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2025 Year-End Tax Planning Guide

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Audit / Tax / Advisory

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Introduction

Welcome to our 2025 tax planning issue, full of topics and opportunities that you may consider as we reach the end of the year and look forward to 2026.

A reminder that this publication is not intended to be a summary of the technical provisions of the Income Tax Act. Before undertaking any tax planning strategy, reviewing it thoroughly with your trusted Crowe MacKay tax advisor is important.

Missed Opportunities Mean Extra Taxes

Thousands of Canadians pay more income tax than they should. Not taking full advantage of tax credits and deductions may make you one of those generous Canadians without even knowing it. Are you aware of all of the deductions that are available to you? Do you file your return on time? Do you pay quarterly tax instalments to avoid interest charges? Here is a look at some of the commonly missed opportunities that could be contributing to your larger than necessary tax bill.

Expenses You May Be Entitled to Deduct

Employment Expenses – Auto and Home Office

Automotive Expenses	Home Office Deduction
Employees required to use their automobiles for work (other than for travelling between home and their workplace) without reimbursement from their employer can deduct the work-related portion of their automotive expenses. If you are reimbursed, and the reimbursement amount is not "reasonable", you can still claim a deduction for the non-reimbursed portion. To claim employment expenses, your employer must provide you with a completed form, *T2200 Declaration of Conditions of Employment*.	You can claim home office expenses for your workspace and office supplies. Your employer will need to provide you with a completed T2200 form, and you must ensure you maintain records of receipts and expenses for any eligible home office expenses incurred. Home office expenses may include utilities, home internet access fees, maintenance, and rent. Commission employees may also be able to claim home insurance, property taxes, lease of a cell phone, computer, and other items reasonably related to earning commission income as eligible home office expenses. You should keep records in case you are eligible to claim these expenses.

Carrying Charges and Deductible Interest

Borrowed funds must generally be used to earn income (e.g. investing) for the related interest to be deductible. Maintaining proper documentation of loans and interest payments will help support claims for interest deductions. Deductible carrying charges may include investment counsel, bank, or similar fees.

We note that recently the Canada Revenue Agency (CRA) has been reviewing carrying charges and interest deductions on many T3 trust returns, and sending out educational letters to inform taxpayers which expenses would be deductible.

Childcare Expenses

Subject to certain limitations, childcare expenses may be deducted from income by the lower-income spouse. These expenses include daycare, babysitting, boarding school, and day camps. Note that you must obtain the Social Insurance Number of any individual you paid for childcare and supporting documentation is frequently requested by the Canada Revenue Agency.

Moving Expenses

If you moved during the year to be at least 40 kilometres closer to a new job, to run a business, or to attend a post-secondary educational institution full-time, you may be able to deduct certain moving expenses. The amount you can deduct is limited to the amount you earn at the new location in the year. Unused deductions can be carried forward and deducted against the related income in a subsequent year.

Some examples of allowable moving expenses are:

- accommodation, meals, and temporary living expenses near your new or old residence,
- cost of changing your address on legal documents,
- cost of replacing your driver's license,
- cost of cancelling the lease for your old residence or expenses for selling your old residence, such as real estate commissions and advertising,
- cost to maintain your old residence when vacant (maximum of $5,000),
- certain expenses related to purchasing your new residence,
- transportation and storage for household effects,
- travelling from your old residence to your new residence, and
- utility hook-ups, disconnections, and other related costs.

Proper documentation of your expenses, including receipts, is critical as the Canada Revenue Agency generally requests proof of moving costs.

Tax Credits You Might Be Eligible to Claim

Charitable Donations

Charitable donations made by you or your spouse during the year should normally be added together and claimed on the income tax return of one spouse. A higher credit is available when total donations exceed $200, so combining the donations and claiming them on one return makes more sense. If your total contributions are less than $200, there is no advantage to claiming them on one return. The key to supporting your claim is to keep the official tax receipts.

If you donate certain publicly listed securities, your donation credit is based on the fair market value of those securities. Furthermore, you will generally not pay tax on capital gains on the donated securities, subject to the Alternative Minimum Tax rules, discussed further below.

Donations can be carried forward for up to five years. If you find a donation receipt that was not previously claimed, bring it in to review with your Crowe MacKay tax advisor.

Medical Expenses

You may claim a non-refundable tax credit on medical expenses for yourself, your spouse, and dependent children. While either spouse can make a claim, medical expenses should usually be added together and claimed on the income tax return of one spouse (usually the lower-income spouse) to maximize tax savings.

