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Canada

Tax Disputes

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This country-specific Q&A provides an overview of tax disputes laws and regulations applicable in Canada.

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Canada: Tax Disputes

1. Is it necessary for a taxpayer to register with the tax authority? Are separate registrations required for corporate income tax and value added tax/sales tax?

In Canada, individuals are generally required to register for a social insurance number (often referred to as a "SIN"), corporations are automatically assigned a business number upon incorporation (except in select provinces/territories), and trusts are required to register for a trust account number.

Non-residents may also be required to register for an individual tax number (known as an "ITN") in certain circumstances. Examples include cicumstances where an international student who does not have a work permit needs to apply for family benefits, or where a non-resident wishes to file an application to waive or reduce Canadian witholding tax on payments they receive.

The value added tax/sales tax in Canada is known as Goods and Services Tax / Harmonized Sales Tax ("GST/HST"). Most businesses (whether sole proprietors, corporations, or partnerships) must register for a GST/HST account number.

2. In general terms, when a taxpayer files a tax return, does the tax authority check it and issue a tax assessment – or is there a system of self-assessment where the taxpayer makes their own assessment which stands unless checked?

When a taxpayer files a tax return in Canada, the return is filed on the basis of the self-assessment principle, and the Canada Revenue Agency (the "CRA") typically assesses the return as filed. In certain circumstances, however, the CRA may conduct a pre-assessment review of a return (typically with respect to a discrete issue) and may assess that return otherwise than as filed.

3. Can a taxpayer amend the taxpayer's return after it has been filed? Are there any time limits to do this?

Canadian taxpayers wishing to amend their tax returns may file a request with the CRA (often referred to as an "adjustment request"). The CRA will complete a review of the request and make a decision to either process the adjustment (in whole or in part) or to deny the request.

Generally, an adjustment request must be filed within three or four years of the initial notice of assessment issued by the CRA (depending on the type of taxpayer).

4. Please summarise the main methods for a tax authority to challenge the amount of tax a taxpayer has paid by way of an initial assessment/self-assessment.

The audit process is the primary method used by the CRA to determine whether it agrees with the amounts reported by the taxpayer or not. The CRA has extensive audit powers. These powers include the power to inspect, audit or examine books, records and documents, and to require certain persons to provide reasonable assistance in answering all proper questions necessary to the administration or enforcement of the Income Tax Act. The CRA's audit powers also include the power to compel oral responses to audit questions.

If a taxpayer does not comply with certain audit requests, there can be significant consequences. For example, the CRA may apply to the Federal Court of Canada for an order mandating compliance, and penalties may be applied.

Following an audit, if the CRA concludes that an adjustment is required, a notice of reassessment will be issued.

5. What are the time limits that apply to such challenges (disregarding any override of these limits to comply with obligations to relief from double taxation under a tax treaty)?

Generally, the deadline for the CRA to issue a notice of reassessment is three or four years from the date of the initial notice of assessment. This period is known as the "normal reassessment period".

There are, however, a variety of circumstances in which the normal reassessment period may be extended. For example, the CRA may reassess beyond the normal reassessment period to carry back a loss from a subsequent tax year, or to make a consequential adjustment flowing from the result of a dispute regarding a different taxation year. The CRA may also reassess beyond the normal reassessment period where a taxpayer has made a misrepresentation attributable to neglect, carelessness, wilful default or fraud.

It is important to note that the normal reassessment period (and the resulting time limit imposed on the CRA) is determined by reference to the issuance of an initial notice of assessment. If a taxpayer fails to file a tax return and no notice of assessment has been issued, the normal reassessment "clock" does not start running.

6. How is tax fraud defined in your law?

Fraud, including tax fraud, is an offence under the Criminal Code which involves using deceit, falsehoods and any other fraudulent means to defraud a person or the public of money or anything else of value. Tax evasion is an offence under the Income Tax Act. Tax evasion includes making or acquiescing to false or deceptive statements in a return, destroying records to evade tax, wilful attempts to evade tax, or conspiring to do any of these acts.

