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Tax Alert – Canada

Budget 2025 implementation bill no. 2 tabled in the House of Commons

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 6 May 2026, the government tabled Bill C-31, *Budget 2025 Implementation Act, No. 2* (Bill C-31). The bill implements the various tax measures that were contained in the detailed notice of ways and means motion that was tabled on 4 May 2026, including various Budget 2025 measures and other income tax and global minimum tax measures that were included in draft legislation released on 29 January 2026, various new amendments (not previously announced) and various outstanding income tax, global minimum tax and indirect tax measures previously included in draft legislation released in December 2019, August 2022, August 2023, August 2024 and August 2025.

Notably, the business income tax and global minimum tax measures contained in Bill C-31 are considered substantively enacted (for financial reporting purposes) as of 6 May 2026, due to the new majority status of the federal government. This includes, for example, the new measure allowing for immediate expensing of manufacturing or processing (M&P) buildings under the capital cost allowance (CCA) rules. See “Business and international tax measures” (below) for more information on the business income tax and global minimum tax measures that are now substantively enacted.

The following is a high-level summary of the income tax and global minimum tax measures contained in Bill C-31. A more detailed summary of the global minimum tax measures will be provided in a separate tax alert.



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A summary of the indirect tax measures included in Bill C-31 will be provided in an EY News article available to subscribers of the Excise Automated Reference Library (GST/HST & Excise) on [Canadian Tax Library](#) and [Knotia](#).

Business and international tax measures

As indicated above, the following business and international tax measures are now substantively enacted:

- ▶ **Amalgamations involving a public corporation** - Amendment to paragraph 87(2)(ii) of the *Income Tax Act* (the Act) to provide an exception to the rule deeming a new corporation to be a public corporation at the beginning of its first taxation year if one of its predecessor corporations was a public corporation. The exception applies to vertical amalgamations under subsection 87(11) of the Act, if an election or designation not to be a public corporation was made under the definition of "public corporation" in subsection 89(1) of the Act in respect of the predecessor corporation before amalgamation and after the last time a class of shares of the capital stock of the predecessor became listed on a designated stock exchange in Canada. The amendment applies to amalgamations that occur on or after Bill C-31 receives Royal Assent.
- ▶ **Avoidance of tax debts** – Amendments to strengthen the tax debt anti-avoidance rule (as announced in Budget 2024 and previously included in draft legislation released in August 2024), including the introduction of a supplementary rule and expansion of joint and several liability rules, applicable to transactions or series of transactions that occur on or after 16 April 2024. The supplementary rule provides for a deemed transfer where an intermediary (the planner) facilitates an indirect transfer from a tax debtor to a non-arm's length party with the intent to avoid the tax debt anti-avoidance rules in section 160 of the Act. Specifically, the supplementary rule will apply if (i) there has been a transfer of property by a person (the planner) to a person (the transferee); (ii) as part of the same transaction or series of transactions, there has been a separate transfer of property from another person (the transferor) to the planner (or any other person); and (iii) one of the purposes of the transaction or series of transactions is to avoid joint and several, or solidary, liability of the transferee and the transferor. If these conditions are met, the property transferred by the transferor is deemed to have been transferred to the transferee for purposes of the tax debt anti-avoidance rule. In addition, the penalty in subsection 160.01(2) of the Act is extended to apply to tax debt avoidance planning that is subject to the supplementary rule. As well, taxpayers who participate in tax debt avoidance planning will be jointly and severally, or solidarily, liable for the full amount of the avoided tax debt, including any portion that has effectively been retained by a planner.
- ▶ **Canadian exploration expenses** - Amendments (as announced in Budget 2025 and previously included in draft legislation released in January 2026) to clarify that expenses incurred for the purpose of determining the quality of a mineral resource in Canada do not include expenses related to determining the economic viability or engineering feasibility of the mineral resource, effective 4 November 2025 (or, in the case of flow-through mining expenditures, effective in respect of expenses renounced under a flow-through share agreement entered into on or after 4 November 2025).

- ▶ **Carbon capture, utilization and storage (CCUS) investment tax credit** - Various technical amendments to the CCUS investment tax credit (previously included in draft legislation released in August 2024 and January 2026). The previously announced technical amendments that clarify the definition of “dual-use equipment” for purposes of the CCUS investment tax credit, and amend the definition of Class 57 property in Schedule II of the *Income Tax Regulations*, effective 1 January 2022, have been updated to limit the time of the equipment’s use (or expected use) of fossil fuels in the startup phase to no more than 120 hours per startup, and to add that the current 72-hour per calendar year limit applies to the newly permitted use of fuelling the equipment for any purpose. Other technical amendments included in Bill C-31 provide that once captured carbon has been stored in dedicated geological storage, if the carbon dioxide is released into the atmosphere for bona fide reasons outside the control of the taxpayer, the captured carbon will be deemed to continue to be used in an eligible use, and clarify the definition of “qualified concrete storage process.” These amendments are also effective as of 1 January 2022.

