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Tax Policy Branch
Department of Finance Canada
90 Elgin Street
Ottawa, ON K1A 0G6

Via email: consultation-legislation@fin.gc.ca

Re: Deloitte's comments with respect to legislative proposals relating to the Income Tax Act and the Income Tax Regulations contained in the July 23, 2026 draft legislation (Transfer Pricing)

Dear Sir or Madam:

We are writing to provide our comments on select proposals contained in the Legislative Proposals Relating to the Income Tax Act and the Income Tax Regulations released on July 23, 2026.[1] The purpose of this submission is to focus on select legislative proposals involving transfer pricing, and specifically the proposed amendments that would permit simplified transfer pricing documentation in specified circumstances (Simplified TP Documentation Amendments).

Deloitte and its affiliated entities constitute one of the largest professional services firms in Canada. We work with many taxpayers, ranging from individuals and private businesses to Canadian and global multinationals, to advise and support them in meeting their compliance obligations under the Income Tax Act.[2]

We welcome the Department of Finance's initiative and its decision to consult on this important aspect of Canada's transfer pricing framework. The consultation provides a valuable opportunity to draw on practical experience so that the final measures deliver clear, accessible and meaningful relief to taxpayers in fulfilling their compliance obligations under the Act. The Simplified TP Documentation Amendments are a constructive framework towards a compliance regime which balances fairness and simplicity with the government's need to ensure compliance with the Act, while ensuring Canadian businesses can remain competitive.

The successful implementation of such a framework will depend largely on the interpretation and administration of these proposed rules by the Canada Revenue Agency (CRA) to provide greater clarity and certainty to taxpayers. Given the importance of the administration of these proposed rules, we have included recommendations which address both legislative and administrative considerations, recognizing that certain administrative aspects may ultimately require enablement through legislation.

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[1] Government launches consultation on draft legislation for various tax measures.

[2] RSC 1985, c. 1 (5th Supp.), as amended, herein referred to as "the Act."

Overall observations on the legislative proposals

We understand the government's objective in introducing the Simplified TP Documentation Amendments is to reduce the compliance and administrative burden associated with applying the arm's length principle in qualifying, lower-risk cases. This direction is consistent with the Department of Finance's June 6, 2023 consultation paper, "Consultation on Reforming and Modernizing Canada's Transfer Pricing Rules"[3] (2023 Consultation Paper), which recognized that multinational groups may devote significant resources to pricing relatively low-risk activities and to addressing disputes over the adequacy of transfer pricing documentation and related penalty exposure. The 2023 Consultation Paper contemplated both simplified documentation requirements for low-risk situations and streamlined pricing approaches that could reduce the need for benchmarking arm's length returns.

The Simplified TP Documentation Amendments advance the first of these objectives by establishing alternative documentation requirements for four categories of taxpayers or transactions. They do not, however, prescribe streamlined pricing methodologies or clearly state how the alternative requirements will materially differ from the analysis expected under the ordinary contemporaneous documentation rules.

The Simplified TP Documentation Amendments provide a foundation for a more risk-aligned transfer pricing compliance regime. However, further legislative detail and coordinated administrative guidance will be necessary to ensure the measures provide clear, accessible and meaningful relief to taxpayers in practice.

Our overarching recommendations are to:

- **Clarify eligibility and the consequences of electing**. The final framework should clearly explain how the eligibility routes and thresholds operate, the mechanics and duration of an election, the treatment of inadvertent errors, and the implications for audit review, record-keeping and transfer pricing penalties.

- **Broader access to relief for routine, low-risk transactions**. In addition to size- and value-based thresholds, the government should consider transaction-specific relief for defined categories of routine activity, available regardless of taxpayer or transaction size and supported by objective safeguards.

- **Prescribe simplified documentation requirements**. The explanatory notes or administrative guidance should identify the minimum records and analysis required for each category, supported by practical templates and examples, so that taxpayers are not effectively required to prepare substantially full documentation.

- **Narrow the anti-avoidance rule and establish clear guardrails**. The rule should target arrangements whose main purpose is to artificially obtain simplified treatment, while protecting ordinary-course commercial transactions and providing examples of acceptable and abusive arrangements.

Our central observation is that simplification must deliver a discernible practical benefit. A shorter list of required records, without clear limits on the analysis expected or greater certainty regarding the administrative treatment of qualifying transactions, may not materially reduce compliance costs or encourage appropriate uptake. International experience suggests that effective simplification combines streamlined documentation requirements with defined pricing approaches, risk-based administrative treatment, or both, for clearly identified low-risk transactions.

The legislative framework and its administration should therefore be developed together. Our submission addresses both refinements to the proposed legislation and the administrative guidance needed to support its

[3] Consultation on Reforming and Modernizing Canada's Transfer Pricing Rules.

consistent implementation and interpretation by the CRA. Taken together, our recommendations would make the election more usable, align compliance effort with underlying transfer pricing risk and allow administrative resources to remain focused on higher-risk transactions.

