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2026 Federal Budget Summary

Wealth Management Taxation, Scotia Capital Inc.

On November 5, 2026 (Budget Day), in Ottawa, Canada's Minister of Finance and National Revenue, François-Philippe Champagne, delivered the 2026 Federal Budget (2026 Budget), titled "Masters of our destiny".

Below, we provide a summary of the most significant tax measures announced in the 2026 Budget and the potential impact on you, your family, and your business. Please note that this summary is not a comprehensive review of the 2026 Budget.

The measures introduced in the 2026 Budget are only proposals at this time and may not be enacted into law as described, or at all. Before implementing any tax planning strategies, consult with your tax and legal advisors for further discussion and analysis on how these proposals may affect your specific situation.

The 2026 Budget does not contain any changes to personal or corporate income tax rates.

INCOME TAX RETURN FILING AND BALANCE-DUE DATES FOR INDIVIDUALS

The 2026 Budget proposes to change the T1 income tax return filing and balance-due dates to May 15 for all individuals, including self-employed individuals and their spouse or common-law partner.

These measures would apply to the 2027 and subsequent taxation years.

FOREIGN INCOME VERIFICATION STATEMENT—FORM T1135

Canadian-resident individuals, corporations, and trusts, as well as certain partnerships, must file a Foreign Income Verification Statement (Form T1135) with the Canada Revenue Agency (CRA) if they own specified foreign property with a total cost of more than $100,000 at any time in a taxation year or fiscal period.

The 2026 Budget proposes to increase the threshold above which Form T1135 must be filed, from $100,000 to $200,000. The CRA would also increase the threshold for simplified reporting, from less than $250,000 to less than $500,000.

These measures would apply to taxation years or fiscal periods that end after 2026.

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REGISTERED RETIREMENT SAVINGS PLAN

The 2026 Budget announces the government's intention to merge the core features of the Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF) into a single "RRSP for life," and to make other changes to the RRSP tax rules. This would eliminate the need for individuals to convert their RRSP to a RRIF at age 71.

Individuals over the age of 71 would continue to be required to make minimum withdrawals.

The 2026 Budget has issued proposals for comment, including:

- Whether and how the RRSP rules could include a "successor holder" (i.e., a spouse or common-law partner) feature that's similar to other registered vehicles. This could permit a RRSP to remain open until the death of the successor holder and avoid the value of RRSP property being included in the income of the deceased.
- Whether and how the current RRSP indirect "rollover" provisions that apply on death (involving an income inclusion and offsetting deduction for a qualifying survivor) could be replaced with rules to permit direct tax-free transfers to qualified registered vehicles of qualifying survivors.

The government is asking Canadians to submit their views on this proposal by January 8, 2027.

REGISTERED DISABILITY SAVINGS PLAN

Generally, an adult beneficiary is the holder of their own Registered Disability Savings Plan (RDSP). A temporary measure is in place up to the end of 2026 that allows a qualifying family member (i.e., a parent, spouse or common-law partner, or sibling) of the individual to open an RDSP and also be the plan holder.

The 2026 Budget proposes to make the qualifying family member measure permanent.

INSTALMENT PAYMENTS FOR INDIVIDUALS AND CORPORATIONS

Where an individual receives income from sources that are not subject to withholding (e.g., certain sources of pension income, business income, dividends, interest, rental income, and capital gains), they may have to pay income tax in quarterly instalments. Tax instalments are required if their combined federal and provincial net tax owing on income from such sources for the current year and either of the two previous years exceeds $3,000 (or $1,800 federal net tax owing for Quebec residents).

Corporations generally must make monthly or quarterly tax instalment payments in respect of their federal tax liability unless their total federal tax payable is $3,000 or less for either the current or previous year.

The 2026 Budget proposes to increase the threshold from $3,000 to $7,500 for corporations and individuals resident outside Quebec, and from $1,800 to $4,500 for individuals resident in Quebec. The thresholds would be indexed to inflation and rounded to the nearest $500.

This measure would apply to taxation years that begin on or after January 1, 2028.

Annual instalment for all individuals with business income

The 2026 Budget also proposes that individuals whose primary source of income is from a business (including professional or commission income) be allowed to make a single annual instalment payment, instead of quarterly instalments. The single instalment payment would equal two-thirds of their combined federal and provincial net tax owing for the year, and would be due by December 31. The remainder would be due on the applicable balance-due date.

This measure would apply to the 2028 and subsequent taxation years.

CANADA GROWTH INCENTIVE—CAPITAL GAINS EXEMPTION

The 2026 Budget proposes to introduce a new Canada Growth Incentive (CGI) capital gains exemption that would allow a Canadian-resident individual to claim a tax exemption on capital gains realized on the disposition of qualifying shares of a qualifying corporation, up to a limit of $15 million. This $15 million would apply separately to each qualifying individual in respect of each business.

Qualifying individual

A qualifying individual would have to be an individual, other than a trust, and be at least 18 years old at the time they acquired a qualifying share. The individual would also have to be resident in Canada throughout the year in which they claimed the exemption. The claim could relate to a capital gain realized on the disposition of a qualifying share in that year or a preceding taxation year.