- ▶ **Clean electricity investment tax credit** - Various new technical amendments to the credit rules, including clarifying amendments to ensure any day (rather than any period) during which a specified natural gas energy system is not operating is excluded from determination of an operating year, to include the Newfoundland and Nova Scotia offshore areas within the meaning of a province for purposes of the credit, and to establish shared filing requirements in respect of a qualified natural gas energy system, applicable as of 16 April 2024. For property that is acquired and becomes available for use on or after 4 May 2026, other new technical amendments clarify (by spelling them out instead of making a cross-reference to subsection 127(34) of the Act) the rules that permit the deferral of recapture of the tax credit on certain non-arm’s length transfers by having the related purchaser inherit the transferor’s position with respect to the clean electricity property’s acquisition date and capital cost, any previously claimed tax credit, and any previous repayment of a credit (due to the application of subsection 127.491(18) of the Act); as well, amendments clarify the definitions of “clean electricity property” and “qualified natural gas energy equipment” (i.e., in that latter case, to clarify that the exclusion in respect of equipment that uses fossil fuel in operation is in reference to equipment that is part of a system that uses fossil fuel in operation). Finally, a new technical amendment specifically excludes from the capital cost of clean electricity property any amount that is a qualified expenditure for which a scientific research and experimental development (SR&ED) investment tax credit has been claimed, applicable as of 4 May 2026.

- ▶ **Clean hydrogen investment tax credit** - Various amendments to the credit (previously included in draft legislation released on 29 January 2026), as well as a new technical amendment. Specifically, updated amendments expand the credit (as first announced in the 2024 fall economic statement) to include methane pyrolysis as an eligible production pathway, effective for property that is acquired and becomes available for use in an eligible project after 15 December 2024. In addition, updated technical amendments also clarify and expand the credit, effective 28 March 2023. Notably, the reference to dual-use hydrogen and ammonia equipment under the definition of “eligible clean hydrogen property” is replaced with a reference to oxygen and nitrogen production equipment, and the period in which documentation and information requested by the Minister of Natural Resources must be provided by a taxpayer is extended; the definition of “operating year”

is amended so that any day (rather than any period) during which a taxpayer's clean hydrogen project does not produce hydrogen (rather than is not operating) is disregarded (this amendment appears to be in response to Canada Revenue Agency (CRA) document 2025-1063501E5); and amendments require that a taxpayer's sole and exclusive right to the environmental attributes associated with the electricity under an eligible power purchase agreement or the substance in respect of an eligible renewable hydrocarbon be evidenced by one or more environmental attribute certificates issued through a provincially designated authority, and is subject to additional conditions outlined in new subsection 127.48(6.1) of the Act. Various modifications to the technical amendments (that are effective 28 March 2023) have been made to take into account comments received since their last release on 29 January 2026. For example, changes to the definition of "dual-use electricity and heat equipment" limit the time of the equipment's use (or expected use) of fossil fuels in the startup phase to no more than 120 hours per startup, and add that the current 72-hour per calendar year limit applies to the newly permitted use of fuelling the equipment for any purpose; changes to the definition of "excluded property" ensure certain equipment that is used for the generation of heat energy to support the production of hydrogen through electrolysis of water but that is physically and functionally integrated with high-temperature electrolysis equipment is not excluded property; a change to exclude excluded property from the definition of "pyrolysis reactor system"; and additional changes to the calculation of carbon intensity (under subsection 127.48(6) of the Act) in circumstances where the taxpayer uses (or proposes to use) heat energy in connection with hydrogen production or electricity production in support of hydrogen production. Finally, a new technical amendment specifically excludes from the capital cost of eligible clean hydrogen property any amount that is a qualified expenditure for which an SR&ED investment tax credit has been claimed, applicable as of 4 May 2026.

- ▶ **Clean technology investment tax credit** - New technical amendments to the clean technology investment tax credit. Specifically, for property that is acquired and becomes available for use on or after 4 May 2026, the definition of "clean technology property" is amended to clarify that the exclusion in respect of equipment that uses fossil fuel in operation is in reference to equipment that is part of a system that uses fossil fuel in operation; as well, amendments are made to clarify (by spelling them out instead of making a cross-reference to subsection 127(34) of the Act) the rules that permit the deferral of recapture of the tax credit on certain non-arm's length transfers by having the related purchaser inherit the transferor's position with respect to the clean technology property's acquisition date and capital cost and any previously claimed tax credit. In addition, an amendment is made to specifically exclude from the capital cost of clean technology property any amount that is a qualified expenditure for which an SR&ED investment tax credit has been claimed, applicable as of 4 May 2026.
- ▶ **Clean technology manufacturing (CTM) investment tax credit** - New technical amendments to clarify (by spelling them out instead of making a cross-reference to subsection 127(34) of the Act) the rules that permit the deferral of recapture of the tax credit on certain non-arm's length transfers by having the related purchaser inherit the transferor's position with respect to the CTM property's acquisition date and capital cost and the previously claimed tax credit, effective for property that is acquired and becomes available for use on or after 4 May 2026. In addition, an amendment is made to specifically exclude from the capital cost of CTM property any amount that is a qualified expenditure for which an SR&ED investment tax credit has been claimed, applicable as of 4 May 2026.

