

2025 Issue No. 47
22 September 2025

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](#).



Shape the future
with confidence

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

For more information, contact your EY or EY Law tax advisor, or one of the following tax professionals:

Jonathan Ip

+1 403 206 5409 | jonathan.ip@ca.ey.com

Scott Joly

+1 403 206 5404 | scott.joly@ca.ey.com

Marc Lesage

+1 514 874 4449 | marc.lesage@ca.ey.com

Neil Mather

+1 780 638 5869 | neil.mather@ca.ey.com

David Robertson

+1 403 206 5474 | david.d.robertson@ca.ey.com

Adrienne Woodyard

+1 416 943 4541 | adrienne.woodyard@ca.ey.com

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multidisciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

About EY's Tax Services

EY's tax professionals across Canada provide you with deep technical knowledge, both global and local, combined with practical, commercial and industry experience. We offer a range of tax-saving services backed by in-depth industry knowledge. Our talented people, consistent methodologies and unwavering commitment to quality service help you build the strong compliance and reporting foundations and sustainable tax strategies that help your business achieve its potential. It's how we make a difference.

For more information, visit ey.com/ca/tax.

About EY Law LLP

EY Law LLP is a national law firm affiliated with EY in Canada, specializing in tax law services, business immigration services and business law services.

For more information, visit eylaw.ca.

About EY Law's Tax Law Services

EY Law has one of the largest practices dedicated to tax planning and tax controversy in the country. EY Law has experience in all areas of tax, including corporate tax, human capital, international tax, transaction tax, sales tax, customs and excise.

For more information, visit <http://www.eylaw.ca/taxlaw>

© 2025 Ernst & Young LLP. All Rights Reserved.

A member firm of Ernst & Young Global Limited.

This publication contains information in summary form, current as of the date of publication, and is intended for general guidance only. It should not be regarded as comprehensive or a substitute for professional advice. Before taking any particular course of action, contact EY or another professional advisor to discuss these matters in the context of your particular circumstances. We accept no responsibility for any loss or damage occasioned by your reliance on information contained in this publication.