

eNews – October 29, 2026
STEP Canada Tax Technical Committee

RE: CRA Clarifies When Trusts are Related for Section 55 Purposes

Each year, STEP Canada works with the Canada Revenue Agency (CRA) to present the CRA Roundtable at the STEP Canada National Conference. Many questions are submitted for consideration, but only a select number can make it into the always highly anticipated conference session. CRA has now provided STEP Canada with a written response to one of the questions that did not make it to the Roundtable: **when are two trusts related for purposes of section 55 of the Income Tax Act, and how does the special sibling-relatedness rule interact with that determination?**

This question is particularly relevant in the context of corporate divisive reorganizations, where the relationship of parties for purposes of section 55 can significantly affect the rules that must be navigated.

CRA's Response and Commentary by the TTC and the Roundtable Sub-Committee

CRA confirms that **where all beneficiaries of one trust are related to all beneficiaries of the other trust, the two trusts will generally be deemed related**, assuming the other requirements of the provision are satisfied.

Siblings are generally deemed not to be related for purposes of section 55. However, subparagraph 55(5)(e)(i) provides a limited exception. CRA confirms that **where siblings meet the conditions of the subparagraph 55(5)(e)(i) deeming rule, they can be treated as related when determining whether the trusts themselves are related**. However, all beneficiaries of one trust must still be related to all beneficiaries of the other trust. This requirement will generally not be met where each trust also includes the respective sibling's spouse or children as beneficiaries.

That sibling rule is narrow. It applies where the relevant dividend or deemed dividend is received or paid as part of a series of transactions or events by a corporation of which a share is, at any time in the series, a qualified small business corporation share or a share of a family farm or fishing corporation.

The interaction of these rules are highly relevant to divisive reorganizations involving more than one family trust. However, both the conditions for the sibling rule and the broader section 55 rules applicable to divisive reorganizations are complex and should be considered carefully in the circumstances of each transaction.

A welcome and practical clarification from CRA for STEP members advising on private-company and trust reorganizations.

The CRA's response is contained in **attached technical interpretation 2026-109621 Technical Interpretation** - Relationship between trusts for purpose of section 55, dated October 14, 2026.

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STEP Canada

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STEP Canada, founded in 1998, has over 4,000 members with branches in the following cities and regions: Atlantic, Montreal, Ottawa, Toronto, Winnipeg, Saskatchewan, Calgary, Edmonton, and Vancouver, with chapters in Okanagan Valley, Southwestern Ontario and Vancouver Island. STEP is a multidisciplinary organization with the most experienced and senior practitioners in the field, including lawyers, accountants, financial planners, insurance advisors, trust professionals and wealth managers. They provide domestic and international advice on trust and estates, including planning, administration, and related taxes.