Tax Topics

Report No.: 2728

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FOCUS ON CURRENT CASES

This is a regular monthly feature examining recent cases of special interest, coordinated by Tony Schweitzer and Gergely Hegedus of Dentons Canada LLP. The contributors to this feature are from Dentons Canada LLP, Montréal, Toronto, Calgary, Edmonton, and Vancouver.

CANADA V. CSAK, 2025 DTC 5043 (FEDERAL COURT OF APPEAL)—FCA FINDS THAT SECTION 26 OF THE *INTERPRETATION ACT* APPLIES TO THE NORMAL REASSESSMENT PERIOD UNDER SUBPARAGRAPH 152(4)(*A*)(II) OF THE ITA

Background

In this decision, the Federal Court of Appeal ("FCA") considered whether a spouse (the "respondent") was liable for her late husband's tax debts under subsection 160(1) of the *Income Tax Act* ("ITA"). In 1993, the respondent's spouse transferred real property to her when he had unpaid tax and interest owing from his 1988–1991 taxation years in respect of the denial of partnership losses.

The respondent's spouse died in 2022. In 2012, the respondent was assessed under subsection 160(1) of the ITA. The tax and interest payable pursuant to the underlying reassessments of the respondent's late husband was more than $4.8 million.

The issue before the Tax Court was the respondent's liability under subsection 160(1) for the tax debts of her late husband. The respondent challenged the assessment on the basis that: (i) she had provided sufficient consideration to her late spouse for the transferred property; and (ii) the underlying reassessments (of her late spouse) for the 1988 and 1989 taxation years were statute-barred and thus there could be no derivative liability regarding those years. The Tax Court did not accept that the respondent had provided sufficient consideration for the property but allowed the appeal on the basis that the reassessments for the 1988 and 1989 tax years were statute-barred as the reassessments for those years had been issued after the end of the normal reassessment period.

Issue and Decision

The FCA was asked to consider two issues:

(1) whether the respondent was entitled to challenge the validity of the 1988 and 1989 reassessments; and

(2) whether section 26 of the *Interpretation Act* applied to the normal reassessment period for filing a waiver pursuant to subparagraph 152(4)(a)(ii) of the ITA.

Applying the standard of correctness, the FCA upheld the Tax Court's decision that the respondent was entitled to challenge the validity of the reassessments. The FCA agreed with the Tax Court's finding that a taxpayer assessed by way of a derivative assessment under subsection 160(1) of the ITA may challenge the underlying assessment on which the derivative assessment is based, and supported the respondent's ability to raise the statute-barred defence against the subsection 160(1) assessment.

However, the FCA overturned the Tax Court's decision where it concluded that the reassessment for the 1989 tax year was statute-barred. There was no dispute that the reassessment for that year was issued after the end of the normal reassessment period. The issue before the Tax Court was whether a waiver had been timely filed pursuant to subparagraph 152(4)(a)(ii) of the ITA, allowing the Minister to reassess when she did. Subparagraph 152(4)(a)(ii) provides that the Minister may reassess after the end of the normal reassessment period if "the taxpayer has filed with the Minister a waiver in prescribed form within the normal reassessment period".

The respondent's position was that the 1989 waiver was filed late and the reassessment for the year was statute-barred. The normal reassessment period for the 1989 tax year ended on Sunday May 30, 1993, and the waiver for that year was filed with the Minister on Monday May 31, 1993. The Tax Court found that the waiver was filed a day late and did not extend the reassessment period.

However, the FCA held that by virtue of section 26 of the *Interpretation Act*, the time for filing the 1989 waiver was extended to the Monday and accordingly the waiver was timely filed. Section 26 of the *Interpretation Act* provides that "where the time limited for the doing of a thing expires or falls on a holiday, the thing may be done on the day next following that is not a holiday." The FCA found that the filing of a waiver constitutes "the doing of a thing" under section 26 of the *Interpretation Act*. Further, as a Sunday is a "holiday" under subsection 35(1) of the *Interpretation Act*, the FCA ultimately found that section 26 of the *Interpretation Act* applied to extend the deadline for filing a waiver pursuant to 152(4)(a)(ii).

Conclusion

The FCA allowed the appeal and referred the matter back to the Minister for reassessment and consideration on the basis that the reassessment issued to the respondent's late husband for the 1989 taxation year was not statute-barred and the reassessment for the 1988 taxation year remained statute-barred.

—Charlene Byrne (Articling Student) and Daniel Safi (Senior Associate)

ROSEN V. THE KING, 2025 DTC 1004 (TAX COURT OF CANADA)

In this decision, the Tax Court of Canada (the "Court") dismissed an appeal concerning the Appellant's 2012 and 2013 taxation years, which were reassessed on the basis that the Appellant incurred promotional expenses in 2012, but deducted the expenses in his 2013 taxation year. The Appellant claimed the expenses were "pre-paid expenses" utilized in 2013 and argued that paragraph 8(1)(f) of the *Income Tax Act* (the "Act") should be considered bilingually, which would permit the Appellant to deduct promotional expenses in 2013 that were paid in 2012. The Court found no difference between the English and French versions of the Act, and concluded that the Appellant could only claim deductions for expenses actually paid in a particular year.

Background

The Minister of National Revenue (the "Minister") reassessed Lewis Rosen (the "Appellant") on the basis that he incurred expenses in 2012 but deducted the expenses in his 2013 taxation year. The Appellant worked as an independent contractor for a large institutional investor until the end of September 2012, when he began a new position as a commissioned sales representative and investment advisor. Over the last three months of 2012, the Appellant incurred not less than $59,514 in employment expenses related to his new role as a commissioned sales representative and investment advisor. During this time, the Appellant received less than $2,000 in salary from his new firm, and no commission income. As a result, the Appellant did not deduct any of the expenses in 2012, and instead claimed the full amount of $59,514 in deductions in 2013—a year in which his commission income exceeded the amount of his expenses that were incurred in 2012. Upon reassessment, the Minister allowed $22,132 of the expenses to be claimed in 2012 under other provisions of section 8, but disallowed the remaining $37,382, reasoning that the expenses were incurred in 2012 and could not be claimed in 2013.

Issues and Decision

(1) WERE THE EXPENSES "PRE-PAID EXPENSES", SUCH THAT THEY COULD BE INCURRED IN 2012 BUT USED IN 2013?

