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Tax Alert – Canada

Reversal of longstanding position with respect to the GST/HST status of trailing commissions

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In a recent GST/HST interpretation provided to an industry group,¹ the Canada Revenue Agency (CRA) indicated that it will reverse its longstanding administrative position on the GST/HST status of trailing commissions and adopt the position that trailing commissions are taxable for GST/HST purposes. This change in the CRA's administrative position is significant, and it will have several implications for stakeholders.

The CRA intends to apply this position to supplies made on or after 1 July 2026 to allow industry participants time to adjust their systems and procedures.

In this respect, in the GST/HST interpretation dated 22 December 2025, the CRA indicated the following:

"Based on our review of the industry's current regulations and practices, **our position has changed**. Effective July 1, 2026, mutual fund trailing commissions paid by Managers to both Original Dealers and New Dealers will generally be subject to GST/HST."

[emphasis added]

¹ It is our understanding that the GST/HST interpretation has been shared with the relevant stakeholders, and it will be released by the CRA for publishing by tax publishers.

Furthermore, the CRA has indicated that "an emerging industry trend" demonstrates how the industry characterizes the services supplied in exchange for trailing commissions. The CRA provided an example with respect to certain actions of dealers and agents (the Dealers), and it indicated that their current practice suggests that they provide ongoing services to their clients in exchange for the trailing commissions (as opposed to the service of assisting with the issuance of the mutual fund units).

The CRA also based its conclusion on the GST/HST status of the commissions by reviewing certain industry websites and publications.

Accordingly, based on the review of the information provided and the publicly available information, it is the CRA's view that the provision of "investment account support" servicing and advice generally constitutes taxable asset management services for GST/HST purposes and, as such, the trailing commissions are subject to GST/HST.

The CRA stated that, in its view, the change in position correctly interprets the legislation, provides clarity and simplifies tax administration as:

"[...] Managers will no longer be required to track the transfer of units to New Dealers (i.e. distinguish between payments to Original Dealers versus New Dealers) in order to apply GST/HST correctly to the trailing commissions paid."

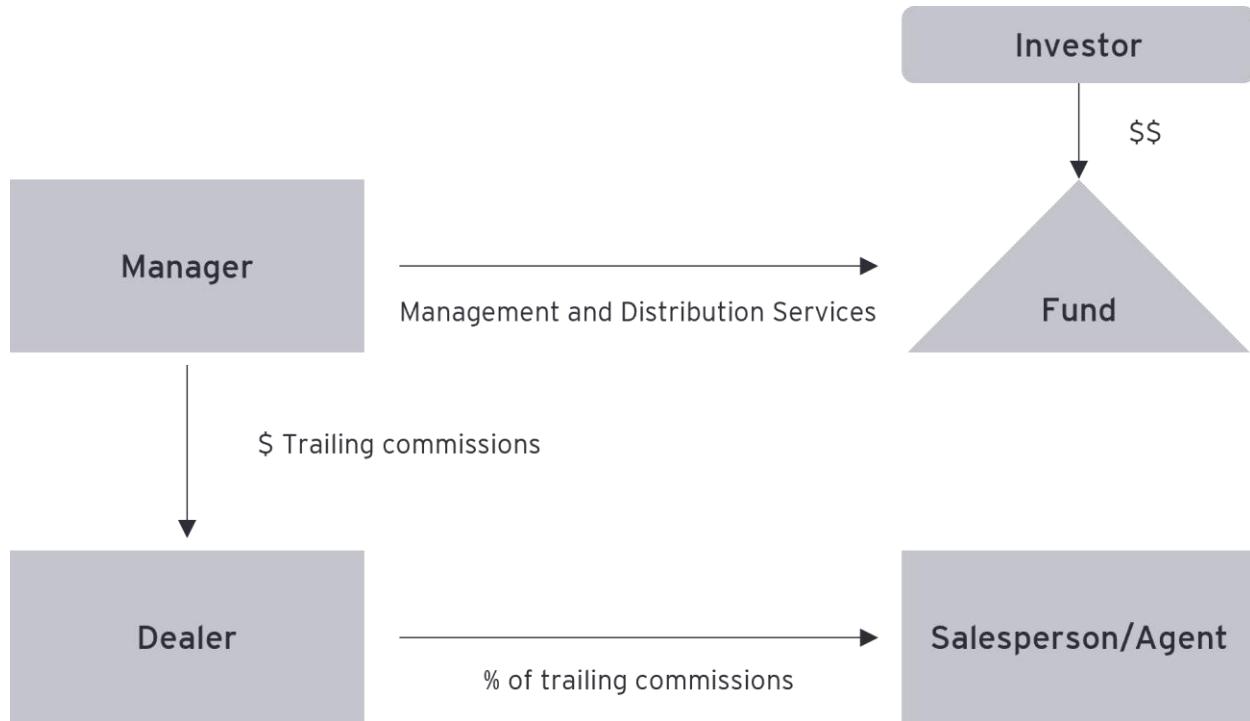
In addition, the CRA noted that "arranging for the initial issuance of units remains an exempt supply" and, as such, "any up-front trading fees" (or up-front commissions) are likely exempt from GST/HST.

