[1] would increase the deduction rate for CDE from 30% to 100%.

The budget proposes to allow helium exploration and development expenses to qualify as CEE and CDE, consistent with the treatment of similar expenses in the petroleum and natural gas sector. Expenses incurred to acquire helium resource properties would qualify as COGPE.

This measure would apply to expenses incurred on or after November 5, 2026.

[1] See our *Tax Insights* at www.pwc.com/ca/taxinsights:
- "Federal tax measures to boost investments in Canada: permanent immediate expensing and faster rulings"
- "Canada's Productivity Mega Deduction: Its application to mining companies"
- "Canada's Productivity Mega Deduction: Accelerating capital cost recovery in the oil and gas sector"

## Corporate tax elections

Under various provisions in the ITA and Income Tax Regulations, corporations may file elections or agreements with the Canada Revenue Agency (CRA) that determine the tax consequences of specific transactions or events.

Certain rules require corporations to provide a certified copy of a resolution of their directors authorizing the election or agreement or, in certain cases, a certified copy of the authorization of the person entitled to administer the affairs of the corporation. These certified-copy requirements apply, for example, to capital dividend elections; transfers of tax liability on certain taxable dividends; transfers of qualified SR&ED expenditures; and allocations of wages and salary of SR&ED employees.

The budget 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.

## Administrative penalties

Administrative penalties are imposed under tax statutes when taxpayers do not comply with their tax obligations. The 2025 budget announced a review of fines and penalties to ensure that they remain sufficient and that non-compliance is not just treated as a cost of doing business. Following this review, the budget proposes amendments to administrative penalties under federal tax statutes as follows:

- an increase to most fixed-dollar penalties to broadly account for inflation since their enactment, and to index these amounts to inflation once every five years
- a calibration of certain penalty amounts by taxpayer size, and
- the introduction of new penalties for repeated failures to file an income tax return or to comply with certain obligations

The budget also proposes amendments to certain penalties relating to the Common Reporting Standard, the Reporting Rules for Digital Platform Operators and the Crypto-Asset Reporting Framework. In addition, it proposes to make a number of technical amendments to maintain the integrity of the penalty regime in the ITA, as well as amendments to strengthen the penalty regimes in other tax statutes.

# Personal tax measures

## Canada Growth Incentive – Capital gains

The budget proposes to introduce a new Canada Growth Incentive (CGI) capital gains exemption, which would allow a Canadian-resident qualifying individual to claim a tax exemption on capital gains realized on a disposition of qualifying shares of a qualifying corporation of up to $15,000,000.

Unlike the current lifetime capital gains exemption, an individual does not have a lifetime limit to their ability to claim the CGI. Rather, an individual's limit is in respect of each qualifying business.

The claim could relate to a capital gain realized on the disposition of a qualifying share in that year or a preceding taxation year. This measure would apply to shares issued on or after November 5, 2026 and before 2037.

The proposal includes several measures to integrate the CGI with other rules in the ITA, including the lifetime capital gains exemption and alternative minimum tax.

**Qualifying shares**

The CGI applies only in respect to dispositions of qualifying shares of a qualifying corporation. Generally speaking, these have the following characteristics:

- at the time of share issuance, the corporation must be a CCPC, 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
- 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. Further, for a minimum period of 24 consecutive months immediately following the 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 businesses**

Eligibility for the CGI also requires that the business carried on by the corporation be a qualifying business, which is 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

## Mineral Exploration Tax Credit and Critical Mineral Exploration Tax Credit

The budget proposes to extend eligibility for the Mineral Exploration Tax Credit and the Critical Mineral Exploration Tax Credit (CMETC), which are set to expire on March 31, 2027, for five years to March 31, 2032. In addition, the budget proposes to expand the CMETC to include antimony as an eligible critical mineral, for expenditures renounced under eligible flow-through share agreements entered into after November 5, 2026.

## Tax filing and balance due dates for individuals

The budget proposes to change the tax filing due date and balance due date for individuals to May 15. This measure will apply to 2027 and subsequent taxation years.

