

TAXTALK

2025 FEDERAL BUDGET HIGHLIGHTS

On November 4, 2025, the Minister of Finance and National Revenue, the Honourable François-Philippe Champagne, presented Budget 2025 - Canada Strong, to the House of Commons.

No changes were proposed to personal or corporate tax rates. Some highlights include the following:

A. Personal Measures

- Automatic tax filings for lower-income Canadians to commence for the 2025 tax year.
- A temporary 5% credit for eligible personal support workers working for eligible health care establishments.

B. Business Measures

- A variety of new and extended measures for accelerated CCA on asset acquisitions.
- An anti-avoidance measure to prevent tax deferrals related to refundable dividend tax where dividends are paid within a corporate group.
- An increase to the SR&ED expenditure limit and restoration of the eligibility of capital expenditures for SR&ED claims.

C. International Measures

- Revisions to the transfer pricing rules and requirements.

D. Other Measures

- Deferral of bare trust filing requirements until the 2026 tax year.
- Deferral of expanded filing requirements for non-profit organizations until the 2027 tax year.
- Intention to proceed with previously announced measures, including the increase of the lifetime capital gains exemption limit to \$1,250,000 effective in 2024.
- Confirming the cancellation of the proposed increase to the capital gains inclusion rate and the Canadian entrepreneurs' incentive.

A. Personal Measures

Automatic Federal Benefits for Lower-Income Individuals

Budget 2025 proposed to provide CRA with the discretionary authority to file a tax return on behalf of an individual who meets all of the following criteria:

- the individual would have no taxes on a federal tax return after considering only the basic personal amount, plus any age and disability credits they are entitled to;
- all income of the individual for the taxation year is from sources for which specified information returns have been filed with CRA;
- the individual has not filed a tax return for at least one of the three immediately preceding taxation years; and
- the individual has otherwise not filed a return for the taxation year prior to, or within 90 days following, the tax filing deadline for the year.

CRA may also implement any other criteria as appropriate.

Prior to filing a return, the individual would be provided with the tax information reflected by CRA for their review. The individual would have 90 days to confirm or update it. If they take no action, CRA could file the return, issue a notice of assessment, and determine any credit or benefit entitlements.

In some cases, CRA may need the individual to confirm basic details, such as marital status, before issuing benefits. Some benefits also require a return from the spouse or common-law partner, which CRA could also file if the eligibility criteria are met.

The existing assessment, objection, and appeal processes would apply to assessments issued under these provisions. If it is determined after a tax return has been filed by CRA that the taxpayer did not meet the requirements for automatic tax filing, the tax return would be deemed not to have been filed. Individuals would be able to opt out of automatic tax filing.

This measure would apply to the 2025 and subsequent taxation years. That is, filing could begin in 2026.

Temporary Personal Support Workers Tax Credit

Budget 2025 proposed to provide eligible personal support workers working for eligible health care establishments with a refundable tax credit of 5% of eligible earnings (providing a credit of up to \$1,100). Amounts earned in British Columbia, Newfoundland and Labrador and the Northwest Territories would not be eligible, as federal funding is already provided to increase personal support workers' wages in these jurisdictions.

To qualify, the person must ordinarily provide one-on-one care and essential support to optimise and maintain another individual's health, well-being, safety, autonomy and comfort, consistent with that individual's health care needs as directed by a regulated health care professional or a provincial community health organization. The person's main employment duties must include helping patients with activities of daily living and mobilization.

The person must work for an eligible health care establishment, which would be hospitals, nursing care facilities, residential care facilities, community care facilities for the elderly, home health care establishments and other similar regulated health care establishments.

Eligible earnings would include all taxable employment income, including wages and salaries, and employment benefits (as well as similar tax-exempt income and benefits earned on a reserve) that is earned as an eligible personal support worker performing employment duties for eligible health care establishments.

Employers would need to certify their employees' eligible earnings in prescribed form and manner.

Individuals would need to file a tax return to be eligible. This measure would apply to the 2026 to 2030 taxation years.

Top-Up Tax Credit

The lowest marginal personal tax rate is being reduced to 14.5% for the 2025 taxation year, and to 14% for the 2026 and subsequent taxation years. This rate is also applied to most non-refundable tax credits. In very rare cases where an individual's non-refundable tax credit amounts exceed the first income tax bracket threshold (\$57,375 in 2025), the decrease in the value of these credits may exceed their tax savings from the rate reduction.

Budget 2025 proposed to introduce a new non-refundable top-up tax credit, which would effectively maintain the current 15% rate for non-refundable tax credits claimed on amounts in excess of the first income tax bracket threshold.

