2025

Federal budget

Insights from our Tax & Estate Planning professionals

On November 4, 2025, Minister of Finance and National Revenue François-Philippe Champagne tabled the new Liberal Government's first budget, titled *Canada Strong* (**Budget 2025**).

In the face of global uncertainty and significant economic shifts, Budget 2025 is intended to be an investment budget aimed at transforming Canada's economy to one that is stronger, more self-sufficient, and more resilient to global shocks.

Budget 2025 projects an historical deficit of $78.3 billion, including $45.4 billion in capital investments and $33 billion in expenses.

Insight:

Budget 2025 **does not** propose changes to the following items:

- Personal income tax rates (but reaffirms the **reduction of the lowest marginal personal income tax rate** which was originally announced in May 2025);
- Corporate income tax rates;
- The capital gains inclusion rate of 50%;
- The principal residence exemption; and
- Required minimum withdrawals from Registered Retirement Income Funds (RRIF).

Budget 2025 also **does not** introduce a wealth tax for individuals.

Budget 2025 **does not** reinstate the Multiple Unit Rental Building (MURB) cost allowance program, which was previously in effect from 1974 to 1981.

The following is a summary of the tax and wealth planning proposals that we believe are of interest to Richardson Wealth clients, as well as our insights on those proposals.

Reduction of lowest marginal personal income tax rate

Budget 2025 reaffirms the government's plan to reduce the first marginal personal income tax rate from 15% to:

- **14.5%** for the 2025 taxation year; and
- **14%** for the 2026 and subsequent taxation years.

Originally announced in May 2025, and currently in a bill before Parliament, this reduction applies to taxable income in the first tax bracket (up to $57,375 in 2025). The maximum estimated tax savings from this measure is **$420 per individual.**

Insight:

Although Budget 2025 labels this measure the "**Middle-Class Tax Cut**," the rate reduction applies to all individuals, regardless of income level.

That said, the government estimates that approximately 85% of the total tax relief from this measure will go to Canadians with incomes in the two lowest tax brackets. Individuals claiming large non-refundable tax credits, or those under the age of 18 who typically do not owe tax, may see smaller benefits.

Top-Up Tax Credit

The rate applied to most non-refundable tax credits — such as the basic personal amount, spouse or common-law partner amount, tuition and education amounts, and medical expenses — is tied to the first marginal personal income tax rate. As a result, the rate reduction lowers the value of these credits.

In rare cases, an individual whose non-refundable tax credits surpass the first tax bracket threshold could see a reduction in the value of credits that exceeds the tax savings from the rate reduction. To prevent an increase in tax liability under these circumstances, Budget 2025 proposes a new non-refundable **Top-Up Tax Credit**, available for the **2025 to 2030 taxation years**. This credit effectively maintains the current 15% rate for non-refundable tax credits claimed on amounts above the first tax bracket threshold.

Insight:

The Top-Up Tax Credit may apply in situations where an individual claims a large one-time expense, such as high tuition or medical expenses, or claims a combination of large tax credits. In some cases, these claims may include amounts for both the individual and a dependant, or amounts carried forward from previous years.

Automatic federal benefits for lower-income individuals

Canada's tax system relies on self-assessment, and individuals generally need to file a tax return annually to receive benefit and credit payments delivered through the tax system, such as the Goods and Services Tax/Harmonized Sales Tax (GST/HST) credit and the Canada Child Benefit.

For **2025 and subsequent taxation years**, Budget 2025 proposes giving the Canada Revenue Agency (CRA) discretionary authority to **automatically file a tax return** on behalf of lower-income individuals that meet certain other conditions.

Prior to filing a tax return on behalf of an eligible individual, the CRA would provide the individual with the information it has available at the time. The individual would have **90 days** to review and make corrections to the information. If no response is received, the CRA may proceed with filing the return. They would then issue a notice of assessment and subsequently determine and issue the individual's credit and benefit entitlements.

Eligible individuals would be able to opt out of automatic filing. If it is determined after a tax return has been filed by the CRA that the individual did not meet the requirements for automatic tax filing, the tax return will be deemed not to have been filed.

First-time home buyers' GST rebate

Originally announced in May 2025, Budget 2025 reaffirms the government's plan to **eliminate the GST** for first-time home buyers on new homes priced **up to $1 million**, and **reduce the GST** for first-time home buyers on new homes priced **between $1 million and $1.5 million**. The government estimates that this measure could allow first-time home buyers to save **up to $50,000** on a new home.

Productivity Super-Deduction

Budget 2025 introduces the **Productivity Super-Deduction**, a set of enhanced tax incentives designed to encourage businesses to invest in new capital by allowing them to write off a larger portion of investment costs immediately. This measure aims to make it easier for businesses to purchase machinery, equipment, technology, and other productivity-enhancing assets, strengthening Canada's competitiveness for investment.

The Productivity Super-Deduction includes several previously announced measures, with Budget 2025 adding **immediate expensing** (i.e., 100% first-year write-off) for **manufacturing or processing buildings** acquired **on or after November 4, 2025**, and first used for manufacturing or processing **before 2030**.

To qualify for the enhanced expensing rate, **at least 90%** of the building's floor space must be used to manufacture or process goods for sale or lease.

The enhanced expensing measure will be phased out gradually **from 2030 to 2033**, as noted in the table below.

Year building first used	Enhanced first-year expensing rate
Before 2030	100%
2030	75%
2031	75%
2032	55%
2033	55%

Insight:

This enhanced expensing could deliver substantial tax savings, as current rules set the maximum expensing rate for the use of qualifying manufacturing or processing buildings at **10%**.

