2026 Tax updates

Budget 2026 and beyond

A practical update for private companies, individuals, estates and family businesses

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Information presented is current to November 16, 2026. Certain topics are based on proposed or draft legislation.

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Session map

1. **Budget 2026: Growth & investment**
   CGI, ESBC rollover and investment incentives

2. **Budget 2026: Practical & planning changes**
   Filing and administration, succession, trusts and non-residents

3. **Other important recent tax developments**
   RDTOH suspension, AMT, estates, trusts and corporate tax changes

4. **Practitioner checklist**
   What to flag and when to refer

BUDGET 2026

Canada Growth Incentive

A powerful $15 million exemption, but only for newly issued shares in a narrow group of qualifying businesses.

PROPOSED



Canada Growth Incentive: the $15M exemption

Personal tax measure: new capital gains exemption for qualifying shares

PROPOSED

New $15 million exemption

Capital gains exemption for Canadian-resident individuals on qualifying shares

Share issue window

Shares issued on or after Budget Day (Nov. 5, 2026) and before 2037

Limit

Applies separately to each qualifying individual for each business

Qualifying individual

An individual other than a trust, at least 18 when the shares were acquired and resident in Canada throughout the year the exemption is claimed

Qualifying business

An active business other than an excluded business (see exclusions)

Alternative minimum tax

Exempt gains remain subject to a 30% inclusion rate for alternative minimum tax

Key takeaway: the $15 million limit is per individual and per business, and trusts cannot claim it.

CGI: conditions for qualifying shares

Conditions are tested at issue, during the holding period and at disposition

PROPOSED

1. At the time of issue

- Corporation is a Canadian-controlled private corporation (CCPC)
- Shares issued to the individual (or a partnership they belong to) solely for cash or employment services.
- Combined carrying value of assets of the corporation and related corporations is no more than $100 million immediately before and after issuance
- All or substantially all assets used, or reasonably intended to be used within 36 months, principally in a qualifying business carried on primarily in Canada

2. During the holding period

- At least 50% of the fair market value of the corporation's assets attributable to assets used principally in a qualifying business
- Qualifying business carried on primarily in Canada for at least 24 consecutive months immediately after issuance
- Shares held by the qualifying individual (or the partnership) for at least 36 consecutive months immediately before disposition

3. At the time of disposition

- Corporation is resident in Canada and either private or listed on a designated Canadian stock exchange
- All or substantially all of its assets used principally in a qualifying business

CGI: excluded businesses and interactions

A qualifying business is an active business other than an excluded business

PROPOSED

Excluded businesses

- Consulting, accounting and other listed professional practices (legal, medical, engineering)
- Businesses based principally on an employee's reputation or skill
- Agriculture, fishing, forestry and mining
- Finance, insurance, utilities and real estate
- Accommodation and food services
- Arts, recreation and entertainment
- Licensed or franchised businesses

Alternative minimum tax

Exempt gains remain subject to a 30% inclusion rate for AMT

Lifetime capital gains exemption

A CGI claim limits the ability to claim the LCGE on shares of the same corporation, and vice versa

Employee Ownership Trust (EOT) or worker co-op sale

Generally, both the exemptions and the CGI can be claimed on the same sale; neither affects the limit available under the other

Eligible Small Business Corporation Rollover: Background

A tax deferral, not an exemption: the deferred gain can be recognized on a later disposition

Investment in qualifying business → **Sale** → **Reinvestment in another qualifying business** → **Gain deferred**

WHAT IS THE ESBC ROLLOVER?

- Defers capital gains when proceeds from selling qualifying shares are reinvested in another qualifying Canadian small business.
- Designed to encourage investors to reinvest capital into Canadian growth businesses.
- A full or partial rollover may be available, depending on the amount reinvested and other eligibility requirements.

WHY IT MATTERS

- Historically, the rules were relatively restrictive.
- Recent changes have expanded access to the rollover.
- Budget 2026 proposes further significant enhancements.

