PBO Assessment of Budget 2026: Departmental Spending and New Measures

Highlights

Budget 2026 presented a range of new measures to address affordability challenges and helping workers and businesses affected by the U.S. tariffs. Supports for workers were introduced to build skills in anticipation of construction related to the government's capital agenda.

Measures to simplify the tax system will reduce administrative burden but not yet tackle deeper complexities inherent to the provision of multiple credits and deductions that target a range of policy objectives beyond tax collection.

Measures to expand tax filing by low income Canadians will be critical to improve affordability, as many income supports are delivered through the tax system. PBO previously estimated that some 1.4 million Canadians do not receive benefits through non-filing.

Labour market supports through Team Canada Strong are profiled, but additional fiscal and performance information is required to assess whether the initiative is on track to activate up to 100,000 Red Seal workers by 2031.

While the Comprehensive Expenditure Review exercise is achieving federal employment reductions as originally announced, the total employment figures do not include new federal employment within Crown corporations and special purpose agencies. Neither do they incorporate increases in third party employment through professional services.

Budget 2026: Key new measures and announcements since Spring Economic Update 2026

Context

Budget 2026 announces many new measures or extensions to existing measures since the Spring Economic Update 2026 (SEU). This note profiles certain higher profile measures and assesses progress on the government's Comprehensive Expenditure Review exercise.

New measures were presented as addressing affordability challenges and helping workers and businesses affected by the U.S. tariffs. Supports for workers were introduced to build skills in anticipation of construction related to the government's capital agenda.

Budget 2026 also aims to simplify the tax system for individuals and introduces the Canada Growth Incentive, which offers favourable tax treatment of capital gains resulting from investment in small businesses.

Spending profiles for related measures are presented in Table 1, with brief program descriptions and related considerations for Parliamentarians presented in turn.[1] This is not meant to be an exhaustive list as there are many other spending measures in Budget 2026 that are not discussed in this note.

Table 1
Selected Budget 2026 measures: 5-year costs, millions of dollars

Fiscal year	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Supporting Canadian workers and businesses	2,178	4,363	1,762	1,827	1,194	11,324
Securing the future of a Canada-wide early learning and child care system*	1,675	3,046	0	0	695	5,416
2027 Canada Groceries and Essentials Benefit Supplement	4,055	0	0	0	0	4,055
Lowering costs for Canadians at the pump	2,870	0	0	0	0	2,870
Build Canada Workers Benefit	0	515	515	515	515	2,060
Canada Caregiver Credit	0	185	200	220	240	845
Canada Growth Incentive**	0	35	35	120	525	715

Source:
Government of Canada.

Note:
The cost profiles in this table are from Budget 2026 as published by the Government of Canada and should not be considered as PBO's cost estimates. These amounts are presented as a net fiscal cost.

* Budget 2026 includes a realignment of existing funding for the Canada-wide early learning and child care system, with a reduction of $695 million in 2026-27 (the gross amount is $2,370 million) and an offsetting $695 million increase in 2030-31.

** The costs profile of $715 million for the Canada Growth Incentive combines the Capital Gains Exemption and the Rollover for Investments in Small Businesses, which are projected to cost $565 million and $150 million respectively.

Supporting Canadian workers and businesses

Budget 2026 provides $11.5 billion to support workers and businesses affected by the tariff situation with the United States. A significant part of the support ($6.1 billion) is geared towards the protection of Ontario's steel and automotive industries, as well as building out its critical minerals supply chain.

> *Consideration: It is not clear that provisions have been made for other provinces not specifically covered by initial announcements respecting Ontario, who may be*

differentially impacted by the U.S. tariffs. Budget 2026 also contains a separate $2.2 billion to help businesses in the forest sector, which will provide support mostly for British Columbia, Ontario and Quebec.

Most of the remaining support goes towards the extension of previously announced employment insurance (EI) temporary measures that make EI more flexible (about $3.5 billion mostly accruing in 2026-27 and 2027-28).

Consideration: The temporary changes to EI are available to all workers across Canada, regardless of being in an impacted sector or not. Furthermore, while the cost appears in the fiscal framework, it will be financed through the EI Operating Account and will possibly increase future EI premiums as they are set according to a seven-year break-even mechanism.