The Appellant argued that the expenses incurred were “pre-paid expenses” which were paid in 2012 but effectively used in 2013, and should therefore be deductible against his 2013 commission income. In evaluating this claim, the Court reviewed the evidence that was provided to classify these expenses as “pre-paid expenses”. The Court found that the Appellant failed to present sufficient evidence detailing the nature of the expenses. The Appellant made references to hockey tickets, meals, and taxis as some of the expenses incurred, and also resisted the suggestion that the expenses were for, for example, office supplies. However, beyond these references, no other evidence or specific documentation was provided which listed the expenses being claimed. The Court emphasized that it is insufficient for a taxpayer to simply assert that they purchased something in one year and consumed it in another without clear supporting evidence. The Court acknowledged that the gap in evidence relating to the expenses incurred could be sufficient in its own right to dismiss the appeal, but still wished to leave open the question of what, if anything, was acquired in 2012 and still available to be consumed by the Appellant in 2013. Had the appeal been allowed, the Court noted that the matter would have been remitted to the Minister to allow for deductions in 2013 only in respect of items acquired by the Appellant in 2012 and not given away before the end of 2012 to clients (e.g., hockey tickets) or completely consumed in 2012 (e.g., meals and taxis).

(2) IF PARAGRAPH 8(1)(F) OF THE ACT IS CONSIDERED BILINGUALLY, IS THE APPELLANT ALLOWED TO DEDUCT THE PROMOTIONAL EXPENSES IN 2013 THAT WERE PAID IN 2012?

Paragraph 8(1)(f) of the Act states the following, in English and French:

> “amounts expended by the taxpayer in the year”; and
>
> *“les sommes qu'il a dépensées au cours de l'année”*

The Appellant argued that the English phrase “amounts expended” strictly refers to money that is spent by a taxpayer within the year, whereas the French equivalent of “*dépensées*” has an expanded meaning that goes beyond spending, and rather relates to “consuming” or “using up”. The Appellant claimed that this distinction allowed him to deduct expenses in 2013 that had been paid in 2012, provided they were “used up” in 2013.

The Court dismissed this argument, and found that this is not a case that “turns on a difference in linguistic expression” as the relevant provisions in the Act have the same meaning in both languages. In reviewing the provisions, the Court noted that a textual, contextual, and purposive (“TCP”) analysis is required. A TCP analysis should not “backslide” from fully applying the analysis where the text seems clear, and should be used to reveal and resolve ambiguities, not create unexpressed exceptions to clear language. The Court further noted that tax statutes “are dominated by explicit textual language that dictate specific results. It is therefore often the case that the text plays the predominant role in the statutory interpretation exercise”. With these principles in mind, the Court reviewed the relevant provisions in English and French, and found that there was no distinction to be found. “Expended” and “*dépensées*” both can mean “spent” and can both also connote “consumed” or “used up”.

More importantly, the fundamental issue was whether a taxpayer is obliged to use the cash accounting method when claiming deductions under section 8, or if a taxpayer is permitted to choose when to deduct expenses. The Court found that where Parliament intends to allow expenses over and above those set out in paragraph 8(1)(f), it does so expressly in the legislation. This same reasoning applies to expenses being claimed in years other than that in which they were incurred. For example, subsection 8(13) permits amounts related to home office expenses to be carried over to a second taxation year when the amounts cannot be utilized in the year in which the expense was incurred. However, nothing in paragraph 8(1)(f) permits the deduction of expenses from prior years. The final portion of the Court’s analysis noted that sections 5, 6, and 8 of the Act require employment income to be computed on a cash basis, which means income and taxable benefits are included in income when received or enjoyed, whereas expenses are deducted in the year that they are paid.

The Court concluded that the Act does not allow a taxpayer to choose to compute income on a non-cash basis, and employees must compute income and expenses on a cash basis under paragraph 8(1)(f). This limits deductions to expenses that were actually paid in a given year, and the expenses are capped at the total commission income received in that same year.

Conclusion

The Court dismissed the appeal without costs, and held that the balance of the expenses not claimed in 2012 could not be deducted in 2013 because they were incurred in the prior year. The Court determined there was no difference between the English and French versions of paragraph 8(1)(f), and the true issue in this appeal was whether the Appellant was required to use the cash accounting method when claiming deductions under section 8. On this point, the Court found no support for the Appellant's view, and emphasized that "the legislation does not confer on a taxpayer the choice to compute income on a non-cash basis".

This decision reviews the framework of the legislative analysis required when reviewing a bilingual statutory interpretation argument, and reinforces the principle that sales expenses must be deducted in the year they are actually paid. Further, the decision provides the overarching principle that "where Parliament wants to offer taxpayers a range of options for claiming employment deductions, it does so expressly".

—Nolan J. Menard, Associate

SYMCO 2015 INC. C. AGENCE DU REVENU DU QUÉBEC, 2025-PTC-QC-18 (COURT OF QUÉBEC) —LOSS RESTRICTION RULES DENY THE CARRYFORWARD OF LOSSES FROM A BUSINESS OF MANUFACTURING DECORATIVE STONE CLADDING TO A BUSINESS OF RESTAURANT RENOVATION, AS THE LATTER WAS NOT A SIMILAR BUSINESS TO THE FORMER

Background

Mario Toupin ("Toupin") incorporated a corporation in 1987 that would undergo several name changes before becoming Symco Constructions 2013 Inc. ("Symco 2013"). Symco 2013 specialized in the construction and installation of decorative stone claddings (thin layers of stone-like materials applied to walls for aesthetic purposes).

In 2001, Toupin incorporated another corporation that would carry on business under several names before becoming Symco 2015 inc. (the "Taxpayer"). The Taxpayer had been engaged in a business of manufacturing decorative stone claddings.

In 2012, Symco 2015 inc. encountered economic difficulties, which resulted in it selling its assets pursuant to a bankruptcy proposal that had been accepted by its creditors, and terminating almost all of its employees, with the exception of the shareholders and the son of one of the shareholders.

In 2014, an acquisition of control (the "AOC") of the Taxpayer occurred, following which it commenced carrying on a business of renovating restaurants in 2015, which became profitable. This business was not dissimilar to the one that had been operated until then by Symco 2013.

Between the asset sale in 2012 and the AOC in 2014, the Taxpayer's activities had been very minimal. However, even after the 2012 asset sale and termination of almost all of the employees, Toupin allegedly remained hopeful of resuming the Taxpayer's business in the future, as notably evidenced, in his view, by the business initiatives he had explored during business trips in Haiti.