The top-up tax credit would apply for the 2025 to 2030 taxation years.

Qualified Investments for Registered Plans – Small Business

Budget 2025 proposed to simplify and streamline the rules relating to registered plan investments in small businesses, while maintaining the ability of registered plans to make such investments.

In particular, RDSP's would be permitted to acquire shares of specified small business corporations, venture capital corporations and specified cooperative corporations (as is currently allowed for RRSPs, RRIFs, TFSAs, RESPs and FHSAs). In addition, shares of eligible corporations and interests in small business investment limited partnerships and small business investment trusts would no longer be qualified investments (for RRSPs, RRIFs, RESPs and DPSPs).

These amendments would apply as of January 1, 2027. Interests in small business investment limited partnerships and small business investment trusts that are acquired before 2027 under the current rules would continue to be qualified investments. The government noted that it is intended that shares of eligible corporations would continue to be qualified investments under the rules relating to specified small business corporations.

Home Accessibility Tax Credit Modification

Budget 2025 proposed to prohibit an expense claimed under the medical expense tax credit from also being claimed under the home accessibility tax credit. Under existing law, if the eligibility criteria for both credits are met, taxpayers can claim both credits in respect of the same expense.

This measure would apply to the 2026 and subsequent taxation years.

Canada Disability Benefit – One-time Supplemental Payment

Budget 2025 proposed to provide a one-time supplemental Canada disability benefit payment of \$150 in respect of each disability tax credit certification, or re-certification, giving rise to a Canada disability benefit entitlement, retroactive to the launch of the Canada disability benefit. Following the successful completion of the regulatory process, the first supplemental payments are expected to be made to recipients before the end of 2026-27.

B. Business Measures

Accelerated Capital Cost Allowance (CCA)

The CCA system determines the deductions that a business may claim each year for income tax purposes in respect of the capital cost of its depreciable property. Depreciable property is divided into CCA classes with each having its own rate, generally aligning with the expected useful life of the assets.

Accelerated Investment Incentive (AII) Extended

Budget 2025 confirmed that the 2024 Fall Economic Statement proposal to reinstate the AII, including accelerated first-year CCA for manufacturing or processing equipment, clean energy generation and energy conservation equipment and zero-emission vehicles, would proceed. All of these incentives began to be phased out in 2024. The reinstatement of the incentives would begin for assets acquired on or after January 1, 2025.

The proposal would restore the enhanced first-year CCA claims that had started to phase out for assets acquired in 2024, ensuring that the full incentives would apply to assets acquired in the calendar years 2025 to 2029. The existing scheduled phaseout from 2024 to 2027 would instead occur from 2030 to 2034.

Immediate Expensing for Manufacturing and Processing Buildings

Eligible buildings in Canada used to manufacture or process goods for sale or lease (manufacturing or processing buildings) have a CCA rate of 10% provided that at least 90% of the building's floor space is used in manufacturing or processing.

Budget 2025 proposed to provide immediate 100% CCA expensing of the cost of eligible manufacturing or processing buildings, including eligible additions or alterations made to such buildings, provided the minimum 90% floor space requirement is met.

Property that has been used, or acquired for use, for any purpose before it is acquired by the taxpayer would be eligible for immediate expensing only if neither the taxpayer nor a non-arm's-length person previously owned the property and the property was not transferred to the taxpayer on a tax-deferred "rollover" basis.

In cases where a taxpayer benefits from immediate expensing of a manufacturing or processing building, and the use of the building is subsequently changed, recapture rules may apply.

This measure would be effective for eligible property that is acquired on or after November 4, 2025 and is first used for manufacturing or processing before 2030. An enhanced first-year CCA rate of 75% would be provided for eligible property that is first used for manufacturing or processing in 2030 or 2031, and a rate of 55% would be provided for eligible property that is first used for manufacturing or processing in 2032 or 2033. The enhanced rate would be phased out entirely for property that is first used for manufacturing or processing after 2033.

Dividend Refund – Tiered Corporate Structures

The Income Tax Act includes rules that seek to prevent the use of Canadian-controlled private corporations (CCPC) to defer personal income tax on investment income. Investment income earned by a CCPC is subject to an additional refundable tax that increases the corporation's tax rate to approximate the highest marginal combined federal-provincial personal income tax rate. A corporation is entitled to a refund of a portion of this additional tax when it pays a taxable dividend, referred to as a dividend refund.