The coming into force provisions of the enabling legislation should contain extended time periods to enable taxpayers to elect in through a simplified existing compliance stream (e.g., T106s, as described below), as opposed to potentially requiring manual elections before a prescribed form is available. As a result, having an extended period of time for the coming into force to enable taxpayers to elect for taxation years filed after the effective date but before Royal Assent will ease the transition period.

Clarify eligibility and the consequences of electing

The Simplified TP Documentation Amendments establish four routes to the simplified measures: one based on the size of the Canadian members of the multinational enterprise group and three based on the value of specified transaction types, namely tangible property, intra-group services and loans. These thresholds appear intended to relieve smaller taxpayers and lower-value transactions from the full contemporaneous documentation requirements. We would encourage the government to clarify how the routes interact where a taxpayer qualifies under both the small-taxpayer route and one or more transaction-specific routes, including which provision governs and whether separate elections are required.

To make the election meaningful, we recommend that the explanatory notes accompanying the legislation provide tangible examples, which can then allow the CRA to clearly describe and administer the mechanics of making the election.

The explanatory notes may consider the following to help inform CRA's administrative guidance:

- The prescribed form filing method and deadline for making the election;
- Whether the election applies on an entity-wide, transaction specific or transaction category basis;
- The taxation year or period for which the election is effective and whether it must be renewed annually; and
- The circumstances and process for amending or revoking an election.

Recommendations:

We recommend that the election be integrated into the annual T106 filing process rather than requiring a separate prescribed form. The T106 Summary could include an annual election field identifying the applicable eligibility route, while the relevant T106 slips could identify the transaction categories covered by the election. The election deadline could align with the T106 filing deadline, and taxpayers could retain, but not have the requirement to submit, the supporting eligibility calculations and simplified documentation. Appropriate procedures should also permit amended or late elections in cases of good-faith errors, year-end true-ups or other reasonable adjustments and this election could be expressly listed in Regulation 600.

Administrative guidance should also provide confirmation on whether the covered transactions will generally be treated as lower risk when the prescribed conditions and record-keeping requirements are satisfied, whether the CRA's review will ordinarily be limited to verifying eligibility and compliance with the simplified requirements, and how the election affects exposure to transfer pricing penalties. This would not prevent the CRA from reviewing transactions where facts indicate material risk; rather, it would provide the administrative certainty needed for taxpayers to assess whether the election offers a commensurate benefit.

We also recommend guidance on the policy basis for each monetary threshold and how each threshold is calculated and applied. For example, assume Canco A has gross revenue of $18 million from the sale of goods to

third party customers of $15 million and a related party management fee of $3 million paid by Canco B. An affiliate, Canco B, has gross revenue of $6 million, and a Canadian partnership in which Canco A and Canco B each participate has gross revenue of $4 million. Depending on how the rules are interpreted:

- Canco A may qualify if only its own $18 million of revenue is considered;
- The Canadian group may remain below the threshold at $24 million if Canco A and Canco B are aggregated but the partnership is excluded;
- The group may exceed the threshold if the partnership's revenue is included; or
- The result may differ again depending on whether intercompany revenue is included.

With this example, a taxpayer may therefore be unable to determine with certainty whether it is within the $25 million threshold.

The guidance should also provide for periodic review or inflation indexation so that the scope of relief does not erode over time. The guidance should address whether related transactions forming part of a series are aggregated, whether separate transaction streams are tested independently, the relevant Canadian entities included in the group-revenue test, the treatment of partial fiscal periods and foreign-currency amounts, and the meaning and data sources for "gross revenue" and "gross amount." Worked examples covering common fact patterns, including continuing arrangements, overlapping eligibility routes, transactions that fluctuate around a threshold, and thresholds exceeded only after year-end true-ups, would materially improve certainty and promote consistent application.

Finally, the explanatory notes or accompanying CRA guidance should specify the consequences of an invalid or defective election, particularly where a taxpayer acted in good faith and maintained records appropriate to the simplified regime. The accompanying guidance should provide reasonable cure rights for inadvertent eligibility errors, late or amended elections, and threshold exceedances arising from year-end adjustments, and clarify the related penalty consequences. A proportionate approach would distinguish technical non-compliance from arrangements that are materially inconsistent with the policy of the regime.

Broader access to relief for routine, low-risk transactions

We recognize the policy rationale for focusing initial relief on smaller taxpayers and lower-value transaction streams. However, a framework based principally on taxpayer size and fixed transaction-value thresholds will provide limited relief to larger taxpayers, even where they undertake recurring, routine and demonstrably low-risk transactions. These taxpayers often bear the greatest aggregate documentation burden, while the risk profile of a particular transaction may be unrelated to the size of the broader enterprise.

