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Tax planning 2026:

Year-end considerations for businesses by industry

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Canada's tax landscape continued to evolve in 2026 as new legislation, administrative guidance and court decisions created both planning opportunities and compliance considerations for businesses.

The effects of these developments vary by industry, including changes that affect private equity and financial services structures; new compliance obligations for business and professional service firms; and incentives for real estate, technology and industrial investments.

This year-end tax planning guide highlights key industry-specific developments to help businesses assess their tax positions, address emerging risks and identify opportunities as they prepare for 2027.

Private equity and financial services

Several tax measures introduced or proposed in 2026 affect private equity and financial services groups, particularly in the areas of corporate distributions, foreign affiliates, cross-border structures and financial products.

Dividend suspension rules in tiered structures

Proposed amendments in Bill C-31 would suspend a payor corporation's dividend refund related to refundable tax where a taxable dividend is paid to an affiliated corporation and the recipient's taxation year ends after the payer's taxation year.

These amendments were intended to prevent corporations from deferring tax on intercompany dividends due to mismatched tax year-ends. In tiered corporate structures, this timing mismatch could be relevant where dividends are paid through holding companies or blocker entities.

Financial services businesses and private equity groups should consider reviewing planned intercompany dividends and refundable tax-recovery strategies before the end of 2026—with particular attention paid to affiliated corporations with different taxation years.

The revised rules could also affect cash-tax modelling and the timing of cash movements through multi-tier corporate structures.

Foreign accrual business income

Bill C-15 introduced new foreign accrual business income (FABI) rules to allow Canadian-controlled private corporations (CCPCs) and substantive CCPCs to elect into more favourable treatment for qualifying FABI. By contrast, foreign accrual property income (FAPI) prevents Canadian companies from deferring Canadian tax by earning passive income through a controlled foreign affiliate.

FABI is eligible for more favourable tax treatment from a Canadian standpoint due to the application of certain rules. These changes could improve the tax efficiency of qualifying foreign operations and may create new planning opportunities for groups with controlled foreign affiliates.

This new regime carries relevant implications for private equity-backed groups and financial services businesses with controlled foreign affiliates. These businesses should pay close attention to situations where foreign operations earn service income, real estate development or leasing income, or other income that could otherwise produce FAPI-like Canadian inclusions.

Year-end planning discussions should identify qualifying income, assess election availability and review whether retroactive elections could improve cash flow.



Hybrid mismatch arrangements

Draft legislation released in January of this year would expand Canada's hybrid mismatch arrangement rules, with proposed application to payments arising on or after July 1, 2026—including payments under pre-existing arrangements.

The proposals from the federal Department of Finance would extend the framework beyond the initial rules enacted in 2024 to address hybrid entities, reverse hybrids, disregarded payments and hybrid payers.

Financial services firms and private equity groups should reassess cross-border financing as well as fund and holding structures—especially in situations where partnerships, fiscally transparent entities or non-resident investors are involved.

Payments that appear routine could result in denied deductions or income inclusions if foreign treatment of a payment is inconsistent with the Canadian tax treatment—or if legal entities themselves are viewed differently across jurisdictions. Coordinating Canadian and foreign tax reporting is imperative to avoid unintended effective tax rate increases.

Risks in corporate continuance planning

Private equity groups and financial services firms should carefully review their foreign continuance strategies in light of a recent court decision and its potential implications.

In Canada v. DAC Investment Holdings Inc., the Federal Court of Appeal (FCA) held that the general anti-avoidance rule (GAAR) applied where a CCPC continued to the British Virgin Islands before disposing of corporation shares, which resulted in a lower immediate tax burden on the disposition.

The court found that entering the continuance transaction before a planned disposition of shares frustrated the object, spirit and purpose of the relevant sections of Canadian tax legislation. As such, the FCA found the Canada Revenue Agency (CRA) was justified in its position that the taxpayer should be taxed as a Canadian corporation, as if the continuance had not occurred—which is the thrust of the GAAR's application.

Entities that previously engaged in similar transactions to the taxpayer in the aforementioned case should consider speaking with advisors and tax counsel to understand the implications of any similar transactions that were undertaken before the CRA scrutinized these tax planning techniques.

The FCA's decision is also a reminder that transactions which are available under the plain wording of Canadian tax legislation may still attract GAAR scrutiny where the effect is to avoid the application of certain rules rather than to serve a commercial purpose.