A qualifying share would have to be issued by a qualifying corporation to the qualifying individual (or a partnership of which the qualifying individual is a member) and owned directly by the qualifying individual or by the partnership. Where a partnership acquired a qualifying share, the qualifying individual would need to have been a member of the partnership and be at least 18 years old at the time that the partnership acquired the share.

Qualifying shares

A share of the capital stock of a corporation would be a qualifying share of a qualifying corporation if the following conditions were met:

- At the time of share issuance:
  - the corporation must be a Canadian-controlled private corporation (CCPC); and

- all or substantially all of the fair market value (FMV) of the corporation's assets must be attributable to assets used, or reasonably intended to be used within 36 months, principally in a qualifying business carried on primarily in Canada.

- Immediately before and after the share's issuance, the combined carrying value of the assets of the corporation and all corporations related to it must not exceed $100 million.
- The share must have been issued either solely for cash consideration or in exchange for employment services provided by the qualifying individual to the qualifying corporation. Continuity rules would be proposed to accommodate certain share-for-share exchanges and other corporate reorganizations that could occur after qualifying shares have been issued.
- Throughout the period during which the qualifying individual (or a partnership of which the qualifying individual is a member) owned the qualifying share, 50% or more of the FMV of the corporation's assets must be attributable to assets used—or reasonably intended to be used—principally in a qualifying business. Further, for a minimum period of 24 consecutive months immediately following share issuance, the qualifying business would be required to be carried on primarily in Canada.
- For a minimum period of 36 consecutive months immediately before the disposition, the share must have been held by the qualifying individual (or the partnership of which the qualifying individual was a member).
- At the time of disposition:
  - the corporation must be a Canadian-resident corporation that is either a private corporation or a public corporation listed on a designated stock exchange located in Canada; and
  - all or substantially all of the FMV of the corporation's assets must be attributable to assets used principally in a qualifying business.

Qualifying business

A qualifying business would be an active business other than:

- a business providing consulting services, a professional practice of an accountant, lawyer, notary, physician, other health care practitioner, engineer, architect, or any business whose principal asset is the reputation or skill of one or more employees;
- a business operating in the agricultural, fishing, forestry, mining, financial, insurance, utilities, real estate, food and accommodation, arts, recreation, or entertainment sectors; and
- a business operating under a licensing or franchising agreement.

Alternative Minimum Tax

Capital gains exempted through this measure would be subject to an inclusion rate of 30% for the purposes of the Alternative Minimum Tax (AMT), consistent with the treatment of gains eligible for the Lifetime Capital Gains Exemption (LCGE).

Interaction with other capital gains exemptions

A CGI exemption claimed on qualifying shares of a qualifying corporation would limit the ability of a qualifying individual to claim the LCGE for a sale of shares of the same corporation. Similarly, an LCGE claimed on the sale of shares of a corporation would limit the ability of a qualifying individual to claim the CGI exemption on the sale of shares of that same corporation.

A qualifying individual could generally claim both the capital gains exemption on a sale to an Employee Ownership Trust or a worker cooperative, and the CGI exemption on the same sale of shares. The use of one exemption would have no impact on the limit available under the other exemption.

This measure would apply in respect of qualifying shares of a qualifying corporation issued on or after Budget Day and before 2037.

CANADA GROWTH INCENTIVE—ROLLOVER FOR INVESTMENTS IN SMALL BUSINESSES

Under Canadian income tax rules, individuals may defer taxation on capital gains realized on a qualifying disposition of eligible small business corporation (ESBC) shares, to the extent that proceeds from the disposition are used to acquire replacement ESBC shares in the year of disposition or the following calendar year.

The 2026 Budget generally proposes to increase the period to acquire replacement shares to encompass the year of disposition and the three following calendar years, as well as to introduce a special provision for individuals who have entered into agreements for future equity.

These measures would apply to qualifying dispositions that occur on or after January 1, 2027.

EXPANSION OF THE INTERGENERATIONAL FARM AND FISHING PROPERTY ROLLOVER

Income tax rules allow for a tax deferral (rollover) of capital gains on intergenerational transfers of certain farming and fishing property from a taxpayer to the taxpayer's child or the child's spouse or common-law partner. For these purposes, a "child" includes the taxpayer's grandchild or great-grandchild.

The 2026 Budget proposes to expand the rollover so that it is available for transfers to a niece, nephew, grandniece, or grandnephew of the taxpayer or the taxpayer's spouse or common-law partner.

This measure would be effective for transfers that occur on or after January 1, 2027.

OPTIONAL FLAT AMOUNTS FOR PERSONAL INCOME TAX DEDUCTIONS AND CREDITS

To reduce the need for individuals to keep receipts and itemize their expenses to support their amounts claimed, the 2026 Budget proposes optional flat-amount calculation methods for certain deductions and credits.

These deductions and credits include:

Moving Expense Deduction

The 2026 Budget proposes to allow individuals making an eligible relocation to deduct a flat $1,000 in respect of the relocation, instead of tracking and claiming their deductible moving expenses. The amount deducted would still be limited to the individual's employment or self-employment income earned at the new location, or to the student's taxable income from scholarships, bursaries, and research grants.

