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Canadian federal government releases hybrid mismatch and other draft tax amendments

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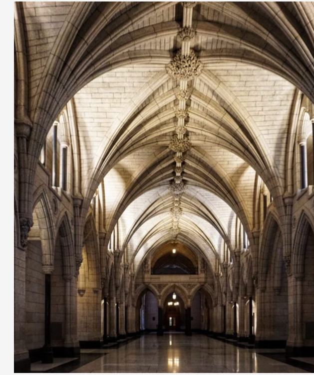

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On January 29, 2026, the Canadian federal government released draft legislation to implement various tax measures, update previously released draft legislation and make certain technical changes (January 2026 proposals).

The key measure included in the January 2026 proposals is the second package of hybrid mismatch rules, first announced in Budget 2021. The January 2026 proposals also include measures first announced in Budget 2025 and the 2024 Fall Economic Statement, as well as some technical changes. The news release that accompanied the January 2026 proposals invites Canadians to make submissions with respect to the measures by February 27, 2026.

The January 2026 proposals cover a wide variety of measures, many of which are addressed in this Update.

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Hybrid mismatch rules: part two

Budget 2021 proposed to implement recommendations made in the OECD's Report on Neutralising the Effects of Hybrid Mismatch Arrangements (the BEPS Action 2 Report) by way of two legislative packages. The first package of hybrid mismatch rules (the 2022 hybrid mismatch rules) was enacted on June 20, 2024, with retroactive application to payments arising on or after July 1, 2022. The 2022 hybrid mismatch rules generally apply to deduction/non-inclusion (D/NI) mismatches that arise from payments under financial instruments where the mismatch is attributable to the terms of the instrument (and not the hybridity of the entity). The 2022 hybrid mismatch rules implemented recommendations in

the first two chapters of the BEPS Action 2 Report.

The January 2026 proposals include the second package of hybrid mismatch rules (the 2026 hybrid mismatch rules). The 2026 hybrid mismatch rules implement most of the remaining recommendations in the BEPS Action 2 Report, expanding Canada's rules beyond hybrid financial instruments to address hybrid mismatches arising from the hybridity of the entity, including reverse hybrids, disregarded payments, hybrid payers and imported mismatches. The measures are proposed to apply to payments arising on or after July 1, 2026.

The two sets of hybrid mismatch rules target "hybrid mismatch arrangements". A hybrid mismatch arrangement arises where income escapes taxation on a net basis because of different tax treatments in two jurisdictions. The mismatched outcome can arise from a difference in treatment (i.e., hybridity) of either an instrument or an entity.

The 2022 hybrid mismatch rules established two operative rules. The 2026 hybrid mismatch rules broaden their scope to include hybrid mismatches relating to hybrid entities:

- The primary rule in subsection 18.4(4) continues to deny deductions for payments to the extent of a "hybrid mismatch amount." The definition of that amount is expanded to include reverse hybrids, disregarded payment arrangements and hybrid payer arrangements, in addition to the three original categories targeting hybrid instruments (hybrid financial instruments, hybrid transfers and substitute payments).
- The secondary rule in subsection 12.7(3) continues to include a hybrid mismatch amount in the income of a recipient of the payment to the extent that the mismatch has not already been neutralized under a foreign country's hybrid mismatch rules. Disregarded payment arrangements and hybrid payer arrangements are added to the secondary rule.

A number of the concepts in the 2026 hybrid mismatch rules turn on whether an entity is "resident" in a country. The proposals do not include a definition of "resident" for these purposes. The term is otherwise used in the *Income Tax Act* (ITA) only by reference to Canada and is largely defined by common law (under the central management and control test). Given the context of the hybrid mismatch rules, it would seem more appropriate to incorporate the treaty definition of residence (i.e., being subject to the most comprehensive form of income taxation in a jurisdiction by reason of an enumerated factor).

