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2025 Federal Budget — November 4, 2025

A summary of the key measures that may
have a direct impact on you

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this article.

Minister of Finance and National Revenue François-Philippe Champagne released the federal budget on November 4, 2025, entitled “Building Canada Strong,” against a backdrop of a moderate economic slowdown, trade tensions and geopolitical uncertainty.

The budget plans to build, protect and empower Canadians through strategic investments in housing, infrastructure, defence, productivity and competitiveness, while reducing government spending through a Comprehensive Expenditure Review to achieve \$60 billion in savings and revenues over five years. It also introduces a new Capital Budgeting Framework, to separate spending that contributes to capital formation (called “capital investment”) from day-to-day operating spending.

The budget projects the current 2025/2026 deficit at \$78.3 billion, decreasing gradually to \$56.6 billion in 2029/2030 and sets two fiscal anchors, balancing day-to-day operating spending with revenues by 2028–2029, and maintaining a declining deficit-to-GDP ratio.

From a personal and small business tax perspective, which is the focus of this review, there are no proposed changes to the general personal or corporate income tax rates, capital gains inclusion rates or other broad tax measures. For individuals, in addition to the previously announced new temporary five-year Personal Support Workers refundable Tax Credit and automatic tax filing for seniors/low-income households, there were several measures introduced that seek to improve the fairness and integrity of the tax system; however, no changes to the calculation of the registered retirement income fund

(RRIF) minimum amount were proposed. Business changes include further expansion and acceleration of tax depreciation for clean energy, as well as integrity measures impacting tiered corporate structures subject to refundable tax on investment income.

The following is a summary of the most significant tax and wealth planning measures proposed in the budget.

Personal tax measures

- The budget proposes to introduce a temporary Personal Support Workers Tax Credit, which would provide eligible personal support workers working for eligible health care establishments with a refundable tax credit of 5% of eligible earnings, providing a credit value of up to \$1,100. This measure would be applicable for the 2026 to 2030 taxation years.
- For 2025 and subsequent taxation years, the budget proposes to grant the Canada Revenue Agency (CRA) the discretionary authority to file a tax return for a taxation year on behalf of certain individuals (other than a trust) to ensure they receive income-tested entitlements, such as the GST/HST Credit, the Canada Child Benefit, or the Canada Workers Benefit.
- The middle-class tax cut announced in May 2025, and included in Bill C-4, currently before Parliament, would reduce the first marginal personal income tax rate, and thus the rate applied to most non-refundable tax credits, from 15% to 14.5% for the 2025 taxation year, and to 14% for the 2026 and subsequent taxation years. To ensure that no one impacted has their tax liability increased by the middle-class tax cut, and to help Canadians transition to the lower credit rate, the budget proposes to introduce a new non-refundable Top-Up Tax Credit. This credit would effectively maintain the current 15% rate for non-refundable tax credits claimed on amounts in excess of the first income tax bracket threshold, applicable for the 2025 to 2030 taxation years.
- For 2026 and subsequent taxation years, the budget proposes to amend the Income Tax Act (ITA) such that an expense claimed under the Medical Expense Tax Credit can't also be claimed under the Home Accessibility Tax Credit.
- To help offset the costs of applying for the Disability Tax Credit (DTC) for Canada Disability Benefit recipients, the budget proposes a one-time supplemental Canada Disability Benefit payment of \$150 in respect of each DTC certification, or re-certification, giving rise to a Canada Disability Benefit entitlement. This one-time payment would be retroactive to the launch of the

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Canada Disability Benefit. The budget also confirms the government's intention to bring forward legislation to exempt the Canada Disability Benefit from being treated as income under the ITA.

- The Canadian Carbon Rebate (CCR) is the main mechanism for returning proceeds from the federal fuel charge directly to Canadians residing in provinces where the charge applied, provided they meet eligibility requirements (including filing a tax return). The federal fuel charge was removed as of April 1, 2025. To support the winding down of mechanisms to return fuel charge proceeds, the budget proposes to amend the ITA to provide that no CCR payments would be made in respect of tax returns, or adjustment requests, filed after October 30, 2026.

Qualified investments for registered plans

The budget proposes to simplify and harmonize the qualified investment rules that apply to certain registered plans (e.g. registered retirement savings plans (RRSPs) and tax-free savings accounts (TFSAs)). In particular, this measure would streamline the rules relating to small business investments and replace the registered investment regime with new categories of qualified investments as of 2027.

21-year rule

Personal trusts are generally deemed to have disposed of their capital property and certain other property for fair market value on the 21st anniversary of their creation, and every 21st anniversary thereafter (the "21-year rule"). This prevents personal trusts from being used to indefinitely postpone tax on accrued gains.