For most individuals this will result in an extension of the existing tax filing deadline of April 30. However, for self-employed individuals (and their spouses and common law partners), this represents an acceleration from the current June 15 tax filing deadline.

## Instalment payments for individuals and corporations

The budget proposes several changes to the computation of instalment payments for individuals and small businesses. In particular:

- the threshold for when instalments are required will be increased from $3,000 to $7,500 for corporations and individuals resident outside Quebec, and from $1,800 to $4,500 for individuals resident in Quebec. These 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
- individuals whose primary source of income is from a business (including professional or commission income) will be allowed 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 measure would apply to the 2028 and subsequent taxation years

## Objections to assessments

The budget proposes to extend the deadline for filing notices of objection for most taxpayers, but eliminate the ability to request a filing deadline extension.

Under the proposal, most taxpayers' deadline to object to an income tax assessment will be increased from 90 days to one year after the date of the assessment. For individuals and graduated rate estates, the objection deadline will be increased to the later of one year after the notice of assessment is sent (rather than the current 90 days) and two years from the tax return filing due date for the taxation year being assessed (rather than the current one year).

The ITA currently allows taxpayers to request a one-year extension to the current deadline, which the CRA routinely grants, thus effectively giving most taxpayers up to 15 months to object. However, the budget proposals would eliminate a taxpayer's ability to apply for an extension.

This proposal would apply to an assessment sent on or after the day that is three months after royal assent of enacting legislation.

## Foreign income verification statement – Form T1135

Canadian-resident individuals, corporations and trusts, as well as certain partnerships, must file a Foreign Income Verification Statement (Form T1135) with the Canada Revenue Agency if they own certain foreign property with a total cost of more than $100,000 at any time in a taxation year or fiscal period. Simplified reporting is available if the total cost of the taxpayer's property does not exceed $250,000 at any time during the year or fiscal period.

The budget proposes to double the thresholds to $200,000 and $500,000, respectively. These changes would apply to taxation years or fiscal periods that end after 2026.

## Trust distributions to non-residents

Generally speaking, a personal trust (and certain other trusts) can distribute property to Canadian-resident beneficiaries in satisfaction of their capital interests in the trust on a tax-deferred or "rollover" basis. By contrast, the rollover is denied when property is distributed to a non-resident.

The budget proposes to curtail the availability of the rollout to Canadian-resident corporate beneficiaries, as well as partnerships, in which a non-resident person has any interest. The draft proposals are broadly drafted to exclude the rollout if any share or interest in the corporation or partnership is owned “directly or indirectly” by a non-resident. The proposals as currently drafted do not include any *de minimis* exemption and would apply to distributions of property that occur on or after November 5, 2026.

## Rollover for investments in small businesses

The existing rollover provisions for qualifying dispositions of eligible small business corporation shares will be amended in several ways. First, the period to acquire replacement shares will be extended to the year in which the disposition occurs and the three subsequent calendar years. Second, the “all or substantially all” (90%) test for assets used in the business will only need to be met at the time of issuance and disposition of the shares. A reduced “primarily” threshold will apply instead throughout the period of ownership. These measures will apply to qualifying dispositions made on or after January 1, 2027.

## Expansion of the intergenerational farm and fishing property rollover

Eligibility for the rollover provisions for capital gains on intergenerational transfers of certain farming property and fishing property will be expanded to include 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.

## Optional flat amounts for personal income tax deductions and credits

The budget proposes to introduce optional flat-amount calculation methods for claiming certain personal deductions and credits. The aim of these measures is to allow individuals to claim a flat amount if they choose (i.e. rather than tracking expenses and keeping receipts) provided they can establish eligibility. The eligible deductions and credits would include, among others, the moving expense deduction, home accessibility tax credit and adoption expense tax credit. These measures would apply to 2027 and subsequent taxation years.

## Deductibility of expenses against commission income

The budget will permit commission employees to deduct motor vehicle and travel expenses under the general provisions that apply to all employees, in addition to deducting the expenses reserved to commission employees, effective for the 2027 and subsequent taxation years. Presently, commission employees must choose one of the two sets of rules.