You are not restricted to claiming on a calendar year basis, as you can claim medical expenses for any 12-month period that ends in the year. Commonly missed expenses include:

- dental,
- eyeglasses,
- private medical insurance (including certain travel medical insurance premiums), and
- certain travel costs, such as travel to regional or provincial centres for treatment.

You may also claim certain expenses in respect of an animal specifically trained to perform tasks to assist with post-traumatic stress disorder.

Medical cannabis can be claimed as a medical expense. However, individuals can only claim purchases from specific registered sellers. Purchases from other retailers may not be eligible.

Attendant Care & Nursing Home Expenses

For persons who qualify for the disability amount, attendant care expenses may be claimed for:

- part-time or full-time attendant care in a self-contained domestic establishment (the person's home, for instance),
- full-time attendant care in a nursing home, and
- attendant care in retirement homes, homes for seniors, or other institutions.

Attendant care expenses can be claimed as medical expenses to a maximum of $10,000 per year if the disability tax credit is claimed. However, there is no maximum amount if the disability tax credit is not claimed.

When the expenses are for full-time care in a nursing home there is no limit on the total attendant care expense that can be claimed as medical expenses, however, the disability tax credit cannot be claimed. It is recommended you get a detailed fee statement from long term care facilities to ensure appropriate expenses are claimed.

Disability Tax Credit

This credit is available to a person with a severe and prolonged impairment in physical or mental function subject to certain criteria. To qualify, the Canada Revenue Agency must approve an application signed by your doctor or nurse practitioner. Areas that may apply include:

- vision/blindness,
- life-sustaining therapy,
- impairment to physical functions such as walking, speech, hearing, and feeding, and
- impairment to performing the mental functions necessary for everyday life.

Recent changes to eligibility requirements should make the credit more accessible to those with an impairment to perform the mental functions necessary for everyday life. There has also been a reduction in the eligibility requirements for individuals undergoing life-sustaining therapies, reducing the frequency of treatment to two times each week; however, an individual must still receive therapy for a duration averaging not less than 14 hours a week. These recent changes have been enacted with a retroactive date and apply to Disability Tax Credit (DTC) certificates filed on or after January 1, 2021.

The DTC can be claimed retroactively for up to 10 years. A T1 adjustment can be filed to claim the credit for any tax years that have lapsed since the impairment began, as certified by your doctor. Once a person with a disability has applied for and is deemed eligible for the disability tax credit, they may also be eligible to participate in a Registered Disability Savings Plan, which is discussed later in this newsletter.

Other credits may be available to those supporting certain family members who are dependent on them due to a physical or mental infirmity:

- amount for infirm dependents age 18 or older,
- attendant care and nursing home expenses, and
- Canada caregiver amount.

Teacher & Early Childhood Educator School Supply Tax Credit

The Teacher and Early Childhood Educator School Supply tax credit is a refundable tax credit.

This credit allows an employee who is a teacher or early childhood educator and holds a recognized certificate or licence to claim a 25% refundable tax credit on up to $1,000 of purchases of eligible teaching supplies during the year.

Student Loan Interest

Interest paid on student loans obtained under the Canada Student Loans Act, the Canada Student Financial Assistance Act, the Apprenticeship Loans Act, or similar provincial or territorial government legislation for post-secondary education can be claimed as a tax credit. If you do not use the credit for the year the interest is paid, the unused amount can be carried forward for up to five years.

Home Buyers' Tax Credit

If you are a first-time home buyer, you may be eligible to claim a 15% non-refundable tax credit on up to $10,000. You may be considered a first-time home buyer if neither you nor your spouse or common-law partner owned and lived in another home (inside or outside Canada) in the calendar year of the purchase or any of the four preceding calendar years.

Top-Up Tax Credit

The top-up tax credit will effectively maintain its current 15% tax rate for non-refundable tax credits in rare circumstances where the credits exceed the first federal income tax bracket threshold rate (rather than the 14.5% rate for 2025 and 14% rate for 2026 and subsequent years). The top-up tax credit applies for the 2025 to 2030 taxation years and is intended to ensure individuals don't have a higher tax liability due to the middle-class tax cut.