Reverse hybrid arrangements

The reverse hybrid rule (new subsections 18.4(15.1)–(15.2)) applies to payments made to a "reverse hybrid entity". A reverse hybrid entity is defined as an entity treated as a separate entity (opaque) by its investors but fiscally transparent in the jurisdiction where it is established. This different treatment may give rise to a D/NI mismatch where there is a deduction for the payer without a corresponding income inclusion in the reverse hybrid (due to its transparency in the jurisdiction of its formation).

The mere existence of a mismatch is not sufficient for the reverse hybrid rule to apply. The rule applies only if a payment to a reverse hybrid produces a different tax outcome than would occur if the payment were made directly to the investor of the reverse hybrid. The amount of the reverse hybrid mismatch is the difference between the D/NI and the amount that would have arisen if the payment had been made directly to the investor. The reverse hybrid rule denies deductions on payments made between non–arm's length parties or pursuant to a structured arrangement under the primary operative rule.

The BEPS Action 2 Report also recommended amending controlled foreign company (CFC)

rules in the investor jurisdiction so that payments received by reverse hybrids and allocated to an investor can be subject to tax under CFC rules so as to neutralize any D/NI hybrid mismatch not addressed by denial of the deduction in the payer jurisdiction. This recommendation (recommendation 5.1 of the BEPS Action 2 Report) was not included in the draft legislation.

Disregarded payment arrangements

The disregarded payment rule (new subsections 18.4(15.3)–(15.4)) applies to payments made by a “hybrid entity” that are deductible in the payer’s jurisdiction but not included in the income of the payee, leading to a D/NI mismatch. A hybrid entity is defined as an entity that is resident in one country, but another country treats some or all of its income, profits, expenses or losses as belonging to a different entity that is resident in that other country (i.e., the other country treats the entity as a disregarded entity or a branch).

The proposals deny a deduction or require an income inclusion (under the primary and secondary operative rules, respectively) where the recipient jurisdiction disregards the payment due to the hybridity of the entity. The disregarded payment mismatch is the portion of the D/NI mismatch that exists because the payment is not recognized by the recipient. This amount is reduced by (1) amounts already captured under other hybrid categories and (2) any “dual inclusion income” or “investor dual inclusion income” (income taxed in both the payer and payee jurisdictions).

This rule applies to payments between non–arm’s length parties or pursuant to a structured arrangement.

Hybrid payer arrangements

The hybrid payer rule (new subsections 18.4(15.5)–(15.7)) applies to payments made by a “hybrid payer”. A hybrid payer is defined as a payer that is dual resident (tax-resident in two countries), a hybrid entity or a multinational entity that is resident in one country but also subject to income or profits tax in another country because it carries on business there through a permanent establishment (such as a branch).

This rule prevents double deductions (DD) for the same payment where the treatment of the entity generates the same deduction in more than one jurisdiction. The scope of the rule is different depending on the hybrid payer.

- For a hybrid payer that is a hybrid entity resident in Canada, the rule applies to payments between non–arm’s length parties or made under a structured arrangement that give rise to a DD mismatch, to the extent a foreign hybrid payer mismatch rule does not neutralize the mismatch.
- For a hybrid payer that is a multinational entity (such as a branch), the rule applies to payments that give rise to a DD mismatch, to the extent a foreign payer mismatch rule does not neutralize the mismatch.

The amount of the hybrid payer arrangement mismatch is the portion of the DD that remains after allocating the hybrid payer’s “dual inclusion income”.

For partnerships, a new rule in section 12.7(4) taxes investors where a hybrid payer that is a partnership creates a DD that is claimed at the investor level. In that case, each investor must include an “investor hybrid payer mismatch amount” in income, computed under new subsection 18.4(15.7).

The January 2026 proposals expand the deemed dividend in current subsection 214(18) to apply to partnerships in respect of which a corporation resident in Canada is an investor. Subsection 214(18) already deems certain interest paid by a Canadian corporation to a non-resident to be a dividend for Part XIII purposes, but only to the extent the interest is denied as a deduction under the primary rule in subsection 18.4(4). The proposals expand this deemed dividend to hybrid payer arrangements where income is included under new subsection 12.7(4), but with a carve-out for certain hybrid payer cases.

