2025 federal budget

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Photo Credit: Jamie Golombek in Ottawa on Budget Day 2025

The 2025 federal budget (the “Budget”) included a number of tax measures that will affect Canadian taxpayers. The Budget also confirmed the government’s intention to proceed with many previously announced tax measures that were never enacted into law. Rather than summarizing the contents of the entire Budget, this report, which was prepared from within the Budget lock-up in Ottawa, will focus on some of the key tax measures that are of most interest to individuals and business owners.

Personal tax measures

Tax rates

Canadian individuals pay income tax at graduated rates, meaning that your rate of tax gets progressively higher as your taxable income increases. The middle-class tax cut announced in May 2025, and included in Bill C-4 which is currently before Parliament, would reduce the first marginal personal income tax rate to 14.5% from 15% for the 2025 taxation year, and to 14% for the 2026 and subsequent taxation years. The tax brackets and rates that would apply in 2025 are shown in Figure 1.

Figure 1: Federal tax rates at varying levels of taxable income in 2025

Taxable income	Federal tax rate
Up to $57,375	14.5%
Above $57,375 and up to $114,750	20.5%
Above $114,750 and up to $177,882	26.0%
Above $177,882 and up to $253,414	29.0%
Above $253,414	33.0%

While there were no further changes to individual tax rates in the Budget, the government did introduce a new "Top-up tax credit" which aims to fix a problem associated with the reduction in the lowest bracket as it relates to the value of non-refundable tax credits.

Top-up tax credit

The rate applied to most non-refundable tax credits is based on the lowest marginal personal income tax rate. When this bracket was reduced to 14.5%, the value of most non-refundable credits also decreased. As a reminder, income taxes are determined by first multiplying taxable income by the various applicable graduated tax rates, and then subtracting from that result the value of various non-refundable tax credits, such as the basic personal amount, age amount, pension income amount, and the credit for medical expenses (among many others).

The *Income Tax Act* (the "Act") establishes the method for calculating these non-refundable tax credits by applying an "appropriate percentage" to eligible amounts. That appropriate percentage is defined in the Act as the lowest of the rates. What that means is that the decrease to the lowest tax rate does indeed reduce tax, but also reduces the value of most non-refundable credits.

In very rare cases where an individual's non-refundable tax credit amounts exceed the lowest 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. This might happen in situations where an individual claims a large one-time expense, such as amounts for high tuition or medical expenses, or claims a combination of large non-refundable tax credits. In some cases, these claims are for both themselves and a dependant, and could also include amounts carried forward from previous years, such as the federal tuition credit, which has an unlimited carryforward period.

To ensure that no taxpayer in this circumstance has their tax liability increased as opposed to decreased by the middle-class tax cut, the Budget proposed to introduce a new non-refundable Top-up tax credit. The 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. The top-up tax credit would apply for the 2025 to 2030 taxation years.

Home Accessibility Tax Credit

The Home Accessibility Tax Credit (HATC) is a non-refundable tax credit that applies at the lowest personal income tax rate on up to $20,000 of qualifying expenditures for home renovations per calendar year. Expenses that qualify for the HATC must be incurred to either:

- Enable an eligible individual to gain access to, or be mobile or functional within, an eligible dwelling, or
- Reduce the risk of harm to the qualifying individual within the eligible dwelling or in gaining access to the eligible dwelling.

A qualifying individual is someone who is either aged 65 or older, or a taxpayer who is eligible for the Disability Tax Credit.

The medical expense tax credit (METC) is a non-refundable tax credit that applies at the lowest personal income tax rate on the amount of qualifying medical expenses in excess of the lesser of $2,834 (for 2025) and 3% of the taxpayer's net income. METC-eligible expenses include certain costs to renovate or alter the dwelling of an individual who lacks normal physical development or has a severe and prolonged mobility impairment, to enable that individual to gain access to, or to be mobile or functional within, the dwelling.

Under the current rules, if the eligibility criteria for both credits are met, taxpayers can effectively "double-dip" by claiming both credits for the same expense.

The Budget proposes to end this, such that an expense claimed under the METC cannot also be claimed under the HATC. This change will be effective for the 2026 tax year, making December 31, 2025 the deadline if you want to claim both credits for the same expense.

Personal Support Workers Tax Credit

The Budget proposed a new, temporary Personal Support Workers Tax Credit, which would provide eligible personal support workers (PSWs) working for eligible health care establishments with a refundable tax credit of 5% of eligible earnings, up to a maximum value of $1,100.

To qualify, the PSW 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. The PSW's main employment duties must include helping patients with activities of daily living and mobilization.

Eligible health care establishments include: hospitals, nursing care facilities, residential care facilities, community care facilities for the elderly, and home health care establishments. Eligible earnings qualifying for this new credit include all taxable employment income, such as wages or salary, and the value of any employment benefits.