The Taxpayer carried forward some pre-AOC non-capital losses from 2012 to 2014 to its 2017 and 2018 taxation years. Revenu Québec, following an audit, reassessed the Taxpayer and denied the use of pre-AOC non-capital losses under section 736.0.1 of the Québec *Taxation Act* ("QTA") (which provision is the Québec equivalent of paragraph 111(5)(a) of the *Income Tax Act* (the "ITA")) on the basis that following the AOC in 2014, the Taxpayer did not continue carrying on the business previously carried on or a similar business.

In 2020, the Taxpayer unsuccessfully objected to Revenu Québec's reassessment. According to the objection agent, the AOC that took place in 2014 was a tax planning strategy to utilize accumulated non-capital losses, as the Taxpayer shifted from the manufacturing of stone claddings to the construction and renovation of said stone claddings. The objection agent also considered the fact that the Taxpayer changed its name and address, ceased operations during the bankruptcy proposal period, and that the construction business had been operated not by the Taxpayer but by Symco 2013. The Taxpayer then lodged an appeal of the reassessment with the Court of Québec (the "Court").

Issues and Decision

The Court confirmed Revenu Québec's reassessment, taking inspiration from the Supreme Court's reasons in *Deans Knight Income Corp. v. Canada*, 2023 DTC 5041 ("*Deans Knight*").

The Court first reiterated, as per *Deans Knight*, that the object, spirit, and purpose of subsection 111(5) of the ITA is "to target manipulation of losses of a corporation by a new person or group of persons, through effective control over the corporation's actions", and perhaps more specifically to "prevent corporations from being acquired by unrelated parties in order to deduct their unused losses against income from another business for the benefit of the new shareholders".

In this case, the Court stated that the economic activity which gave rise to the losses was not the same as the economic activity of the Taxpayer post-AOC. Despite the argument of the Taxpayer that there was a link between the previous business and the current business, the evidence demonstrated that the Taxpayer did not carry on any business of manufacturing decorative stone claddings.

According to the Court, the admission by the Taxpayer of the importance previously occupied by its manufacturing business, the sale of its assets, the layoff of its employees, the change of its name, the relocation of its head office, and the fact that the construction business was previously carried out by Symco 2013, all militate in favour of the determination that the businesses were not similar. The Court also placed particular emphasis on the words "substantially all" and "similar" used in section 736.0.1 of the QTA, which was considered by the Court as a decisive obstacle to the Taxpayer's argument.

Furthermore, the Court considered the Taxpayer's prolonged inactivity before the AOC in determining whether the Taxpayer continued its previous business or engaged in a similar one.

The Court rejected the Taxpayer's argument that business trips to Haiti demonstrated continuity in the operation of the business. The Taxpayer did not demonstrate the existence of serious business arrangements relating to these trips, thereby failing to demonstrate a reasonable expectation of profit and thus the activity of the business at that time.

Nor did the Taxpayer establish, to use the words of Interpretation Bulletin IT-206R, *Separate Businesses*, the "interlacing" of the group's various activities before and after the AOC, which "interlacing" does not in any event replace the continuity requirement formulated in *Deans Knight* and the textual requirements of section 736.0.1 of the QTA.

Conclusion

The Court confirmed Revenu Québec's reassessment denying the loss carryforwards.

This decision is a case of application of the rules relating to the restriction of losses following an acquisition of control, and more specifically those relating to the requirement of the continuation of a business, particularly in the case of a corporation having undergone financial difficulties within a group of related corporations operating complementary businesses in the same field.

Although a decision rendered in application of the provisions of the QTA, its lessons remain relevant in the context of the application of equivalent provisions of the ITA.

—Victor Qian, Associate

CURRENT ITEMS OF INTEREST

TAX RELIEF AND SUPPORT FOR BUSINESSES AFFECTED BY TARIFFS

The Government of Canada announced the following actions to support workers and businesses affected by tariffs:

- Defer GST/HST remittances and corporate income tax payments from April 2 to June 30, 2025;
- Waive interest on GST/HST and T2 instalment and arrears payments that are required to be paid between April 2 and June 30, 2025; and
- Provide interest relief on existing GST/HST and T2 balances between April 2 and June 30, 2025.

Interest will resume starting July 1, 2025.

The Prime Minister also committed to table legislation by July 1, 2025 to eliminate all federal barriers to interprovincial trade and labour mobility and to remove all federal exemptions under the Canada Free Trade Agreement.

EFILE HELPDESK HOURS OF SERVICE

The CRA has extended the service hours of its EFILE Helpdesks in advance of the T1 filing deadline. For more information, see: www.canada.ca/en/revenue-agency/services/e-services/digital-services-businesses/efile-electronic-filers/efile-helpdesk-support-t1-returns.html.

DIRECT DEPOSIT UPDATES OR CHANGES SUBMITTED VIA EFILE

Beginning March 24, 2025, the CRA will no longer accept direct deposit updates or changes submitted via EFILE. If you submit a return with direct deposit information, it will be returned back with an error message that says the direct deposit information must be deleted before the return can be resubmitted and accepted by the CRA.

Taxpayers will be able to register for direct deposit using either My Account online, through a Canadian bank or credit union, or by completing a direct deposit enrolment form (paper).

EFILE RETURNS REPORTING CAPITAL DISPOSITIONS

The CRA has been working to ensure that its systems reflect the current capital gains inclusion rate of one-half. It has restored the forms to the current rate and they have been published on Canada.ca. This applies to individuals who are reporting any capital disposition on Schedule 3 of the T1 income tax and benefit return for the 2024 tax year as well as trusts reporting a capital disposition on Schedule 1 of their T3 trust income tax and information return for the 2024 tax year. Changes to the CRA's systems and the corresponding certification of tax software have also been finalized for the reporting of capital dispositions; therefore, impacted returns can now be processed.

You can monitor the certified T1 EFILE software webpage and the certified T3 EFILE software webpage which will display the software products that are certified by the CRA, including for capital gains dispositions. If your tax preparation software product has been certified, you can submit the returns on behalf of your clients to the CRA.

The CRA will provide relief from late-filing penalties and interest until June 2, 2025 for individuals and until May 1, 2025 for trusts, giving taxpayers reporting capital dispositions (gain or loss) additional time to meet their filing obligations.

UPDATE ON AVAILABILITY OF TAX SLIPS IN AUTO-FILL MY RETURN AND CRA PORTALS

Beginning in January 2025, the CRA introduced a new validation process for organizations that submit information returns (like financial institutions and employers) to ensure the accuracy of the data they submit. Some issuers have had difficulties uploading tax slips, resulting in certain slips not appearing in My Account, Represent a Client, or the Auto-fill my return service as early as in previous years.