A corporation is generally not subject to income tax on a taxable dividend received from a connected corporation (generally, a corporation that owns shares carrying more than 10% of the votes and value of the payer corporation), except to the extent that the corporation paying the dividend (Payerco) received a dividend refund. In those cases, the corporate shareholder (Receiveco) is subject to a tax equal to the dividend refund received by Payerco, multiplied by Receiveco's portion of the total dividends paid by Payerco. For example, if Payerco paid a \$100,000 dividend and received a \$10,000 dividend tax refund, and Receiveco's dividend received from Payerco was \$20,000, Receiveco would pay \$2,000 of tax on the dividend. This tax would also be refundable when Receiveco pays dividends.

The government is concerned that tax planning techniques have been employed to take advantage of a timing difference where Payerco and Receiveco have different year-ends. For example, Payerco might pay a taxable dividend on October 25, 2025 and receive a dividend refund for its tax year ended on October 31, 2025. If Receiveco's year-end is August 31, it would not be subject to the tax on its dividend received until its August 31, 2026 year-end, resulting in a 10-month deferral of tax.

Budget 2025 proposed to limit the deferral of tax in corporate structures with mismatched year-ends. In general terms, the proposed limitation would suspend Payerco's dividend refund on the payment of a taxable dividend to Receiveco where two conditions are met. First, the suspension would apply only if Receiveco and Payerco are affiliated corporations. Second, the suspension would apply only if a tax deferral such as the one described in the example above

will otherwise be achieved. Specifically, the suspension would apply if Receiveco's taxes payable for the year in which it received the dividend are due later than Payerco's taxes are due for the year in which it paid the dividend. Payerco would generally be entitled to claim the suspended dividend refund in a subsequent taxation year when Receiveco pays a taxable dividend to a non-affiliated corporation or an individual shareholder.

Scientific Research and Experimental Development (SR&ED)

Under the SR&ED tax incentive program, qualifying expenditures are fully deductible in the year they are incurred. Additionally, these expenditures are generally eligible for an investment tax credit.

The tax credit is provided at two rates. A fully refundable tax credit at an enhanced rate of 35% is available for Canadian-controlled private corporations (CCPCs) on up to \$3 million of qualified SR&ED expenditures annually. The \$3 million expenditure limit is gradually phased out where a CCPC's taxable capital employed in Canada for the previous taxation year is between \$10 million and \$50 million. This limit is shared within an associated group of corporations.

A non-refundable tax credit at the general rate of 15% is available for corporations other than CCPCs and for qualified SR&ED expenditures of CCPCs that do not qualify for the enhanced credit.

The 2024 Fall Economic Statement proposed the following additional changes to the SR&ED program:

- increase the expenditure limit from \$3 million to \$4.5 million;
- increase the lower and upper prior-year taxable capital phase-out boundaries to \$15 million and \$75 million, respectively;
- restore the eligibility of SR&ED capital expenditures for both the deduction against income and investment tax credit components of the SR&ED program; and
- extend the enhanced tax credit to eligible Canadian public corporations.

Budget 2025 confirmed that these proposed measures would proceed.

Worker Misclassification – Employee vs Independent Contractor

The government is concerned that the deliberate misclassification of employees as independent contractors means that employers are not withholding and remitting the proper amounts of income tax, CPP and EI contributions. Misclassified employees may lose out on labour law protections, as well as benefits and pensions available to employees.

Trucking sector

The government noted that this misclassification of employees has been particularly common in the trucking industry.

Budget 2025 proposed to provide \$77 million over 4 years starting in 2026-27, with ongoing funding of \$19.2 million annually, for CRA to implement a program that addresses non-compliance related to personal services businesses, as well as to lift the moratorium on reporting fees for services in the trucking industry.

For independent contractors, businesses are generally required to report fees paid to other businesses for services provided. Payments that exceed \$500 in a calendar year must be reported on a T4A slip. While these slips are technically required, CRA has had a longstanding policy of not assessing penalties for failure to report fees for service in a T4A. CRA recently concluded a review and external consultation on these reporting requirements.

The requirement to prepare T4As for payment of fees for service in excess of \$500 will create a significant administrative burden, adding complexity and costs for the trucking industry. It is unclear at this time whether the CRA will broaden enforcement of filing T4As to other industries.

C. International Measures

Transfer Pricing

Budget 2025 proposed to modernise Canada's transfer pricing rules to better align with the international consensus on the application of the arm's length principle. In addition, an interpretation rule would be added to ensure that Canada's transfer pricing rules are applied in a manner consistent with the analytic framework set out by the OECD Transfer Pricing Guidelines.

The new rules would provide more detail on how cross-border transactions between non-arm's length persons must be analysed. A new transfer pricing adjustment application rule would apply if two conditions are met: (i) there is a transaction or series of transactions between a taxpayer and a non-resident person with whom the taxpayer does not deal at arm's length; and (ii) the transaction or series (once it has been analysed and determined) includes actual conditions different from arm's length conditions. The actual conditions are determined not only by the contractual terms of the transaction or series, but also by other "economically relevant characteristics," including the conduct of the participants.