7. How is tax fraud treated? Does the tax authority conduct a criminal investigation with a view to seeking a prosecution and custodial sentence?

The CRA has a Criminal Investigations Program which investigates suspected cases of tax evasion, tax fraud and other serious violations of tax laws.

The CRA may receive reports and investigative assistance from the Financial Transactions and Reports Analysis Centre of Canada (known as "FINTRAC"), which is responsible for the detection and deterrence of money laundering and terrorist activity financing.

CRA investigation agents will execute search warrants and interview witnesses to collect evidence for an investigation report. The criminal investigation of an individual engages constitutional procedural rights under the Canadian Charter of Rights and Freedoms ("Charter"). Evidence obtained in breach of an individual's Charter rights is generally inadmissible at trial.

The CRA refers cases to the Public Prosecution Service of Canada ("PPSC") where it believes there is a likelihood of a prosecution. The PPSC then decides whether to lay charges if it is in the public interest and there is a high likelihood of a conviction.

At trial, the Crown must establish that a taxpayer wilfully contravened Canadian tax laws in order to evade taxes. The case must be established "beyond a reasonable doubt" to secure a conviction. If convicted of tax evasion and/or tax fraud, a taxpayer may face court-ordered fines and/or imprisonment.

The CRA publicly reports those charged with or convicted of tax evasion in Court to the Canadian media. The CRA's stated purpose of such reporting is to increase compliance through the deterrent effect of publicity. The CRA has reported 135 criminal convictions in the five-year period between April 1, 2019 – March 31, 2024.

8. In practice, how often is a taxpayer audited after a return is filed? Does a tax authority need to have any justification to commence an audit?

There are a wide range of risk-related factors that impact how often a taxpayer may be audited. For example, frequent errors in prior tax returns can increase the likelihood of an audit. Similarly, the CRA undertakes certain audit projects (for example, the CRA's project targeting participation in tax shelters) and a taxpayer's conduct can therefore increase the likelihood of an audit (for example, if the taxpayer has participated in a tax shelter).

The CRA is not required to provide a justification for commencing an audit.

9. Does the tax authority have to abide by any standards or a code of conduct when carrying out audits? Does the tax authority publish any details of how it in practice conducts audits?

Canadian taxpayers are protected by the "Taxpayer Bill of Rights," which serves to promote the responsible administration of tax and the provision of accurate, fair, sensitive, timely, and professional service by the CRA. The Taxpayer Bill of Rights describes 16 rights to which taxpayers are entitled. Those rights are:

1. the right to receive entitlements and to pay no more and no less than what is required by law;
2. the right to service in both official languages;
3. the right to privacy and confidentiality;
4. the right to a formal review and a subsequent appeal;
5. the right to be treated professionally, courteously, and fairly;

6. the right to complete, accurate, clear, and timely information;
7. the right, unless otherwise provided by law, not to pay income tax amounts in dispute before you have had an impartial review;
8. the right to have the law applied consistently;
9. the right to lodge a service complaint and to be provided with an explanation of the findings;
10. the right to have the costs of compliance taken into account when administering tax legislation;
11. the right to expect the CRA to be accountable;
12. the right to relief from penalties and interest under tax legislation because of extraordinary circumstances;
13. the right to expect the CRA to publish its service standards and report annually;
14. the right to expect the CRA to warn taxpayers about questionable tax schemes in a timely manner;
15. the right to be represented by a person of the taxpayer's choice; and
16. the right to lodge a service complaint and request a formal review without fear of reprisal.

10. Does the tax authority have the power to compulsorily request information? Does this extend to emails? Is there a right of appeal against the use of such a power?

The CRA has extensive audit powers. The CRA can require that taxpayers produce any non-privileged document (including emails) for any purpose related to the administration or enforcement of the Income Tax Act.

Disputes regarding the exercise of the CRA's audit powers are made by application to the Federal Court of Canada.

On the other hand, if a person does not comply with certain requests, the CRA may apply to the Federal Court of Canada for an order mandating compliance, and penalties may be imposed.