Home Accessibility Tax Credit

The Home Accessibility Tax Credit (HATC) is available for seniors (age 65 and older) and individuals who qualify for the disability tax credit. This credit allows these individuals to claim a 15% non-refundable tax credit on up to $20,000 of expenses incurred to perform a “qualifying renovation” on their home. The renovation must allow the individual to gain access to, or be mobile or functional within the home, or reduce the risk of harm to the individual within or in gaining access to the home. British Columbia has a similar home renovation tax credit which is a 10% refundable tax credit on up to $10,000 of qualifying expenses. Such expenses may also be eligible for the medical expense tax credit, providing a double tax benefit from claiming these expenses.

For the 2026 and subsequent taxation years, expenses claimed under the medical expense tax credit will no longer be eligible for the home accessibility tax credit.

Digital News Subscription Tax Credit

For prior years, individuals could claim a 15% non-refundable tax credit on amounts up to $500 spent on a digital news subscription with a qualified Canadian journalism organization. This tax credit has now been rescinded and ended in 2024.

Canada Training Credit

This refundable tax credit aims to help workers between the ages of 25 and 64 and encourages them to pursue professional development. Individuals can accumulate $250 of credit room per year, up to a lifetime maximum of $5,000. The amount that an individual can claim as a credit in a particular tax year is equal to the lesser of 50% of eligible tuition and fees paid in a year and the accumulated room at the beginning of the year.

Clean Buildings Tax Credit

The clean buildings tax credit is a refundable income tax credit for qualifying retrofits that improve the energy efficiency of eligible commercial and multi-unit residential buildings with four or more units in British Columbia. The credit is equal to 5% of the qualifying expenditures paid before March 31, 2026.

Residential Property

Principal Residence

Many Canadians are aware that they will likely not pay tax on the sale of their home due to the principal residence exemption. However, some are unaware that this does not relieve them of the requirement to disclose the sale to the Canada Revenue Agency. If you sold your home during the year, you must file your personal tax return, completing Schedule 3 and Form T2091(IND). Failure to do so will result in penalties.

Short-Term Rentals

Short-term rental operators can no longer deduct expenses against their rental income in situations where they are not compliant with the short-term rental regulations of their province or local municipality. These measures have taken effect as of January 1, 2024. The rules deny all expenses deducted against income that has been sourced from a short-term rental (i.e. rented for a period of less than 90 consecutive days).

Underused Housing Tax (UHT)

If you owned residential property in Canada, you may have been required to file an annual return in respect of each property. The UHT rules no longer apply after the 2024 calendar year. See our detailed comments on UHT below.

Home-Flipping Rule

If you have sold a residential property in 2025 which you owned for less than 12 months prior to the sale, any profit arising from the sale may be treated as business income rather than capital gains, and any principal residence exemption claim could be denied.

Residential Property in British Columbia

Empty Home Tax – City of Vancouver

Residential property located in the City of Vancouver may be subject to the Empty Homes Tax (EHT). The EHT generally applies unless an exemption is claimed; common exemptions include using the property as your principal residence, or renting to an arm's length tenant for more than 6 months during the year.

Speculation and Vacancy Tax - Provincial

The speculation and vacancy tax (SVT) applies to residential property located within urban centres in British Columbia unless an exemption is available. If you own a residential property in most large towns and cities in the province, consider whether the SVT applies to you.

Home-Flipping Tax – Provincial – Effective January 1, 2025

For sales of residential property on or after January 1, 2025, a provincial flipping tax of up to 20% may apply to the sale where the property was held for less than 730 days. There will be exemptions from the tax for life events causing a sale and transfers to related parties, among other exceptions.

What To Do Next?

Filing On Time

The regular deadline for filing an income tax return for the previous year is April 30. This filing deadline is extended to June 15 if you or your spouse are self-employed. However, income taxes payable are still due on April 30. Similarly, the information return for "Specified Foreign Property" having an aggregate cost over $100,000 CAD at any time during the year (Form T1135) must be filed by the individual's filing deadline.

Taxpayers who do not file their income tax returns on time face significant late-filing penalties: 5% of the balance due plus 1% per month to a maximum of 12 months for the first offence, plus applicable interest on the penalty. The penalty can more than double when the taxpayer fails to file on time for a second time in three years and if the Minister has issued a formal demand for filing. Interest and penalties are not tax deductible and add up quickly at the rates charged by the Canada Revenue Agency. Even if you cannot pay the taxes due, ensure that you file on time.

