

Tax Planning

2025 Federal Budget Highlights

On November 4, 2025, Canada’s Minister of Finance, François-Philippe Champagne, presented the federal budget for the 2025-2026 fiscal year. We have summarized selected highlights of the personal and business tax measures and how they impact Canadians and Canadian businesses generally.

INDIVIDUALS

Personal Tax Rates

The government proposed a reduction to the lowest marginal personal income tax rate from 15 per cent to 14 per cent, effective July 1, 2025 under the provisions of the middle-class tax cut (Bill C-4). To reflect the one percent tax cut which came into effect halfway through the year, the full-year tax rate for 2025 will be 14.5 per cent and the full-year rate for 2026 and subsequent years will be 14 per cent.

2024 Taxable Income	2024 Tax Rates	2025 Taxable Income	2025 Tax Rates
\$0 to \$55,867	15%	\$0 to \$57,375	14.5%
\$55,867 to \$111,733	20.5%	\$57,375 to \$114,750	20.5%
\$111,733 to \$173,205	26%	\$114,750 to \$177,882	26%
\$173,205 to \$246,752	29%	\$177,882 to \$253,414	29%
Over \$246,752	33%	Over \$253,414	33%

Based on known rates as of November 4, 2025

Basic Personal Amount	2024	2025
Net income greater than amount at which the 33% bracket begins	\$14,156	\$14,538
Net income less than amount at which the 29% bracket begins	\$15,705	\$16,129

Top-Up Tax Credit

- As the rate applied to most non-refundable tax credits is based on the first marginal tax rate, this could decrease the value of these credits in certain cases when an individual’s non-refundable tax credit amount exceeds the first income tax bracket.
- To ensure taxpayers that would potentially have their tax liability increased by the middle-class tax cut, the 2025 budget proposes to introduce a new non-refundable Top-Up Tax Credit to effectively maintain the current 15-per-cent rate for non-refundable tax credits claimed on amounts greater than the first income tax bracket for the 2025-2026 tax years.

Amendments to Qualified Investments for Registered Plans

- The budget proposes simplifying and streamlining the rules relating to registered plan investments to be maintained and extended to registered disability savings plans, or RDSPs, including:
 - Permitting RDSPs to acquire shares of specified small business corporations, venture capital corporations and specified cooperative corporations.
 - Shares of eligible corporations and interests in small business investment limited partnerships and small business investment trusts would no longer be considered to be qualified investments.

Automatic Tax Filing and Federal Benefits for Lower-Income Individuals

- As individuals need to file an annual tax return to receive government benefits through the tax system, the budget proposes to amend the Income Tax Act to allow the Canada Revenue Agency authority to file a tax return on behalf of individuals who meet all of the following criteria:
 - The individual's taxable income for the tax year is below the lower of the federal basic personal amount or provincial equivalent (plus the age amount and/or disability amount, if applicable);
 - All income reported for the individual in the taxation year is from sources for which information returns have been filed with the CRA;
 - In at least one of the preceding three taxation years, the individual has not filed a tax return;
 - The individual has not filed a return for the taxation year prior to or within 90 days following the tax filing deadline for the year; and
 - Any other criteria, as determined by the Minister of National Revenue.

Personal Support Workers Tax Credit

- The budget proposes a new temporary Personal Support Workers Tax Credit which provides eligible personal support workers with a refundable tax credit of 5 percent of eligible earnings, up to a maximum credit value of \$1,100.
- A number of conditions must be met to be eligible for the credit, including working in a regulated healthcare establishment and filing of a personal tax return. Amounts earned in British Columbia, Newfoundland and Labrador, and the Northwest Territories would not be eligible as these jurisdictions have existing agreements in place with the federal government.

21-Year Personal Trust Anti-Avoidance Rules

- Changes were proposed to the anti-avoidance rules with respect to personal trusts, which are typically deemed to have disposed of their capital property based on the fair market value of the property on the 21st anniversary after their creation, commonly known as the "21-year rule".

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- The budget broadens current anti-avoidance provisions for direct trust-to-trust transfers to include indirect transfers of trust property to other trusts.

Bare Trust Tax Reporting Rules

- The budget defers the trust tax reporting rules proposed on August 15th, 2025 with respect to bare trusts to the tax year ending on or after December 31, 2026.

CRA Information Sharing – Worker Misclassification

- Previously, the 2024 budget announced that Employment and Social Development Canada (ESDC) and the CRA would enter into a data-sharing agreement to enforce worker misclassification under the Canada Labour Code.
- The 2025 budget proposes to amend the Income Tax Act and Excise Tax Act to allow the CRA to share taxpayer data and confidential information to ensure correct worker classification as either an employee or independent contractor.