## Registered Retirement Savings Plan (RRSP)

An RRSP is a tax-assisted vehicle for accumulating retirement savings. Currently, an RRSP must be converted to a Registered Retirement Income Fund (RRIF) by the end of the year in which the individual turns 71. A RRIF is then used to draw down those savings through minimum annual withdrawals.

The budget announces the government's intention to merge the core features of the RRSP and RRIF into a single "RRSP for life," along with other changes to modernize the RRSP rules. This would eliminate the requirement to convert an RRSP to a RRIF at age 71. Minimum annual withdrawals would continue to apply starting at age 72.

The issues under consideration include:

- whether and how the RRSP rules could include a "successor holder" feature, similar to other registered plans, which would allow a surviving spouse or common-law partner to keep the RRSP open until their death, without the value of the RRSP being included in the deceased's income

- whether and how the current indirect rollover rules that apply on death could be replaced with direct tax-free transfers to the registered plans of qualifying survivors
- the consequential changes that may be needed to federal and provincial pension standards legislation, since funds transferred from a pension plan are generally locked in and must be held in prescribed vehicles, such as a locked-in RRSP or RRIF

A consultation is open in respect of the proposal until January 8, 2027.

## Excess corporate holdings regime for private foundations

The budget eliminates the excess corporate holdings regime applicable to private foundations for taxation years beginning on or after January 1, 2027. Instead, private foundations will be subject to the rules that currently prohibit public foundations from acquiring control of a corporation.

The present excess corporate holdings regime prevents private foundations, together with non-arm's length individuals, from holding more than 20% of any class of shares of any one corporation.

## Disclosure of tax debt to credit bureaus

The budget proposes ITA and *Excise Tax Act* amendments to allow the CRA to disclose information about a taxpayer's income tax and GST/HST debts to credit bureaus, under certain conditions. Effective upon royal assent of the enacting legislation, the CRA would be permitted to disclose a taxpayer's tax debt if:

- 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 related objection/appeal rights have expired or been exhausted
- 30 days prior to the disclosure, the CRA has notified the taxpayer in writing of its intention to disclose the tax debt, and
- the CRA has taken reasonable steps to collect the tax debt and given the taxpayer an opportunity to make reasonable repayment arrangements before the disclosure

## Registered Pension Plans

A registered pension plan (RPP) is an arrangement registered by the CRA, under which an employer contributes to a fund that provides periodic payments to retired employees. An RPP must comply with the registration conditions at all times. If it does not, the plan becomes a "revocable plan," and the CRA may ultimately revoke its registration. The tax consequences of a revocation are not fully set out under the current rules.

**Revocation of an RPP**

The budget proposes to set out the tax consequences when the CRA revokes the registration of an RPP, as follows:

- the revoked plan would be liable for a special tax equal to 10% of the fair market value of its property immediately before the revocation, which the CRA could waive or cancel
- the revoked plan would be deemed to become a retirement compensation arrangement (RCA)
- an amount equal to the fair market value of the plan's property, less any revocation tax assessed, would be deemed to be contributed to the RCA, so the RCA would have to remit the 50% refundable tax on that contribution

These measures would apply to revocations of RPPs after 2026.

**Individual pension plans**

An individual pension plan (IPP) is a defined benefit RPP with fewer than four members, at least one of whom is related to a participating employer (e.g. a controlling shareholder). Because of this non-arm's length relationship, IPPs are subject to additional conditions that do not apply to other RPPs. In some circumstances, related members are included in a plan in order to exceed the three-member threshold, thereby avoiding the application of these conditions.

The budget proposes to expand the IPP definition in certain circumstances 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 effective January 1, 2027.