Imported mismatches

The rules also implement imported mismatch arrangements from the BEPS Action 2 Report (new subsections 18.4(15.8)–(15.95)). In general, these are arrangements in which a hybrid mismatch involving two jurisdictions are effectively imported into a third jurisdiction.

The proposals introduce a new definition of “foreign structured arrangement” where the transaction or series includes a payment that gives rise to an “offshore mismatch”. Detailed provisions on what constitutes an offshore mismatch and the amount of the offshore mismatch amount are set out in subsections 18.4(15.8)–(15.9). The imported mismatches rule captures situations where a payment would create a mismatch entirely between foreign countries (D/NI or DD abroad) without being fully neutralized by a foreign hybrid mismatch rule or Canada’s secondary rule in subsection 12.7(3).

If a Canadian deduction is tied, through a chain of payments between non–arm’s length parties or pursuant to a structured arrangement, to an offshore mismatch, then a portion of the Canadian deduction is denied (an “imported hybrid mismatch”).

Other changes

The January 2026 proposals propose to amend the existing framework introduced with the 2022 hybrid mismatch rules in several ways:

- Subsection 18.4(2) currently requires the hybrid mismatch rules to be interpreted consistently with the OECD hybrid mismatch report, as amended. The January 2026 proposals would add the OECD branch mismatch report to subsection 18.4(2), requiring consistent interpretation with both reports.
- A new rule in subsection 18.4(6.1) provides that, for purchase price payments, capital cost allowance type amounts (depreciation/obsolescence/depletion) are not included when testing for mismatches.
- Amendments to the “no double counting” rule in subsection 18.4(8) prevent the same amount being counted multiple times as foreign/Canadian ordinary income, dual inclusion income or investor dual inclusion income, or being used more than once to reduce hybrid mismatches or support relief deductions. Dual inclusion income is, generally, income that is included in two jurisdictions, either by the same entity if it is a dual resident or multinational entity, or by an entity and an investor in that entity. Investor dual inclusion income is the latter type of dual inclusion income. These changes update the rule to reflect additional scenarios introduced in the 2026 hybrid mismatch rules.
- Similarly, there are expanded relief mechanisms in subsection 20(1). Paragraph 20(1)(yy) currently allows deductions for amounts previously denied under subsection 18.4(4) if they become foreign ordinary income within 12 months (excluding reverse hybrids, disregarded

and hybrid payer arrangements). New paragraph 20(1)(zz) permits deductions (capped at the lesser of the denied amount and the dual inclusion income) for disregarded payments or hybrid payer arrangements when dual inclusion arises later. Paragraph 20(1)(aaa) mirrors this relief for investors, allowing deductions against later investor dual inclusion income for prior subsection 12.7(4) inclusions (similarly capped).

- New subsection 20(31) provides that any amount deducted under paragraphs 20(1)(yy), (zz) or (aaa) is characterized as being deductible "in respect of the payment" that gave rise to the mismatch.
- A new rule in subsection 18.4(19.1) lets the Minister accept foreign-taxed income earned outside the normal 12-month window as dual inclusion income/investor dual inclusion income, where fairness requires it. This provision is discretionary.

Conclusion

Most of the proposed changes apply to payments arising on or after July 1, 2026. A change to the definition of specified minimum tax regime applies in respect of foreign taxation years beginning after December 31, 2025.

Taxpayers should review the proposals carefully, consider whether to provide input during the consultation process and review whether existing financing and holding structures need to be reorganized before the rules take effect on July 1, 2026. In particular, structures involving hybrid entities such as Canadian ULCs and U.S. LLCs should be examined to determine how payment flows may be affected and whether restructuring is appropriate.

Qualified investments for registered plans

Budget 2025 included draft legislation to effect proposed changes to the rules that restrict investments that can be made by registered plans, including adding two new categories of qualified investments and repealing the registered investment regime.

The January 2026 proposals make further revisions to these draft amendments.

