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This publication is a high-level summary of the most recent tax developments applicable to business owners, investors and high net worth individuals. Enjoy!

Tax Tidbits

Some quick points to consider…

- Income tax **refunds** and other federal **benefits** can be applied to **outstanding CEBA** (Canada Emergency Business Account) **loans** without the taxpayer's approval or direction.
- **CRA** publishes the current **estimated wait times** on their **phone** lines on the Contact the CRA webpage (https://www.canada.ca/en/revenue-agency/corporate/contact-information.html).
- **Online platforms** that facilitate activities such as short-term rentals, personal services, and car rentals are now **required** to **report information** on those earning income from their platforms **to CRA** on an annual basis.

Voluntary Disclosures: Changes to the Program

The **voluntary disclosures program (VDP)** provides taxpayers with a chance to **correct past tax errors** or **omissions** before CRA finds them. If CRA accepts a disclosure, taxpayers may receive **some penalty** and **interest relief** and will **not** be referred for criminal **prosecution**. Any **taxes** owing will still have to be **paid** by the taxpayer in full.

The VDP has been **significantly changed**, effective for disclosures submitted on or after **October 1, 2025**.

Types of disclosures

Under the new VDP, applications will be considered either **prompted** or **unprompted**.

Unprompted applications

An application will generally be considered **unprompted** when there has been **no communication** (verbal or written) about an **identified compliance issue** related to the disclosure, or when the application follows an **education letter** or notice that offers **general guidance** and filing information related to a particular topic.

Unprompted applications will normally be **eligible** for **75% relief** of applicable **interest** and **100% relief** of **applicable penalties** (referred to by CRA as general relief).

Prompted applications

An application will generally be considered **prompted** when it follows verbal or written **communication** about an **identified compliance issue** related to the disclosure. Such communications could include **letters or notices** (excluding education letters) to the taxpayer with one or more of the following:

- identification of a **specific error or omission** found on the taxpayer's account; or
- a **deadline to correct** an error or omission, where there is an expectation for the taxpayer to file or comply.

An application made **after CRA** has **received information** from **third party sources** regarding the **potential involvement** of a specific taxpayer (or of a related taxpayer) in tax **non-compliance** would also generally be considered **prompted**.

Prompted applications will normally be **eligible** for **25% relief** of applicable **interest** and **up to 100% relief** of **applicable penalties** (referred to by CRA as partial relief).

All applications

For both prompted and unprompted applications, **neither gross negligence penalties** nor **criminal prosecution** will be applied.

VDP eligibility

In order to be **eligible for relief**, an application must meet **all** of the **conditions** discussed below.

Voluntary

An application is **not voluntary** if an **audit or investigation** has been initiated against the **taxpayer or a related taxpayer** in respect of the information being disclosed. Audits or investigations are **not limited** to those conducted by the **CRA**, but can also be conducted by a **law enforcement** agency, **securities commission** or other federally or provincially regulated authority.

Past due

For **income tax** disclosures, the application must **include** information that relates to a **tax year** that is **at least one year** past the **filing deadline**. For disclosures related to **GST/HST** or various other taxes, duties and charges, the application must **include** information that relates to a **reporting period** that is **at least one period** past the **filing deadline**.

Interest or penalties

The application must include an error or omission subject to **interest** charges, **penalties** or both. Prior to these changes, only applications to which penalties were applicable were eligible.

Supporting documents included

The taxpayer must provide **all relevant information** for **all required tax years** and **respond** comprehensively and promptly to **all CRA requests** for information. Taxpayers must disclose **all known errors and omissions** in their tax obligations, including any **arm's length and non-arm's length transactions** or circumstances relating to the errors and omissions.

Supporting documentation (including returns, forms, statements and schedules) needed to correct the non-compliance for the **most recent six years** must be included with the application. However, if the **errors** or omissions **relate to assets or income** that are located **outside Canada**, this period is increased to the **most recent ten years**. Disclosures related to the matters included in the GST/HST memorandum require documentation for the **most recent four years**.

Documentation for **tax years beyond** these timeframes **may be requested** at CRA's discretion.

Payment

Either **payment** or a **request for** a **payment arrangement** must be made for any **estimated tax** owing. There is **no guarantee** that CRA will allow a **payment arrangement**. These requests will be reviewed by **CRA collections** officials.

Subsequent submissions

Applicants are expected to **remain compliant** after being granted relief under the VDP. However, CRA **may consider** a **subsequent application** if the **circumstances** are **beyond the person's control or** the new application is related to a **different matter** than a previous application.

ACTION: If there have been any errors or omissions in tax reporting, consider making a voluntary disclosure. CRA's access to information from third parties (such as online rental and sales platforms) has increased significantly in recent years.