ESBC SHARE REQUIREMENTS

- Minimum 185-day holding period
- Taxable Canadian corporation
- Active business carried on primarily in Canada
- Applicable active-business asset tests must be satisfied

Budget 2026 proposes: *relaxing the ongoing asset test to "primarily", while retaining the higher "all or substantially all" test at issuance and disposition.*

ESBC rollover: a longer runway to reinvest

The rollover becomes more usable, including where capital is advanced under Simple Agreement for Future Equity (SAFE)

PROPOSED

Disposition year	Year +1	Year +2	Year +3	Year +4 / +5
Standard replacement period				SAFE extension if shares are issued by the end of year 5

WHAT CHANGES

Replacement shares can be acquired in the year of disposition or the following three calendar years.

WHAT TO WATCH

If the SAFE does not produce ESBC shares by the end of year 5, the deferred gain becomes taxable.

If replacement shares have not yet been acquired in the year of sale, the individual may either:

- report and pay tax on the capital gain for that year; or
- claim a reserve to defer recognition of the gain while seeking a qualifying replacement investment.

Productivity Mega Deduction: immediate expensing

Budget 2026 confirms the September 15, 2026 proposals on immediate expensing

BUDGET PROPOSAL

Permanent
Immediate expensing of most depreciable property

Sept. 15, 2026
Applies to property acquired and CDE incurred on or after

30% → 100%
Canadian development expense (CDE) rate

WHAT'S EXCLUDED

- Buildings in Classes 1 and 3
- Franchises, licenses and goodwill (Classes 14 and 14.1)
- Class 51 property
- Certain vehicles

WHAT STILL APPLIES

- Manufacturing and processing buildings: temporary immediate expensing from Budget 2025
- Other non-qualifying property: Accelerated Investment Incentive

WHAT TO WATCH

Individuals, and partnerships with individual members, cannot use immediate expensing to create or increase a loss

Filing and administration: update the calendar

Budget 2026 proposes permanent calendar and threshold changes, plus stronger penalty rules

PROPOSED

T1 filing + payment

- May 15 for all individuals.
- Self-employed filing moves forward from June 15.
- Ongoing from the 2027 taxation year.

2027+ taxation years

Instalments

- $7,500 net tax threshold (increase from $3,000).
- Indexed for increases.

Years beginning Jan. 1, 2028+

- Business-income individuals may use one Dec. 31 instalment equal to ⅔ of total combined net tax owing.

2028+ taxation years

T1135

- $200,000 filing threshold (increase from $100,000).
- $500,000 simplified reporting threshold (increase from $250,000).

Taxation years ending after 2026

Filing and administration: update the calendar

Budget 2026 proposes permanent calendar and threshold changes, plus stronger penalty rules

PROPOSED

Objections

- Deadline extended to one year after assessment (increase from 90 days).
- Individuals and GREs: the later of:
  - One year after assessment.
  - Two years after filing due date.
- Hard deadline.

Assessments sent 3 months after Royal Assent+

Administrative penalties

- Fixed-dollar penalty amounts will increase substantially by two or three times. e.g.:
  - General information returns.
  - Foreign reporting.
  - Late or amended tax elections.
- Indexed every five years.
- Medium/large entities and repeat failures can face additional multipliers

Periods ending after 2027

Other relevant budget measures: Farm and fishing succession

Expansion of intergenerational farm and fishing property rollover

PROPOSED

CURRENT FAMILY GROUP

- Children, grandchildren and great-grandchildren
- Qualifying farm/fishing property, corporation shares and partnership interests

PROPOSED EXPANSION

- Nieces and nephews
- Grandnieces and grandnephews
- Related spouses/common-law partners included in the draft definition

WHAT DOES NOT CHANGE

- Existing ownership and farm-use conditions
- Separate LCGE requirements
- Need to confirm the property is qualifying

Proposed for inter vivos and testamentary transfers occurring after 2026.

Other relevant budget measures: Trust distribution and non-resident TCP

Two practical flags for trusts and non-resident files

PROPOSED

Trust distributions to non-residents

- Subsection 107(2) already restricts direct rollouts to non-residents.
- Proposal extends the denial to certain indirect distributions through corporations or partnerships with non-resident owners.
- Review residency and ownership before a trust approaches its 21-year date.