Recommendations:

As a complementary measure, we recommend that the government consider transaction-specific relief for clearly defined categories of routine, low-risk transactions that would be available regardless of taxpayer size. Examples could include pure pass-through reimbursements, routine shared-cost allocations, qualifying low value-adding intra-group services and standardized financing arrangements. Eligibility could be supported by objective safeguards, targeted records and exclusions for intangibles, non-routine functions and material risks. This approach would extend appropriately targeted relief to larger taxpayers without reducing scrutiny of higher-risk transactions. Further insights and examples of how comparable regimes have implemented such relief are provided in the section below, "International experience with transfer pricing simplification."

Prescribe simplified documentation requirements

The central practical issue is the scope of the records required under the Simplified TP Documentation Amendments. For each qualifying category, the Simplified TP Documentation Amendments generally require an accurate description of: (i) the terms and conditions of the transaction or series, the participants, the relevant property or services, and the amounts paid or received; and (ii) "the analysis performed to determine that the amounts are based on arm's length conditions."

Under the amendments to Canada's transfer pricing rules that received Royal Assent on March 26, 2026, "conditions" and "arm's length conditions" are defined broadly and require an assessment of the economically relevant characteristics of the transaction or series. Without further prescription, the quoted requirement could reasonably be interpreted as requiring much of the same functional, comparability, and economic analysis that taxpayers would undertake under the ordinary rules.

Recommendations:

We recommend that the explanatory notes or accompanying CRA guidance identify the minimum analysis and records required for each simplified category, as well as matters that are not expected, absent unusual facts. A practical template or schedule could specify the required transaction description, financial amounts, eligibility calculations, pricing support and annual update. Where an approved pricing methodology or safe harbour applies, taxpayers should be able to satisfy the analytical requirement by documenting eligibility and the calculation under that methodology, without a separate benchmarking study. Without this additional specificity, there is a risk that prudent taxpayers will continue preparing substantially full documentation, leaving the intended compliance benefit unrealized.

Narrow the anti-avoidance rule and establish clear guardrails

We recognize that an anti-avoidance rule is appropriate to prevent taxpayers from artificially arranging transactions to qualify for the simplified measures. However, the proposed rule may apply more broadly than necessary because relief can be denied where obtaining the benefit of the simplified measures is merely "one of the purposes" of a transaction or series. This could create uncertainty for taxpayers undertaking ordinary commercial transactions that meet the qualifying conditions but were not structured to obtain an inappropriate advantage. If taxpayers cannot determine with reasonable confidence when the rule will apply, they may be reluctant to elect into the simplified regime, which could limit the effectiveness of the proposed measures.

Recommendations:

We recommend narrowing the anti-avoidance rule so that it applies where obtaining the simplified treatment is one of the main purposes of an arrangement that artificially fragments, recharacterizes or otherwise manipulates transactions to satisfy the conditions. A modification of the anti-avoidance standard from "one of the purposes" to "one of the main purposes" would still provide the necessary integrity to prevent abuse, while providing additional certainty that ordinary-course business changes, commercially motivated restructurings, changes in volume, and transactions that independently remain below a threshold are not expected to engage the anti-avoidance rule. We welcome the current examples in the explanatory notes and would welcome additional examples of both abusive and acceptable arrangements in the final explanatory notes to help inform the CRA's implementation of the regime.

International experience with transfer pricing simplification

In refining the Canadian measures, the government may wish to expand simplification measures with reference to other international approaches that reduce compliance burdens while preserving the integrity of the arm's

length principle. In the 2023 Consultation Paper, the government considered the legislative frameworks and administrative approaches adopted in certain other jurisdictions; we recommend that it continue this comparative review when designing Canada's simplified transfer pricing documentation regime.

Although the design varies by jurisdiction, the regimes generally use one or more of three tools:

- Transfer pricing safe harbours;
- Documentation simplification measures for small and medium-sized taxpayers; and
- Risk-based simplification approaches.

Collectively, these approaches reflect the principle that transfer pricing compliance obligations should be calibrated to the level of transfer pricing risk.

Transfer pricing safe harbours

Some jurisdictions provide prescribed pricing outcomes or methodologies for defined low-risk transactions. Where the eligibility conditions are satisfied, these approaches reduce or eliminate the need for a separate benchmarking study and give taxpayers greater certainty regarding the accepted outcome.

The best-known example is the elective simplified approach for low value-adding intra-group services in Chapter VII, Section D of the Organisation for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines. Qualifying services are supportive in nature, are not part of the multinational group's core business, do not involve unique and valuable intangibles, and do not involve the assumption or control of significant risk. Under the approach, eligible costs are allocated to benefiting group members and a uniform 5% mark-up is applied without a benchmarking study, subject to a simplified benefits test and specified documentation.

