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Tax Alert – Canada

Updated proposed legislation for expanded CRA audit powers

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

On 15 August 2025, the Department of Finance released for public comment several packages of draft legislative proposals (with accompanying explanatory notes) to implement certain previously announced tax measures, many of which were first announced in the 2024 federal budget (Budget 2024) or the 2024 Fall Economic Statement, as well as various tax technical amendments.¹

In particular, the draft legislative proposals include updates and revisions to the proposed expansion of the Canada Revenue Agency's (CRA) audit and information gathering provisions included in the *Income Tax Act* (the Act).

In this Tax Alert, we briefly review the legislative proposals dealing with the CRA's audit powers.

Background and evolution of the proposed legislative measures

The Department of Finance has, over the past 18 months, advanced a series of legislative proposals aimed at expanding the CRA's audit and information-gathering powers.

¹ For a summary of the main income tax legislative proposals included in these packages, see [EY Tax Alert 2025 Issue No. 40, Finance releases draft legislation for various previously announced measures and technical amendments](#).

Budget 2024 proposed several amendments with respect to the audit and information gathering provisions of the Act to “enhance the efficiency and effectiveness of tax audits and facilitate the collection of tax revenues on a timelier basis”, including:²

- ▶ **Notice of non-compliance:** Introduction of a new notice of non-compliance regime, which allows the CRA to issue notices to taxpayers who fail to comply with information requests, with related extensions to the normal reassessment period and a penalty of \$50 for each day the notice is outstanding to a maximum of \$25,000.
- ▶ **Questioning under oath:** Authority for the CRA to require that information or documents provided in response to a requirement or notice be given under oath or affirmation.
- ▶ **Compliance orders:** Introduction of a penalty of 10% of the aggregate tax payable by a taxpayer when the CRA obtains a compliance order against a taxpayer and the tax owing is in excess of \$50,000. The CRA will also be allowed to seek a compliance order when a person has failed to comply with a requirement to provide foreign-based information or documents.
- ▶ **Stopping the reassessment limitation clock:** Amendment of the “stop-the-clock” rules to provide that they apply when a taxpayer seeks judicial review of any requirement or notice issued to the taxpayer (or a person not dealing at arm’s length with the taxpayer) by the CRA in relation to the audit and enforcement process or during any period that a notice of non-compliance is outstanding.

These measures would come into force on Royal Assent of the enacting legislation.

The Department of Finance subsequently released draft legislation in August 2024, which contained slightly modified versions of the provisions proposed in Budget 2024. For more information, see [EY Tax Alert 2024 Issue No. 42, Finance releases draft legislation for 2024 budget and other measures](#).

August 2025 proposed legislative amendments

The following amendments are included in the 15 August 2025 draft legislative proposals and include modifications to take into account comments received since their initial release on 12 August 2024:

- ▶ **Cost of compliance:** Previously, the requirement provisions of paragraph 231.1(1)(f) and subsections 231.2(1) and 231.6(2) to provide certain information to the CRA for purposes of the administration and enforcement of the Act were to be “without cost to His Majesty in right of Canada”. This condition has now been removed from the updated proposed legislation, suggesting that there could be circumstances in which the costs of complying with information requirements could be recoverable. The draft legislative proposals do not include any provisions with respect to computing or recovering any eligible compliance costs.

² For more information, see [EY Tax Alert 2024 Issue No. 24, Federal budget 2024](#).

- ▶ **Compliance orders:** Certain adjustments to help ensure that a penalty assessed should not be “disproportionate” or “unfair” in the circumstances. More specifically:
 - ▶ The penalty for the compliance order under subsection 231.7(1) is now “*up to 10%*” instead of a fixed rate of 10% of the aggregate amount of tax payable under the Act for each taxation year of the taxpayer to which the order relates.
 - ▶ New proposed subsection 231.7(10) provides that if the taxpayer objects to an assessment of a compliance order penalty, the Minister shall vacate or vary the assessment if the Minister determines that the penalty is, in the circumstances, disproportionate or unfair and may reduce the amount of the penalty or provide any other relief as the Minister deems appropriate.
- ▶ **Solicitor-client privilege:** New proposed paragraph 231.7(7)(a) and subsection 231.9(13) each respectively provide that (i) the compliance order penalty and (ii) the \$50 daily penalty for each day the notice of non-compliance is outstanding to a maximum of \$25,000 do not apply if one of the reasons for the person not complying with the requirement was the person’s reasonable belief that the information, documents or answers were protected from disclosure by solicitor-client privilege.
- ▶ **Other:** Clarification under proposed subsection 231.7(6) that the penalty for the failure to comply is with respect to a requirement under section 231.1, 231.2 or 231.6 in respect of a taxation year of the taxpayer.

Learn more

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