These difficulties experienced by issuers are separate and apart from their obligation to distribute slips to recipients by the filing deadline. As a result, the CRA expects most taxpayers to have already received a copy of the slips they need to complete their tax returns. If you do not see a client's tax slip in Represent a Client or when using Auto-fill my return, the CRA recommends using the slips provided by their issuer (e.g., their financial institution or employer). The CRA is actively working with issuers to address any outstanding issues and ensure tax slips are made available as soon as possible.

RECENT PUBLICATIONS

The following regulations were recently issued:

- SOR/2025-75 P.C. 2025-278, *Regulations Amending the Income Tax Regulations (Prescribed Arrangement—Air Canada)*, March 6, 2025 (gazette.gc.ca/rp-pr/p2/2025/2025-03-26/html/sor-dors75-eng.html); and
- SOR/2025-97 P.C. 2025-400, *Regulations Amending the Income Tax Regulations (Northern Residents Deductions)*, March 12, 2025 (gazette.gc.ca/rp-pr/p2/2025/2025-03-26/html/sor-dors97-eng.html).

BUDGET 2025–2026—FOR A STRONG QUÉBEC

Québec's Finance Minister Eric Girard presented *Budget 2025–2026—For a Strong Québec* ("Budget 2025") on March 25, 2025. A number of tax measures were announced in Budget 2025; highlights of these and related measures are outlined below.

Measures Relating to Businesses

IMPLEMENTING A NEW TAX ASSISTANCE SYSTEM FOSTERING SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT ACTIVITIES

In order to improve the competitiveness and productivity of Québec businesses, boost the economic spinoffs from research and development ("R&D") activities undertaken in Québec, and provide a simpler, more effective tax assistance system for innovation, significant changes will be made to the Québec fiscal measures fostering R&D activities. These changes consist of:

- consolidating the R&D fiscal measures currently available into a new refundable tax credit for R&D, innovation, and pre-commercialization;
- ·offering a more competitive regime by providing a higher basic rate and a more accessible increased rate;
- maximizing R&D investment by making certain capital expenditures eligible for the tax credit;
- recognizing the importance of expenditures relating to pre-commercialization by giving greater consideration to such expenditures in the tax credit base;
- refocusing the tax assistance provided on higher value-added jobs by introducing a modified exclusion threshold; and
- simplifying the system by abolishing less effective measures.

INTRODUCING A TAX CREDIT FOR R&D, INNOVATION, AND PRE-COMMERCIALIZATION

An eligible corporation that will incur, in a taxation year, "expenditures relating to R&D activities" or "expenditures relating to pre-commercialization activities" will be able to benefit, under certain conditions, from the tax credit for R&D, innovation, and pre-commercialization (the "CRIC").

Similarly, a corporation, other than an excluded corporation, that is a member of an eligible partnership will be able to benefit, under certain conditions, from the CRIC on its share of expenditures relating to R&D activities or expenditures relating to pre-commercialization activities incurred by the eligible partnership in a fiscal period.

The basic rate of this refundable tax credit will be 20%. This rate may be increased to 30% for a maximum of $1 million in expenditures relating to R&D activities or expenditures relating to pre-commercialization activities of an eligible corporation that exceed the amount of the applicable exclusion threshold, regardless of its assets.

Expenditures relating to R&D activities will include, for a taxation year or fiscal period, as the case may be, salaries and wages, consideration paid to subcontractors, and payments made to certain research organizations, as well as capital expenditures relating to the acquisition of property incurred by the eligible corporation or eligible partnership in respect of R&D activities.

Expenditures relating to pre-commercialization activities will include, for a taxation year or fiscal period, as the case may be, salaries and wages, consideration paid to subcontractors, and payments made to certain research organizations, as well as capital expenditures relating to the acquisition of property incurred by the eligible corporation or eligible partnership in respect of pre-commercialization activities.

In general, pre-commercialization activities will include tests, technological validations, and studies carried out to meet regulatory requirements, as well as product design, provided that such activities constitute a continuation of R&D activities undertaken in Québec by the eligible corporation or eligible partnership in respect of a business of the corporation or partnership.

Briefly, the amount of the exclusion threshold applicable to an eligible corporation, or eligible partnership, for a taxation year or fiscal period will correspond to the greater of the following two amounts:

- $50,000; or
- the total of the "R&D employees threshold" and the "pre-commercialization employees threshold", which will correspond to the aggregate of each "specified amount" in respect of an R&D employee or a pre-commercialization employee, as the case may be, of the corporation or partnership.

In general, the specified amount in respect of such an employee will be calculated on the basis of the amount used to compute the basic personal tax credit and the proportion represented by the salaries and wages paid to the employee for R&D work or pre-commercialization work in relation to the total of salaries or wages paid to the employee.

The tax credit for R&D, innovation, and pre-commercialization will apply to a taxation year or a fiscal period, as the case may be, beginning on or after March 26, 2025.

CONSEQUENTIAL ADJUSTMENTS AND ABOLITION OF CERTAIN FISCAL MEASURES

As part of the implementation of the new tax regime to foster R&D activities, the following tax credits will be abolished as a result of the implementation of the CRIC, effective for taxation years that begin on or after March 26, 2025:

- the tax credit for scientific research and experimental development;
- the tax credit for university research and for research carried on by a public research centre or a research consortium;
- the tax credit for private partnership pre-competitive research;
- the tax credit for fees and dues paid to a research consortium;
- the tax credit for technological adaptation services; and
- the tax credit for design (industrial component).

Consequential amendments will be made to the securities options deduction to consider the CRIC parameters. The tax legislation will therefore be amended so that a corporation will qualify as a qualified corporation for a calendar year for the purposes of the security options deduction if, in the calendar year, the corporation carries on a business in Québec and has an establishment there and if an amount under the CRIC was allocated to it for its taxation year ended in the calendar year or if, for one of the three preceding taxation years, either an amount under the CRIC was allocated to it or the corporation's assets as shown in its financial statements were less than $50 million and an amount under one of the former tax credits for R&D was allocated to it. This change will apply as of the 2026 calendar year.

In addition, for the 2025 calendar year, a corporation will qualify as a qualified corporation for the purposes of the security options deduction if, in 2025, it carries on a business in Québec and has an establishment there, and if the following conditions are met:

- either an amount in respect of the CRIC was granted to it for a taxation year ended in 2025; or
- an amount in respect of one of the former tax credits for R&D was granted to it for a taxation year ended in 2025, or for one of the three preceding taxation years, and the corporation had assets of less than $50 million shown in its financial statements for 2025 or one of the three preceding taxation years.