TFSA Excess Contributions: Decline in Value

A July 25, 2025 **Federal Court** case found that **CRA's denial** of **penalty tax relief** on **excess TFSA** contributions was **reasonable**. Due to the **loss of value** in the taxpayer's TFSA, the taxpayer **could not withdraw** the full amount of his **excess** contribution. The taxpayer noted that without relief, his only means of reducing the overcontribution was to **wait for annual TFSA limit increases**, currently set at $7,000, which would require approximately **16 years** for the ongoing tax to be fully eliminated. CRA found, and the Court agreed, that this situation provided **no basis** for relief. The Courts have ruled similarly in several other cases.

However, the Court stated that it **shared** the **taxpayer's concerns** that, in certain circumstances, prolonged and **ongoing liability** and **inability** to **remedy** overcontributions appear to be **inconsistent** with the legislator's intent. The Court stated that the legislation, as is, operates as a **perpetual tax trap** for taxpayers who made a good-faith but mistaken overcontribution, and even when they act to unwind it to the best of their ability, they cannot do so because the value of their TFSA is insufficient.

ACTION: Prior to making TFSA contributions, check your available contribution room on the CRA My Account portal. Ensure to adjust the CRA-provided contribution room for factors that may not yet be reflected in CRA's balance, such as contributions made since CRA's last update.

Commissioned Employee Clothing Purchases: Deductible?

A July 30, 2025 **Tax Court of Canada** case considered whether **luxury clothing expenses** claimed by a **commissioned employee** for the 2016 to 2018 taxation years were deductible against the individual's employment income. The taxpayer worked as a sales associate for Holt Renfrew and argued that she was **required**, either expressly or implicitly, to **incur clothing expenses** to fulfill her employment duties. The taxpayer also argued that the clothes were only used in the work environment and were depleted quickly due to wear and tear, as well as changes in fashion. To deduct expenses related to commission income or the cost of supplies consumed in employment duties, employees must have received a T2200 and be **required by contract** to pay for their own expenses.

Taxpayer loses

The Court found that there was **no** explicit or implicit **contractual obligation** for the taxpayer to incur such expenses. The **employer consistently denied requiring** employees to buy any clothing in excess of what was covered by the employer-provided clothing allowance, but rather, only required that clothes worn be clean, fresh and coordinated. **No T2200 form** was issued as employees were not expected to bear personal costs for work-related clothing. The Court emphasized that, while the taxpayer believed that incurring those expenses helped the taxpayer generate more commission, a strategic and **economic choice** is **not equivalent** to a **legal obligation** under her employment terms. No deduction for clothing was permitted.

The Court also acknowledged that **work clothes** may be **deductible** in **unique circumstances** and noted that it may have been possible that the clothes were **used up in a season or two** due to wear, tear and changes in fashion. However, that angle was not relevant as the taxpayer lost on the aforementioned grounds, in addition to not providing sufficient support that the expenditures were incurred**.**

ACTION: Ensure to only claim expenses against employment income if all conditions for deducting such an amount are met.

Child/Spousal Support Amounts: Changing the Agreement

Spousal support payments are generally **taxable** to the recipient and **deductible** by the payer. On the other hand, **child support** payments are **neither taxable** to the recipient **nor deductible** to the payer. Any support amount that is not identified in an agreement or order as being solely for spousal support is considered to be child support.

A July 16, 2025 **Tax Court of Canada** case considered the **deductibility** of **$33,000 in support payments** claimed as spousal support for 2019. The primary issue was the extent to which monthly payments of $8,000 made under a July 2019 consent order constituted deductible spousal support rather than non-deductible child support.

While the Minister had **allowed a deduction** of **$3,500/month** for January to June 2019 paid under a **prior separation agreement** that explicitly identified the amount as spousal support, it denied deductions for payments made in the latter half of 2019. The **consent order** that took effect on July 1, 2019 (which replaced the separation agreement), did **not specify which portion** of the $8,000 payment was exclusively for **spousal support**.

Taxpayer loses

Pursuant to the **original separation agreement**, **$2,500** of each **monthly payment** was **for child support**. The **taxpayer argued** that the **same amount** of the **revised** $8,000 monthly **payment** would also be for **child support**, leaving the **remaining $5,500** to be deductible as **spousal support**. The **Court disagreed**, noting that, since the consent order replaced the separation agreement and did **not identify any portion** of the $8,000 as solely **spousal support**, the payments were **all child support** and therefore neither deductible by the payer nor taxable to the recipient.

ACTION: Ensure that the taxation of support payments under any support or separation agreement is clearly understood to avoid surprises and potential disputes at a later time.

