
Explanatory Notes Relating to the Income Tax Act

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Preface

These explanatory notes describe proposed amendments to the *Income Tax Act*. These explanatory notes describe these proposed amendments, clause by clause, for the assistance of Members of Parliament, taxpayers and their professional advisors.

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These notes are intended for information purposes only and should not be construed as an official interpretation of the provisions they describe.

Clause 2

Annual adjustment – amounts

ITA

117.1(2)(m.1)

Subsection 117.1(2) lists the dollar amounts in provisions of the Act that are subject to an annual adjustment for inflation under subsection 117.1(1). Consequential on the introduction of new subsection 122.5(3.005), which provides for a 25% increase in the maximum Goods and Services Tax/Harmonized Sales Tax (GST/HST) Credit (now referred to as the Canada Groceries and Essentials Benefit (CGEB)) for 5 years, beginning with the July 2026 payment, new paragraph 117.1(2)(m.1) is added to refer to amounts expressed in new subsection 122.5(3.005). This will provide for inflation indexing of the enhanced CGEB in new subsection 122.5(3.005).

Consistent with the current indexing of the GST/HST Credit in subsection 122.5(3), indexing of the dollar amounts in new subsection 122.5(3.005) will apply to payments for July 2027, with subsequent indexing to apply to each subsequent July payment.

Clause 3

Additional deemed payment — January 2026

ITA

122.5(3.004)

Existing subsection 122.5(3) provides for the calculation of the Goods and Services Tax/Harmonized Sales Tax (GST/HST) Credit. To receive the GST/HST Credit for a taxation year, subsection 122.5(3) provides that an eligible individual must file a return of income for the year. The amount of the GST/HST Credit depends on an eligible individual's family circumstances and income.

New subsection 122.5(3.004) provides a one-time, extra top-up amount to the GST/HST Credit (now referred to as the Canada Groceries and Essentials Benefit (CGEB)) payment equal to twice the amount of an eligible individual's January 2026 credit entitlement. This effectively results in a 50% increase in the eligible individual's CGEB for the 2025-2026 benefit year.

Additional deemed payment — July 2026 to April 2031

ITA

122.5(3.005)

Existing subsection 122.5(3) provides for the calculation of the Goods and Services Tax/Harmonized Sales Tax (GST/HST) Credit. To receive the GST/HST Credit for a taxation year, subsection 122.5(3) provides that an eligible individual must file a return of income for the year. The amount of the GST/HST Credit depends on an eligible individual's family circumstances.

New subsection 122.5(3.005) provides a five-year increase of 25% of the maximum amount of the GST/HST Credit (now referred to as the Canada Groceries and Essentials Benefit (CGEB)). This additional amount would begin to be paid with the July 2026 CGEB payment. The enhanced payments continue for the months of July, October, January and April each year, with the last enhanced payment month being April 2031.

Shared-custody parent

ITA
122.5(3.05) and (3.06)

Subsection 122.5(3.01) provides a formula for the computation of the Goods and Services Tax/Harmonized Sales Tax (GST/HST) Credit if an eligible individual is a "shared-custody parent" at the beginning of a month. The definition "shared-custody parent" is in section 122.6 (the Canada Child Benefit rules). If an eligible individual is a shared-custody parent of a qualified dependant, that parent is entitled to one-half of the credit with respect to that qualified dependant that the parent would have received if the parent were the only eligible individual of that qualified dependant.

New subsection 122.5(3.05) applies the shared-custody parent rule to the computation of the one-time, extra GST/HST Credit payment (now referred to as the Canada Groceries and Essentials Benefit) provided under new subsection 122.5(3.004).

New subsection 122.5(3.06) applies the shared-custody parent rule to the computation of the five-year Canada Groceries and Essentials Benefit provided under new subsection 122.5(3.005).

Advance payment

ITA
122.5(3.2)

Subsection 122.5(3.1) sets out the requirements governing the advance payment of GST/HST Credit amounts that are provided for under subsection 122.5(3.2). Advance lump-sum GST/HST Credit payments are available to an eligible individual in relation to a particular month specified for a taxation year (and each subsequent month specified for that taxation year) if a particular quarterly payment is less than \$50 and it is reasonable to conclude that each subsequent quarterly payment in relation to the same year will not exceed \$50.

Consequential on the introduction of new subsection 122.5(3.005), which provides for enhanced GST/HST Credit (now referred to as the Canada Groceries and Essentials Benefit) amounts for five years, beginning with the July 2026 payment, subsection 122.5(3.2) is amended to provide a reference to new subsection 122.5(3.005). As such, the advance lump-sum payments provided for in subsection (3.2) will apply to payments determined under new subsection 122.5(3.005).