- ▶ **Common reporting standard (CRS)** - Various updated amendments to the CRS under Part XIX of the Act (as announced in Budget 2024 and included in draft legislation released on 15 August 2025) to incorporate 2023 amendments by the Organisation for Economic Co-operation and Development (OECD) to the global CRS (notably resulting from the adoption of the crypto-asset reporting framework (CARF), as described below) and make other related changes. For example, these amendments include (i) the addition of specified electronic money products and central bank digital currencies within the scope of the CRS; (ii) changes to ensure effective coordination between the CRS and the CARF and to limit instances of duplicative reporting between the two frameworks; (iii) changes to require additional information to be reported in respect of financial accounts and account holders; (iv) the strengthening of the due diligence procedures followed by financial institutions; (v) the expansion of the list of excluded accounts to include certain accounts established in connection with a contribution of capital to (or incorporation of) a corporation if certain conditions are met, as well as certain depository accounts with a rolling average 90-day account balance or value during any 90-consecutive day period that does not exceed US\$10,000; (vi) the removal of prescribed labour-sponsored venture capital corporations (LSVCCs) from the list of non-reporting financial institutions and the addition of a non-registered account held in an LSVCC as a prescribed excluded account provided that annual contributions to the account do not exceed US\$50,000; and (vii) changes to clarify certain aspects of the anti-avoidance provision of the CRS. Among the amendments made since the last release on 15 August 2025 are separate additional application rules for accounts (referred to as ACRS accounts) that are treated as financial accounts solely because of the implementation of the OECD 2023 amendments. As announced in Budget 2025, application of the changes to Part XIX of the Act is deferred by one year so that the changes will apply to 2027 and subsequent calendar years.
- ▶ **Crypto-asset reporting framework** - Updated amendments to implement the OECD's CARF in Canada under proposed Part XXI of the Act (as announced in Budget 2024 and included in draft legislation released on 15 August 2025). The CARF imposes a new annual reporting requirement on crypto-asset service providers, as well as other related administrative requirements (such as due diligence procedures and record-keeping requirements), and a penalty for non-compliance. Crypto-asset service providers subject to the reporting requirements include entities and individuals that are resident in Canada or that carry on business in Canada, and that provide business services effectuating exchange transactions in crypto-assets for or on behalf of customers (such as crypto exchanges, crypto-asset brokers and dealers, and operators of crypto-asset automated teller machines), including by acting as a counterparty or as an intermediary to the exchange transactions, or by making available a trading platform. The reporting requirements may also apply to entities organized under the laws of Canada or a province that have an obligation to file tax returns or information returns in Canada and to partnerships managed from Canada, if these entities and partnerships provide business services effectuating exchange transactions in crypto-assets. As announced in Budget 2025, application of the new reporting requirements is deferred by one year so they will apply for 2027 and subsequent calendar years.

- ▶ **Digital platform operators** - New technical amendment to clarify that the provisions in Part XX of the Act, outlining the reporting rules for digital platform operators, are to be interpreted consistently with not only the OECD *Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy* (Model Rules), but also with the official commentary to the Model Rules. This amendment enters into force on 1 January 2024. Also, an amendment is made to add the *Part XX Information Return - Digital Platform Operators* to the list of prescribed information returns that must be filed electronically if there are more than five information returns of that type being filed for a calendar year, applicable for 2027 and subsequent calendar years. A similar amendment is made for Part XIX and Part XXI information returns.

- ▶ **Foreign accrual tax (FAT)** - Introduction of new subsections 91(4.01) to (4.03) providing for the determination of FAT where income or profits tax is paid to a foreign jurisdiction under a domestic minimum top-up tax regime (DMTT) (as defined in Regulation 5907(1)) by a foreign affiliate (or shareholder affiliate) of a taxpayer that generates foreign accrual property income (FAPI) (with some minor modifications since their last release on 15 August 2025). In general, under these new rules, a portion of tax paid by a foreign affiliate (or shareholder affiliate) under a DMTT regime of a foreign country will be deductible under subsection 91(4), as FAT, only if the following two conditions under subsection 91(4.01) are met: (i) the portion can reasonably be considered to be in respect of income or profits of the foreign affiliate (or shareholder affiliate) as determined under the DMTT regime (as determined under new Regulation 5907(1.192) by virtue of subsection 91(4.02)); and (ii) those income or profits can reasonably be considered to be derived from an activity for which the income, profit, or gains are included in the taxpayer's income as FAPI of the foreign affiliate. However, an amount of tax payable under a DMTT regime (of a country other than Canada) is excluded from FAT under subsection 91(4.03) if it was determined taking into account any Canadian taxes imposed under the Act (other than under Part XIII), in order to prevent circularity. Finally, Regulation 5907(1.3) is amended to prescribe certain compensation payments made by a foreign affiliate (or shareholder affiliate) to a primary affiliate (within the meaning of new Regulation 5907(1.14)) to be FAT, provided certain conditions are met and subject to the exclusion in subsection 91(4.03) of the Act. As recommended by the Joint Committee on Taxation of the Canadian Bar Association and Chartered Professional Accountants of Canada (Joint Committee), given that some taxpayers had already paid amounts under certain DMTT regimes prior to 15 August 2025, these amendments are deemed to come into force on 31 December 2023 (rather than 15 August 2025, as initially proposed).