Transaction files should clearly document business rationale—especially if there is uncertainty regarding the application of tax legislation or if pre-transaction planning is undertaken to minimize income tax consequences.

Mutual fund trailing commissions

The CRA reversed its historical administrative position on mutual fund trailing commissions this year and announced that GST/HST will apply to these amounts—with enforcement delayed until Jan. 1, 2028.

Trailing commissions are ongoing fees paid by mutual fund managers to dealers for as long as investors hold fund units. Historically, they were generally treated as related to arranging financial services and, therefore, exempt from taxation.

The CRA now views trailing commissions as compensation for ongoing administrative and advisory services.

Financial services businesses should use the current transition period to assess GST/HST registration, invoicing, systems, contract, pricing and recovery implications. Fund managers and dealers may need to update agreements and operational processes so that taxes are properly charged, collected and remitted.



Real estate

Amid a national push to increase housing supply and improve affordability, several federal and provincial tax measures introduced or enacted in 2026 could provide relief for homebuyers, reduce real estate compliance obligations and encourage investment in certain real property.

Enhanced housing rebates

Bill C-4 introduced a new GST/HST phased rebate for first-time home buyers that eliminated the federal GST on qualifying new homes valued up to $1.5 million.

This rebate could reduce acquisition costs for qualifying purchasers by putting more money in buyers' pockets amid an ongoing housing affordability crisis. It could also increase the demand for newly constructed housing, as more buyers may be able to afford their first home.

At the provincial level, Ontario temporarily enhanced its new housing rebate and new residential rental property rebate to provide relief for the provincial portion of the HST on qualifying new homes and rental properties valued at up to $1 million.

These temporary measures could reduce acquisition costs and potentially increase affordability by allowing more buyers the opportunity to afford a home—and could also improve project economics for builders and rental-property investors.

Home Buyers' Plan repayment relief

Bill C-30 temporarily extended the eligibility for the five-year repayment grace period under the Home Buyers' Plan (HBP) to withdrawals made through the end of 2028.

The repayment grace period is normally two years, but this temporary extended repayment period could offer first-time home buyers additional flexibility to access capital. This, in turn, could increase demand for homes.

Non-resident landlord withholding relief

Bill C-15 introduced an exception from the Part XIII withholding tax requirement for individuals paying rent to a non-resident for a property in which they reside. In these circumstances, only the landlord is liable to remit withholding tax.

This measure should help reduce an impractical compliance obligation for residential tenants.

Elimination of the underused housing tax

The underused housing tax (UHT) and related annual filing requirements were eliminated for 2025 and subsequent calendar years. However, outstanding filing and payment obligations for earlier years continue to apply.

This significantly reduces ongoing compliance requirements for non-resident owners and certain entities holding Canadian residential property. Taxpayers should also watch out for any required filing requirements for the 2022 to 2024 calendar years.

Immediate expensing for manufacturing and processing buildings

Certain manufacturing and processing buildings may qualify for a 100 per cent first-year capital cost allowance deduction as part of the federal government's productivity mega-deduction.

Eligible property must be acquired on or after Nov. 4, 2025, and must be used for manufacturing and processing before 2030—and at least 90 per cent of the building's floor space must be used for qualifying manufacturing or processing activities.

For industrial real estate owners and developers, the accelerated deduction could materially improve the after-tax economics of qualifying acquisitions, developments and building improvements.



Technology, media and telecommunications

Tech companies should stay apprised of key tax and reporting developments from this year, including expanded innovation incentives, new digital-asset reporting obligations and evolving rules for cloud and digital services.

Crypto-asset reporting framework

As the digital economy continues to grow, the crypto-asset reporting framework (CARF) is set to broaden Canada's tax reporting standards.

The CARF was introduced to facilitate information-sharing across jurisdictions regarding non-traditional financial assets like cryptocurrencies. The 2026 spring economic update proposed deferring the start date from the original 2026 application date to Jan. 1, 2027.

As the new application date approaches, Canadian crypto-asset service providers (along with certain foreign entities) should consider:

- Familiarizing themselves with the framework, as they will be required to report detailed user information and transactions involving crypto assets.
- Identifying which customers and crypto assets are reportable, including fiat-to-crypto, crypto-to-crypto exchanges and retail payments over US $50,000.

