

# 2025 Federal Budget Review



On November 4, 2025, Finance Minister François-Philippe Champagne tabled the first federal budget entitled “Building Canada Strong” under Prime Minister Mark Carney’s leadership – a budget that arrives at a pivotal moment for Canada. Against a backdrop of global economic and trade uncertainty, rising geopolitical tensions, and domestic affordability challenges, Budget 2025 was expected to chart a course that balances fiscal prudence with investment.

This year’s budget aimed to reallocate government spending while delivering targeted support to Canadians and businesses which contained some key themes, including:

**Fiscal Spending and Public Sector Reporting:** As announced in October, Budget 2025 introduces a new fiscal reporting framework with operational spending separated from capital spending. For the purposes of the framework, capital spending is broadly defined as any government expenditures or tax incentive that contributes to public or private sector capital formation, while operating spending is referred to as ‘day-to-day’ operational spending. For the 2025-26 year, Budget 2025 anticipates an operating deficit and capital spending deficit of approximately \$33 billion and \$45 billion, respectively. The combined total (operating plus capital) deficit for the 2025-26 year is projected to total approximately \$78 billion. The government seeks to balance the operating budget by the 2028-29 year, while the capital deficit is expected to total approximately \$60 billion for that year. The federal debt-to-GDP ratio remains a continued focus as a fiscal anchor which is expected to total 42.4 per cent for the fiscal 2025-26 year. Lastly, the government also confirmed its intention to move to a fall budgeting cycle, starting with Budget 2025.

**Empowering Workers and Building Infrastructure:** Expansion of the Union Training and Innovation Program and a new Personal Support Workers Tax Credit to support apprenticeship training in the Red Seals trade and recognition of essential service providers.

**Supercharging Growth:** Measures such as increasing expenditure limits for the Scientific Research & Development (SR&ED) Incentive Program and various forms of immediate expensing for investments in manufacturing and processing assets and other productivity enhancing assets, including patents.

**Housing and Affordability:** Building on prior commitments via the “Build Canada Homes” initiative announced in September, the budget addressed housing supply and affordability through new fiscal tools and policy levers including how public and private sectors work together and a commitment to proceed with GST housing rebates for first-time home buyers.

This review focuses on the most significant income tax measures affecting individuals, families, and Canadian private companies.

**References to measures in the 2025 Federal Budget are based on publicly available information and may be subject to legislative or regulatory amendments. At this time, the measures are proposals only and may not be enacted into law as described or at all.**

## Summary of Personal Income Tax Measures

### Personal Support Workers Tax Credit

Budget 2025 proposes to introduce a temporary Personal Support Workers Tax Credit, under which eligible personal support workers working for eligible health care establishments could claim a refundable tax credit equal to 5 per cent of their eligible earnings, providing credit value support of up to \$1,100 per year.

Notably, amounts earned in British Columbia, Newfoundland and Labrador, and the Northwest Territories would not be eligible, as these jurisdictions have signed bilateral agreements with the federal government to include agreements which provide funding over five years to increase personal support workers' wages.

This tax credit measure would be available for the 2026 to 2030 taxation years.

### Automatic Federal Benefits for Lower-Income Individuals

Canada's tax system is based on self-assessment and self-reporting which requires individuals with taxes payable to file a tax return. In general, individuals also need to file a tax return annually to receive the benefit and credit payments delivered through the tax system, where the Canada Revenue Agency (CRA) determines entitlement for most benefits based on income.

Budget 2025 proposes to grant CRA discretionary authority to provide pre-filled income tax returns on behalf of certain eligible individuals (other than trusts) with lower incomes. To be eligible, the following criteria must be met:

- the individual's taxable income for the taxation year is below the lower of either the federal basic personal amount or provincial equivalent (plus the age amount and/or disability amount, where applicable);
- all income of the individual for the taxation year is from sources for which specified information returns have been filed with the CRA;
- at least once in the preceding three taxation years, the individual has not filed a return;
- the individual has otherwise 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.