Scientific Research and Experimental Development (SR&ED)

The SR&ED program allows qualifying research and development expenditures to be fully deductible in the year they are incurred. Furthermore, these expenditures are generally eligible for an investment tax credit. For Canadian-controlled private corporations (CCPC), **a refundable tax credit of 35%** is currently available on **up to $3 million** of qualifying SR&ED expenditures per year.

Budget 2025 proposes to **increase the expenditure limit to $6 million** for taxation years beginning **on or after December 16, 2024**.

Tax deferral through tiered corporate structures

A CCPC pays an additional refundable tax on investment income, which is refunded at a rate of $1 for every $2.61 of taxable dividends paid to its shareholders. If the shareholder is a corporation that is **connected** with the payor corporation for tax purposes, the recipient corporation pays a refundable Part IV tax equal to its share of the payor corporation's dividend refund.

When the payor and recipient corporations have different taxation year ends, a timing difference will arise, creating a potential tax deferral benefit. Specifically, the payor corporation could receive a dividend refund well before the recipient corporation is required to pay the tax on the dividend.

Example:

A payor corporation could pay a taxable dividend in its 2025 taxation year that is in the recipient corporation's 2026 taxation year. This could defer the tax liability on the investment income of the corporate group to the recipient corporation's balance-due day for its 2026 taxation year, rather than being payable on the payor corporation's balance-due day for its 2025 taxation year.

Budget 2025 proposes to limit this deferral for taxation years beginning **on or after November 4, 2025**. This is achieved by **suspending the dividend refund** to a payor corporation when the recipient corporation is **affiliated** for tax purposes and its balance-due day for the year in which it receives the dividend falls *after* the payor corporation's balance-due day for the year in which the dividend *was paid*.

The payor corporation may generally claim the suspended dividend refund in a subsequent year when the recipient corporation pays a taxable dividend to a non-affiliated corporation or individual shareholder.

Insight:

This measure will add complexity to taxpayers by requiring them to track whether dividends between affiliated corporations are suspended.

Deferral of bare trust reporting

Budget 2025 proposes to extend the deferral of tax reporting by certain bare trusts to taxation years **ending on or after December 31, 2026**.

Insight:

The requirement — and the corresponding legislation — for bare trusts to file tax reporting has undergone multiple deferrals and revisions. The latest extension appears aimed at giving taxpayers additional time to identify arrangements that must be reported, and to provide the government sufficient time to implement any technical amendments to the rules.

Other new measures

- Eliminate the ability to claim both the **Home Accessibility Tax Credit** and the **Medical Expense Tax Credit** in respect of the same expense.
- Introduce a **one-time $150 supplemental Canada Disability Benefit** payment per Disability Tax Credit certification to help reduce application costs, as well as exempt the benefit from being treated as income for tax purposes.
- Introduce a temporary refundable **Personal Support Workers Tax Credit** of **up to $1,100** for eligible personal support workers, excluding those working in British Columbia, Newfoundland and Labrador, and the Northwest Territories.
- Expand the existing rule that prevents avoidance of the **21-year deemed disposition rule** for personal trusts to also capture **indirect transfers of trust property to other trusts**.
  - Under this measure, property indirectly transferred to another trust would continue to be subject to the original trust's 21-year period.
- Simplify and harmonize the **qualified investment rules** that apply to registered plans.
  - Permit **Registered Disability Savings Plans (RDSP)** to invest in specified small business corporations, venture capital corporations, and specified cooperative corporations.
- Boost clean economy investment through tax credits:
  - Expand the **Critical Mineral Exploration Tax Credit** to include additional critical minerals.
  - Expand the list of critical minerals eligible for the **Clean Technology Manufacturing investment tax credit**.
  - Extend full tax credit rates for the **Carbon Capture, Utilization, and Storage investment tax credit**.

Previously announced measures

Budget 2025 confirms the government's intention to proceed with certain measures announced by the previous government. Notable measures include:

- Amendments to the **alternative minimum tax (AMT)** rules, including limiting the amount of **investment management fees** that can be claimed under the AMT calculation to **50%** of the amount allowed under the regular tax calculation.
- Finalizing legislation to increase the **lifetime capital gains exemption** amount to **$1.25 million** for qualifying dispositions made **on or after June 25, 2024**.
- Extending the time period for the **post-mortem capital loss carryback** to the first **three taxation years** of the estate (currently only the first taxation year).

Cancelled tax measures

Canadian Entrepreneurs' Incentive (CEI)

Originally introduced in Budget 2024, the CEI was intended to encourage entrepreneurship by reducing the capital gains inclusion rate on up to $2 million of capital gains realized on sales of qualifying business shares. However, the CEI was never enacted, and with the cancellation of the proposed increase to the capital gains inclusion rate from Budget 2024, Budget 2025 confirms that the CEI is cancelled.

Underused Housing Tax (UHT)

The UHT took effect on January 1, 2022 and charges an annual tax of 1% on the value of vacant or underused residential property in Canada owned by certain non-resident and non-Canadian owners.

Budget 2025 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.

Insight:

Note that all UHT obligations continue to apply in respect of the 2022–2024 calendar years. Penalties and/or interest for these years also continue to apply.

Also note that provincial and municipal vacancy taxes may continue to apply, depending on the location of the residential property.

Luxury tax on aircraft and vessels

A luxury tax is charged on sales, importations, leases, and certain improvements of subject vehicles and subject aircraft with a value above $100,000, and subject vessels (e.g., boats) with a value above $250,000. The tax is equal to the lesser of 10% of the total value of the subject item and 20% of the value above the relevant threshold.

Budget 2025 proposes to end the luxury tax on subject aircraft and subject vessels after November 4, 2025.

Insight:

It appears the luxury tax will continue to apply to subject vehicles.