Enhanced SR&ED program

Enhancements to Canada's scientific research and experimental development (SR&ED) program were introduced as part of Bill C-15. These include:

- Increasing the annual expenditure limit for the enhanced 35 per cent investment tax credit from $3 million to $6 million.
- Extending the enhanced credit to eligible Canadian public corporations.
- Increasing the taxable capital phase-out range to $15 million to $75 million, up from the previous $10 million to $50 million range.
- Restoring rules similar to pre-2014 eligibility for capital expenditures.

Since these measures apply retroactively to December 2024, businesses involved in relevant activities should review existing projects to determine whether they may qualify for the enhanced credit. The legislative changes to the program are also reflected on updated Form T661.

Eligible taxpayers could explore the pre-claim approval process, which allows the CRA to evaluate planned work for SR&ED requirements before significant costs are incurred.

Cloud services

The growth of cloud technologies—including software as a service (SaaS), platform as a service (PaaS) and infrastructure as a service (IaaS)—is challenging traditional tax frameworks because customers and companies may be located in different jurisdictions.

To address this issue, provinces such as Manitoba, Saskatchewan and British Columbia (in addition to the U.S. Internal Revenue Service) updated their tax rules to address cloud computing services like SaaS, PaaS and IaaS.

These provincial governments introduced provincial sales tax rules for services purchased in, or used in, their respective jurisdictions.

Service providers that rely on cloud computing technologies should consider the following steps to prepare for these new obligations:

- Confirming where customers are located and where services are used
- Updating invoicing
- Implementing tax technology systems that allow for proration
- Mapping the location of research and development activities, technical personnel and related infrastructure



Digital Services Tax Act repealed

Canada announced its intention to repeal the Digital Services Tax Act in June 2025 amid ongoing trade talks with the United States.

Legislation to repeal the act received royal assent on March 26, 2026. Digital services providers that paid the related tax to the CRA will be refunded with interest from the date the payment was received.

Key updates to the CRA's capabilities

Canada expanded the CRA's audit powers following a recent Federal Court decision to permit information requests where the objective is to enforce or administer listed international agreements like tax conventions.

In 2025, the Federal Court's judicial review decision in Canada (National Revenue) v. Shopify Inc. denied the CRA's request for information regarding unnamed third parties for the purpose of sharing that information with Australia.

In particular, the CRA sought information regarding merchants using Shopify Inc. with customers who had billing addresses in Australia during a specified period. The Federal Court found that the CRA did not have the legal authority to request information from unnamed third parties for the purpose of sharing that information with another country pursuant to a tax convention.

Bill C-31 featured measures in response to this decision. The bill also introduced new penalties related to compliance orders and notices of non-compliance and amended the normal reassessment period—within which CRA may adjust an entity's prior taxation year— to be extended while a notice of non-compliance is outstanding.

Companies that maintain large volumes of customer or personal data should consider consulting the appropriate advisors to understand the new scope of information the CRA may request—and learn about the agency's related enforcement tools—before the bill receives royal assent.



Business and professional services

Business and professional services firms should pay careful attention to certain tax measures introduced or enacted this year—including in the areas of trusts, compliance, cross-border transactions and international business arrangements.

Expansion of the 21-year deemed disposition anti-avoidance rule

Bill C-31 proposed expanding the anti-avoidance rule related to the 21-year deemed disposition rule for trusts. This would limit the use of indirect transfers of trust property as a method of avoiding the 21-year deemed disposition rule and related tax.

The proposed change could also affect succession and estate planning structures involving trusts and private corporations. Taxpayers and advisors should consider the expanded rule when undertaking trust distributions and reorganizations.

Trust reporting requirements

Bill C-15 amended Canada's enhanced trust reporting requirements by expanding the categories of listed trusts that may be exempt from annual T3 trust income tax and information return (T3 return) and Schedule 15 beneficial ownership reporting requirements.

Bare trusts are generally not required to file for the 2025 taxation year, although certain bare trusts will become subject to the reporting requirements for taxation years ending on or after Dec. 31, 2026.

The changes provide relief for certain trust arrangements—but trustees and advisers should review their filing obligations annually, especially as the rules for certain bare trusts take effect for the 2026 taxation year.

Post-emigration loss relief

Bill C-31 proposed a new subsection of the Income Tax Act—subsection 128.1(8.1)—to allow the CRA to reassess an individual's emigration year beyond the normal reassessment period when necessary to give effect to an election relating to a subsequent loss on taxable Canadian property.