Securing the future of a Canada-wide early learning and child care system

Budget 2026 includes the Government's June 2026 announcement of providing an additional $5.4 billion in temporary funding concentrated in 2026-27 and 2027-28.

Consideration: Potential future increases beyond the current agreements, including maintaining this funding once it expires, are not included in the outlook. Under current announced agreements, annual funding declines by about $2.8 billion in 2028-29.

Lowering costs for Canadians at the pump

The government suspended federal excise taxes on gasoline, diesel and aviation fuels from April 20 to September 7, 2026, and later extended the measure to January 31, 2027, with a 50% tax reduction from February to March 2027.

Considerations:

- *PBO estimates that higher-income households receive the largest share of benefits (34%), while the lowest-income households receive the smallest (10%).*
- *Evidence suggests only part of the tax reduction is passed through to consumers, with estimates ranging from 50% to 87%.*[2]

2027 Canada Groceries and Essentials Benefit Supplement

The Canada Groceries and Essentials Benefit (CGEB) is the rebranded GST Credit, a non-taxable, income-tested benefit that is indexed to inflation. Budget 2026 proposes a one-time CGEB supplement of 50 per cent of the maximum annual amount for the 2026-27 benefit year, to be paid in early 2027.

Considerations:

- *Unlike the fuel excise tax relief, this measure is targeted towards low- and modest-income individuals and families.*
- *However, to access this benefit individuals must file a tax return. PBO previously estimated that there could be close to 1.4 million potentially eligible individuals that did not benefit from the GST credit because they had not filed a tax return.*
- *In Budgets 2025 and 2026, the federal government is taking some initial actions to reach the vulnerable non-filing population and make tax filing generally easier.*
- *Parliamentarians may wish to seek clarity on the government's plans to ensure that all vulnerable Canadians are able to access benefits intended for them, as delivered through the tax system.*

Build Canada Workers Benefit

Budget 2026 proposes to rebrand the Canada Workers Benefit (CWB) as the Build Canada Workers Benefit (BCWB) and increase the maximum benefit amount (by $150 for single individuals without children and by $200 for families) while also reducing the phase-in threshold from $3,000 of working income to $500. By providing income support to low- and modest-income working Canadians, the CWB is intended to make work more rewarding and attractive for low-income-earning Canadians and encourage other Canadians to enter the workforce.

Budget 2026 also plans to phase out advance payments by 2028. The advance payments are calculated as half of the previous year's CWB entitlement and paid out automatically. Residual entitlement is paid out after the individual files their tax return, but there is no requirement to repay any excess CWB if the entitlement based on the current year's tax return is lower than the advance payment based on the previous year's tax return.

Considerations:

- *This is another targeted measure that supports low- and modest-income individuals and families, as it phases-out when income is between about $30,000 and $50,000.*
- *This benefit is also accessed through the tax system and requires the individual to file a tax return. PBO previously estimated that there could be close to 215,000 individuals with T4 employment income in the range that would put them eligible to the CWB, but that do not file a tax return.*
- *Over the next five fiscal years, the projected cost of the increase in benefits is more than offset by the savings expected from the phasing out of advance payments.*

Canada Caregiver Credit

The Canada Caregiver Credit (CCC) is a non-refundable tax credit that can provide up to $1,260 of tax relief in 2027 in respect of infirm dependents of the caregiver or of their spouse or common-law partner. Budget 2026 proposes to make the Canada Caregiver Credit (CCC) refundable.

Considerations:

- *The CCC is targeted at low-income individuals, as it phases out between income of about $21,000 and $30,000.*
- *However, as a non-refundable tax credit, it could bring tax liability down to zero but did not provide any support for individuals with no tax payable. Making it refundable will benefit the individuals with the lowest income.*
- *This benefit is also accessed through the tax system and requires the individual to file a tax return.*

Canada Growth Incentive – Capital Gains Exemption

Budget 2026 introduces a new capital gains exemption of up to $15 million on the disposition of qualifying shares (the shares must have been held for at least 36 months) of a qualifying corporation that have been issued after Budget Day and before 2037. The $15 million would apply separately to each qualifying individual in respect of each business. The shares must be issued by a Canadian-controlled private corporation with total assets valued at no more than $100 million that operate in specific sectors (excluding most sectors except: construction, manufacturing, wholesale/retail trade and transportation). It mirrors an existing tax provision in the United States.[3]