January 2026 — month specified

ITA
122.5(4.4)

GST/HST Credit amounts are paid for specified months based upon an eligible individual's adjusted income for the relevant taxation year. New subsection 122.5(4.4) provides that, for the

one-time, extra GST/HST Credit payment (now referred to as the Canada Groceries and Essentials Benefit) provided under new subsection 122.5(3.004), the specified month is January 2026 and the reference taxation year for measuring income is the 2024 taxation year.

July 2026 to April 2031 — month specified

ITA
122.5(4.5)

New subsection 122.5(4.4) provides that, for the enhanced GST/HST Credit payments (now referred to as the Canada Groceries and Essentials Benefit) provided under new subsection 122.5(3.005), the specified months are July 2026, October 2026, January 2027, April 2027, July 2027, October 2027, January 2028, April 2028, July 2028, October 2028, January 2029, April 2029, July 2029, October 2029, January 2030, April 2030, July 2030, October 2030, January 2031 and April 2031. This subsection also provides that if the month specified is July or October, the taxation year for the specified month is the immediately preceding taxation year and if the specified month is January or April, the taxation year for the specified month is the second preceding taxation year.

Subsection (3) does not apply — month specified

ITA
122.5(4.6)

New subsection 122.5(4.6) prevents a double payment of the GST/HST Credit (now referred to as the Canada Groceries and Essentials Benefit (CGEB)) for the months specified in new subsection (4.5), when both the basic CGEB and the enhanced CGEB are provided under new subsection (3.005). New subsection (4.6) deems the amount of the deemed payment on account of tax payable determined under subsection 122.5(3) to be nil for the months specified under new subsection (4.5). As such, individuals will be entitled to the amount determined under subsection (3.005) for specified months (July 2026 to April 2031) and no amount would be determined for individuals under subsection (3) for those specified months.

These amendments come into force on royal assent.

Clause 4

Assessment

ITA
152(1)(b)

Subsection 152(1) of the Act lists certain refunds and deemed payments on account of tax that are to be determined in the course of assessing a taxpayer's tax. Paragraph 152(1)(b) refers to provisions under which amounts are deemed to be paid on account of tax.

Consequential on the introduction of new subsections 122.5(3.004) and (3.005), paragraph 152(1)(b) is amended to add a reference to apply to new subsections 122.5(3.004) and (3.005).

Those subsections relate to the GST/HST Credit (now referred to as the Canada Groceries and Essentials Benefit) and deem an amount to have been paid on account of tax payable by an eligible individual.

This amendment comes into force on royal assent.

Provisions applicable

ITA

152(1.2)(d)

Subsection 152(1.2) of the Act generally provides for the application of paragraphs 56(1)(l) and 60(o) and Divisions I and J of Part I of the Act as they relate to assessments and to various determinations and redeterminations made under Part I of the Act. Exceptions are made as to how certain provisions in the Act apply to certain determinations and redeterminations.

Paragraph 152(1.2)(d) is relevant for purposes of the GST/HST Credit (now referred to as the Canada Groceries and Essentials Benefit), the advance payments of the Canada workers benefit, and the Climate Action Incentive under sections 122.5, 122.72 and 122.8, respectively.

It provides that where the Minister determines the amount deemed by subsection 122.5(3) to (3.003), 122.72(1) or 122.8(4) to have been paid by an individual for a taxation year to be nil, the Minister is not required to send the individual a notice of determination unless requested.

Consequential on the introduction of new subsections 122.5(3.004) and (3.005), paragraph 152(1.2)(d) is amended to also apply to a nil determination made under new subsections 122.5(3.004) and (3.005).

This amendment comes into force on royal assent.

Assessment and reassessment

ITA

152(4.2)(b)

Subsection 152(4.2) contains rules relating to the reassessment of tax, interest and penalties payable by a taxpayer and to the redetermination of tax deemed to have been paid by a taxpayer. This subsection gives the Minister of National Revenue discretion to make a reassessment or a redetermination beyond the normal reassessment period when so requested by an individual (other than a trust) or a graduated rate estate.

Consequential on the introduction of new subsections 122.5(3.004) and (3.005), paragraph 152(4.2)(b) is amended to apply to those new subsections.

This amendment comes into force on royal assent.

Clause 5

Liability for refund by reason of s. 122.5

ITA

160.1(1.1)(b)

Subsection 160.1(1.1) provides that, where a person is a qualified relation (that is, a cohabiting spouse or common-law partner) of an individual who is a GST/HST Credit (now referred to as the Canada Groceries and Essentials Benefit (CGEB)) recipient, both the person and the individual are jointly and severally liable for any excess CGEB paid or credited to the individual.

Consequential on the introduction of new subsections 122.5(3.004) and (3.005), paragraph 160.1(1.1)(b) is amended to apply to those new subsections. This would provide for joint and several liability for any excess payment made to an individual under the one-time (January 2026) top-up to the CGEB and the enhanced CGEB provided under those subsections.

This amendment comes into force on royal assent.