New categories of qualified investments

Under current law, investment funds that are organized as trusts have to either be listed on a designated stock exchange or qualify as mutual fund trusts in order for their units to be eligible for investment by registered plans. Budget 2025 proposed two new categories of trust units that would be qualified investments for registered plans:

- units of a trust that is subject to requirements of National Instrument 81-102 published by the Canadian Securities Administrators (category 1)
- units of a trust that is an "investment fund" (as defined in the ITA) managed by a registered investment fund manager as described in National Instrument 31-103 published by the Canadian Securities Administrators (category 2)

Category 1 remains unchanged in the January 2026 proposals. However, the conditions for category 2 have been modified in a way that is expected to allow more trusts to qualify.

Budget 2025 stated that a category 2 trust must be an "investment fund". To be an "investment fund" as defined in the ITA, the trust must, among other things, *at all times beginning at the end of the calendar year in which the trust was created*, have a class of units outstanding that *either*

1. has been lawfully distributed in reliance on a prospectus exemption
2. is qualified for distribution to the public (together with (i), the distribution condition)

Under this definition, a trust that was created in a given year but does not satisfy the distribution condition until a subsequent year would not be an “investment fund”, and thus would not have fit within Budget 2025’s new category 2 of qualified investment. The January 2026 proposals modify category 2 so that a trust only needs to have a class of units that satisfy the distribution condition at the time it is being tested for category 2 eligibility. As a result, a trust would no longer be required to satisfy the distribution condition at all times beginning at the end of the calendar year the trust was created. Category 2 continues to require trusts to satisfy all other requisite conditions to qualify as an “investment fund” and to be managed by a registered fund manager as described in National Instrument 31-103.

The “investment fund” definition in the ITA was initially introduced as part of the loss restriction event rules. Today, the definition is also used in other rules in the ITA. For example, under the alternative minimum tax (AMT) rules, a trust that qualifies as an “investment fund” throughout a taxation year is exempt from AMT in that year. Industry groups have voiced concerns to the Department of Finance that the distribution condition contained in the “investment fund” definition is too restrictive for the purposes of the AMT rules and the proposed new categories of qualified investments, for a number of reasons including but not limited to the requirement for trusts to have satisfied the distribution condition since the year of formation. The January 2026 proposals appear to have accepted the concern raised in respect of the proposed new categories of qualified investments. It would be appropriate for similar changes to be made to the AMT rules.

Registered investment regime

Budget 2025 proposed to repeal the registered investment regime as of January 1, 2027.

The registered investment regime allows units of a trust whose units are not otherwise qualified investments for registered plans to achieve that status by applying to become a registered investment. Certain categories of registered investments are subject to a penalty tax under the registered investment regime if they hold non-qualified investments (the registered investment tax).

The January 2026 proposals amend the registered investment regime to exempt trusts that qualify under category 1 or category 2 from the registered investment tax beginning November 4, 2025. Without this change, trusts that have registered investment status could have become qualified investments (under category 1 or 2) as of November 4, 2025, but continued to be potentially subject to the above-mentioned penalty tax until the end of 2026.

Clean energy investment tax credit regime

The January 2026 proposals include several amendments relating to various clean energy investment tax credits (ITCs).

Clean Hydrogen ITC

The Clean Hydrogen ITC is a refundable tax credit administered by the Canada Revenue Agency (CRA) and Natural Resources Canada (NRCan). The rates range from 7.5% to 40% of a taxpayer’s cost of eligible clean hydrogen property, depending on the carbon intensity of the hydrogen produced from the clean hydrogen project and the date the property is acquired.

The January 2026 draft legislation contains a number of technical amendments to the Clean Hydrogen ITC, which are in addition to the numerous technical changes to the Clean

Hydrogen ITC included in Bill C-15 (currently before Parliament). A more detailed review of the Clean Hydrogen ITC, including these technical amendments, will be published separately.

The most significant change to the Clean Hydrogen ITC contained in the January 2026 proposals is the expansion of the availability of the Clean Hydrogen ITC to the cost of property acquired for use in projects that produce hydrogen from pyrolysis, implementing the 2024 Fall Economic Statement commitment to include methane pyrolysis as part of the clean hydrogen incentive.