Considerations:

- *While temporary, this exemption of $15 million is much higher than the lifetime capital gains exemption (LCGE) of $1,275,000 in 2026. Reducing the taxation of capital income should provide an incentive to invest.*
- *Such an important sheltering of otherwise taxable capital gains will likely invite creative tax planning to facilitate surplus stripping. However, the budget mentions additional integrity rules will be proposed.*
- *The five-year cost profile of the measure shows it is expected to cost $80 million in 2029-30 (the earliest possible time given that the shares must be held for at least 36 months) and then $485 million the following year, which is the last year profiled. It is reasonable to assume the costs will increase significantly in subsequent years.*

Canada Growth Incentive - Rollover for Investments in Small Businesses

Individuals that dispose of eligible small business corporation shares and can usually defer taxation on capital gains realized if the proceeds are used to acquire new eligible small business corporation shares (called replacement shares) before the end of the following calendar year. The capital gain will then only be taxed at the disposition of the replacement shares. Budget 2026 proposes to increase the replacement period to the following three calendar years (and the following five calendar years in some circumstances).

Considerations:

- *Extending the replacement period could potentially increase investment. It comes at a relatively low cost (about $40 million in foregone tax revenue per year) which will ultimately be recovered as it is a deferral.*

Simplifying the tax system

While many stakeholders were hoping for a significant tax reform which did not materialize, Budget 2026 provides nonetheless a suite of measures that intend to simplify individuals' experience with the tax system. Some notable initiatives include:

- Pushing the tax return filing and balance-due date to May 15 for all individuals;
- Increasing the tax instalment thresholds for individuals and corporations, and indexing them thereafter;

- Optional flat amounts for some personal income tax deductions and credits rather than itemizing and keeping lots of receipts;
- Simplifying the Northern Residents Deductions;
- Increasing the period during which a taxpayer can object to an income tax assessment.

The federal government expects these measures to simplify tax filing for more than 1.5 million people. Budget 2026 also mentions that a second tranche of measures towards tax simplification will be announced in the Spring Economic Update 2027.

As mentioned earlier, many affordability measures (both new and existing) are accessed through the tax system. Therefore, simplifying filing requirements is a positive step to get more coverage. However, previous research suggests as many as 2.5 million individuals might not be filing a tax return, with some of them missing out on benefits.

Budget 2025 introduced Automatic Federal Benefits, including pre-filled tax returns for low-income Canadians by the 2028 tax year and automatic tax filing for up to 50,000 low-income Canadians that have previous filing history with CRA. Budget 2026 pushes an additional $22.3 million over four years to CRA to strengthen outreach with people disconnected from the tax and benefits system. These efforts are expected to provide benefits to 150,000 more Canadians that do not file. The federal government had made similar promises in Budgets 2023 and 2024, which have not yet been achieved. PBO will continue to monitor the implementation of these initiatives.

Of note, Budget 2026 does not address simplicity requests brought forward by the disability community regarding the many barriers to accessing the Disability Tax Credit (DTC) and other benefits for which eligibility is determined by eligibility to the DTC.

Team Canada Strong

Budget 2026 provides an implementation update on Team Canada Strong, first announced in the 2026 Spring Economic Update. The initiative has a projected net fiscal cost of $5.5 billion over five years, with ongoing funding thereafter, and aims to “recruit, train and hire” to 100,000 Red Seal trades workers by 2031.

The initiative includes provincial-territorial training agreements, 100,000 paid youth placements, employer incentives of up to $10,000, a $400 weekly grant during technical training, a $5,000 completion bonus, and expanded training capacity.

Considerations: Budget 2026 provides more implementation detail but does not fully reconcile funding across program components or explain how placements will translate into apprenticeship registrations, completions, Red Seal certifications and sustained employment.

Further, many measures are targeted at encouraging Canadians to start Red Seal training programs, whereas completion rates have historically been the more challenging stage of certifying Canadians as Red Seal tradespeople.