11. Can the tax authority have the power to compulsorily request information from third parties? Is there a right of appeal against the use of such a power?

Yes, the CRA has the power to require the production of non-privileged documents by a third-party. This can include requirements for information relating to "unnamed persons" (meaning persons not known to the CRA). In order to exercise this power, however, the CRA must first apply to the Federal Court of Canada to obtain authorization, and in so doing, satisfy the court that the unnamed person or group is ascertainable, and that the requirement for information is made to verify the person or group's tax compliance.

Disputes regarding the exercise of the CRA's audit powers are made by application to the Federal Court of Canada.

12. Is it possible to settle an audit by way of a binding agreement, i.e. without litigation?

Yes, it is possible to settle an audit with the CRA, without litigation. Settlements regarding income tax must, however, be principled. The final resolution of any issue must be based on the facts and in accordance with the law. For example, it is not possible for a taxpayer to agree to pay half of an assessed amount of income tax, as such a settlement has no principled basis.

The CRA states that its Appeals Branch staff is encouraged to make every effort to settle disputes.

13. If a taxpayer is concerned about how they are being treated, or the speed at which an audit is being conducted, do they have any remedies?

Complaints regarding the quality and/or speed of the services provided by the CRA can be filed with the CRA directly (through the CRA Service Feedback process). If a taxpayer is not satisfied with the result of the CRA's internal process, a taxpayer may file a complaint with the Office of the Taxpayers' Ombudsperson.

In certain circumstances, a taxpayer may file an application for Judicial Review with the Federal Court of Canada. For example, since the Income Tax Act requires the CRA to issue an assessment with all due dispatch after the filing of a tax return, a taxpayer may bring an application where CRA delay may be present.

Where a taxpayer believes they are being subjected to an abusive tax audit by the CRA, the taxpayer may sue the CRA in tort, seeking a payment of damages. Successful cases against the CRA are, however, quite rare and have historically produced relatively small damages awards.

14. If a taxpayer disagrees with a tax assessment, does the taxpayer have a right of appeal?

If a taxpayer disagrees with a tax assessment, the taxpayer can initiate an internal administrative appeal process with the CRA. This appeal process is known as the CRA objection process.

If a taxpayer is not satisfied with the result of the CRA objection process, a taxpayer can appeal as of right to the Tax Court of Canada. Additionally, if the CRA has not issued a decision on an objection within 90 days, a taxpayer may commence an appeal directly to the Tax Court of Canada without waiting for the completion of the CRA objection process.

If a taxpayer is not satisfied with the result of an appeal to the Tax Court of Canada, a taxpayer can appeal as of right to the Federal Court of Appeal. An appeal to the Federal Court of Appeal is the final appeal that can be made as of right. If a taxpayer is not satisfied with the result of an appeal to the Federal Court of Appeal, the taxpayer can seek leave to appeal to the Supreme Court of Canada. The granting of leave to appeal to the Supreme Court of Canada in tax matters is relatively rare.

15. Is the right of appeal to an administrative body (independent or otherwise) or judicial in nature (i.e. to a tribunal or court)?

The initial right of appeal is to an administrative body – to the CRA itself. The further rights of appeal are judicial in nature – to the Tax Court of Canada, Federal Court of Appeal, and possibly Supreme Court of Canada.

16. Is the hearing in public? Is the decision published? What other information about the appeal can be accessed by a third party/the public?

The CRA objection process is strictly confidential. However, appeals to the Tax Court of Canada (and subsequent courts) are open to the public. Generally, documents filed with the courts can be viewed by members of the public, hearings are open to the public, and decisions are published.

17. Is the procedure mainly written or a combination of written and oral?

Each of the appeal procedures (the CRA objection process, litigation in the Tax Court of Canada, and subsequent litigation) are conducted both orally and in writing.