MODERNIZATION OF THE TAX CREDITS FOR THE DEVELOPMENT OF E-BUSINESS ("TCEB")

The following changes will be made to modernize the eligible activities for TCEB purposes:

- refocusing eligible activities for TCEB purposes on e-business integrating artificial intelligence ("AI") functionalities to a significant extent;

- relaxing the criteria relating to activities and the criterion relating to services provided by adding data processing and hosting activities, to promote the eligibility of AI businesses; and
- removing activities relating to maintenance or evolution.

In addition, a change will also be made to reduce the tax assistance to corporations that provide services to persons with whom they are not dealing at arm’s length, in relation to an application intended to be used exclusively outside Québec.

These amendments will apply, for both refundable and non-refundable tax credits, in respect of a taxation year beginning after December 31, 2025. In addition, these two tax credits will be renamed, as of the effective date of these amendments, so as to be referred to as “refundable tax credit for the development of e-business integrating artificial intelligence” and “non-refundable tax credit for the development of e-business integrating artificial intelligence”.

CHANGES TO THE REFUNDABLE TAX CREDIT RELATING TO MINING OR OTHER RESOURCES

To better support exploration corporations at the development stage and to encourage corporations to carry out more projects related to critical and strategic minerals while ensuring a fair distribution of tax expenditures, changes will be made to the tax credit relating to resources. These changes consist of:

- adding development expenses to the eligible expenses for the tax credit;
- revising the tax credit rates applicable to the eligible expenses related to mining resource;
- enhancing the rates applicable to projects related to critical and strategic minerals until December 31, 2029; and
- introducing a limit on eligible expenses of $100 million per five-year period.

These changes will apply to eligible expenses incurred on or after March 26, 2025. In order to be eligible for the enhanced rates applicable to projects related to critical and strategic minerals, expenses must be incurred and paid before January 1, 2030.

CONSEQUENTIAL ADJUSTMENTS OF THE TAX BENEFITS RELATING TO THE FLOW-THROUGH SHARE REGIME

The tax legislation will be amended to abolish the additional deduction in respect of certain exploration expenses incurred in Québec as well as the additional deduction in respect of certain surface mining exploration expenses incurred in Québec, effective March 26, 2025.

However, this will not apply to shares issued after that day, but before January 1, 2026, when they are issued following an application for a receipt for a preliminary prospectus made on or before the day of the budget speech. Similarly, the changes will not apply to shares issued after the day of the budget speech when they are issued following a public announcement made on or before that day, if the report of distribution form has been submitted to the Autorité des marchés financiers on or before May 31, 2025.

CONSEQUENTIAL ABOLITION OF THE ADDITIONAL CAPITAL GAINS EXEMPTION IN RESPECT OF CERTAIN RESOURCE PROPERTIES

As part of the adjustments that need to be made to the flow-through share regime, the tax legislation will be amended to abolish the additional capital gains exemption in respect of certain resource properties, effective for dispositions made on or after March 26, 2025.

EXTENSION OF THE TAX CREDIT FOR THE DIGITAL TRANSFORMATION OF PRINT MEDIA

To further stimulate the digital conversion activities of print media businesses, the tax legislation will be amended to extend the assistance granted under the refundable tax credit by one year. As a result, the eligibility period for the refundable tax credit will end on December 31, 2025. In addition, to qualify as a qualified property, the property must be acquired before January 1, 2025.

ABOLISHING THE TAX CREDIT TO FOSTER SYNERGY BETWEEN QUÉBEC BUSINESSES

The Act respecting the sectoral parameters of certain fiscal measures will be amended so that Investissement Québec will not accept any new applications for the issuance of an authorized investment certificate for the purposes of the synergy capital tax credit as of March 26, 2025.

INTRODUCING A DUE DATE FOR ADDITIONAL DEDUCTIONS FOR PUBLIC TRANSIT AND SHARED TRANSPORTATION

The government's review of tax expenditures has revealed that businesses made very little use of these additional deductions. The tax legislation will therefore be amended to introduce, for the additional deduction relating to public transit passes as well as for the additional deduction relating to the organization of an intermunicipal shared transportation service, a December 31, 2027 due date. Accordingly, no amount may be deducted in respect of amounts paid after December 31, 2027.

CONSEQUENTIAL ADJUSTMENT PROVIDING FOR TAXATION OF THE BENEFIT RECEIVED FROM AN EMPLOYER IN CONNECTION WITH THE USE OF PUBLIC TRANSIT OR SHARED TRANSPORTATION SERVICES

Correlative to the introduction of a due date applicable to the two additional deductions described above, the tax legislation will be amended to state that an individual must include, in computing their income, the value of the benefit received by the individual from their employer after December 31, 2027 in respect of an eligible transit pass, an eligible paratransit pass, or the benefit resulting from the use of an intermunicipal shared transportation service.

Measures Relating to Individuals

ENHANCING FAMILY ALLOWANCE FOR BEREAVED PARENTS

The refundable tax credit granting an allowance to families ("RTCAF") will be modified such that the various components of the credit will be extended 12 months from the death of a child, effective for deaths occurring after June 30, 2025.

AGE REQUIREMENT FOR REFUNDABLE CREDIT FOR CHILD CARE EXPENSES

Following a review of tax expenditures, the government concluded that this financial assistance for child care should be refocused on families with younger children. Consequently, the age limit for an eligible child will be reduced from 16 to 14, effective as of the 2026 taxation year. Therefore, a child must be under the age of 14 for child care expenses with respect to that child to be eligible for this credit.

ADJUSTING THE MEANING OF "PRACTITIONER"

The meaning of the term "practitioner" (e.g., for medical expenses) will be amended such that it no longer includes homeopaths, naturopaths, osteopaths, and phytotherapists, effective January 1, 2026.

NEW CRITERIA FOR DESIGNATING EDUCATIONAL INSTITUTIONS RECOGNIZED BY REVENU QUÉBEC

Because of a review of tax expenditures, the government noticed that certain educational institutions do not offer courses that meet the tax policy's objective of granting a tax credit to persons attending the institutions. Consequently, the government is proposing new designation criteria for recognizing educational institutions. Effective January 1, 2026, an institution must meet one of the first four criteria listed below. The fifth condition is an exclusion. The new criteria are as follows:

(1)
Be an educational institution that receives government funding;

(2)
Be a private educational institution that provides training equivalent to that provided in a public sector educational institution;

(3)
Be a private educational institution that provides training for a profession or trade requiring certification or a licence issued by a government authority;

(4)
Be an educational institution that provides training leading to a professional status recognized by the Québec Professional Code;

(5)

Exclude educational institutions that do not meet certain requirements related to the health sector.