Moving Expenses: Travel Distance

An August 25, 2025 **Tax Court of Canada** case considered whether a taxpayer's **relocation expenses** in 2020 qualified as deductible moving expenses. The dispute focused on whether the **distance** between the old residence and the new work location was **at least 40 kilometres greater** than the distance between the new residence and the new work location.

CRA calculated the difference as **only 32.8** km using an "eastern route" proposed by **Google Maps**. The **taxpayer**, also using Google Maps, submitted route data showing an average difference of **47.4 km** using a "western route."

Taxpayer wins

The Court noted that, based on various other court cases, the **measure** and **test** should be evaluated based on the **shortest normal route**. The Court noted that technology like **Google Maps** is widely accepted and used, representing an **updated method** and the new norm to identify the shortest normal route. This was supported by the fact that both the taxpayer and CRA used Google Maps to determine the appropriate route.

The Court then examined the parameters that CRA and the taxpayer used to obtain their respective Google Map results. It noted that the **CRA** agent, located in a different time zone than the taxpayer, had **generated route estimates** based on traffic at approximately **7:45 pm**, rather than the taxpayer's actual commuting time of 4:45 pm. The **taxpayer** demonstrated that in four out of five weekdays, **at 4:45 pm**, Google Maps suggested the route resulting in a **47.4 km difference**. The Court noted that the updated utilization of **computer algorithms**, when **properly deployed**, renders consistent sets of data to determine whether a move is an eligible relocation or not.

The Court agreed with the taxpayer, concluding that the average daily travel distance saved by the move exceeded 40 kilometres, and therefore, the **relocation qualified**.

ACTION: If claiming a moving expense, document how the "shortest normal route" was calculated. Include details on which tool was used and the parameters entered.

Postal Strike: Impact on Government Activities

The most recent **Canada Post strike** commenced on September 25, 2025. Shortly after, **CRA** provided **an update** on the **impact**, including the following **guidance**:

- taxpayers are still **responsible** for **meeting their tax obligations**, and are **encouraged** to file or remit **electronically**;
- communications regarding **audits, objections, appeals, disputes or relief requests** will continue by **telephone** and **digital services** (e.g. online CRA accounts or the Secure drop zone), but written letters will be limited to exceptional circumstances; and
- **penalty and interest relief** may be granted to those who cannot meet their tax obligations due to circumstances beyond their control.

CRA will continue to update their Canada Post mail service disruption – Impact on CRA services webpage (https://www.canada.ca/en/revenue-agency/news/newsroom/canada-post-mail-service-disruption-impact-cra.html) with the latest information.

On September 29, 2025, **Service Canada** stated that **delays will occur** in respect of cheques mailed for **Canada disability benefits** and **employment insurance benefits**. **CPP and OAS cheques** will be **delivered**, but may be delivered prior to the date on which they can be deposited. They also encouraged the submission of **online applications** for various **programs** and registering for **direct deposit**. They noted that **decision letters** and **other mail-outs** for many programs will be **affected** by the strike.

ACTION: Consider signing up for direct deposit if you have not already done so.

CRA Direct Deposit Information: Changing Information

Individuals can now **register** for and **update** their **direct deposit** information only through **CRA's online portal** or through their **bank** or credit union. Alternatively, they can request a change by mailing a form to CRA; however, CRA noted that processing time for these requests is up to three months. Individuals **cannot** update or initiate direct deposit by **calling CRA**. Representatives can no longer submit changes through EFILE and cannot make changes through their online client access to CRA's portal (unless the representative is a legal representative, which is fairly unusual).

Recent changes to the process for registering and updating direct deposit information are due to evolving threats and attempts to defraud the system.

ACTION: Ensure to properly update direct deposit information with CRA.

Automatic Change to Electronic Mail for Some Individuals: Caution!

Starting July 3, 2025, CRA **changed** the **delivery method** for **most mail** from paper **to online** only for approximately 500,000 individual benefit recipients. As of **September 4, 2025**, CRA expanded this project to include an additional 900,000 individuals and broadened the scope beyond just benefit recipients.

This change applies to some **individuals** who are **registered** for a **CRA account** and currently **receive paper mail**. CRA noted that impacted individuals will receive an **email notification** and, in some cases, a **letter** from the CRA with more information on what is changing.

This change does **not impact** any benefit, credit or refund **payments** going forward.

Impacted individuals can change their correspondence back to paper mail by updating their preferences in their CRA My Account profile.

ACTION: If you are transitioned to online-only mail but you wish to retain paper mail correspondence, ensure to update your preferences in My Account.

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a newsletter such as this, a further review should be done by a qualified professional.

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If you have any questions, give us a call!