Prior to filing a return, the eligible individual would have 90 days to review the information and submit changes to CRA prior to filing the return. Individuals would also be able to opt out of automatic tax filing and if it is later determined after a return has been filed that the individual did not meet the requirements to file the automatic return, the tax return will be deemed not to be filed.

The government is seeking consultation on this measure until January 30, 2026. This measure would apply to the 2025 and subsequent taxation years (i.e., filing could begin in 2026).

### Top-Up Tax Credit

The previously announced 'middle class tax cut' reduced the lowest personal marginal income tax rate from 15 per cent to 14.5 per cent for 2025 and 14 per cent for 2026 and subsequent years. A consequential effect of this change reduces the value of certain personal non-refundable tax credits that are calculated at the lowest marginal tax rate.

To ensure that non-refundable tax credits retain their value, and no one has their net tax liability increased by the middle-class tax cut, Budget 2025 proposes to introduce a new non-refundable Top-Up Tax Credit. The credit would effectively maintain the current 15 per cent 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 is a non-refundable tax credit that applies on up to \$20,000 of eligible home renovation or alteration expenses incurred to improve the safety, accessibility, or functionality of an eligible dwelling of a qualifying individual per calendar year.

The Medical Expense Tax Credit is also a non-refundable tax credit that applies on the amount of qualifying medical and disability-related expenses which include certain eligible costs to build or renovate a home to improve access or mobility for persons with disabilities.

Currently, if the eligibility criteria for both credits are met, taxpayers can claim both credits in respect of the same expense.

Budget 2025 proposes to modify the Home Accessibility Tax Credit to no longer allow an expense to be claimed under this credit if it has been claimed under the Medical Expense Tax Credit. This measure would apply to the 2026 and subsequent taxation years.

## Expansion and extension of the Critical Mineral Exploration Tax Credit (CMETC)

The CMETC is a 30 per cent federal tax credit for individuals who invest in eligible flow-through shares, where the underlying company incurs specified mineral exploration expenses. Budget 2025 proposes to expand the list of critical minerals that qualify for any expenditures renounced under eligible flow-through share agreements entered into after November 4, 2025, and before March 31, 2027.

## Personal Trusts and the '21-year Rule'

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

Where property is transferred by a trust on a tax-deferred basis **directly** to a new trust (a direct trust-to-trust transfer), current tax legislation prevents the avoidance of the 21-year rule through an anti-avoidance provision to essentially subject to the new trust to the same 21-year anniversary of the old trust.

The government has identified certain tax planning techniques that 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 is a corporation owned by a new trust. In recent years, these transactions were identified as a "Designated Transaction" by the CRA and therefore subject to the notifiable transactions reporting requirements of Canada's enhanced mandatory disclosure rules.

Budget 2025 proposes to broaden the current specific 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.

## Measures Affecting Registered Plans

### Qualified Investments for Registered Plans

Budget 2024 invited stakeholders to provide suggestions on improving the clarity and coherence of the qualified investments regime for seven types of registered plans: Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), Tax-Free Savings Accounts (TFSA), Registered Education Savings Plans (RESPs), Registered Disability Savings Plans (RDSPs), First Home Savings Accounts (FHSA), and Deferred Profit Sharing Plans (DPSPs). The qualified investment regime governs what these plans can invest in.

A broad range of assets are qualified investments, including mutual funds, publicly traded securities, government and corporate bonds, and guaranteed investment certificates.

### Small Business Investments:

Based on feedback received through the consultation process, Budget 2025 proposes to simplify and harmonize the qualified investment rules that apply to certain registered plans. In particular, this measure would streamline the rules relating to small business investments. Currently there are two sets of rules for registered plan investments in small businesses where the first broadly applicable set of rules apply to a specific set of registered plans and another more restrictive set of rules to a different set of registered plans. Each category of rules contain different specific rules and restrictions. Budget 2025 proposes to simplify and streamline the rules relating to registered plan investments in small businesses, while maintaining the ability of registered plans to make such investments. In particular, the more broadly applicable first set of rules would be maintained, applied to all registered accounts and extended to RDSPs, while the second set of rules would be repealed. These amendments would apply as of January 1, 2027.