Note that amounts earned in British Columbia, Newfoundland and Labrador, and the Northwest Territories will not be eligible, as these jurisdictions have already signed bilateral agreements with the federal government to include a "Personal Support Workers and Related Professions Addendum" to their funding agreements, which provide funding over five years to increase personal support workers' wages.

Eligible PSWs need to file a tax return to qualify for this refundable tax credit. This temporary credit would be available for the 2026 to 2030 taxation years.

Flow-through shares

Flow-through shares allow corporations to renounce or essentially "flow through" Canadian exploration expenses (CEE), including Canadian renewable and conservation expenses (CRCE), and Canadian development expenses (CDE) to investors, who can deduct the expenses in calculating their own taxable income (at a 100% rate for CEE, including CRCE, and at a 30% rate for CDE).

The Critical Mineral Exploration Tax Credit (CMETC) provides an additional income tax benefit for individuals who invest in eligible flow-through shares, and is equal to 30% of specified mineral exploration expenses incurred in Canada, which are then renounced to flow-through share investors. Currently, the following critical minerals are eligible for the CMETC: nickel, cobalt, graphite, copper, rare earth elements, vanadium, tellurium, gallium, scandium, titanium, magnesium, zinc, platinum group metals, uranium, and lithium.

The Budget proposed to expand the list of critical minerals to also include: bismuth, cesium, chromium, fluorspar, germanium, indium, manganese, molybdenum, niobium, tantalum, tin, and tungsten. These new rules would apply to expenses renounced under eligible flow-through share agreements entered into after November 4, 2025, and on or before March 31, 2027.

But, it's not all good news for flow-through share investors. The Budget noted that the government would be cancelling its August 2024 draft legislative proposal that would have allowed resource expense deductions to be 100% deductible under the Alternative Minimum Tax (AMT) regime.

The AMT regime imposes a minimum level of tax on taxpayers who claim certain tax deductions, exemptions or credits to reduce the tax that they owe to very low levels. Under the AMT system, there is a parallel tax calculation that allows fewer deductions, exemptions, and credits than under the regular income tax calculation. If the amount of tax calculated under the AMT system is more than the amount of tax owing under the regular tax system, the difference owing is payable as AMT for the year. Changes to the AMT came into effect in 2024 which include: raising the AMT rate, increasing the AMT exemption, and broadening the AMT base by limiting certain amounts that reduce taxes (such as exemptions, deductions, and credits.)

In August 2024, draft legislation proposed a 100% deduction for resource expenses, as well as interest on borrowed funds related to these investments for AMT purposes. This was a welcome change for flow-through share investors as these expenses were previously added back in full for AMT purposes. It seems that the government is reverting back to the previous regime, meaning that flow-through expenses would no longer be 100% deductible in computing adjusted taxable income for AMT purposes.

Flow-through share investors should speak to their tax advisors to see how AMT could impact them. The Budget didn't specify if this change in government policy would be retroactive to 2024, when the AMT regime was tightened, or would apply to future flow-through share investments.

21-year rule trust planning

Most trusts are deemed to have disposed of their capital property for fair market value proceeds on the 21st anniversary of the trust's creation, and every 21st anniversary thereafter. This is commonly known as the "21-year rule." The purpose of the rule, which has been a fixture of the Canadian tax law since the introduction of capital gains tax back in 1972, is meant to prevent trusts from being used to indefinitely postpone tax on accrued gains. A transfer of property from a trust to a Canadian beneficiary can occur on a rollover basis, (where the property is transferred at its adjusted cost base) effectively deferring the recognition of a capital gain until that beneficiary disposes of the property or dies (or possibly until their spouse or common-law partner disposes of the property or dies).

Where property is transferred by a trust on a tax-deferred basis directly to a new trust, a special rule in the Act prevents the avoidance of the 21-year rule by requiring the new trust to essentially inherit the earlier 21-year anniversary of the old trust. This anti-avoidance rule is meant to ensure that the transferred property is still subject to the original 21-year period that applied to the original older trust.

In recent years, various tax planning techniques have been devised 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 often involves trust property being rolled out on a tax-deferred basis to a corporate beneficiary owned by a new trust, and the Budget indicated this was seeking "to do indirectly what cannot be done directly."

As part of the mandatory disclosure rules currently in the Act, certain transactions that the CRA considers abusive are required to be reported to the CRA. A rollover transaction from a trust to a corporation owned by a new trust had been designated as one requiring such reporting.

Nonetheless, the Budget proposed to broaden the current anti-avoidance rule for direct trust-to-trust transfers to include indirect transfers of trust property to other trusts. The new rule would apply for any transfers of property done on or after November 4, 2025.