Proposed for distributions on or after November 5, 2026

Taxable Canadian property

- Corporate-vendor withholding proposed to drop from 25% to 15%, and 50% to 30% for specified TCP.
- Relief proposed for fully deferred section 85 rollovers if the election and prescribed notice are filed within 30 days.

Proposed for dispositions on or after January 1, 2027

Other important recent tax developments: RDTOH dividend-suspension rules

Targets tiered affiliated private corporations with staggered year-ends

Bill C-31 Pending

Current Problem

- In a tiered corporate structure, an intercorporate dividend can move the refundable-tax obligation up the chain.
- Payer could receive an RDTOH refund before the recipient's later year-end.
- The recipient's corresponding Part IV tax would arise later.
- The group could obtain a temporary cash-flow benefit from staggered year-ends.

Proposed Change

- Intended to eliminate timing deferral
- A dividend to an affiliated private corporation may be a suspended dividend if the recipient's taxation year ends later.
- The payer's dividend refund is deferred.
- The related Part IV tax / RDTOH movement through the chain is deferred as well.

Effective for taxation years of the dividend-paying corporation beginning after November 3, 2025

Other important recent tax developments: RDTOH dividend-suspension rules

Not every intercorporate dividend is caught

Bill C-31 Pending

NO LATER YEAR-END

- Recipient's taxation year must end after the payer's taxation year.
- Aligned year-ends generally do not create the targeted mismatch.

NO AFFILIATION

- The recipient must be an affiliated private corporation.
- Related or connected status alone is not the full test.

NO PAYER REFUND

If the dividend would not generate a dividend refund for the payer, there is no refund to suspend.

REORGANIZATIONS

- Dividends to which paragraph 55(3)(a) or 55(3)(b) applies in the course of a reorganization.
- Certain loss-restriction events also have specific relief.

OTHER RELIEF

The required same-character dividends are paid through the corporate chain by the payer's balance-due day, allowing the dividend to qualify for immediate relief.

Other important recent tax developments: RDTOH dividend-suspension rules

Simple objective, potentially complex tracing through a multi-tier corporate group

Bill C-31 Pending

Suspended
Payer's refund and related RDTOH movement are deferred.

›

Flow through
Same-character dividends move through each relevant corporate tier.

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Flow out
Dividend reaches an individual or qualifying recipient outside the affiliated chain.

Conceptually simple

- Ultimately, the affected dividend must generally flow to an individual or outside the relevant affiliated corporate group.
- The downstream dividend must have the required eligible or non-eligible character.

Practically complex

- Each tier may have a different year-end and separate ERDTOH / NERDTOH balances.
- Dividends and release amounts must be traced through the chain.
- Sales, reorganizations and ownership changes can complicate or jeopardize recovery.

Before paying the first dividend, map the entire dividend path and expected release timing.

Other recent changes

Keep these high-level and use them to identify when specialist review is needed

AMT

Large exemptions, donations and deductions can still produce AMT. Confirm current inclusion and credit treatment before closing.

GRE loss carryback: subsection 164(6)

GRE loss carryback window expanded from the first taxation year to the first three taxation years. Already in effect for deaths occurring after August 11, 2024.

TRUSTS

Budget 2025 tightened the 21-year-rule anti-avoidance framework; Budget 2026 proposes broader denial for indirect rollouts to non-residents.

CORPORATE LOSSES

Budget 2026 launches consultation on elective current-year loss transfers within qualifying wholly owned groups.

PART VI.1

Budget 2026 proposes a CCPC exemption and larger dividend allowance.

What should we look for?

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One practical question can surface the planning opportunity or the trap

- **New equity or founder shares?**
  Screen CGI before issuing or reorganizing shares.
- **Selling and reinvesting?**
  Check the expanded ESBC rollover window.
- **Capital project or commercialization spend?**
  Model deduction and SR&ED timing before commitment.
- **Tiered private corporations?**
  Compare year-ends before upstream dividends.
- **Recent death with private-company shares?**
  Plan the GRE loss realization within the first three GRE taxation years.
- **Farm succession outside the direct line?**
  Consider the proposed niece/nephew expansion.
- **Foreign property or reassessment?**
  Update T1135 and objection deadline workflows.



Thank you

Questions?

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