The January 2026 proposals expand the definition of "eligible clean hydrogen property" to include equipment "used to produce all or substantially all hydrogen from the pyrolysis of eligible hydrocarbons", expressly including

- pre-heating and purification equipment
- fired heaters
- hydrogen compression and storage equipment
- oxygen production equipment
- solid carbon separation equipment
- property forming part of a "pyrolysis reactor system"

A new definition of "pyrolysis reactor system" captures reactors, equipment that performs reactor functions and equipment physically and functionally integrated with the reactor.

The draft legislation confirms that while pyrolysis equipment is eligible, certain downstream equipment for the solid carbon co-product is "excluded property" and not eligible for the Clean Hydrogen ITC, including equipment for collection, processing or storage of solid carbon, as well as equipment used for off-site transmission and transport of solid carbon.

The total eligible capital cost for a project's pyrolysis reactor system is capped at $3,000 multiplied by the project's expected annual hydrogen production, based on the most recent project plan. If the cost of a property forming part of the system causes the aggregate cost of the system to exceed this cap, the capital cost of that property is reduced to the amount by which the cap exceeds the cost of all *other* property forming part of the system — after that, the capital cost of any additional reactor-system property is deemed to be nil (unless the cap later increases). The cap can increase prospectively if expected production increases and a revised clean hydrogen project plan reflecting the expected increase is filed with and confirmed by the Minister of Natural Resources.

To qualify as a qualified clean hydrogen project, pyrolysis projects must now demonstrate that

- the expected hydrogen production is achievable
- the expected hydrogen use percentage is at least 90%
- the project is expected to consume less than 50% of the hydrogen produced during the compliance period
- the project's "end-use plan" expectations can reasonably be achieved

The time limit to file the prescribed form for pyrolysis projects is the later of one year after the filing due date and December 31, 2027. Otherwise, the payment is deemed not to have been made.

If, at the end of the compliance period, a pyrolysis project's actual hydrogen use percentage is below 90% or the project has consumed 50% or more of the hydrogen produced, the

project's average actual carbon intensity is deemed to exceed 4.5, triggering recovery. More generally, if average actual carbon intensity exceeds the most recent expected carbon intensity used to determine the credit, a recovery amount is added using an updated formula that coordinates with the pyrolysis reactor system capital-cost cap.

The January 2026 proposals also include technical changes in respect of the definition of "Fuel LCA Model"; the use of non-qualifying electricity sources and the disposition of associated environmental attributes; and the definition of "dual-use electricity and heat equipment".

Carbon Capture, Utilization, and Storage ITC

The January 2026 proposals include technical amendments to the Carbon Capture, Utilization, and Storage Investment Tax Credit (CCUS ITC). The CCUS ITC is a refundable tax credit for eligible CCUS capital expenditures. Depending on the purpose of the eligible equipment, there are three different credit rates:

- 60% for eligible capture equipment used in a direct air capture project
- 50% for all other eligible capture equipment
- 37.5% for eligible transportation, storage and use equipment

The credit is available for expenditures incurred to the end of 2040. Currently, the rates above apply to eligible expenditures incurred through the end of 2030 and are reduced by half (i.e., to 30%, 25% and 18.75%, as applicable) for expenditures incurred from the start of 2031 to the end of 2040.

Bill C-15 will, once enacted, extend the availability of the full credit rates by five years, to the end of 2035. The reduced rates will continue to apply for eligible expenditures incurred from the start of 2036 to the end of 2040. Bill C-15 was tabled in Parliament on November 18, 2025, and received second reading on December 10, 2025.

The January 2026 proposals include a number of technical amendments to the CCUS ITC provisions that, according to the accompanying news release, are intended to better align the CCUS ITC with its policy intent and facilitate administrative efficiency by clarifying the legislation.