Home Accessibility Tax Credit

The Home Accessibility Tax Credit allows certain eligible individuals to claim up to $20,000 in qualifying home renovation or alteration expenses per calendar year. The 2026 Budget proposes to allow eligible individuals who incur qualifying expenses to calculate the Home Accessibility Tax Credit using a one-time optional flat-expense amount of $1,000 for a given year, instead of claiming their actual expenses incurred. Certain conditions would apply to any flat amount claimed.

Adoption Expense Tax Credit

The Adoption Expense Tax Credit allows adoptive parents to claim up to $19,972 in eligible adoption expenses in 2026 relating to the adoption of a child under the age of 18. The 2026 Budget proposes to allow eligible adoptive parents to calculate the Adoption Expense Tax Credit using an optional flat-expense amount of $1,200 per adopted child in the year an adoption is completed, instead of their actual eligible adoption expenses.

The measures described above would apply to the 2027 and subsequent taxation years.

MEDICAL EXPENSE TAX CREDIT AND DISABILITY SUPPORTS DEDUCTION

The Medical Expense Tax Credit (METC) is a non-refundable tax credit that recognizes the effect of above-average medical expenses.

The Disability Supports Deduction (DSD) allows an individual with an impairment in physical or mental functions to deduct certain expenses that enable them to earn business or employment income, attend school, or carry on research.

An expense that is eligible under both the METC and DSD may be claimed under either measure, but not both.

The 2026 Budget proposes to simplify the METC by reducing the documentation requirements for certain eligible expenses.

This measure would apply to the 2026 and subsequent taxation years.

The 2026 Budget proposes to allow individuals to claim an optional flat amount in respect of certain categories of expenses (such as gluten-free food, incontinence products, and service-dog expenses). For a particular year, an individual who incurs expenses in an eligible category could choose to either claim the applicable flat amount or itemize and claim the expenses they actually incurred. An individual who chooses the flat amount would not be required to calculate the actual expenses incurred or retain receipts for those expenses. The existing eligibility conditions would continue to apply.

This measure would be effective beginning in the 2026 or 2027 taxation year, depending on the category of expense.

OBJECTIONS TO NOTICES OF ASSESSMENTS

The 2026 Budget proposes, for most taxpayers, to amend the deadline to file a notice of objection to an income tax assessment to one year after the day the notice of assessment is sent. For individuals and graduated rate estates, the 2026 Budget proposes to amend the deadline to the later of one year after the notice of assessment is sent, or two years from the tax return filing due date for the taxation year being assessed. Consequently, taxpayers would no longer need to apply for an extension of time and the ability to do so would be eliminated.

This amendment would apply to assessments sent on or after the day that is three months subsequent to this proposed measure being enacted into law.

INDIVIDUAL PENSION PLANS

An Individual Pension Plan (IPP) is a specific type of defined benefit Registered Pension Plan (RPP) that has fewer than four members, at least one of whom is related to an employer that participates in the plan (e.g., a controlling shareholder). IPPs provide businesses with a mechanism to provide pension benefits to owner-managers in respect of their employment.

IPP status

The 2026 Budget proposes to expand the IPP definition to include defined benefit RPPs under which all members are either related to a participating employer or do not deal at arm's length with any member related to a participating employer.

This measure would apply as of January 1, 2027.

Non-qualified investments

The 2026 Budget proposes to subject IPPs to the same advantage rules, non-qualified investment rules, and prohibited investment rules that currently apply to other registered plans of controlling individuals. Consequently, if the IPP acquires a non-qualified or prohibited investment, or if it receives an advantage, the controlling individual of an IPP would be liable to pay a tax.

This measure would apply as of January 1, 2028. Transitional rules would apply to investments acquired before 2028 that become non-qualified or prohibited on January 1, 2028.

Excessive surplus

The 2026 Budget proposes to impose new conditions to address excessive surpluses that an IPP must satisfy to maintain its RPP registration.

This measure would apply as of January 1, 2028.

TAXABLE CANADIAN PROPERTY

Canada generally taxes non-residents on their income and gains from the disposition of taxable Canadian property (TCP). TCP generally includes property with a significant connection to Canada, such as Canadian real estate, resource properties, and certain shares or interests whose value is derived primarily from Canadian real property or resource assets.

The 2026 Budget proposes to reduce the withholding and remittance rates on the disposition of TCP.

These measures would apply to dispositions that occur on or after January 1, 2027.

CORPORATE LOSS TRANSFERS

The 2026 Budget announces the government's intention to introduce a corporate loss transfer rule. It invites stakeholder comments on a proposal to allow, in certain circumstances, the transfer of current-year non-capital losses within wholly owned corporate groups. The consultation seeks feedback on a simpler alternative to existing loss consolidation transactions, which can be complex, costly, and administratively burdensome.

PREVIOUSLY ANNOUNCED TAX MEASURES

The 2026 Budget confirms the government's intention to proceed with certain previously announced tax and related measures.

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