- ▶ **Foreign affiliate surplus accounts** - Amendments to the definitions of "exempt deficit", "exempt surplus", "hybrid deficit", "hybrid surplus", "hybrid underlying tax", "taxable deficit", "taxable surplus", and "underlying foreign tax" in Regulation 5907(1) to take into account income or profits tax paid by a foreign affiliate under a DMTT regime. In addition, the definitions of "domestic minimum top-up amount", "domestic minimum top-up tax regime", "fiscal year", and "DMTT group" are added. New subsection 5907(1.011) provides that income or profits tax paid under a DMTT regime may only be taken into account as provided for in the various amended definitions in Regulation 5907(1) mentioned above. As well, Regulations 5907(1.14) to (1.193) are introduced setting out new rules with respect to income or profits tax paid under a DMTT regime. In general, these rules ensure that such tax is matched to the appropriate foreign affiliate (e.g., where one entity pays tax on behalf of other group entities or the entity that pays

the tax is different from the entity that generates the related income) and set out circumstances where such tax is excluded from an affiliate's hybrid underlying tax or underlying foreign tax. These amendments are deemed to come into force on 31 December 2023 (rather than 15 August 2025, as initially proposed).

- ▶ **Foreign tax credit (FTC)** - Amendments to ensure an appropriate amount of income or profits tax paid by a taxpayer under a DMTT regime is taken into account in determining the taxpayer's FTC. Specifically, similar to the changes made to the determination of FAT described above under "Foreign accrual tax (FAT)", new subsections 126(4.7) and (4.8) are introduced to ensure that a portion of foreign income or profits tax paid to a foreign jurisdiction under a DMTT regime is only included in business-income tax for FTC purposes if: (i) it can reasonably be considered to be in respect of income or profits of the taxpayer as determined under the DMTT regime; and (ii) those income or profits can reasonably be considered to be derived from an activity generating income, profit, or gains that would be included in the taxpayer's income from a business carried on in the business country. However, also similar to the FAT determination changes, new subsection 126(4.14) is added to exclude an amount of income or profits tax payable under a DMTT regime from being included in a taxpayer's business-income tax or non-business-income tax for FTC purposes if it has been determined taking into account any Canadian taxes imposed under the Act (other than under Part XIII). Finally, the definitions of "domestic minimum top-up tax regime", "fiscal year", and "DMTT group" are also added, and the definition of "non-business-income tax" is amended, related to these new rules. As recommended also by the Joint Committee, these amendments are deemed to come into force on 31 December 2023 (rather than 15 August 2025, as initially proposed).
- ▶ **Global minimum tax** - Updated amendments previously included in draft legislation released in August 2024, August 2025 and January 2026, as well as some new measures. The previously announced amendments, which include some modifications since their last release, include amendments to (i) reflect certain aspects of OECD administrative guidance (e.g., on securitization entities); (ii) implement the undertaxed profits rule (effective for fiscal years of a qualifying multinational enterprise (MNE) group that begin on or after 31 December 2025, rather than 31 December 2024 as originally proposed); (iii) implement a "de-consolidation" rule to address private investment entities located in Canada (effective for fiscal years of a qualifying MNE group that begin on or after 31 December 2023); and (iv) make a consequential amendment to the *Income Tax Conventions Interpretation Act* relating to the application of the *Global Minimum Tax Act*. New amendments introduce the side-by-side safe harbour and the ultimate parent entity safe harbour rules, effective for fiscal years of a qualifying MNE group that begin on or after 1 January 2026. However, Bill C-31 does not include amendments to implement the substance-based tax incentives safe harbour or the qualified tax incentive concepts discussed in the January 2026 OECD administrative guidance.
- ▶ **Immediate expensing for M&P buildings** - Temporary immediate expensing of the cost of eligible M&P buildings located in Canada, including the cost of eligible additions or alterations made to such buildings, for eligible properties acquired on or after 4 November 2025, that are first used for manufacturing or processing before 2030. Under this measure, which was first announced in Budget 2025 and included in draft legislation released on 29 January 2026, a 100% deduction will be allowed in the first taxation year that an eligible building is used for manufacturing or processing, provided at least 90% of the

floor space of the building is used for eligible purposes (i.e., to manufacture or process goods for sale or lease). This temporary immediate expensing will be phased out by reducing the 100% deduction rate to 75% for property first used for manufacturing or processing in 2030 or 2031, to 55% for property first used in 2032 or 2033, and eliminating the enhanced rate for property that is first used after 2033. The enhanced first-year deduction is not prorated for short taxation years. To qualify for the enhanced first-year deduction, a taxpayer must elect in their income tax return for the taxation year in which the building is acquired (rather than through a separate letter attached to the return, as originally proposed) to have the M&P building included in a separate prescribed class. The draft legislation has been updated to specifically require that the building be included in Class 1. Further, a building that has been used, or acquired for use, for any purpose before being acquired by a taxpayer will be eligible for the enhanced first-year deduction if 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 basis. If a taxpayer has claimed the enhanced first-year deduction, a change in use of the building to a non-eligible use within 10 calendar years of the taxation year for which the claim was made may give rise to recapture (with special rules in subsection 13(7) of the Act providing for a deemed disposition and reacquisition of the building at the change-in-use time, with some modifications since the initial release on 29 January 2026 of the draft legislation). Other special rules apply, including an anti-avoidance rule and a special rule for additions and alterations, as well as special rules for acquisition costs incurred before 4 November 2025, in respect of an M&P building that was under construction on 4 November 2025.