The budget also proposes to:

- make IPPs subject to the advantage, non-qualified investment and prohibited investment rules, under which the controlling individual would be liable for a tax equal to 50% of the value of a prohibited or non-qualified investment and 100% of the value of an advantage, effective January 1, 2028, with transitional rules
- make an IPP revocable if its assets exceed 200% of its liabilities, effective January 1, 2028

## Canada Caregiver Credit (CCC)

Effective for the 2027 and subsequent taxation years, the budget proposes to make the CCC fully-refundable. The CCC is currently a non-refundable tax credit.

## Medical Expense Tax Credit (METC) and Disability Supports Deduction (DSD)

Effective for the 2026 and subsequent taxation years, the budget simplifies the documentation requirements of the METC for certain eligible expenses by:

- removing the requirement for a prescription for certain expenses incurred exclusively for medical purposes
- replacing the prescription requirement with a requirement for certification of the individual’s medical condition by an authorized medical practitioner, for certain expenses that may be incurred for non-medical purposes

The CRA would continue to be permitted to ask for additional documentation to verify that METC claim requirements are met.

The budget also introduces an option for individuals to claim a flat amount of certain categories of expenses for the METC and DSD, instead of tracking individual expenses and keeping receipts. Those categories include expenses for:

- gluten-free food — an individual with celiac disease can claim an optional flat amount of $1,000 per year under the METC, effective for the 2026 and subsequent taxation years
- incontinence products — a certified individual requiring these products due to incontinence caused by illness, injury or affliction can claim an optional flat amount of $500 per year under the METC, effective for the 2027 and subsequent taxation years

- service dogs — an individual coping with certain severe and prolonged physical or mental impairments can claim an optional flat amount of $2,000 per year under the METC or DSD for expenses incurred in relation to a service dog, effective for the 2027 and subsequent taxation years (the cost incurred to acquire a service dog could be itemized and claimed separately in addition to the flat amount in a particular year)

# International tax measures

## Bilateral tax treaties

The budget highlights Canada's recent launch of negotiations on new tax treaties with Qatar and the Kingdom of Saudi Arabia, and negotiations to update and modernize its tax treaty with Australia. It also notes the government's intention to expand Canada's network of tax treaties to ensure that Canada remains a competitive location for future investments by pension funds and sovereign wealth funds.

## Taxable Canadian property – Withholding and remittance rules

Canada generally taxes non-residents on their income and gains from the disposition of TCP such as Canadian real estate, resource properties, and certain shares or interests whose value is derived primarily from such real estate or assets. A purchaser that acquires TCP from a non-resident vendor must withhold and remit an amount to the CRA on account of the vendor's potential tax liability unless the vendor obtains a certificate of compliance (referred to as a "clearance certificate"). To obtain the clearance certificate the vendor must remit an estimate of the taxes owing, post security or demonstrate to the CRA that no tax will be owing.

The budget proposes two changes to these rules: first, regarding the withholding rates applicable to corporate vendors, and second, regarding tax-deferred dispositions under section 85 of the ITA.

### Corporate vendors

The withholding and remittance rules currently do not account for the different income tax rates applicable to different types of taxpayers (e.g., individuals/trusts and corporations). This generally results in over-withholding for corporate vendors. To address this issue, the budget proposes to reduce the applicable withholding and remittance rates for corporate vendors as follows:

**Current and proposed withholding and remittance requirements**

| Type of TCP | Current rules | | Proposed rules | |
|---|---|---|---|---|
| | Purchaser's withholding obligation | Vendor's tax remittance for issuance of a clearance certificate | Purchaser's withholding obligation | Vendor's tax remittance for issuance of a clearance certificate |
| **Capital property other than specified TCP** | 25% of the purchase price | 25% of the capital gain | 15% of the purchase price | 15% of the capital gain |
| **Specified TCP** | 50% of the purchase price | Such amount as is acceptable to the CRA | 30% of the purchase price | Same rules apply |

**Section 85**

Where a vendor and purchaser jointly elect to transfer property on a fully tax deferred “rollover” basis under section 85, the current withholding and remittance rules continue to apply to the purchaser and vendor as if no tax deferral was available. The CRA may administratively allow the vendor to obtain a clearance certificate without remitting tax. However, some purchasers prefer to withhold tax until the clearance certificate is issued by the CRA to limit their risk of liability. This results in an administrative burden and delays the availability of funds to the vendor.

