



2025 Federal Budget Commentary

Contents

The 2025 Federal Budget 2

Executive Summary2

Key Business Tax Measures2

 Immediate Expensing for Manufacturing and Processing Buildings 2

 Limiting Tax Deferral in Tiered Corporate Structures 2

 Agricultural Cooperatives — Patronage Dividends..... 2

Tax Incentives for Innovation and Clean Growth3

 SR&ED Program..... 3

 Critical Mineral Exploration Tax Credit (CMETC) 3

 Canadian Exploration Expenses 3

 Clean Electricity Investment Tax Credit 3

 Clean Technology Manufacturing ITC 3

 Carbon Capture, Utilization and Storage (CCUS) ITC 3

International Tax and Cross-Border Measures4

 Transfer Pricing Modernization 4

 Investment Income in Insurance Structures 4

Personal and Trust Tax Measures.....4

 Bare Trust Reporting 4

 21-Year Trust Rule..... 5

 Qualified Investments for Registered Plans..... 5

 Top-Up Tax Credit 5

 Personal Support Workers Tax Credit..... 6

 Home Accessibility Tax Credit..... 6

Indirect Tax and Administrative Changes6

 Elimination of the Underused Housing Tax (UHT) 6

 Removal of the Luxury Tax on Aircraft and Vessels 6

 GST/HST — Manual Osteopathic Services 6

 Combating Carousel Fraud..... 6

 Information Sharing on Worker Misclassification 6

 Automatic Filing for Lower-Income Canadians..... 7

 Canada Carbon Rebate (CCR)..... 7

Previously Announced Measures to Proceed.....7

The 2025 Federal Budget

Executive Summary

Ottawa tabled the 2025 Federal Budget “Building Canada Strong” on November 4, 2025.

The plan targets housing, productivity, clean economy and defence while signaling restraint via a multi-year expenditure review. **There are no changes to federal personal or general corporate tax rates, nor to the capital gains inclusion rate.** The deficit is projected at \$78.3B in 2025–26, narrowing to \$56.6B by 2029–30, with fiscal anchors aimed at balancing day-to-day (operating) spending by 2028–29 and maintaining a declining deficit-to-GDP ratio.

Key Business Tax Measures

Immediate Expensing for Manufacturing and Processing Buildings

Eligible manufacturing and processing buildings — including qualifying additions or alterations — will be eligible for immediate 100% capital cost allowance (CCA).

- ▶ Available for properties acquired on or after November 4, 2025, and used before 2030.
- ▶ The deduction rate will phase down after 2030 and end after 2033.
- ▶ This measure supports reinvestment and modernization within Canada’s manufacturing base.

Limiting Tax Deferral in Tiered Corporate Structures

To prevent income deferral within affiliated corporate chains, dividend refunds will be suspended where mismatched year-ends allow deferral of investment income.

- ▶ Applies to tax years beginning on or after November 4, 2025.
- ▶ The suspension is lifted once dividends are paid outside the affiliated group.
- ▶ Exceptions exist for bona fide transactions and acquisitions of control.

Agricultural Cooperatives — Patronage Dividends

The deferral of tax on patronage dividends paid in eligible shares is extended to shares issued before the end of 2030 (previously 2025).

Tax Incentives for Innovation and Clean Growth

SR&ED Program

The expenditure limit for the enhanced 35% SR&ED credit rises to \$6 million (from \$4.5 million) for taxation years beginning on or after December 16, 2024.

Critical Mineral Exploration Tax Credit (CMETC)

The 30% CMETC now includes exploration for bismuth, cesium, chromium, fluorspar, germanium, indium, manganese, molybdenum, niobium, tantalum, tin, and tungsten. Applies to flow-through share agreements entered into between November 4, 2025 and March 31, 2027.

Canadian Exploration Expenses

The budget clarifies that expenditures aimed at assessing the quality of a mineral resource do not include costs associated with evaluating its economic viability or engineering feasibility. This distinction takes effect November 4, 2025.

Clean Electricity Investment Tax Credit

The budget designates the Canada Growth Fund as an eligible entity for the 15% refundable Clean Electricity Investment Tax Credit (CEITC). It also introduces an exception ensuring that financing provided by the Fund will not reduce the cost of eligible property when calculating the credit. These measures apply to property acquired and available for use on or after November 4, 2025.