Canadian Entrepreneurs' Incentive

- The budget cancels the Canadian Entrepreneurs' Incentive that was previously announced in the 2024 budget which would have allowed individuals to reduce their capital gains inclusion rate on the disposition of certain small business corporate shares.

Lifetime Capital Gains Exemption (LCGE)

- The 2025 budget confirms the increase the LCGE on eligible capital gains up to \$1,250,000 for dispositions that occur on or after June 25, 2024 as announced in budget 2024.

Amendments to Previously Proposed Alternative Minimum Tax Changes

- The budget confirms the legislative changes introduced on August 14, 2024 to the original AMT proposals (other than changes related to resource expense deductions).

Home Accessibility Tax Credit

- The budget proposes to prevent the same home accessibility expenses from being claimed under both the Medical Expense Tax Credit and Home Accessibility Tax Credit.
- These measures would come into effect for the 2026 and subsequent taxation years.

Canada Carbon Rebate

- As the federal fuel surcharges was removed as of April 1, 2025, the government provided a final CCR payment starting in April 2025 to eligible households.
- The budget proposes to amend the Income Tax Act to end CCR payments with respect to tax returns or adjustment requests filed after October 30, 2026.

BUSINESSES

The budget did not propose any changes to federal corporate income tax rates or to the \$500,000 small business limit.

Federal Corporate Tax Rates

Corporate Income Type	2024	2025
General corporate income	15.00%	15.00%
Small business income	9.00%	9.00%
CCPC* investment income	38.67%	38.67%
Non-CCPC investment income	15.00%	15.00%
Manufacturing & processing income	15.00%	15.00%

**Canadian-controlled private corporation
Based on known rates as of November 4, 2025
Rates represent calendar year rates*

Immediate Expensing for Manufacturing and Processing Buildings

- The budget introduces temporary immediate expensing for eligible manufacturing and processing buildings, allowing a 100% deduction in the first year the property is used for manufacturing or processing (with a 90% floor space requirement), effective for property acquired on or after November 4, 2025 and first used before 2030, with phased enhanced rates for use in 2030–2033.

Scientific Research and Experimental Development Tax Incentive Program

- The budget increases the SR&ED annual expenditure limit for the enhanced 35% refundable Investment Tax Credit to \$6 million for taxation years beginning on or after December 16, 2024, building on prior changes that expanded refundability and reinstated eligibility for capital expenditures.

Agricultural Cooperatives: Patronage Dividends Paid in Shares

- Before 2005, patronage dividends paid in shares by agricultural cooperatives were taxable in the year received, and cooperatives had to withhold tax. In 2005, rules changed to allow deferral of tax and withholding on eligible shares until disposition, provided shares are not redeemable or retractable within five years except in cases of death, disability, or membership termination. This measure was set to expire at the end of 2025. The budget proposes to extend it for eligible shares issued before the end of 2030.

Critical Mineral Exploration Tax Credit

- The Critical Mineral Exploration Tax Credit (CMETC) gives individuals a 30% credit on specified mineral exploration expenses renounced through eligible flow-through shares. These shares let corporations transfer Canadian exploration expenses (CEE), renewable and conservation expenses (CRCE), and development expenses (CDE) to investors for tax deductions.
- Current eligible minerals include nickel, cobalt, graphite, copper, rare earth elements, vanadium, tellurium, gallium, scandium, titanium, magnesium, zinc, platinum group metals, uranium, and lithium. The budget adds bismuth, cesium, chromium, fluorspar, germanium, indium, manganese, molybdenum, niobium, tantalum, tin, and tungsten.

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- The credit applies to agreements entered into after November 4, 2025, and before March 31, 2027.

Clean Technology Manufacturing Investment Tax Credit

- The Clean Technology Manufacturing Investment Tax Credit provides a refundable credit of 30% on investments in new machinery and equipment used to manufacture or process clean technologies or extract, process, or recycle critical minerals essential for clean technology supply chains, such as lithium, cobalt, nickel, graphite, copper, and rare earth elements.
- The budget expands eligibility to include antimony, indium, gallium, germanium, and scandium.
- The credit applies to property acquired and available for use on or after November 4, 2025.

Investment Tax Credit for Carbon Capture, Utilization, and Storage

- The CCUS Investment Tax Credit is refundable and supports eligible carbon capture, utilization, and storage expenditures. Full rates apply until 2035: 60% for direct air capture equipment, 50% for other capture equipment, and 37.5% for transportation, storage, and use of equipment. From 2036 to 2040, rates drop to 30%, 25%, and 18.75% respectively. Eligible uses include geological storage and concrete storage, excluding enhanced oil recovery. The budget extends full rates by five years and delays the scheduled review to before 2035.