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. In that case, the new trust essentially inherits the earlier 21-year anniversary of the old trust. This ensures the transferred property remains subject to the same 21-year period that applied to the old trust. Certain tax avoidance planning techniques have been employed to transfer trust property indirectly to a new trust to avoid

both the 21-year rule and the anti-avoidance rule. For example, this planning may involve trust property being transferred on a tax-deferred basis to a beneficiary that's a corporation owned by a new trust. This planning seeks to do indirectly what can't be done directly.

The budget proposes 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.

Business tax measures

Encouraging clean technology

The budget proposes a number of measures to accelerate the development and adoption of clean technology, including:

- Expanding the list of critical minerals eligible for the Clean Technology Manufacturing investment tax credit to include antimony, indium, gallium, germanium and scandium. This measure would apply in respect of property that is acquired and becomes available for use on or after Budget Day (November 4, 2025).
- Extending, by five years, the availability of the full credit rates for the Carbon Capture, Utilization, and Storage (CCUS) investment tax credit, that would apply from 2031 to 2035.

Immediate expensing for manufacturing and processing buildings

The budget proposes to provide temporary immediate expensing for the cost of eligible manufacturing or processing buildings, including the cost of eligible additions or alterations made to such buildings. The enhanced allowance would provide a 100% deduction in the first taxation year that eligible property is used for manufacturing or processing, provided the minimum 90% floor space requirement is met.

Scientific Research & Experimental Development (SR&ED)

The budget confirmed that it's proceeding with the following previously proposed enhancements to the SR&ED program, originally announced in the 2024 Fall Economic Statement, including:

- Increasing the prior-year taxable capital phase-out thresholds for the SR&ED program's enhanced 35% tax credit.
- Increasing the annual expenditure limit on which the enhanced credit can be earned, from \$3 million to \$6 million (instead of the \$4.5 million previously

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announced), effective for taxation years that begin on or after December 16, 2024.

- Extending the enhanced credit to eligible Canadian public corporations.
- Restoring the eligibility of SR&ED capital expenditures.

Additionally, the CRA intends to engage in targeted consultations to further improve the administration of the SR&ED program, including by reviewing the SR&ED claim form (Form T661).

Tax deferral through tiered corporate structures

The budget proposes to limit the deferral of refundable tax on investment income through the use of tiered corporate structures with staggered year-ends, for taxation years that begin on or after November 4, 2025.

Other measures

Underused housing tax (UHT)

The UHT took effect on January 1, 2022, and applies to certain owners of vacant or underused residential property in Canada, generally non-resident, non-Canadians. The UHT is imposed on an annual basis at a rate of 1% on the value of the property.

The budget proposes to eliminate the UHT as of the 2025 calendar year. As a result, no UHT would be payable and no UHT returns would be required to be filed in respect of the 2025 and subsequent calendar years.

All UHT requirements continue to apply in respect of the 2022 to 2024 calendar years.

Eliminating the Goods and Services Tax (GST) for first-time home buyers

The budget confirms the previously announced proposal to eliminate the Goods and Services Tax (GST) for first-time home buyers on new homes up to \$1 million and reduce the GST for first-time home buyers on new homes between \$1 million and \$1.5 million.

Luxury tax on aircraft and vessels

The federal government imposes a tax on subject vehicles and subject aircraft with a value above \$100,000 and subject vessels (e.g. boats) with a value above \$250,000.

The budget proposes to amend the Select Luxury Items Tax Act 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, including the tax on sales, the tax on importations, and the tax on improvements.

Transfer pricing

To protect the integrity of Canada's tax base, the budget announced the government's intention to propose legislative amendments to reform and modernize the transfer pricing rules, which are used to determine profit among the various entities of a multinational enterprise group.

Previously announced tax measures

The budget clarifies the government's intention regarding a number of previously announced legislative proposals, including the following (which is not an exhaustive list):

- Deferring the application date for reporting by bare trusts, so that it would apply to taxation years ending on or after December 31, 2026.
- Proceeding with the proposals released on August 12, 2024, with respect to alternative minimum tax (AMT), other than changes related to resource expense deductions.
- Proceeding with the proposed increase in the lifetime capital gains exemption (LCGE) to apply to up to \$1.25 million of eligible capital gains announced in Budget 2024.

Notably, the previously announced measures don't include the Canada Entrepreneurs' Incentive, indicating the government doesn't intend to move forward with this measure.

This budget also reaffirms the government's commitment to move forward as required with other technical amendments to improve the certainty and integrity of the tax system.

Prior to implementing any strategies, individuals should consult with a qualified tax advisor, legal professional or other applicable professional.

While it has been the long-standing practice of the CRA to allow taxpayers to file their tax returns based on proposed legislation, a taxpayer remains potentially liable for taxes under current law in the event that a budget proposal is not ultimately passed. Therefore, if proposed legislation does not become law, it is possible that the CRA may assess or re-assess your tax return based on existing legislation. It is recommended that you consult a professional tax advisor to assist you in assessing the costs and benefits of proceeding with specific budget proposals as they relate to you.

If you have questions on any of the issues in this article, please speak with your advisor.



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