An expenditure must be a "qualified CCUS expenditure" to qualify for the CCUS ITC. A qualified CCUS expenditure includes the capital cost of certain electrical and heat energy generation equipment that directly supports a qualified CCUS project, excluding equipment that uses fossil fuels and emits carbon dioxide that is not subject to capture by a qualified CCUS project. The January 2026 proposals provide a limited exception to this restriction by including equipment that uses fossil fuels solely to start up the equipment and for no more than 72 hours per calendar year.

A portion of expenditures for "dual use equipment" may also qualify for the CCUS ITC in certain circumstances. The January 2026 proposals amend the definition of "dual-use equipment" to

- exclude equipment that supports a CCUS project indirectly via an electrical utility grid
- include certain equipment that uses or is expected to use fossil fuels if *either*
    1. the associated emissions are subject to capture by a CCUS process
    2. the fossil fuels are used solely to start up the equipment and for no more than 72 hours per calendar year (similar to the relieving amendment described above)

The January 2026 proposals include a deeming rule that applies in situations where carbon dioxide stored in dedicated geological storage is later released into the atmosphere for *bona fide* reasons outside the control of the taxpayer. In such cases, the carbon is deemed to be used in an eligible use at the time of release and all subsequent times, thereby avoiding adverse credit consequences where the release of stored carbon is due to events beyond the taxpayer's control.

Expenditures must be incurred to acquire property used in a "qualified CCUS project" to qualify for the CCUS ITC. For projects involving the storage of captured carbon in "dedicated geological storage", to qualify as a "qualified CCUS project", the storage must be in a "designated jurisdiction". The current designated jurisdictions are the provinces of British Columbia, Saskatchewan and Alberta, plus any other jurisdiction in Canada or the United States that the Minister of the Environment designates. The current rules only permit the Minister of the Environment to designate entire jurisdictions. The January 2026 proposals give the Minister of the Environment the flexibility to designate specific geological formations or areas if the Minister of the Environment determines that the jurisdiction has sufficient environmental laws and enforcement governing the permanent storage of captured carbon for a specific geological formation or area in the jurisdiction, but not others.

Unless otherwise specified, the CCUS ITC technical amendments outlined above are deemed to have come into force on January 1, 2022.

Global Minimum Tax Act de-consolidation rules

The January 2026 proposals include technical amendments to the draft de-consolidation rules of the *Global Minimum Tax Act* (GMTA) that were released in August 2025. The de-consolidation rules permit "private investment entities", as defined, to de-consolidate their actual multinational enterprise (MNE) group for GMTA purposes.

The amendments introduce additional exceptions to the application of the de-consolidation rules. Specifically, de-consolidation is proposed to be inapplicable in determining

- GloBE income or loss for purposes of the provisions governing transfer pricing and intragroup financing arrangement adjustments
- adjusted covered taxes for purposes of the provisions governing certain tax attributes arising prior to an MNE group first becoming subject to a top-up tax under the GMTA
- eligibility for the transitional CbCR safe harbour and the *de minimis* jurisdiction exclusion

The anti-avoidance rule in new subsection 9(2.2) of the GMTA is also proposed to be amended. The initial draft denies the ability to de-consolidate where the main purpose of any transaction was to have the de-consolidation rules apply. The January 2026 proposals change the threshold to *one of* the main purposes of any transaction or event, using language similar to that of Canada's general anti-avoidance rule, as amended in 2024.

Finally, the January 2026 proposals amend the definition "private investment entity" to additionally require the entity to file a prescribed form by the GloBE Information Return due date. The content of this prescribed form is unknown at this time.

The de-consolidation rules, including the amendments, are proposed to apply to fiscal years of qualifying MNE groups that begin on or after December 31, 2023.

The January 2026 proposals do not include any of the other amendments to the GMTA that were released in August 2024 and 2025 — notably, the implementation of the undertaxed profits rule (UTPR) and the transitional UTPR safe harbour. However, Budget 2025 confirmed

that the government intends to proceed with these measures.