The fifth item is an exclusion that limits any institution that meets one of the first four conditions. If the institution offers training related to the health sector, the training must be aimed at “practitioners” as defined in the Québec *Taxation Act* (see policy shift on this matter above). As a result, schools of massage therapy, yoga, hypnosis, personal development, and naturopathy would not be recognized by Revenu Québec.

Revenu Québec will be updating the application form to reflect the new designation criteria. Starting in 2026, it will develop a mechanism for assigning an identification number to recognized educational institutions. Revenu Québec will also publish a list of designated institutions on its website beginning in 2027.

Currently recognized institutions will be required to complete the new form and renew their status. The form must be filed with Revenu Québec by January 1, 2026, or else the institution will lose its recognized status. Institutions will be required to renew their application every five years. All educational institutions will be required to issue RL-8 slips to students indicating the amount of tuition fees paid. Also, beginning in 2026, claimants of the tuition tax credit must certify in their return that they took the training to acquire or improve the skills required to practice a profession.

CHANGE TO THE DEDUCTION IN RESPECT OF THE COOPERATIVE INVESTMENT PLAN

Since the government found that the cooperative investment plan (“CIP”) deduction is rarely used, it will amend rules such that the adjusted cost of the qualifying security (i.e., the amount that can be deducted) will no longer be 125% of the actual acquisition cost; it will be the actual cost of the security. This applies to qualifying securities acquired after March 25, 2025.

CHANGING CLERGY RESIDENCE DEDUCTION INTO NON-REFUNDABLE TAX CREDIT

After a broad review of tax expenditures, the government wishes to convert the clergy residence deduction into a tax credit because the amount of assistance would be consistent regardless of the taxpayer’s income. For a taxation year after 2025, amounts included in computing the income of an individual who is a member of the clergy or of a religious order or a regular minister of a religious denomination in relation to the residence or other living accommodation occupied by the individual because of the individual’s office or employment, or amounts calculated in respect of the rent or the fair rental value of the residence, will no longer be deductible, but will instead give rise to a non-refundable tax credit that will be calculated at a rate of 14%.

CONVERTING THE DEDUCTION FOR ADULT BASIC EDUCATION TUITION ASSISTANCE INTO A NON-REFUNDABLE TAX CREDIT

After conducting a thorough review of tax expenditures, the government will convert the deduction for adult basic education tuition assistance into a non-refundable tax credit. This is because the government wishes to provide a consistent amount of support regardless of income level. This change would apply as of the 2026 taxation year. The amount of tuition would be eligible for a 14% non-refundable credit.

ABOLITION OF VARIOUS TAX INCENTIVES

Budget 2025 proposes to abolish numerous tax incentives. This action has been taken after the government reviewed tax expenditures and generally found that these incentives were not achieving their intended objectives (though the explanation differs for each credit). The incentives to be abolished are as follows:

- Tax shield, effective 2026;
- Non-refundable tax credit for political contributions, effective 2026;
- Foreign researcher tax holiday, effective March 26, 2025;[1]
- Foreign expert tax holiday, effective March 26, 2025;[1]
- Tax holiday for foreign specialists assigned to operations of an international financial centre, effective March 26, 2025;[1]
- Tax holiday for foreign specialists working in the financial services sector, effective March 26, 2025;[1]
- Abolishing the tax holiday for seamen engaged in international transportation of freight, effective March 26, 2025;[1]
- Tax credit for patronage gift, effective March 26, 2025; and

- Deduction relating to the acquisition of an income-averaging annuity respecting income from artistic activities, for annuities acquired after the 2025 taxation year.

Other Measures

CHANGES TO VARIOUS PARAMETERS OF CAPITAL RÉGIONAL ET COOPÉRATIF DESJARDINS

To facilitate Capital régional et coopératif Desjardins' ("CRCD's") capitalization and increase its capacity to invest in eligible Québec entities, particularly those located in regions and territories facing economic difficulties, amendments will be made to the CRCD constituting act and to tax legislation. More specifically, these amendments are aimed at:

- setting the annual capitalization limit applicable until February 28, 2030, so that the rate of increase more closely matches the pace of growth in the Québec economy;
- introducing a cumulative subscription ceiling of $45,000 for each current and future shareholder; and
- introducing a new class of shares, namely Class C shares, with a maximum holding period of 14 years, entitling the holder to a non-refundable tax credit calculated at a reduced rate.

The cumulative subscription ceiling of $45,000 per shareholder will apply as of March 26, 2025. From the capitalization period beginning March 1, 2025, only class C shares or class C fractional shares may be issued by CRCD in connection with a new subscription to its share capital.

STRENGTHENING TAX COMPLIANCE WITH RESPECT TO FOREIGN PROPERTY HELD BY QUÉBECERS

In order to further strengthen Québec's self-assessment tax system and increase its fairness and integrity, changes will be made to the Québec tax system to introduce a new reporting requirement for Québec taxpayers in respect of foreign property held outside Canada. The new reporting requirement will be satisfied by a new prescribed form to be completed and filed with Revenu Québec, which will need to be filed on or before the same filing-due date as that of the tax return applicable to the reporting entity for the year, except if the entity is a partnership, in which case the filing-due date will be the same as that of the information return (or the one that would apply if the partnership were to file one).

The Québec tax legislation will be amended to introduce penalties corresponding to those in the federal tax system, in particular:

- a penalty for failing to file the new Québec form of $500 per month or part of a month for a maximum of 24 months (that is, a maximum of $12,000), and, where the entity has been given formal notice to file the new return and has failed to meet the deadline, double that amount;
- an additional penalty for failing to file the report for more than 24 months set at 5% of the total cost of the designated foreign property; and
- a penalty in case of false statement or omission equal to or higher than $24,000 or 5% of the total cost of designated foreign property.

As in the federal tax legislation, an extension of three years after the end of the normal reassessment period for the taxpayer in respect of the year will be introduced.

These measures will apply as of a date to be determined by the government after the assent of the bill giving effect to them.