The amendment would help ensure that individuals who dispose of taxable Canadian property following emigration can access the intended loss relief even where the emigration year would otherwise be statute-barred.

Third-party penalties

The CRA updated its guidance on third-party penalties applicable to tax preparers, advisors, promoters and other professionals. These rules may impose penalties where a third party knowingly—or in circumstances amounting to culpable conduct—makes or participates in making a false statement that could be used for tax purposes.

Professional services firms should maintain appropriate processes and documentation to support advice provided and positions taken in client filings.

Mandatory disclosure rules

The CRA updated its guidance on mandatory disclosure rules (MDR) to better illustrate where practitioners are not involved in the original transaction.

These rules can create a filing obligation for advisors and promoters involved in certain transactions. The updated guidance notes that when a client acts against a practitioner's advice, and the practitioner is not otherwise involved in the transaction, the practitioner would likely not be considered an advisor.

This change is welcome relief for professional advisors, but they should continue to assess potential MDR obligations when advising on transactions—and subsequently make the required disclosures within the applicable deadlines.



Transfer pricing

Bill C-15 modernized Canada's transfer pricing rules under section 247 of the Income Tax Act—including the introduction of a single operative adjustment rule based on whether the actual conditions of a transaction differ from arm's-length conditions.

Businesses with cross-border related-party transactions should review their transfer pricing policies and documentation in order to comply with the revised framework.

Cross-border remote work and permanent establishments

The growth of remote work has evolved from a pandemic-era necessity to a lasting feature of organizational operations—but these arrangements come with critical tax implications.

The Organisation for Economic Co-operation and Development (OECD) updated its Model Tax Convention to provide greater clarity on when cross-border remote work from a home or other location may create a permanent establishment (PE).

The presence of a PE can create tax requirements in that jurisdiction. The OECD's guidance generally considers both the proportion of an individual's working time spent in the jurisdiction and whether there is a commercial reason for the individual to work from that location.

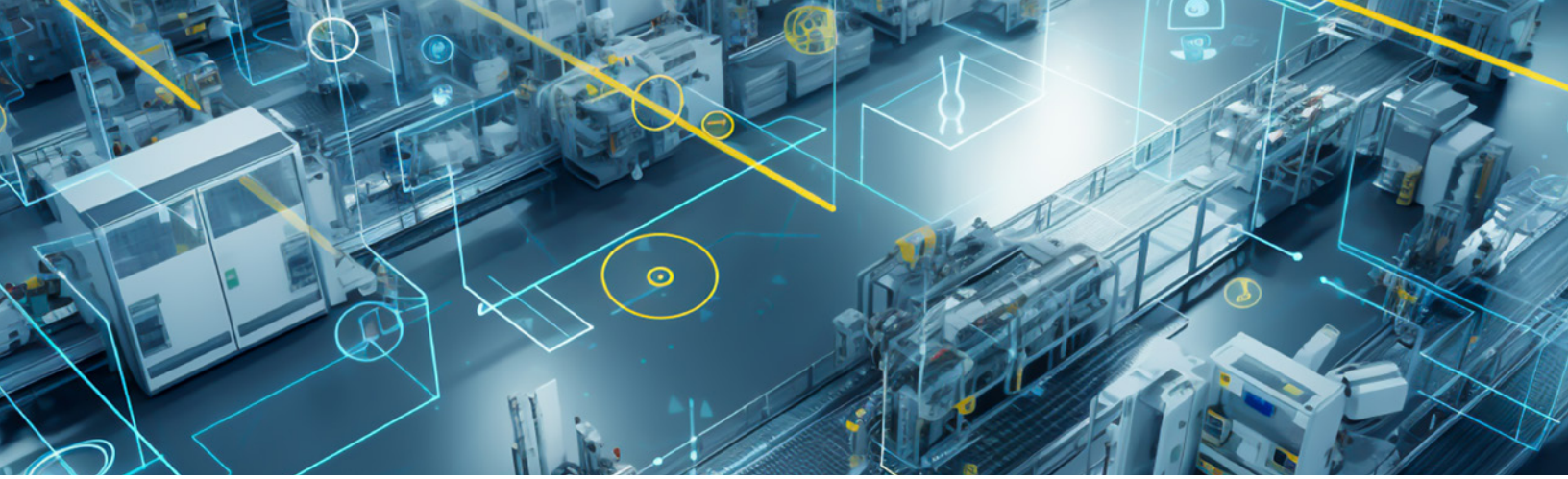
Business and professional services firms with internationally mobile or remote employees should review their cross-border working arrangements for potential PE and related corporate tax exposure.