Clean Technology Manufacturing ITC

The budget adds antimony, indium, gallium, germanium, and scandium to the eligible mineral list eligible for the 30% refundable CTMITC. This measure is effective for property acquired and available for use on or after November 4, 2025.

Carbon Capture, Utilization and Storage (CCUS) ITC

The Carbon Capture, Utilization, and Storage (CCUS) Investment Tax Credit provides a refundable credit on eligible CCUS-related expenditures. Current credit rates range from 37.5% to 60% for expenditures incurred between 2022 and 2030, depending on the type of equipment. Lower rates, ranging from 18.75% to 30%, apply to eligible expenditures incurred from 2031 to 2040.

The budget extends the full credit rate period by five years, meaning the higher rates will now apply to expenditures incurred up to the end of 2035. Expenditures incurred between 2036 and 2040 will remain subject to the lower rates. The government has also deferred its planned review of CCUS credit rates to take place before 2035 (previously scheduled before 2030).

International Tax and Cross-Border Measures

Transfer Pricing Modernization

The budget introduces a comprehensive modernization of Canada's transfer pricing framework, effective for taxation years beginning after November 4, 2025. These updates align Canadian rules more closely with the OECD's arm's length principle, as set out in the OECD Model Tax Convention, Canada's bilateral tax treaties, and the OECD Transfer Pricing Guidelines.

The revised rules provide enhanced guidance on how to evaluate cross-border transactions between non-arm's length parties, emphasizing not only the contractual terms but also the economically relevant characteristics of each transaction or series of transactions.

A new transfer pricing adjustment rule is introduced to clarify how such transactions must be analyzed and adjusted to reflect arm's length conditions. This includes new definitions of "arm's length conditions" and "economically relevant characteristics," which encompass specific comparability factors used to assess transfer pricing outcomes.

Additional updates include:

- ▶ **Penalty relief:** The threshold for applying transfer pricing penalties will increase to \$10 million (from \$5 million).
- ▶ **Documentation requirements:** The rules will be clarified and updated to align with the new framework, including the introduction of simplified documentation standards.
- ▶ **Filing timeline:** The period to provide transfer pricing documentation will be shortened to 30 days (from 3 months).

Investment Income in Insurance Structures

The budget clarifies that, for taxation years beginning after November 4, 2025, investment income from assets supporting Canadian reinsurance risks will be considered foreign accrual property income (FAPI).

This measure closes a perceived gap where some insurers had taken the view that FAPI did not apply to investment income earned on assets held directly or indirectly through foreign affiliates as part of their integrated insurance operations. It confirms that income related to Canadian risks—such as those involving Canadian residents, property, or businesses—will continue to be taxed on an accrual basis under the FAPI regime.

Personal and Trust Tax Measures

Bare Trust Reporting

The budget defers the implementation of the bare trust reporting rules to apply to taxation years ending on or after December 31, 2026. These rules were originally proposed on August 15, 2025.

21-Year Trust Rule

The budget expands the anti-avoidance provisions of the 21-year trust rule to capture indirect transfers of property between trusts occurring on or after November 4, 2025. This measure targets planning strategies that seek to bypass deemed dispositions—for example, when trust property is transferred on a tax-deferred basis to a corporation owned by another trust.

Under the 21-year rule, personal trusts are deemed to dispose of their capital property at fair market value every 21 years to prevent indefinite deferral of tax on accrued gains. The amendment ensures the rule applies to both direct and indirect trust-to-trust transfers.

Qualified Investments for Registered Plans

The budget simplifies and harmonizes the qualified investment rules across major registered plans — including RRSPs, RRIFs, TFSAs, RESPs, RDSPs, FHSAs, and DPSPs — to create a more consistent and streamlined framework.

Effective January 1, 2027, the following key changes will apply:

- ▶ Expanded eligibility for RDSPs: RDSPs will be permitted to invest in specified small business corporations, venture capital corporations, and cooperative corporations, consistent with other registered plans.
- ▶ Narrowed eligibility for certain small business investments: Shares of eligible corporations and interests in small business investment limited partnerships or trusts will no longer qualify, although investments made before 2027 will be grandfathered.

Additionally, the registered investment regime will be repealed as of November 4, 2025, and replaced with two new categories of qualified investments that do not require CRA registration.