Immediate expensing for manufacturing and processing buildings

Budget 2025 proposed to allow immediate expensing for manufacturing and processing buildings. The January 2026 proposals provide draft legislation in alignment with the Budget 2025 proposal and specify that recapture applies where, within 10 calendar years after claiming the credit, a taxpayer uses more than 10% of the floor space of eligible property for a purpose other than manufacturing or processing.

The January 2026 proposals retain the eligible taxation years and rates set out in Budget 2025 and confirm that a taxpayer claiming this deduction cannot deduct any other amounts in respect of the eligible building.

The proposals confirm that these measures come into force on November 4, 2025, and apply to manufacturing buildings acquired by the taxpayer after November 3, 2025.

Part IV tax deferral through tiered corporate structures

Budget 2025 proposed to limit the ability to defer the payment of Part IV refundable tax on taxable dividends through the use of certain tiered corporate structures with different year ends. The January 2026 proposals implement this measure.

They also add a new restriction in respect of the exception available where each recipient corporation in the chain of affiliate corporations subsequently pays a dividend on or before its balance-due date: these dividends must be of the “same character” for the exception to apply. Presumably the “character” of a dividend refers to whether the taxable dividend is an eligible dividend or not. The “same character” condition is also added to the release of the suspended dividend rule. The proposals confirm that these measures apply to dividends paid in taxation years that begin on or after November 4, 2025.

Eligible activities under the Canadian exploration expense

Budget 2025 proposed to amend the definition of “Canadian exploration expense” (CEE) to exclude expenses related to determining the economic viability or engineering feasibility of the mineral resource. To effect this proposed change, the draft legislative proposals would amend paragraphs (a) and (f) in the definition of CEE in subsection 66.1(6) to replace the references to “quality” of a resource with “inherent natural qualities” of a resource. This change would codify the CRA’s longstanding view that “quality” refers to inherent physical or chemical characteristics of a resource rather than economic or market value. This change would come into force on November 4, 2025.

Extension of flow-through mineral exploration tax credit

As announced previously on March 3, 2025, and confirmed in Budget 2025, the definition of “flow-through mining expenditure” is proposed to be amended to extend the availability of the 15% mineral exploration tax credit for investors in flow-through shares. The mineral exploration tax credit is proposed to be available for eligible expenses incurred (or deemed to be incurred) after March 2025 and before 2028 — a longer period than the original announcement, which only extended the tax credit to March 31, 2027.

The January 2026 proposals also require that the eligible expenses be renounced under an agreement entered into on or after November 4, 2025.

Reporting by non-profit organizations

The January 2026 proposals make changes to the reporting requirements for entities that are exempt under paragraphs 149(1)(e) — agricultural organizations, boards of trade or chambers of commerce — and (l) — not-for-profit organizations — of the ITA (collectively, NPOs).

Existing subsection 149(12) requires NPOs to file an information return in prescribed form for a fiscal period where they meet any one of three conditions. Draft legislation released on August 15, 2025, proposed to add a fourth such condition, requiring NPOs to file an information return if they have received amounts in excess of $50,000 in the fiscal period. The January 2026 proposals increase that threshold to $100,000.

The August 15, 2025, draft legislation proposed to introduce a requirement for all NPOs, even those that do not meet the general filing conditions in subsection 149(12), to file a short-form information return. The January 2026 proposals make two changes to the proposed short-form information return requirement. First, the return will no longer require providing CRA the address of directors, officers or trustees. Second, the January 2026 proposals add carve-outs from the short-form return filing obligation for entities that receive a total of $10,000 or less in the fiscal period and entities that are not organizations.

There is substantial overlap between the information required under the proposed short-form information return and the existing prescribed form under subsection 149(12).

The NPO reporting changes will increase the number and type of NPOs whose activities and finances must be annually reported to CRA.

Other measures included

The January 2026 proposals include the following two legislative proposals with no changes from the draft legislation released with Budget 2025:

- amendments to paragraph 95(2)(a.2) regarding the FAPI treatment for investments in Canadian insurance risks
- amendments to the 21-year rule for personal trusts

If you have any questions or require additional analysis on the January 2026 proposals or other measures discussed above, please contact any member of our National Tax Department.