Typically, the CRA objection process is commenced in writing (by the filing of a Notice of Objection) and is conducted by a combination of written correspondence between the taxpayer (or their representative) and the CRA representative responsible for the objection file (known as the “Appeals Officer”). Once a decision is reached, the Appeals Officer is required to provide a written decision to the taxpayer.

The procedures governing court proceedings are set forth in each respective court's rules. Tax litigation is usually commenced in writing (by the filing of a Notice of Appeal) and later involves the presentation of both written and oral submissions.

18. Is there a document discovery process?

Generally, yes. An appeal to the Tax Court of Canada generally proceeds on either a “Partial Disclosure” basis, in which each party lists and produces only the documents on which they intend to rely, or a “Full Disclosure” basis, in which the parties shall list and serve all documents relevant to any matter in question in the appeal. Most appeals to the Tax Court of Canada proceed on a “Partial Disclosure” basis.

There is, however, a simplified appeal process (known as the “Informal Procedure”) available for appeals that fall below a certain value threshold. There is no discovery process where an appeal proceeds under the Informal Procedure.

19. Are witnesses called to give evidence?

While a taxpayer may describe factual details to the Appeals Officer during the CRA objection process, there is no formal process for the giving of evidence through witnesses.

During litigation, witnesses (both lay witnesses and expert witnesses) can be called to provide evidence under oath to the court.

20. Is the burden on the taxpayer to disprove the assessment the subject of the appeal?

In general, the burden of proof rests on the taxpayer to disprove the assessment.

However, in certain circumstances, the onus shifts. For example, if the CRA imposes gross negligence penalties on a taxpayer, it is the Crown's burden to prove that the person knowingly, or under circumstances amounting to gross negligence, participated in or made a false statement or omission in the return.

21. How long does an appeal usually take to conclude?

Generally, the more complex a dispute, the longer the time to resolution.

Statistics published by the CRA regarding the CRA objection process indicate that:

- Low complexity income tax objections (for example, objections regarding individual tax credits and objections regarding disability tax credits) resolved in July 2025 were completed in an average of 141 days from the date the objection was submitted.
- Medium complexity income tax objections (for example, objections regarding business expenses and objections regarding more complex individual income tax issues) resolved in July 2025 were completed in an average of 289 days from the date the objection was submitted.
- On average, high complexity income tax objections (for example, objections involving large corporations, complex business transactions, international transfer pricing, general anti-avoidance rule assessments, and tax avoidance schemes) may take over 690 days to resolve. However, these types of objections represent only 2% to 3% of the CRA's total Objections Program workload.

22. Does the taxpayer have to pay the assessment pending the outcome of the appeal?

Generally, a taxpayer is not required to pay income tax assessments prior to the conclusion of the CRA objection process or subsequent litigation. If a taxpayer chooses not to pay during the dispute, however, the taxpayer is liable for arrears interest on any resulting tax or penalties owing. If a taxpayer chooses to pay their income tax assessment before the conclusion of the dispute, any amount determined to be an overpayment is then generally refunded to the taxpayer with refund interest.

However, in certain circumstances, including where the assessment is in respect of GST/HST or the taxpayer is a "large corporation", the taxpayer is required to pay the assessment (or a portion thereof) prior to the conclusion of the CRA objection process or subsequent litigation.

23. Are there any restrictions on who can conduct or appear in the appeal on behalf of the taxpayer?

A taxpayer and/or their legal or authorized representative can conduct the entirety of the CRA objection process.

Generally, in appeals to the Tax Court of Canada, individual taxpayers can either represent themselves or have their counsel represent them in court. Corporations are generally required to be represented by counsel. In appeals to the Tax Court of Canada that proceed under the Informal Procedure, individual and corporate appellants can be represented by an agent (for example, a family member or accountant).

24. Is there a system where the "loser pays" the winner's legal/professional costs of an appeal?

Costs incurred during the CRA objection process are not recoverable, but a portion of the costs incurred during subsequent litigation may be recoverable.

The awarding of costs of an appeal to the Tax Court of Canada or Federal Court of Appeal and the quantum of such an award are within the discretion of the relevant court. Some of the factors that guide how the relevant court may exercise their discretion include the result of the proceeding, the amounts in issue, the importance and complexity of the issues, and the volume of work.

