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SOLUTIONS

2025 FEDERAL BUDGET

Update following the Department of Finance (Canada) News Release on November 4, 2025.

PROPOSED TAX MEASURES APPLICABLE TO INDIVIDUALS

Automatic Federal Benefits for Lower-Income Individuals

The 2025 federal budget (the "Budget") proposes to grant the Canada Revenue Agency ("CRA") discretionary authority to file tax returns on behalf of individuals who meet certain criteria, including but not limited to: 1) taxable income for the year is less than the lower of the federal basic personal amount and the provincial equivalent; 2) all income of the individual comes from sources for which specified information returns have been filed with the CRA; 3) the individual has not filed a tax return for at least one of the three preceding years; and 4) the individual has yet to file a return within 90 days after the filing deadline.

It is noted that this proposed automatic filing measure would only apply to Canadian tax residents, and individuals who are eligible for automatic filing must be notified by the CRA and be given the opportunity to file their own return, as well as to notify the CRA of any corrections or opt out of the automatic filing for the year.

Qualified Investments for Registered Plans

The Budget also introduces measures to harmonize the types of investment which can be held under various registered accounts (e.g., RRSPs, TFSAs, FHSAs, RESPs, RDSPs, etc.). Previously, two sets of rules (or definition of "Qualified Investment") governed different registered accounts. The Budget proposes a single definition of Qualified Investment that would be applicable across all registered accounts (with the exception of DPSPs).

Top-Up Tax Credit

In May 2025, the Federal Government announced a reduction of the first marginal income tax rate from 15% to 14%, effective July 1, 2025. This rate reduction was aimed at providing relief to middle-class Canadians, but in rare cases, this rate reduction would not make up for the reduced amount of non-refundable tax credits.

To remedy this, the Budget proposes to offer top-up tax credits to individuals, which would effectively maintain the 15% rate for most non-refundable tax credits from the 2025 to 2030 taxation years.

Goods and Services Tax (GST) for First-Time Home Buyers

One of the Budget's stated goals is to accelerate home building across Canada. To that end, the Budget proposes to eliminate GST on new homes valued at or under $1 million, and to reduce GST on new homes valued between $1 million to $1.5 million for first-time home buyers.

TAX MEASURES APPLICABLE TO TRUSTS AND CORPORATIONS

21-year Rule

In Canada, trusts are generally deemed to dispose of all their capital property every 21 years, which could result in significant capital gains tax if there is accrued gain within the trust. There is an anti-avoidance rule within the Income Tax Act that prevents taxpayers from extending this 21-year limit by transferring assets from one trust to another. The Budget proposes to expand on the existing language for this rule in order to cover scenarios where assets are transferred from one trust to another not only directly, but also "indirectly in any manner whatever". This proposed change may present a challenge to certain tax planning strategies, or existing trust structures that are close to the 21-year mark.

Immediate Expensing for Manufacturing and Processing Buildings

The Budget proposes to introduce immediate expensing for manufacturing and processing buildings that are acquired on or after Budget Day (November 4, 2025) and becoming available for use before 2030. This temporary measure would be phased out starting in 2030 and ending in 2033.

OTHER MEASURES

The Budget indicates that the Government intends to proceed with various measures announced in 2024 and 2025, including but not limited to: 1) the Substantive CCPC rules; 2) the EIFEL rules; 3) changes to the Alternative Minimum Tax ("AMT"); 4) the proposed increase in the Lifetime Capital Gains Exemption limit to $1.25 million.

The Budget also indicates that the Government does not intend to proceed with the Canadian Entrepreneurs' Incentive program, and the reporting requirements by bare trusts are to be deferred to taxation years ending on or after December 31, 2026.

Furthermore, the Budget introduces several measures aimed at modernizing the banking system in Canada which target fees and transfers. Key proposed changes include:

- Review of ATM and Interac fees
- Prohibition of account transfer fees
- Timely transfer of accounts
- Transparency of cross-border transfer fees
- Simplification of primary chequing account transfers