### Registered Investment Regime:

Registered investments are qualified investments for all registered plans. For a corporation or a trust to be a registered investment, it must be registered with the Canada Revenue Agency. Budget 2025 provides that the current registered investment regime will be repealed for all registered plans as of November 4, 2025, and replaced with two new categories of qualified investments which do not have to be registered with the CRA.

Lastly, the budget would simplify the qualified investment rules for six types of registered plans into one definition.

The new qualified investment rules apply effective November 4, 2025, and the registered investment regime would be repealed effective January 1, 2027.

## Proposals Affecting Canadian Private Companies

### Tax Deferral Through Tiered Corporate Structures

The Income Tax Act (the Act) includes a set of rules that seek to prevent the use of Canadian-controlled private corporations (CCPC) to defer personal income tax on investment income. Investment income earned by a CCPC is subject to an additional refundable tax that increases the corporation's tax rate to approximate the highest marginal combined federal-provincial personal income tax rate.

Unlike an individual shareholder, a corporate shareholder (the recipient corporation) is generally not subject to income tax on a taxable dividend received from another corporation (the payer corporation) because it can claim an offsetting inter-corporate dividend deduction. However, anti-deferral rules may impose a special refundable tax on the recipient corporation when it receives the taxable dividend. In particular, if the recipient corporation receives a taxable dividend from a “connected corporation” (generally, a recipient corporation that owns shares carrying more than 10 per cent of the votes and value of the payer corporation), a refundable tax is levied on the recipient corporation corresponding to the amount of the payer corporation’s dividend refund.

Refundable tax is payable by the recipient corporation on the balance-due day for its taxation year in which the dividend is received. This day can be after the balance-due day for the payer corporation’s taxation year in which the dividend was paid. For example, a corporation may pay a taxable dividend at a time that is in the payer corporation’s 2025 taxation year and in the recipient corporation’s 2026 taxation year, with the effect of deferring the tax liability on the investment income of the corporate group to the recipient’s balance-due day for its 2026 taxation year (rather than being payable on the payer corporation’s balance-due day for 2025). This can result in tax planning strategies that interpose holding companies for the purpose of deferring, sometimes indefinitely, the tax liability otherwise imposed on corporations earning investment income.

Budget 2025 proposes to eliminate this potential deferral as follows:

- “Suspending” the dividend refund to the payer corporation if the recipient corporation is:
  - Affiliated with the payer corporation; and
  - The recipient corporation’s balance-due day is after the balance-due day of the payer corporation for the taxation year in which the dividend is received or paid.
- The payer corporation would generally be entitled to claim the suspended dividend refund in a subsequent taxation year when the recipient corporation pays a taxable dividend to a non-affiliated corporation or an individual shareholder.
- The dividend refund will not be suspended if each corporate dividend recipient in the chain of affiliated corporations pays a subsequent dividend on or before the payer’s balance-due day, such that no deferral is achieved by the affiliated corporate group.
- To accommodate *bona fide* commercial transactions, the rule would also not apply to a payer corporation that is subject to an acquisition of control where it pays a dividend within 30 days before the acquisition of control.

## Immediate Expensing for Manufacturing and Processing (M&P) buildings

The Act currently provides for an accelerated Capital Cost Allowance (CCA) rate of 10 per cent for buildings in which 90 per cent of the floor space is utilized to manufacture or process goods for sale or lease. Budget 2025 proposes to allow for the immediate expensing (i.e., an enhanced CCA deduction rate of 100 per cent) of the costs of acquisition, addition or alteration of such buildings acquired in arm’s length transactions on or after November 4, 2025, and if first used for M&P before 2030. The enhanced CCA rate is gradually reduced for the years after 2030 and is eliminated after 2033. Where a taxpayer benefits from the immediate expensing provisions and there is a subsequent change in use of the property to a non-M&P purpose, recapture rules may apply to tax previously claimed enhanced CCA deductions.