Accelerating non-eligible dividends before 2027

Ontario reduced its small business corporate income tax rate from 3.2 per cent to 2.2 per cent effective July 1, 2026. To reflect this change, Ontario will reduce its non-eligible dividend tax credit effective Jan. 1, 2027; this will result in a higher personal tax on non-eligible dividends received after that date.

Shareholders expecting to withdraw corporate profits in the near term should consider whether non-eligible dividends can be paid before Jan. 1, 2027. Distributions made after 2026 may be subject to a higher personal tax burden, which could increase the overall tax cost on profits that have already been taxed in the corporation.

Shareholders should review anticipated cash needs, surplus corporate funds and planned dividend distributions before the end of this year to determine whether accelerated dividend payments are appropriate.



Industrials

Businesses in this sector—especially those undertaking capital investment, clean economy projects, cross-border service arrangements or tariff-related planning—should carefully review critical tax measures and government programs that were introduced or expanded in 2026.

Productivity mega-deduction

The federal government announced immediate capital cost expensing for most depreciable property that is acquired on or after Sept. 15, 2026, as part of its new productivity mega-deduction.

The measure is also expected to permit immediate expensing of Canadian development expenses, which could create cash-flow benefits for businesses undertaking resource, infrastructure or other capital-intensive projects.

Property that does not qualify for this immediate expensing measure, such as manufacturing and processing buildings, may still benefit from accelerated depreciation measures announced in the 2025 federal budget.

Canada also restored SR&ED eligibility for certain qualifying capital expenditures—and expanded benefits under the federal SR&ED program—that could create tax credit opportunities for industrials companies.

For manufacturers, mining companies and energy businesses, these measures could improve cash flow during expansion projects, equipment replacement cycles or facility upgrades. Businesses with deferred capital expenditures due to economic or tariff-related pressures should revisit the timing of planned investments.

While tax is only one factor in capital allocation decisions, the restored incentives may improve the after-tax economics of projects already under consideration.

Clean economy investment tax credits

As Canada's clean economy investment tax credit regime evolves, there are new opportunities for businesses undertaking energy transition, electrification and infrastructure projects.

Recent developments include the introduction of the clean electricity investment tax credit—which supports eligible investments in clean electricity generation, transmission and storage—and amendments extending qualifying expenditure periods for certain carbon capture, utilization and storage (CCUS) projects.

Businesses should evaluate these incentives early given the scale and long development timelines of many capital projects. Eligibility requirements may affect project structure, procurement, staffing and construction timelines, and can reduce the after-tax cost of investment.

Businesses should also consider how these credits interact with enhanced depreciation and immediate expensing measures.

Regulation 105 withholding

Businesses engaging non-resident contractors, engineers, technical specialists or other service providers to perform work in Canada should continue to monitor Regulation 105 withholding obligations.

The CRA's revised administrative position on certain subcontractor reimbursements was deferred until Jan. 1, 2027; this provides additional time to review existing arrangements, contract terms and invoicing practices.

Recent legislative changes also expanded the CRA's ability to waive withholding requirements where little or no Canadian tax is ultimately payable. However, withholding can still create cash flow and compliance challenges if not addressed before work begins.

Businesses should consider assessing cross-border service arrangements and waiver opportunities early.

Tariffs and government relief programs

Increased uncertainty, supply chain disruptions, higher landed costs and compressed margins remain ongoing concerns for businesses amid tariff tensions between the U.S. and Canada.

In response, Canada introduced a range of relief and support measures—including a tariff remission program to refund tariffs paid on goods related to manufacturing or processing, and several incentive and funding programs intended to help companies protect operations, strengthen competitiveness and invest in long-term growth.

Businesses affected by tariffs should assess their eligibility for tariff remission, duty recovery programs and broader funding and investment incentives opportunities.

The imposition of tariffs and substantive changes to related rules earlier this year further emphasize the need for businesses to revisit their transfer pricing policies, intercompany pricing arrangements and supporting documentation—particularly where supply chain changes or higher landed costs affect cross-border margins.

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