Typical qualifying activities include accounting, human resources, information technology support, legal and tax compliance, and general administration. Activities such as research and development, manufacturing, sales and marketing, financial transactions and senior management generally fall outside the approach. The model is directly relevant to the Simplified TP Documentation Amendments because it combines a defined population of low-risk transactions, a prescribed pricing result and tailored documentation, thereby making the benefit of electing readily identifiable. The OECD approach has been adopted or recognized in a number of jurisdictions.

The government may wish to consider adopting the OECD low value-adding services approach, or a comparable Canadian model, as a defined benefit within the simplified regime. Taxpayers would still need to demonstrate that qualifying services were provided and benefited the recipient, but the prescribed mark-up and focused records would avoid duplicative economic analysis for routine arrangements.

Simplification can also be applied to routine intra-group financing. Certain jurisdictions publish acceptable interest rates or margins for qualifying related-party loans. Models from such jurisdictions illustrate how objective pricing parameters, appropriate exclusions and targeted documentation can reduce the burden of recurring debt-pricing studies without removing the arm's length discipline.

The common feature is certainty: taxpayers know both the pricing outcome that will be accepted and the records needed to support it, allowing taxpayers and tax authorities to focus their resources on transactions presenting greater transfer pricing risk.

Documentation simplification measures for small and medium-sized taxpayers

Other jurisdictions provide more direct relief from comprehensive documentation obligations. For example, the 2023 Consultation Paper outlined certain jurisdictions with such exemptions, including the United Kingdom.

Some jurisdictions generally exempt taxpayers from mandatory transfer pricing documentation where total controlled transactions and year-end intercompany balances fall below specified thresholds, subject to exclusions for matters such as intangibles and certain non-information-exchange jurisdictions. These approaches recognize that a full functional analysis, benchmarking study and local-file-style record may be disproportionate for smaller taxpayers or low-value transactions.

Risk-based simplification approaches

A third model maintains the arm's length principle but reduces record-keeping and expected administrative scrutiny for taxpayers satisfying objective low-risk criteria. This can include a simplified transfer pricing record-keeping framework with options for small taxpayers, low value-adding intra-group services, material dealings and specified loans. Eligibility is determined by criteria such as turnover, transaction values, profitability, sustained losses and the nature of the arrangement. Taxpayers retain targeted records demonstrating eligibility and application of the relevant option rather than preparing extensive benchmarking or economic analyses.

Ideally, from an administrative perspective, tax authorities would focus on the eligibility of covered transactions for such exemptions. The administrative consequence gives the simplification option practical value while preserving the authority's ability to address arrangements outside the eligibility criteria.

Recommendations for a Canadian framework

The proposed Simplified TP Documentation Amendments provide a sound foundation for a more risk-aligned transfer pricing compliance regime. To ensure that the proposed legislation delivers meaningful relief in practice, we recommend that the final framework:

- Improve the usability of the eligibility rules and election by clarifying the thresholds, integrating the election with the annual T106 filing process and providing appropriate relief for good-faith errors;
- Extend meaningful relief to routine, low-risk transactions through transaction-specific measures that may apply regardless of taxpayer size;
- Clearly define the simplified documentation standard and its administrative consequences so that electing results in a discernible reduction in compliance effort; and
- Target the anti-avoidance rule more precisely at artificial arrangements while preserving certainty for ordinary commercial transactions.

These enhancements would improve the practical implementation of the proposed regime and increase the likelihood that eligible taxpayers will realize a meaningful reduction in compliance burden. Legislative refinement should be accompanied by coordinated CRA guidance so that the interpretation and administration of the regime are clear and consistent from the outset.

The government should also look beyond the immediate scope of the proposed legislation when considering the broader design of transfer pricing simplification in Canada. International experience demonstrates that relief need not be limited to smaller taxpayers or transactions falling below fixed monetary thresholds. More holistic measures, such as transaction-specific safe harbours, prescribed or streamlined pricing methodologies, tailored documentation requirements and risk-based administrative treatment, can provide appropriately targeted relief for routine, low-risk transactions undertaken by taxpayers of any size.

This combination would preserve the arm's length principle and appropriate safeguards while delivering meaningful relief to both smaller and larger taxpayers. It would also allow the CRA to direct its resources toward higher-risk transactions and give taxpayers the clarity needed to use the regime with confidence. In our view, the Simplified TP Documentation Amendments provide a sound foundation; the additional details described above would be important to turn that foundation into an effective simplification measure.

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We hope our specific comments are helpful in your development and implementation of the simplified transfer pricing documentation framework. We would be pleased to meet with you or other officials to discuss our submission as Deloitte is committed to making a significant contribution to help shape Canada's tax policy and its application to the future of our country.

We consent to the disclosure of our comments under the Access to Information Act and have made a copy of our submission available on our website at www.deloitte.ca

Yours very truly,



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National Tax Policy Leader
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