The budget 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. The budget also proposes changes to an existing anti-avoidance rule denying a tax-deferred rollover in certain circumstances in order to strengthen this rule for dispositions of TCP by non-residents.

Both proposed changes to the TCP rules would apply to dispositions that occur on or after January 1, 2027.

## Common Reporting Standard

The OECD’s Common Reporting Standard (CRS) model rules provide a global standard for the automatic exchange of financial account information for tax purposes. Participating jurisdictions undergo a peer review process to ensure consistency. Canada’s rules implementing the CRS were identified on peer review as departing from the global standard in two main areas:

- an entity established to invest or trade in financial assets is excluded from CRS due diligence and reporting requirements if it is not represented or promoted to the public as an investment vehicle, and
- Canada’s residency conditions bring a narrower range of partnerships within the definition of a financial institution for CRS purposes than the model rules do

The budget announces the government’s intention to consult on how the rules could be amended to bring them into line with the international standard without imposing unnecessary compliance burdens.

# Sales tax measures

## GST/HST health measures

The budget proposes:

- that qualifying massage therapists be added to the list of health care practitioners whose professional services are exempt from the GST/HST, for qualifying supplies of massage therapy services made after November 5, 2026
- 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, for qualifying supplies made after November 5, 2026

Exempt treatment means that suppliers of exempt health care services do not charge the GST/HST, but they cannot claim input tax credits to recover the GST/HST paid on inputs in relation to these services. Zero-rating means that suppliers of certain health care products do not charge the GST/HST (i.e. these supplies are taxed at zero per cent) and are entitled to claim input tax credits to recover the GST/HST paid on inputs in relation to these supplies.

### Pre-approval regime for GST/HST input tax credit allocation methods of financial institutions

When a business uses an input to make both taxable and exempt supplies, the business must use an allocation method to determine the extent to which the input is used in the making of taxable supplies. Certain large financial institutions are permitted to use their own GST/HST input allocation methods for a given fiscal year if they obtain approval from the Minister of National Revenue before the beginning of the fiscal year. Currently, this pre-approval must be requested every fiscal year.

The budget proposes to amend the *Excise Tax Act* to allow these 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 will apply in respect of fiscal years of a financial institution beginning after June 30, 2027.

## Previously announced measures

The budget confirms that the government intends to proceed with these previously announced tax and related measures, as modified to take into account consultations and deliberations since their release (note that the following is not a complete list):

- 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 those related to:
  - the carbon capture, utilization and storage ITC
  - investment income derived from assets supporting Canadian insurance risks
  - a simplified transfer pricing documentation regime[2]
  - hybrid mismatch arrangements[3]
  - technical amendments to the ITA and Income Tax Regulations
  - technical amendments to the *Global Minimum Tax Act*
- legislative proposals released on January 29, 2026, to implement reporting requirements for non-profit organizations[4]
- legislative proposals released on August 12, 2024, with respect to technical amendments to the ITA

The budget also reaffirms the government's commitment to move forward as required with other technical amendments to improve the certainty and integrity of the tax system.

[2] See our *Tax Insights* "Canada introduces a simplified transfer pricing documentation regime" at www.pwc.com/ca/taxinsights.
[3] See our *Tax Insights* "Finance releases second package of hybrid mismatch rules" (August 7, 2026 update) at www.pwc.com/ca/taxinsights.
[4] See our *Tax Insights* "Finance releases draft legislation to expand information reporting for non-profit organizations" at www.pwc.com/ca/taxinsights.

# Let’s talk

For a deeper discussion of how these tax issues might affect you or your business, please:

- contact your PwC adviser, or
- explore the many services we offer at www.pwc.com/ca/tax to connect with the PwC professional best suited to assist you

**2026 budgets:** PwC will keep you up-to-date on tax changes in Canada's federal and provincial budgets. Go to www.pwc.com/ca/budget.

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