Position of the Ministère des Finances du Québec Regarding the Tax Measures Announced in the Government of Canada's 2024 Fall Economic Statement

Québec tax legislation and regulations will be amended to incorporate, with adaptations on the basis of their general principles, the measures relating to:

- the exemption of the Canada Disability Benefit from tax;
- capital gains rollover on investments;
- reporting by non-profit organizations;
- the scientific research and experimental development ("SR&ED") tax incentive program, with respect to the eligibility of capital expenditures for the deduction relating to SR&ED expenditures; and

- the extension of the Accelerated Investment Incentive and immediate expensing measures, subject to certain rules.

Certain measures have not been retained because they do not correspond to the characteristics of the Québec tax system or because the latter is satisfactory or does not contain similar provisions. These measures relate to:

- the Canada Carbon Rebate Rural Supplement;
- the reclassification of the islands of Haida Gwaii for the purposes of the Northern residents deduction;
- the Canada Carbon Rebate for Small Businesses;
- the clean electricity investment tax credit for provincial and territorial Crown corporations;
- the clean electricity investment tax credit and the Canada Infrastructure Bank;
- the EV supply chain investment tax credit;
- the clean hydrogen investment tax credit—methane pyrolysis;
- the SR&ED tax incentive program, with respect to the expenditure limit and taxable capital phase-out thresholds, the extension of the enhanced refundable tax credit to eligible Canadian public corporations, including elections for Canadian-controlled private corporations, and the eligibility of capital expenditures for computing the tax credit.

For additional information, please see the Québec Budget Dispatch.

INTERNATIONAL NEWS

US TO INTRODUCE 25% TARIFFS ON IMPORTED VEHICLES, PARTS

Claiming the importation of foreign-made vehicles constitutes a national security threat for the United States, US President Donald Trump has announced that the nation will introduce *ad valorem* tariffs of up to 25% on automobiles and later on automobile parts.

The 25% tariff was announced on March 26, 2025, on goods entered for consumption or withdrawn from warehouse for consumption, on or after 12:01 a.m. eastern daylight time on April 3, 2025.

From a date to be specified in the Federal Register, the same tariffs will apply to automobile parts, by no later than May 3, 2025.

The decision states that the tariff "is in addition to any other duties, fees, exactions, and charges applicable to such imported automobiles and certain automobile parts articles."

It further states: "For automobiles that qualify for preferential tariff treatment under the USMCA, importers of such automobiles may submit documentation to the Secretary identifying the amount of US content in each model imported into the United States." Subject to approval from the Secretary of Commerce, the tariffs would then apply on a *pro-rata* basis, only on the value of non-US content.

Responding to the announcement, Matt Blunt, president of the American Automotive Policy Council, said:

> US automakers are committed to President Trump's vision of increasing automotive production and jobs in the US and will continue to work with the Administration on durable policies that help Americans. In particular, it is critical that tariffs are implemented in a way that avoids raising prices for consumers and that preserves the competitiveness of the integrated North American automotive sector that has been a key success of the President's USMCA agreement.

The European Automobile Manufacturers' Association, meanwhile, expressed deep concern about the announcement. It said:

> European automakers have been investing in the US for decades, creating jobs, fostering economic growth in local communities, and generating massive tax revenue for the US Government. We urge President Trump to consider the negative impact of tariffs not only on global auto makers but on US domestic manufacturing as well.

> Tariffs will not just impact imports into the US, a penalty that American consumers are likely to pay, but measures on automotive parts will also hurt auto makers producing cars in the US for export markets. European manufacturers export between 50 percent and 60 percent of the vehicles they make in the US, making a substantial positive contribution to the US trade balance.
>
> The EU and the US must engage in dialogue to find an immediate resolution to avert tariffs and the damaging consequences of a trade war.

Following his March 26, 2025, announcement, President Trump issued a warning to the European Union and Canada, posting on his social media network on March 27:

> If the European Union works with Canada in order to do economic harm to the USA, large scale Tariffs, far larger than currently planned, will be placed on them both in order to protect the best friend that each of those two countries has ever had!

EU DELAYS RESPONSE TO US TARIFFS

The EU Commissioner for Trade and Economic Security, Maros Sefcovic, has confirmed the bloc expects the US to announce further tariffs on EU goods on April 2, 2025. As such, the EU has decided that it will announce countermeasures on US goods later than first anticipated, in mid-April.

The Commissioner said:

> On March 12, the US imposed 25 percent tariffs on EUR26bn of EU steel and aluminum exports. This is approximately five percent of total EU exports to the US.
>
> More EU products might be subject to tariffs in the coming days.
>
> I want to be clear. These are unjustified tariffs harming EU companies, workers and citizens. The EU is clearly not the source of the problem when it comes to steel and aluminium. The real problem is overcapacity. This means the way forward should be EU-US cooperation to tackle the root causes of overcapacity.
>
> On March 12, in reaction to the imposition of these unjustified tariffs, the Commission responded firmly by announcing swift and proportionate countermeasures on US exports to EU. This package includes the suspended EU countermeasures from 2018 and 2020 that target a range of US products, in response to the economic harm done on EUR8bn of EU steel and aluminium exports.
>
> The Commission has also launched a new process for the adoption of further measures to respond to the expansion of the US section 232 tariffs hitting EUR18bn of EU exports.
>
> On this, the Commission has published a list of products imported from the US for possible inclusion in an expanded package of countermeasures. We invited all stakeholders to submit their views by March 26.
>
> In the light of the recent announcement that the US is planning to introduce additional tariffs on April 2, we are now considering to align the timing of the two sets of EU countermeasures, so we can consult with Member States on both lists simultaneously. It also gives us extra time for negotiations to try to find a mutually agreeable resolution.
>
> As a result, all the EU's countermeasures that were announced on March 12 would in that case take effect in mid-April. This approach would allow us to deliver a firm, proportionate, robust and well-calibrated response to the US measures.

The Commissioner added:

> As far as we understand, the US plans to impose reciprocal tariffs on 2 April on its trading partners for what it considers “unfair and unbalanced trade”. When it comes to EU tariffs on US goods, the average is very low, at around one percent. However, it is clear that the US will also take into their calculations what they consider to be non-tariff barriers, like value added taxes or EU regulations. At the moment, there is not enough clarity on what the percentage level of such tariffs would be, what goods they would cover, and how they will apply.
>
> I am engaging with my US counterparts to better understand the US plans and look for possible solutions.
>
> Meanwhile, we also continue working on our preparations. On April 2, we will need to assess the action taken by the US and keep a flexible approach so as to calibrate our response accordingly.