## Other Corporate Measures

- **SR&ED Incentives:** Canada’s SR&ED program is a federal tax incentive initiative designed to encourage businesses to conduct research and development in Canada by offering income tax deductions and investment tax credits (ITC) for eligible R&D expenditures. The 2024 Fall Economic Statement proposed to increase expenditure limits, extend eligibility to certain public corporations, and restore SR&ED capital expenditures for both the deduction against income and ITC components of the SR&ED program. Budget 2025 will further increase expenditure limits of the enhanced 35 per cent tax credit from the previously announced \$4.5 million to \$6 million.
- **Expansion of the Clean Technology Manufacturing ITC:** Budget 2025 expands the list of critical minerals eligible for the Clean Technology Manufacturing ITC.
- **Extension of ITC for Carbon Capture, Utilization, and Storage (CCUS):** Budget 2025 extends the availability of “full” ITCs for corporations that invest in eligible expenditures to the end of 2035, and to reduced ITCs on eligible expenditures to the end of 2040.
- **Expansion of the Clean Electricity ITC and announcement of the Canada Growth Fund:** Budget 2025 provides that corporations who receive government assistance from the Canada Growth Fund would not reduce the cost of their eligible property for the purposes of computing the Clean Electricity ITC, effectively increasing the amount of the ITC available.

- **Eligible Activities Under the Canadian Exploration Expense (CEE):** Certain expenses incurred by a mining corporation to determine the quality of a mineral will be deemed not to be CEE, which may impact the renunciation of certain expenses of the mining corporation to flow-through share investors.
- **Extension of Patronage Dividends Paid in Shares of an Agricultural Cooperative:** Measures in place since 2005 to defer the income and withholding tax implications to the recipient of dividends paid in kind in the form of shares of an agricultural cooperative were set to expire in 2025. Budget 2025 extends these measures to shares issued before the end of 2030.

## Previously Announced Measures

Budget 2025 confirms the government's intention to proceed with many previously announced tax and related measures that have not yet been formally enacted, including the following notable measures affecting individuals and Canadian private companies that originated from prior Budgets, Fall Economic Statements, and other legislative announcements:

- The proposed increase in the Lifetime Capital Gains Exemption (LCGE) to apply to up to \$1.25 million of eligible capital gains;
- Bare trust information reporting rules originally proposed to apply for tax years ending on December 31, 2025 will be deferred and be applicable to tax years ending on or after December 31, 2026;
- 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;
- Capital gains rollover on certain small business investments;
- Tax exemption for sales to Employee Ownership Trusts (notably no announcements have been made at this time to extend the temporary \$10 million capital gains exemption on qualifying dispositions beyond 2026);
- Tax exemption for sales to Worker Cooperatives; and
- The extension of the Mineral Exploration Tax Credit.

Lastly, the government provided an update on various legislation and legislative proposals as follows:

- Repealing the Underused Housing Tax for 2025 and future years (note: the legislation may impose filing and tax requirements for the 2022 to 2024 taxation years).
- Ending the luxury tax on subject aircraft and vessels effective November 4, 2025 (note: sales of subject aircraft and vessels prior to budget day are still subject to the applicable luxury tax).
- Not proceeding with the Canadian Entrepreneur's Incentive (CEI), which is consequential to the government's previously announced cancellation of the increase to the capital gains inclusion rate. The CEI was intended to provide a reduced capital gains inclusion rate for certain qualifying individuals on the sale of qualifying shares.
- Not proceeding with a specific amendment to the alternative minimum tax regime that would see resource expenses generally deductible from adjusted taxable income for AMT purposes. Other proposed measures impacting the AMT as proposed on August 12, 2024, are proceeding.



The **2025 Federal Budget Review** was developed by our in-house tax professionals in the Wealth Planning and Advisory Services Group at BMO Private Wealth; **Dante Rossi**, Director, Tax Planning and **Phil Haines**, Director, Tax Planning. For more insights, visit [bmo.com/wealthinsights](https://bmo.com/wealthinsights)

**If you have any questions regarding these budget proposals, please consult with your tax and/or other professional advisors for further details.**

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