- ▶ **Manipulation of bankrupt status** – Repeal of the exception to the debt forgiveness rules and the loss restriction rule for bankrupt corporations (as announced in Budget 2024 and included in draft legislation released on 12 August 2024), applicable to corporate bankruptcy proceedings that commence on or after 16 April 2024. In addition, the exception to the debt forgiveness rules is also removed for bankrupt partnerships and trusts, applicable to partnership and trust bankruptcy proceedings that commence on or after 12 August 2024. As a result, bankrupt corporations, partnerships and trusts will be subject to the general debt forgiveness rules for commercial debts.
- ▶ **Non-compliance with information requests** – Various amendments (as announced in Budget 2024 and previously included in draft legislation released in August 2024 and August 2025) to the administration provisions under the Act with respect to information-gathering powers of the CRA, with some modifications to take into account comments received since the release of the 15 August 2025 draft legislation. For example, the amendments extend the CRA's powers to the administration and enforcement of a listed international agreement or a tax treaty with another country, introduce a new type of notice that the CRA may issue to a person that has not complied with a requirement or notice by the CRA to provide information or assistance (with related changes to extend the normal reassessment period and impose a penalty for each day the notice of non-compliance remains outstanding), and allow the CRA to demand, in a requirement or notice to provide information or assistance, that any information or documents (provided in written or oral form) be provided under oath or affirmation. Other changes include the introduction of a new penalty where the CRA obtains a compliance order against a taxpayer from a court, and the tax owing by the taxpayer in respect of a taxation year to which the compliance order relates is \$50,000 or more, and the extension of the CRA's

ability to seek a compliance order to situations where a person has failed to comply with a requirement to provide foreign-based information or documents. Amendments also allow the “stop-the-clock” rules that extend the reassessment period when a taxpayer seeks judicial review of a requirement or notice to provide information or assistance, to also apply when a taxpayer seeks judicial review of a requirement or notice issued by the CRA in relation to an audit or enforcement process. Among the latest set of revisions, the previously proposed rule that would have allowed the CRA to require a person to provide answers to questions, information, or documents, orally, under oath or affirmation, or by affidavit, in respect of a notice to comply with a requirement under section 231.1, 231.2 or 231.6, has been removed. In addition, circumstances under which a notice of non-compliance should not be issued have been added (these circumstances involve, for example, requirements to provide information or documents made to unrelated third parties). Also, the compliance order penalty provision has been modified to fix the penalty rate at 10% (consistent with Budget 2024 and the 12 August 2024 draft legislation), rather than “up to 10%” as provided for in the 15 August 2025 draft legislation. These measures will come into force on Royal Assent of Bill C-31.

- ▶ **Part IV tax deferral through tiered corporate structures** - Introduction of new rules (as announced in Budget 2025 and previously included in draft legislation released on 29 January 2026), to limit the deferral of Part IV tax on investment income that arises through the use of tiered affiliated corporation structures with mismatched year-ends, applicable to dividends paid in taxation years beginning on or after 4 November 2025. Modifications have been made to take into account comments received since their last release on 29 January 2026. Specifically, the payer corporation’s dividend refund will effectively be suspended (subject to certain exceptions) on the payment of a dividend that is received (directly or indirectly) by an affiliated corporation (that is a private corporation or a subject corporation) in a taxation year that ends after the end of the payer’s taxation year in which the dividend was paid (rather than the recipient corporation having a balance-due day for the taxation year in which it received the dividend that is after the balance-due day for the payer’s taxation year in which the dividend was paid, as originally proposed). The rules operate by deeming the paid dividend (the suspended dividend) not to be a taxable dividend until a subsequent taxation year when the recipient corporation pays a taxable dividend to a non-affiliated corporation or a shareholder who is an individual (subject to an anti-avoidance provision). The suspended dividend may also be released if it is paid to a connected corporation and certain conditions are met. This anti-deferral rule will not apply if each corporate dividend recipient in a chain of affiliated corporations pays a subsequent dividend (that has the same character) on or before the payer corporation’s balance-due day for the taxation year in which the dividend was paid, so that no deferral is achieved by the affiliated corporate group; it will also not apply to any dividend paid within 30 days prior to an acquisition of control of the payer corporation or to any dividend paid within 12 months prior to an acquisition of control of the payer corporation if the dividend was paid in contemplation of the acquisition of control. The rules have also been updated to provide for the calculation of any “surplus payee dividend” and “surplus grandparent dividend” amount that is not subject to the rules, as well as the calculation of the amount of a suspended dividend that may be released.
- ▶ **Qualified expenditures and clean economy expenditures** - New technical amendment to ensure that a clean economy expenditure (as defined in subsection 127.47(1) of the Act) in respect of which a clean economy tax credit has been claimed by any person is excluded from qualified expenditures that are eligible for the SR&ED investment tax credit. This amendment is deemed to enter into force on 4 May 2026.

- ▶ **Suspension of Canada-Russia income tax treaty** - Amendment to the *Income Tax Conventions Implementation Act, 1996*, to suspend the operation of the Canada-Russia income tax treaty throughout the period beginning on 18 November 2024 and ending on the day before the recommencement date (to be fixed by order of the Governor Council on the recommendation of the Minister of Finance, after consultation with the Minister of Foreign Affairs).