The framework will also consolidate and reorganize the investment rules (excluding DPSPs) into a single definition, categorizing qualified investments by asset class (e.g., debt or equity) for greater clarity and consistency.

Top-Up Tax Credit

The budget introduces a non-refundable Top-Up Tax Credit to maintain the current 15% credit rate for non-refundable tax credits claimed on amounts above the first income tax bracket threshold. This prevents the rate from falling to 14.5% in 2025 and 14% in 2026 and later years. The measure applies to the 2025–2030 taxation years.

The credit is designed to ensure that individuals are not disadvantaged by the middle-class tax cut, particularly in cases where they claim large one-time deductions or credits - such as significant tuition, medical expenses, or multiple combined credits - that could otherwise increase their tax liability.

Personal Support Workers Tax Credit

The budget introduces a temporary refundable tax credit for personal support workers, effective for the 2026–2030 taxation years. Eligible workers employed in qualified health care settings may claim a credit equal to 5% of eligible earnings, up to a maximum of \$1,100 per year.

Home Accessibility Tax Credit

The budget clarifies that expenses claimed under the Medical Expense Tax Credit cannot also be claimed under the Home Accessibility Tax Credit. This measure takes effect for the 2026 and subsequent taxation years.

Indirect Tax and Administrative Changes

Elimination of the Underused Housing Tax (UHT)

The UHT is repealed as of the 2025 calendar year.

- ▶ No tax or filing required for 2025 and later years.
- ▶ 2022–2024 obligations remain.

Removal of the Luxury Tax on Aircraft and Vessels

The budget ends the luxury tax on subject aircraft and subject vessels, effective after November 4, 2025.

- ▶ Registered vendors must file a final return for the period including that date.
- ▶ Registrations automatically cancel February 1, 2028, after which time vendors would no longer be able to claim rebates.

GST/HST — Manual Osteopathic Services

Services provided by non-physician osteopaths become taxable after June 5, 2025, with a transition period to November 4, 2025.

Combating Carousel Fraud

The budget proposes measures to combat “carousel fraud”, where GST/HST is collected but not remitted to the government. To address this, a new reverse charge mechanism (RCM) will be introduced, starting with certain telecommunications supplies.

The federal government is inviting stakeholder feedback on the proposed measures by January 12, 2026.

Information Sharing on Worker Misclassification

This new measure allows CRA and ESDC to share tax data to enforce Canada Labour Code rules — targeting worker misclassification, especially in trucking. The measure would come into force on royal assent.

Automatic Filing for Lower-Income Canadians

The budget proposes to give the Canada Revenue Agency (CRA) the discretionary authority to automatically file tax returns for certain lower-income individuals (excluding trusts), beginning with the 2025 taxation year. This measure is open for consultation until January 30, 2026.

To qualify, individuals must generally meet the following conditions:

- ▶ Have taxable income below the federal basic personal amount (or the provincial equivalent), including applicable age or disability amounts;
- ▶ Earn income only from sources for which information returns have been filed with the CRA;
- ▶ Have not filed a return at least once in the previous three taxation years; and
- ▶ Have not filed a return for the year before, or within 90 days after, the regular filing deadline.

Once a return is automatically processed, individuals will have 90 days to review and request changes. Participation is voluntary, and individuals may opt out at any time.

Canada Carbon Rebate (CCR)

No CCR payments will be issued for returns or adjustments filed after October 30, 2026. Final quarterly payments were issued in April 2025 following the removal of the federal fuel charge.

Previously Announced Measures to Proceed

The budget reaffirms the government's intent to implement several prior measures, including:

- ▶ Capital gains rollover for small business investments
- ▶ Employee Ownership Trust exemptions
- ▶ Substantive CCPC rules
- ▶ Alternative Minimum Tax adjustments
- ▶ Excessive interest and financing expense limitation (EIFEL)
- ▶ Hybrid mismatch rules
- ▶ Global Minimum Tax technical amendments
- ▶ Non-profit reporting requirements

Have Questions?

Our SME advisors can help you evaluate how the 2025 federal budget measures may affect your personal finances or business operations, identify opportunities to benefit from new incentives, and develop strategies to mitigate potential impacts. **Contact us today to learn more.**