25. Is it possible to use alternative forms of dispute resolution – such as voluntary mediation or binding arbitration? Are there any restrictions on when this alternative form of dispute resolution can be pursued?

No. There are no alternative forms of dispute resolution regarding the correctness of Canadian income tax assessments outside the CRA objection process and tax litigation.

26. Is there a right of onward appeal? If so, what are all the levels of onward appeal before the case reaches the highest appellate court.

Yes. If a taxpayer is not satisfied with the result of the CRA objection process, a taxpayer can appeal as of right to the Tax Court of Canada. If a taxpayer is not satisfied with the result of an appeal to the Tax Court of Canada, a taxpayer can appeal as of right to the Federal Court of Appeal. An appeal to the Federal Court of Appeal is the final appeal that can be made as of right. If a taxpayer is not satisfied with the result of an appeal to the Federal Court of Appeal, a taxpayer can seek leave to appeal to the Supreme Court of Canada (which is the highest appellate court in Canada).

27. What are the main penalties that can be applied when additional tax is charged? What are the minimum and maximum penalties?

There are several penalties that may be applied, but the main penalty is the gross negligence penalty. This penalty is imposed when a taxpayer knowingly or under circumstances amounting to gross negligence makes (or participates in the making of) a false statement or omission in their tax return. The gross negligence penalty is generally the greater of $100 and 50% of the tax attributable to the false statement or omission.

28. If penalties can be mitigated, what factors are taken into account?

Gross negligence penalties can be disputed through the CRA objection process and subsequently through litigation. The factors that are typically disputed include whether the CRA has proven that there was a false statement or omission in the return and whether such a false statement or omission was attributable to gross negligence.

Other penalties that can be imposed under the Income Tax Act (for example, failure to file penalties) can be disputed on the basis of a due diligence defence. Factors that are typically taken into account include the taxpayer's conduct and any extenuating circumstances.

Where the requirements of a penalty have been met and no due diligence defence is available, a taxpayer can seek relief from penalties by way of application to the CRA. These applications are often referred to as "Taxpayer Relief Applications" or "Fairness Requests". The CRA has the discretion to waive or cancel all or part of any penalty (as long as the application is made within 10 years of the taxation year at issue).

The CRA generally considers granting relief from penalties where the following situations exist to justify a taxpayer's conduct:

1. extraordinary circumstances;
2. actions of the CRA; and
3. inability to pay or financial hardship.

If a taxpayer is unsatisfied with the CRA's decision on a Taxpayer Relief Application, the taxpayer can file an application for judicial review with the Federal Court of Canada.

29. Within your jurisdiction, are you finding that tax authorities are more inclined to bring challenges in particular areas? If so, what are these?

The CRA has reported to Parliament that it intends to address tax avoidance within the high-net-worth population, including leveraging various third-party data sources to enhance existing audit tools.

The CRA has also reported increased audits focused on tax shelter promoters, advisors, and their clients.

The CRA has also indicated that it is continuing to expand its data analysis tools in sectors such as the crypto-asset market, cybercrime, and the platform, gig and sharing economies.

30. In your opinion, are there any areas which taxpayers are currently finding particularly difficult to deal with when faced with a challenge by the tax authorities?

The recent broadening of the CRA's audit powers has created a series of new challenges for taxpayers who are currently undergoing an audit (for example, the challenge of oral interviews conducted by CRA auditors). Lengthy CRA and Court delays also continue to be an active challenge for taxpayers.

31. Which areas do you think will be most likely to be the subject of challenges and disputes in the next twelve months?

In light of recent legislative changes, alleged tax avoidance is likely to be a particularly frequent area of dispute in the next twelve months. We also anticipate an increased number of disputes regarding the exercise of the CRA's broadened audit powers.

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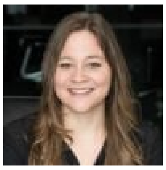

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