Measures affecting individuals, trusts and registered plans

- ▶ **Advanced life deferred annuities (ALDAs)** - Amendments to the definition of an ALDA in subsection 146.5(1) of the Act, and other related amendments, for payments made in the event of the breakdown of marriage or common-law partnership. In addition, an amendment is made to permit interest on the amounts transferred to acquire the annuity to be included in determining the amount that may be paid to a beneficiary after the death of the annuitant (or, in the case of a joint-lives annuity, after the last death of the annuitant and the annuitant's spouse or common-law partner). These amendments are deemed in force on 1 January 2023. As well, updated amendments are made to the calculation of an excess ALDA transfer amount under subsection 205(1) for the purposes of the Part XI penalty tax, deemed in force on 12 August 2024.
- ▶ **Amateur athlete trust rules** - Retroactive amendments (first announced on 20 December 2019) to extend the maturation period for amateur athlete trusts maturing in 2019 by one year. Specifically, the eight-year period referred to in subsection 143.1(3) that would have ended in 2019 is extended to nine years, effective 1 January 2019. As a result of this special amendment for 2019, the deemed distribution of all property held in the trust will occur at the end of the 2020 taxation year rather than at the end of the 2019 taxation year.
- ▶ **Automated filing** - As announced in Budget 2025, updated amendments to introduce automated filing of personal tax returns for low-income Canadians that meet certain conditions, applicable for 2025 and subsequent taxation years. This new process is intended to ensure eligible individuals gain access to benefits they are entitled to receive, such as the GST/HST credit, the Canada child benefit and the Canada disability benefit. Eligible individuals will have 90 days to review the information on file with the CRA for the year and submit changes, before the CRA files the tax return on the individual's behalf.
- ▶ **Canada Carbon Rebate** - Amendments (announced in Budget 2025 and included in draft legislation released on 29 January 2026) to provide that no rebate payments will be made in respect of tax returns filed after 30 October 2026.
- ▶ **Deferred profit-sharing plans (DPSPs)** - Amendment to the definition of a DPSP in subsection 147(1) of the Act to provide that an application for registration of a DPSP must be made by either a trustee under the plan or an employer of employees who are beneficiaries under the plan (rather than by both the trustee and the employer), deemed in force 12 August 2024.

- ▶ **Emigration from Canada** - Introduction of new subsections 126(2.211) and 128.1(8.1) of the Act to extend indefinitely the reassessment period with respect to a foreign tax credit provided to an individual in the year of emigration and to a post-emigration loss on the disposition of taxable Canadian property, applicable on Royal Assent of Bill C-31.
- ▶ **Employee life and health trusts (ELHTs)** - Amendments to subsection 144.1(2) of the Act to clarify and relax certain conditions that must govern a trust in order for the trust to qualify as an ELHT. These amendments that have been updated since their last release on 15 August 2025, permit a distribution of ELHT property to the Crown (in the event of a wind-up or reorganization) if the last beneficiaries are key employees or related persons (previously, such a distribution could only be made following the death of the last beneficiary) and ensure that an individual whose only beneficial interest in the trust is a right to receive a designated employee benefit provided in respect of an employee's employment with a participating employer (such as life insurance and death benefit payouts from the trust) can receive them, applicable on Royal Assent of Bill C-31. In addition, an amendment revises the requirements in subparagraph 144.1(2)(e)(i) of the Act for an ELHT to have at least one class of beneficiaries representing at least 25% of all beneficiaries of the trust who are employees of a participating employer by requiring that 75% of the members of that class now either be individuals that are not key employees (or individuals related to key employees) or individuals who deal at arm's length with participating employers and whose contributions to the ELHT are determined in connection with a collective bargaining agreement (thereby making the current 75% test cumulative and extending the excluded individuals), effective as of 1 January 2027 (rather than 1 January 2026, as originally proposed).
- ▶ **Employee stock options** - Amendments to clarify the formula for calculating the proportion of securities under a stock option agreement that are deemed to be non-qualified securities under the annual vesting limit in subsection 110(1.31) of the Act, generally applicable in respect of stock option agreements entered into after June 2021 (the date the annual vesting limit came into effect) except with respect to certain designated non-qualified securities.
- ▶ **Foreign plans and foreign retirement arrangements** - Amendment to paragraph 60(j) of the Act (modified since the initial release on 15 August 2025) to extend the tax-free transfer of eligible pension benefits available under that paragraph from non-registered pension plans to include pension benefits where the non-registered pension plan is a foreign plan, as defined in Regulation 6804(1), that reported pension credits (as described in Regulation 8308.1(2)) in respect of the taxpayer, or their current or former spouse or common-law partner, for all the years of service rendered under the plan by the taxpayer or their spouse or common-law partner. This amendment is deemed in force on 1 January 2024. In addition, Regulation 6803 is amended to add U.S. 401(k) plans to the list of prescribed plans or arrangements (which is relevant for the purposes of several provisions in the Act), to ensure that 401(k) accounts are treated consistently with other U.S. pension plans, such as individual retirement accounts, for Canadian income tax purposes. This amendment applies upon Royal Assent of Bill C-31.