Clean Electricity Investment Tax Credit and Canada Growth Fund

- The Clean Electricity Investment Tax Credit offers a 15% refundable credit on eligible investments in low-emission electricity generation, storage, and interprovincial transmission equipment. Eligible entities include Canadian corporations, Crown corporations, municipal and Indigenous-owned corporations, pension investment corporations, and the Canada Infrastructure Bank.
- The budget adds the Canada Growth Fund as an eligible entity and confirms that its financing will not reduce the property cost for ITC purposes. These measures apply to property acquired and available for use on or after November 4, 2025.

Tax Deferral Through Tiered Corporate Structures

- The 2025 budget proposes to suspend dividend refunds where a payer corporation pays a taxable dividend to an affiliated corporation whose balance-due day falls after the payer's. Refunds will be allowed later when dividends flow to non-affiliated corporations or individuals.
- Exceptions apply if subsequent dividends are paid before the payer's balance-due day or during certain acquisitions of control.
- Changes are effective for taxation years beginning on or after November 4, 2025.

OTHER MEASURES

GST/HST Treatment of Manual Osteopathic Services

- Budget 2025 amends the definition of practitioner, for the purpose of a health care services exemption, to exclude osteopathic services and a person who practices osteopathy. Under the amendments, services performed after June 5, 2025, are GST/HST taxable.

Reverse Charge Mechanism

- The budget proposes a reverse charge mechanism (RCM) to combat carousel schemes in the telecommunications sector. A carousel scheme involves a network of businesses that create a circular supply chain of goods or services, with each member claiming input tax credits on GST/HST paid to the previous supplier. One entity, the missing trader, collects GST/HST, but disappears before remitting the GST/HST to the CRA.
- The RCM would apply to supplies of certain telecommunications services. Where the RCM applies, rather than the supplier collecting and remitting GST/HST on a supply, the recipient would be required to self-assess and report the GST/HST payable and, if registered for GST/HST at the time of the supply, would be entitled to claim an input tax credit.

Underused Housing Tax

- The budget repeals the Underused Housing Tax for 2025 and subsequent calendar years. The tax is viewed as inefficient, costly to administer and challenging for Canadian industries at a time of ongoing economic uncertainty.

Select Luxury Items Tax

- The Select Luxury Items Tax applied to aircraft and vehicles with a retail price over \$100,000 and vessels with a retail price over \$250,000. The new budget repeals the tax on sales, importation, and certain improvements to aircraft and vessels effective November 5, 2025.
- Registered vendors for aircraft and vessels should file final returns for periods up to and including November 4, 2025. Registrations for aircraft and vessels will be cancelled effective February 1, 2028, and vendors will no longer be able to claim vendor export rebates after that date.
- The tax remains in place for vehicles with a retail price over \$100,000.
- The government made these changes for administrative savings, and the tax was viewed as being detrimental to Canada's aerospace and maritime industries.

Transfer Pricing

- Budget 2025 proposes to update Canada's transfer pricing rules to align with OECD guidelines by requiring transactions with non-arm's length non-residents to be analyzed based on economically relevant characteristics and actual conduct, allowing adjustments to reflect arm's length conditions including replacing or disregarding transactions in rare cases, and introducing administrative changes such as raising the penalty threshold to \$10 million, clarifying and simplifying documentation requirements, and reducing CRA response time to 30 days.

Investment Income Derived from Assets Supporting Canadian Insurance Risks

- The budget proposes the expansion of the foreign accrual property income (FAPI) rule for Canadian taxpayers with foreign affiliates.
- Income from the insurance of Canadian risks will now include investment income earned on assets held to support those risks, even if they are insured by another entity. Canadian risks include persons resident in Canada, property in Canada, or businesses carried on in Canada. This measure applies to taxation years of foreign affiliates beginning after November 4, 2025.

Previously Announced Measures

- The budget confirms it will proceed with previously announced tax measures from the prior government, incorporating adjustments based on consultations since their release. These include, among others:
 - Bare trust reporting rules
 - Capital Gains Rollover on Small Business Investments
 - Excessive Interest and Financing Expenses Limitation Rules
 - Hybrid mismatch rules
 - Legislative and regulatory proposals released on August 12, 2024, including rules related to withholding for non-resident service providers, Alternative Minimum Tax, and avoidance of tax debts
 - Lifetime capital gains exemption changes
 - Reporting by Non-profit Organizations
 - Substantive Canadian-Controlled Private Corporations
 - Tax exemption for sales to Employee Ownership Trusts
 - Technical amendments to the Global Minimum Tax Act

Refer to the [official Budget 2025 document](#) for further details on the above tax announcements.

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