Cancellation of the Underused Housing Tax

The Underused Housing Tax (UHT) came into effect on January 1, 2022, and applies to certain owners of vacant or underused residential property in Canada, who were, for the most part, non-resident, non-Canadians. The UHT is currently imposed on an annual basis at a rate of 1% on the value of the property.

The Budget proposed to eliminate the UHT as of the 2025 calendar year. As a result, no UHT will be payable and no UHT returns will be required to be filed for 2025 and subsequent calendar years.

Note that all UHT requirements continue to apply for the 2022 to 2024 calendar years, with the result that penalties and/or arrears interest for failing to file a UHT return, if required, or for failing to pay UHT when due, continue to apply in respect of the 2022 to 2024 calendar years.

Cancellation of the luxury tax on boats and airplanes

In 2022, the federal government introduced a luxury tax on certain vehicles and airplanes with a value above a $100,000 threshold, and certain boats with a value above a $250,000 threshold. The luxury tax is equal to the lesser of 10% of the total value of the item, and 20% of the value above the relevant threshold. The tax is generally imposed on sales, imports, and leases of high-value vehicles, airplanes, and boats.

The Budget proposed to end the luxury tax on airplanes and boats, such that the tax no longer applies after November 4, 2025.

No changes to RRIF minimums

Finally, retirees holding their breath for a relaxation of the registered retirement income fund (RRIF) required minimums should give up, at least for now. You'll recall that in the run-up to the election, the Liberals promised to "protect retirement savings" by reducing the minimum amount that must be withdrawn from a RRIF by 25% for one year. This measure was meant to "allow Canadian seniors more flexibility in choosing when to draw from their retirement savings." The Budget did not include any mention of possible changes to the minimum amount.

The requirement to withdraw a minimum annual amount, whether you need it or not, is one of the biggest concerns voiced by some seniors when it comes to retirement planning since it effectively forces them to pay tax on their retirement assets before they need to spend them. Some experts say that the RRIF rules haven't kept up with recent demographic and economic trends.

Corporate and business tax measures

Immediate expensing for manufacturing and processing buildings

Tax depreciation, known as capital cost allowance (CCA), allows a business to write off the cost of its capital purchases over time. Depreciable property is generally divided into various CCA classes with each class having its own percentage rate of annual depreciation, which is meant to generally align with the expected useful life of the underlying assets.

Under the current rules, eligible buildings in Canada that are used to manufacture or process goods for sale or lease are prescribed a CCA rate of 10%. This includes the regular CCA rate of 4% for buildings, plus an additional allowance of 6% for manufacturing or processing buildings. To be eligible for the additional 6% allowance, at least 90% of the building's floor space must be used to manufacture or process goods for sale or lease.

The Budget proposed to provide temporary immediate expensing for the cost of eligible manufacturing or processing buildings, including the cost of eligible additions or alterations made to these buildings, by providing a 100% tax deduction in the first taxation year that the eligible property is used for manufacturing or processing.

This measure is 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% for eligible property that is first used 2032 or 2033.

Cancellation of the Canadian Entrepreneurs' Incentive

In last year's federal budget, the government announced the Canadian Entrepreneurs' Incentive (CEI), which would have reduced the tax rate on up to $2 million of capital gains over an individual's lifetime on the disposition of a qualifying business. The lifetime limit was to be phased in by increments of $400,000 per year, beginning on January 1, 2025, before ultimately reaching a value of $2 million by January 1, 2029. This measure would have applied in addition to the newly enhanced $1.25 million lifetime capital gains exemption.

The Budget announced the government's intention to cancel the CEI in light of its decision earlier this year not to proceed with the proposed increase to the capital gains inclusion rate.

Tax system and administration

Automatic federal benefits for lower-income taxpayers

Our tax system is based on self-assessment and self-reporting. While the Act only requires individuals with tax payable to file a tax return, individuals also need to file a tax return for relevant years to receive certain benefit and credit payments delivered through the tax system, as the Canada Revenue Agency (CRA) determines benefit entitlements based on a taxpayer's (or their family's) net income.

The Budget proposed to amend the Act to give the CRA the ability to file a tax return for a low-income individual where all of their income is from sources for which information slips have been filed with the CRA, and they haven't filed a return at least once in the prior 3 tax years. Automatic filing for eligible individuals could begin as early as the 2026 filing season for 2025 tax returns.

Prior to filing a return on a taxpayer's behalf, the CRA will provide the taxpayer with the information it has available, after which the individual has 90 days to review the information and submit any changes to the CRA. If the eligible individual does not confirm the information within the 90 days, the CRA could file a tax return on their behalf, allowing them to be eligible for various benefits. Individuals would be able to opt out of automatic tax filing.

Bare trust reporting

Pursuant to draft legislation released on August 15, 2025, bare trusts would have been required to file a tax return starting in the 2025 taxation year, unless the trust qualified for an exemption.

The Budget indicated the government's intention to delay this filing requirement until the 2026 taxation year.

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