- ▶ **Multigenerational home renovation tax credit** - Amendment to the definition of “qualifying relation” in subsection 122.92(1) of the Act to add the spouse or common-law partner of individuals listed as qualifying relations of a qualifying individual or of the cohabitating spouse or common-law partner of a qualifying individual. As a result of this amendment, the spouse or common-law partner of the niece or nephew of a qualifying individual or a qualifying individual’s cohabitating spouse or common-law partner may be eligible to claim the credit. This amendment addresses an issue identified in CRA document 2024-1015481C6. The amendment applies for 2023 and subsequent taxation years in respect of qualifying expenditures paid after 31 December 2022 for services performed or goods acquired after that date (the same date the credit first became effective).

- ▶ **Pooled registered pension plans (PRPPs)** - Updated amendments that introduce new subsections 147.5(13.1) and (13.2) of the Act (with a consequential amendment to the definition of “spousal or common-law partner plan” in subsection 146(1)) as an anti-avoidance provision to discourage income-splitting through a PRPP by applying a spousal attribution rule similar to existing rules for registered retirement savings plans (RRSPs) and registered retirement income funds (RRIFs). These amendments are deemed to come into force on 15 August 2025. A clarifying technical amendment is also made to the definition of a “member” of a PRPP in subsection 147.5(1), effective on Royal Assent of Bill C-31.

- ▶ **Qualified investment regime for registered plans** - Amendments (announced in Budget 2025 and included in draft legislation released on 29 January 2026) intended to simplify, streamline and harmonize the qualified investment rules, which govern what seven types of registered plans can invest in. These seven types are deferred profit sharing plans (DPSPs), first home savings accounts, registered disability savings plans (RDSPs), registered education savings plans (RESPs), RRSPs, RRIFs and tax-free savings accounts (TFSAs). The amendments (with some minor updates since their release on 29 January 2026) include:
 - ▶ **Small business investments** - Changes to the rules relating to registered plan investments in small businesses, while maintaining the ability of registered plans to make such investments. In particular, the set of rules that provides for investments in specified small business corporations, venture capital corporations and specified cooperative corporations is extended to RDSPs, while the set of rules that provides for investments in eligible corporations, small business investment limited partnerships and small business investment trusts will no longer apply to investments made after 31 December 2026. These amendments apply as of 1 January 2027.

 - ▶ **Registered investment regime** - Amendments that replace the registered investment regime with two new categories of qualified investments that do not involve registration: units of a trust that is subject to the requirements of National Instrument 81-102, *Investment Funds* published by the Canadian Securities Administrators, and units of a trust that is an investment fund managed by a registered investment fund manager as described in National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Units or shares of funds that were registered investments will generally continue to qualify under one or both of the new categories of qualified investment trusts. The registered investment regime is repealed as of 1 January 2027, and the new qualified investment trust rules apply as of 4 November 2025.

- ▶ **Other changes** - Other amendments simplify the qualified investment rules, effective 1 January 2027. Notably, the qualified investment rules for six types of registered plans (i.e., all plans except DPSPs) are consolidated into one definition in subsection 207.01(1) of the Act, with consequential amendments being made to various provisions of the Act to reflect this change. In addition, the list of qualified investments prescribed in the *Income Tax Regulations* is updated and reorganized by asset class (in new Regulations 5001 to 5004). As well, two new types of unit trusts introduced as qualified investments are added to the list of reporting persons required to file an annual information return under Regulation 221, applicable for 2026 and subsequent taxation years.

- ▶ **Registered education savings plans** - Various updated amendments to replace the Budget 2024 changes enacted by Bill C-69, *Budget Implementation Act, 2024, No. 1*, which authorize the relevant minister to open and subscribe to an RESP. The amendments modify the registration conditions for situations where the subscriber to a plan is a designated subscriber (i.e., the relevant minister), remove the social insurance number requirement where there is a designation of a beneficiary under a plan with a designated subscriber, and exempt a designated subscriber from Part X.5 tax (regarding accumulated income payments) and from the various penalty taxes under Part XI.01 (regarding advantages and non-qualified or prohibited investments). These changes apply upon Royal Assent of Bill C-31.

- ▶ **Registered pension plans (RPPs)** - Introduction of new subsections 147.2(9) and (10) of the Act to permit any participating employer under a defined benefit RPP to make unfunded liability contributions towards the legacy pension benefits of plan members whose employer or former employer no longer participates in the plan, where certain conditions are met. In addition, Regulation 8514(2) is amended to provide a new exception from the list of prohibited investments for RPPs that are not individual pension plans for shares or debt of a person or partnership that does not deal at arm's length with a participating employer, where certain conditions are met. New Regulation 8516(4) is also added (and Regulation 8516(1) amended) to provide a new prescribed contribution, for purposes of the definition of "eligible contribution" (to a defined benefit provision of a RPP) under subsection 147.2(2) of the Act, where an RPP benefit entitlement is settled via a transfer or payment at a time when the plan is not fully funded and certain conditions are met. These amendments are deemed to come into force on 15 August 2025. Various other technical amendments are made to the rules for RPPs, including regulatory changes relating to the calculation of past service pension adjustments, defined benefit provisions and the payment of the commuted value of benefits on death before retirement, money purchase provisions and designated laws. These other technical amendments are generally deemed to come into force on 12 August 2024, with the exception of the amendments dealing with defined benefit provisions for which the coming-into-force date has been changed to 1 January 2025.