In light of the CRA's comments, it is also anticipated that the commissions earned by agents and financial advisors (collectively, the Agents) from the Dealers will also be subject to GST/HST.

The reversal in the CRA's administrative position will result in Dealers and Agents being required to register for GST/HST purposes, which may, in turn, require several compliance and operational changes to current processes and information systems.

Background

As illustrated below, trailing commissions generally result from supplies made between mutual fund managers (the Managers) and Dealers, and between Dealers and Agents.



The CRA's longstanding administrative position, which was initially detailed in (Cancelled) GST/HST Policy Statement P-119: *Trailer commission servicing fees*, issued on 22 February 1994,² is that trailing commissions are generally an exempt supply of a "financial service." Consequently, the supplies of (i) services made by the Dealers to the Managers, and (ii) services made by the Agents to the Dealer are generally exempt from GST/HST under paragraphs (d) and (l) of the definition of a "financial service" in subsection 123(1) of the *Excise Tax Act*.

More recently, this longstanding position was confirmed in GST/HST Ruling RITS 187184, *Application of GST/HST to mutual fund trailing commissions in the mutual fund industry*, dated 13 January 2022. Specifically, the CRA confirmed that trailing commissions were not subject to GST/HST, other than in certain "exceptional circumstances."

² GST Policy Statement P-119, *Trailer Commission Servicing Fees*, was cancelled in February 2011. GST/HST Technical Information Bulletin B-105, *Changes to the Definition of Financial Service*, replaced certain GST/HST publications, including GST/HST Policy 119.

Next steps

Affected parties should consider the following potential implications:

- i. Most Dealers and Agents generally have not had experience as GST/HST registrants; where the quantum of the supplies made exceeds \$30,000, Dealers and Agents will have to register for GST/HST purposes and develop a process to track the GST/HST collected, and report and remit the respective amounts in a timely manner;
- ii. Managers will have to develop system capabilities to ensure that Dealers are charging GST/HST;
- iii. Managers, Dealers and Agents (collectively, the Parties) will have to establish an invoicing process to ensure that GST/HST is collected at the correct rate and in a timely manner;
- iv. The Parties will have to ensure they meet all the requirements to claim input tax credits and that claims are filed in the correct periods;
- v. To the extent that the Manager and Dealer have a section 150 election in effect, each party should review whether intercompany elections need to be revoked (so input tax credits can be claimed);
- vi. The Parties will have to consider potential system changes;
- vii. The Parties will have to consider the potential impact on accounting systems; and
- viii. The Parties should review the respective agreements between the entities and consider whether any changes are required.

Furthermore, it is unclear whether Revenu Québec will follow the CRA's stance and adopt a similar position for Quebec Sales Tax purposes.

Learn more

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