> In addition to the reciprocal tariffs, the US has launched a section 232 investigation on copper and wood, including derivatives, which could lead to additional tariffs or other restrictive measures. The US is also considering measures on shipbuilding that could have negative effects for EU maritime transport firms.
>
> We are following all these developments very closely. We will again need to be ready to act firmly, swiftly, and proportionately if needed.

UK ENACTS 2025 FINANCE ACT

The UK's 2025 Finance Act has been enacted, following the receipt of Royal Assent.

The law implements measures announced in the Autumn Budget 2024.

Notably, the law provides for the overhaul to the non-domiciled ("non-dom") regime from April 2025. The concept of domicile as a relevant connecting factor in the UK tax system will be replaced by a system based on tax residence.

Further, the Budget raises the lower rate of capital gains tax for individuals from 10% to 18% and the higher rate from 20% to 24%. Further, the capital gains tax rate on carried interest is to be raised to 32% from 28%, with effect from April 6, 2025.

The Act also raises Business Asset Disposal Relief ("BADR") to 14% from April 6, 2025, with a further hike planned to 18% from April 6, 2026.

Among other things, the Act raises the air passenger duty rates and increases the duty for large private jet flights by 50%.

The higher rate additional dwellings surcharge under the Stamp Duty Land Tax regime is increased from 3% to 5%.

The legislation also includes provisions for the January 1, 2025 hike to VAT on education and boarding services provided for a charge by private schools to 20%.

US BENEFICIAL OWNERSHIP INFORMATION REPORTING WAIVER CONFIRMED

The Financial Crimes Enforcement Network ("FinCEN") has announced that, consistent with the Treasury Department's March 2 announcement, it will remove the requirement for US companies and US persons to report beneficial ownership information ("BOI") to FinCEN under the Corporate Transparency Act.

FinCEN has issued an interim final rule ("IFR") to revise the definition of "reporting company" in its implementing regulations to mean only those entities that are formed under the law of a foreign country and that have registered to do business in any US State or Tribal jurisdiction by the filing of a document with a secretary of state or similar office (formerly termed "foreign reporting companies").

The interim final rule also exempts entities previously known as "domestic reporting companies" from BOI reporting requirements.

FinCEN said:

> Thus, through this interim final rule, all entities created in the United States—including those previously known as "domestic reporting companies"—and their beneficial owners will be exempt from the requirement to report BOI to FinCEN. Foreign entities that meet the new definition of a "reporting company" and do not qualify for an exemption from the reporting requirements must report their BOI to FinCEN under new deadlines, detailed below. These foreign entities, however, will not be required to report any US persons as beneficial owners, and US persons will not be required to report BOI with respect to any such entity for which they are a beneficial owner.

The deadlines for foreign entities that are reporting companies are as follows:

- Reporting companies registered to do business in the United States before the date of publication of the IFR (March 21, 2025) must file BOI reports no later than 30 days from that date; and

- Reporting companies registered to do business in the United States on or after the date of publication of the IFR have 30 calendar days to file an initial BOI report after receiving notice that their registration is effective.

FinCEN is accepting feedback on the interim final rule, which will be finalized later this year.

UK TO EXPAND MAKING TAX DIGITAL REQUIREMENTS

The UK Government has announced plans to further expand Making Tax Digital requirements for income tax purposes from April 2028.

First introduced from April 1, 2019, Making Tax Digital (“MTD”) introduced new reporting obligations on value-added tax (“VAT”) registered persons, requiring them to keep their records digitally (for VAT purposes only) and provide their VAT return information to His Majesty’s Revenue and Customs (“HMRC”) through MTD-compatible software.

The regime is being phased in for income tax.

In December 2022, the Government decided to delay the introduction of new reporting requirements for self-employed individuals and landlords until April 2026, an extension from April 2024.

Under current plans, self-employed individuals and landlords with an income of more than £50,000 will be required to keep digital records and provide quarterly updates on their income and expenditure to HMRC through MTD-compatible software. Those with an income of between £30,000 and £50,000 will need to do this from April 2027.

The Government has now announced that the requirements will be extended to sole traders and landlords with income over £20,000 from April 2028.

Announcing the new implementation timeline, the Government said it would continue to explore the introduction of MTD for those with income below the £20,000 threshold.

The Government has also announced that HMRC will require taxpayers within the scope of MTD to file their returns using an MTD-compatible software product, rather than being allowed to use HMRC's online filing service to submit a final tax return.

The Government said:

> The government believes this will provide a better customer journey than one that allows reporting to be split across commercial software and HMRC's online services. It means users will have a consistent format for the completion of their Self Assessment obligations, and it maximizes the productivity and wider benefits that innovative and tailored commercial software can provide for MTD users.

The Government has also announced a number of other changes to the regime, including:

- Changes to enable customers with an accounting date of March 31 to start their MTD obligations on April 1 in the first year of operating MTD. The Government considers this will avoid the need for burdensome manual adjustments at the end of the tax year; and
- A power for HMRC to cancel or reset late submission penalty points and to cancel associated financial penalties. The Government said this will enable HMRC to cancel penalty points, for instance in periods prior to insolvency.

Legislation to implement these changes will be drafted prior to April 2026, the Government said.

The plans to require taxpayers to use commercial software were criticized by the Low Income Tax Reforms Group (“LITRG”), stating:

> Today's announcement is yet another burden on low-income taxpayers that will make it harder for them to meet their tax obligations.
>
> Since Making Tax Digital was first announced, we have been clear that HMRC should provide free software, like they do for self assessment, rather than rely on third party companies to help people comply with the new record keeping and reporting rules.

Many of the small businesses who will be in scope for Making Tax Digital from April 2026 make very modest profits, and there will be some that aren't even making enough money to pay tax or national insurance. This has the potential to be costly, confusing, and distracting from their day-to-day businesses, and even unfair when those who are not within MTD will be able to continue using HMRC's free online tax return service.

We were already concerned that these businesses were going to struggle to get to grips with choosing and using the accounting software they will need to keep their records up to date.

It also means HMRC are unlikely to be able to directly support taxpayers with their self assessment filing, pushing them towards third party software companies to get the help they need. This is unsatisfactory and does not align with HMRC's charter commitment to support people to meet their tax obligations.

HMRC should consider granting more MTD exemptions and delaying the imposition of penalties for late filing or inaccurate tax returns until the system beds in to help those who struggle with the new requirements.

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[1] Abolition will not impact eligibility if a certificate is already held.