- ▶ **Registered retirement income funds** - Amendment to the conditions under subsection 146.3(2) of the Act for a plan to be registered as a RRIF by the Minister to require an application to be made in the prescribed manner. In addition, subsection 146.3(14) is amended to permit a direct transfer of funds from a RRIF of an annuitant to an RPP of the annuitant's spouse or common-law partner on breakdown of the relationship. These amendments apply on Royal Assent of Bill C-31. A technical amendment is also made to allow for the direct transfer of an amount from an annuitant's RRIF to a defined benefit provision of an RPP not exceeding the amount necessary to fund additional benefits that will be provided as a consequence of a past service event. This technical amendment is deemed to have come into force on 1 January 2025.
- ▶ **Registered retirement savings plans** - Amendment to the conditions under subsection 146(2) of the Act for a plan to be registered as an RRSP by the Minister to require an application to be made in the prescribed manner. In addition, subsection 146(16) is amended to permit a transfer of funds out of an unmatured RRSP to an RPP in situations where there is a division of property on the breakdown of marriage or common-law partnership. These amendments apply on Royal Assent of Bill C-31.
- ▶ **Residential property flipping rules** - Amendments to the definition of flipped property in subsection 12(13) of the Act to exclude property of a trust that is held for less than 365 consecutive days prior to disposition if such property is deemed to be disposed of as the result of the application of paragraph 104(4)(a), applicable for the period throughout which a property is owned or held by a trust in respect of dispositions that occur after 2022 (the same time the flipped property rules came into effect).
- ▶ **Tax on split income (TOSI)** - Amendments to paragraphs (a) and (b) of the definition of "excluded amount" in subsection 120.4(1) of the Act to extend the exceptions from TOSI for certain property acquired by an individual under 24 years of age as a consequence of the death of a person and property acquired under a transfer from a spouse or common-law partner as a result of relationship breakdown, to also include property substituted for such property, effective on 12 August 2024. This amendment reverses the position outlined in recent CRA document 2024-1005811C6.
- ▶ **Trust-to-trust transfers: anti-avoidance rule** - Amendments (announced in Budget 2025 and included in draft legislation released on 29 January 2026) to broaden the current anti-avoidance rule (aimed at preventing trusts from avoiding the 21-year deemed disposition rules for trust property) for direct trust-to-trust transfers to include indirect transfers of certain trust property to other trusts. The amendments have been modified to take into account certain comments received since 29 January 2026, particularly to address concerns raised over the potentially broad application of the rules (due to the use of the phrase "directly or indirectly, in any manner whatever" in the draft legislation). This phrase has been removed from the updated amendments, so that the anti-avoidance rule will now apply in certain additional circumstances where the transfer is made to a taxpayer that is a beneficiary of the transferor trust and another trust holds, directly or indirectly, an interest or a right in the taxpayer at the time of the transfer. These amendments apply to transfers occurring on or after 4 November 2025.

- ▶ **Various other technical amendments** - Various clarifying and other minor technical amendments previously included in draft legislation released in August 2024 and August 2025, including amendments relating to group sickness or accident insurance plans; expenses of railway and transport employees; registered pension plans (re. a notice of revocation of registration); gross negligence penalties (re. multigenerational home renovation tax credit and express trusts); disposition of appeals on consent; retirement compensation arrangements (re. definitions of excluded property and specified arrangement); disclosure of taxpayer information; the definition of prescribed; and the deemed fair market value on non-arm's length transactions (re. definition of adjusted cost basis of a life insurance policy).

Charity-related measures

- ▶ **Foreign charities** - Introduction of changes relating to foreign charities, including expansion of the period for which qualifying foreign charities are granted status as a qualified donee from 24 months to 36 months, effective for foreign charities registered after 16 April 2024. In addition, registered foreign charities will be required to submit an annual information return with prescribed information to the CRA, for taxation years beginning after 16 April 2024. Failure to file the information return as and when required will result in a \$500 penalty, applicable upon Royal Assent of Bill C-31.
- ▶ **Registered charities** - Amendment to paragraph 149.1(1.1)(d) of the Act to provide that expenditures on fundraising activities are excluded in determining if a registered charity has satisfied its annual disbursement quota. In addition, subsection 150(1.1) of the Act is amended to extend the exception from the requirement in subsection 150(1) of the Act to file an income tax return to a taxpayer that was an unincorporated registered charity throughout the year. These amendments apply upon Royal Assent of Bill C-31.
- ▶ **Donation receipts** - Introduction of various changes to simplify the issuance of donation receipts. For example, charities will be permitted to issue official donation receipts electronically with a digital signature, provided the receipts have a unique serial number and are issued and sent in a secure and non-editable format. In addition, certain information (e.g., the place of issuance of the receipt) will no longer be required to be included on the official receipts. These changes will apply upon Royal Assent of Bill C-31.
- ▶ **Administration** - Introduction of various administrative amendments to simplify the way in which the CRA provides services and communicates information relating to registered charities and other qualified donees. For example, the CRA will be permitted to communicate certain official notices digitally, where the charity has opted to receive information from the CRA electronically. These changes will apply upon Royal Assent of Bill C-31.

In addition to the amendments listed under each section above, Bill C-31 contains various other technical amendments including changes to the French version of the Act, consequential amendments, changes to remove outdated references and provisions, and minor corrections, changes, and clarifications to various other legislative provisions.

Learn more

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