Parliamentarians may wish to request:

- *annual targets for registrations, completions and Red Seal certifications by trade and region;*
- *clarification on whether the 100,000-worker target measures gross certifications or net workforce additions;*
- *clarifications on whether proponents of projects seeking approval through the Major Projects Office, Defence Investment Agency or Build Canada Homes will include firm Red Seal completion requirements for employers, which could address historical challenges to complete all required in class and on-the-job training;*
- *a component-level spending profile and measures of incremental results; and*
- *details on how the $2 billion in bilateral funding relates to existing Labour Market Development Agreements.*

Budget 2026 advances Team Canada Strong toward implementation, but additional fiscal and performance information is required to assess whether the initiative is on track to activate up to 100,000 Red Seal workers by 2031.

Update to the Comprehensive Expenditure Review (CER)

Context

Budget 2025 introduced the comprehensive expenditure review, which required 45 federal organizations to achieve savings of 7.5 per cent in 2026-27, 10 per cent in 2027-

28 and up to 15 per cent in 2028-29. The planned reductions amounted to $8.6 billion for 2026-27, $10.4 billion for 2027-28 and $12.8 billion for 2028-29.

Assessment

Budget 2026 notes that implementation is "already underway" but does not provide details on actual savings in 2026-27 by department and agencies. The budget states that the government has nearly achieved their workforce reduction target of 40,000 positions as of August 2026, with the size of the federal public service falling to 332,000 employees from the 2023-24 peak of about 368,000.

While the budget notes that over 10,000 applications were submitted to the Early Retirement Incentive (ERI) program, it does not provide an update on the workforce reductions resulting from the program. The budget announced that surplus personnel savings arising from ERI departures beyond planned CER workforce reductions would be partly reflected in operating budget reductions, resulting in ongoing savings of $100 million annually starting in 2027-28.

The budget also restates the government's commitment to reduce spending on external management and other consulting services by 20 per cent over the next three years.

Considerations:

- *Absent Government updates, PBO will monitor Main and Supplementary Estimates, departmental results reports and federal public service employment levels to assess whether savings are materializing as planned. This information would support Parliamentarians to assess whether and how reductions may be affecting government services to Canadians. To the positive, if reductions are being offset by efficiency gains, it would be useful for Parliamentarians to know how similar cost savings could be realized in other departments and programs.*
- *The employment reductions reported in Budget 2026 amount to about 36,000 positions relative to the 2023-24 peak, compared with the planned reduction of 40,000 positions by 2028-29. However, these figures relate to the federal public service and do not capture employment growth in Crown corporations and other special operating agencies, which may be increasing staffing through external recruitment and placements under the Build Canada Exchange program.*
- *While Budget 2026 highlights the size of the federal public service as of August 2026, Treasury Board of Canada Secretariat (TBS) notes that the government workforce is typically lower in August due to recurring seasonal fluctuations.*[4]

Between 2019 to 2025, the population of the federal public service increased by over 5,000 employees on average between the months of August and September. This suggests that part of the decline recorded in August 2026 may reflect seasonal variations rather than a sustained reduction in the size of the federal public service.

- *To provide context on the commitment to constrain spending on external consultants, the Public Accounts figures indicate that this spending item has, for the most part, increased consistently in recent years on a whole-of-Government basis, with a slight reduction in 2025-26. This is despite previous Government initiatives to cap or reduce spending on professional services.*

Notes

[1] Unless specified otherwise, spending figures cited throughout this note are drawn from Budget 2026 as published by the Government of Canada and have not been independently verified by PBO.

[2] Consult: He, Zheli and Xiaoyue Sun. (2022, June 15). Effects of a State Gasoline Tax Holiday. *Penn Wharton Budget Model*. University of Pennsylvania;
Tsvetanov, Tsvetan. (2024). Tax holidays and the heterogeneous pass-through of gasoline taxes. *Energy Economics*. Volume 136, Article 107682; and
Pineau, Pierre-Olivier. (2026, August 31). Qui profite de la baisse des taxes sur l'essence? *Les Affaires*.

[3] U.S. Internal Revenue Code section 1202 – Partial exclusion for gain from certain small business stock.

[4] Population of the federal public service: monthly snapshots.

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