The intention of transfer pricing analysis is to determine the price that would have been charged between arm's length parties in comparable circumstances, taking into account the options realistically available to them at the time of entering into the transaction or series. The arm's length price is the fair market value that should be charged, and the tax authorities can reassess taxpayers transacting at other values.

In addition to modifying the manner in which acceptable transfer prices must be determined, the new rules would modify certain administrative measures.

This measure would apply to taxation years that begin after November 4, 2025.

D. Other Measures

Underused Housing Tax (UHT)

Budget 2025 proposed to eliminate the UHT (which first took effect on January 1, 2022) as of the 2025 calendar year. No UHT would be payable and no UHT returns would be required in respect of the 2025 and subsequent calendar years. Filing requirements, penalties and interest in respect of prior periods would not be removed.

Luxury Tax on Aircraft and Vessels

Budget 2025 proposed to end the luxury tax on subject aircraft and subject vessels. All instances of the tax would cease to be payable after November 4, 2025. Registered vendors in respect of these items would be required to file a final return. The tax would remain applicable to vehicles (such as cars and SUVs) with a value above \$100,000.

Bare Trust Filings

Historically, a trust was required to file a T3 income tax return only if it met one of a number of parameters, and certain arrangements commonly referred to as bare trusts were excluded from the definition of trusts, and thus from filing requirements, entirely.

Effective for trust years ended December 31, 2023 or later, further requirements were added for a trust to be excluded from the filing requirements, new requirements to disclose substantial information regarding a trust's settlors, trustees, beneficiaries and certain other persons were added (filed on Schedule 15) and bare trust arrangements were also required to file.

Due to concerns that bare trust arrangements were extremely common, and often not recognized as trust arrangements by their participants, significant media attention focused on the administrative burden the obligation to file returns for bare trusts imposed on Canadians in late 2023 and early 2024. CRA waived the filing requirements for bare trusts first for 2023, shortly before the filing deadline, and again for 2024, five months before the filing deadline.

Draft legislation to modify these requirements was released on August 12, 2024. On August 15, 2025, revised draft legislation and explanatory notes were released. Neither of these proposals was ever tabled as a Bill. While these proposed measures would reduce the bare trust arrangements for which filings would be required, many common arrangements would still require T3 income tax returns to be filed, leaving a considerable administrative burden.

Budget 2025 confirmed that the government intends to proceed with the August 15, 2025 proposals, subject to further modifications for consultations and deliberations since their release. However, the application date for reporting by bare trusts would be deferred to apply to taxation years ending on or after December 31, 2026, and not require such filings for the 2025 taxation year.

Avoiding the 21-Year Deemed Disposition Rule for Trusts

Trusts are generally deemed to have disposed of their property for fair market value proceeds on the 21st anniversary of their creation, and every 21st anniversary thereafter (the "21-year rule"). Where property is transferred by a trust on a tax-deferred basis to a new trust, a rule prevents the avoidance of the 21-year rule. This rule prevents transactions that would indefinitely postpone tax on accrued gains. However, certain tax avoidance planning techniques have been used to avoid both the 21-year rule and the anti-avoidance rule. For example, this planning may involve transferring trust property on a tax-deferred basis to a beneficiary that is a corporation owned by a new trust.

Budget 2025 proposed to broaden the current anti-avoidance rule for direct trust-to-trust transfers to include indirect transfers of trust property to other trusts. This measure would apply in respect of transfers of property that occur on or after November 4, 2025.

Non-profit Organizations' (NPO) Reporting Obligations

The Government stated that it intends to proceed with proposed expansions to the existing reporting requirements for NPOs by requiring basic filings for smaller NPOs not otherwise required to file and adding regular filing requirements for entities with receipts over \$50,000.

However, this would be deferred to apply for taxation years beginning on or after January 1, 2027 rather than commencing for 2026. The government is reviewing the

feedback it received from consultations with stakeholders and will release final proposals in due course with the objective of minimising any additional administrative burden and clarifying which organizations are, or are not, subject to the new requirement.

We Can Help

Your MG advisor can help you review your personal or business tax situation and help you decide which steps you can take to help you with the taxes you will pay.

A memorandum of this nature cannot be all-encompassing and is not intended to replace professional advice. Its purpose is to highlight tax planning possibilities and identify areas of possible concern. Anyone wishing to discuss the contents or to make any comments or suggestions about this TaxTalk is invited to contact one of our offices.

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