Penalties for Failing to Report Income

If you have income from several sources, ensure you report all of it. Failing to report income on your return in the current year and in any of the three preceding years could subject you to federal and provincial/territorial penalties based on 10% of the unreported income in addition to owing the understated tax liability on the unreported income. Interest applies on the unpaid amounts. We recommend you ensure you have information on all of your income when having your return prepared.

Tax Instalments

Failure to pay quarterly income tax instalments when required may result in interest charges. It is possible to make catch-up payments and reduce or offset the interest charges. Contact your Crowe MacKay tax advisor if you are unsure if you are required to make tax instalments.

Importance of Filing

Failing to file your return can put you at a financial disadvantage even if you do not have income to report. Several benefits and social programs are available to individuals based on the income (or lack thereof) reported in their filed tax return. For instance, the Canada Child Benefit is a tax-free monthly payment from the government to assist eligible low-income families with the costs of raising children. To be considered for the benefit, you and your spouse must file your return every year.

Guaranteed Income Supplement (GIS), GST/HST credit, and the Canada Workers Benefit are other benefits that are assessed and paid based on personal income tax filings.

How to Impact Your 2025 Tax Bill

Accounting & Legal Fees

Certain accounting or legal fees, such as the cost of representation on tax disputes, are deductible in the year paid. If you have these costs, be sure to pay them before the end of the year.

Charitable or Political Donations

If you plan to give money to a charity or political party, make sure the gift or donation is made before December 31, 2025, to ensure you can claim the tax credit on your 2025 return.

Equipment Purchases

If you have equipment you are planning to purchase for your business early next year, consider buying it before December 31, 2025, or before your corporate year-end, as applicable.

The tax depreciation only starts when the equipment is available for use in your business. Similarly, if you are going to sell equipment, consider doing so early in 2026 rather than in 2025. Tax depreciation can only be deducted on equipment that is owned as of December 31, 2025.

Family Trusts

Ensure that any desired distributions to or from a family trust are made by December 31, 2025. If distributions are planned, ensure appropriate dividends are paid through the trust by year-end.

Payments by cheques deposited and distributed before the end of the year are required unless detailed steps are completed.

The Tax on Split Income (TOSI) rules remain in effect and may significantly impact certain tax benefits associated with using family trusts for income-splitting purposes. Please contact your Crowe MacKay tax advisor for more details on how these rules may affect you and to identify opportunities that may be available to plan around the rules.

Home Office

If you are an individual using a home office as your principal place of business (more than 50%) or exclusively for earning business income and meeting clients or customers on a regular and continuous basis, then you may be able to deduct home expenses related to the office space. Such expenses include:

- the business portion of rent,
- mortgage interest,
- property taxes,
- utilities,
- insurance,
- repairs, and
- telecommunications.

Home office expenses you are eligible to deduct depend on whether you are an employee, commissioned employee, or self-employed.

Investments

If you have realized capital gains in the current year, consider selling investments with unrealized capital losses before year-end. This strategy could reduce your tax bill as capital losses can be offset against capital gains. The key is to trigger these losses in 2025, so the last settlement day for 2025 must be considered. Where a loss has been triggered, you or an affiliated party cannot acquire the same or an identical investment within 30 days before or after the sale, or the loss will be disallowed. We recommend that you consult your Crowe MacKay tax advisor and investment advisor prior to undertaking this strategy.

Labour Mobility Deduction for Tradespeople

A deduction is available for certain tradespersons or apprentices, i.e. Eligible Workers or EW who work in temporary work locations. This deduction of up to $4,000 is available for expenses such as temporary lodging near the particular work location, transportation for one round trip from their home to the temporary lodging, and meals during travel of this one round trip.

To qualify for this deduction, the EW must obtain or maintain employment to provide temporary construction services at a remote work location and stay at temporary lodging in Canada near that work location and away from their ordinary residence in Canada during the relocation period. Additionally, the EW must be away from their ordinary residence for at least 36 hours, and the temporary lodging must be at least 150 km closer to the particular work location in Canada than their ordinary residence.

It is important to note that EWs can claim expenses up to a maximum of 50% of their employment income from the construction activities at these work locations. They may not include expenses in respect of which they received employer-provided financial assistance that was not included in their income.

Transfer of Dividend Income from Taxable Canadian Corporations to a Spouse

If you are entitled to a spousal tax credit for your spouse or common-law partner, you may be able to include all of your spouse's dividends from a taxable Canadian corporation in your income if doing so will allow you to claim or increase the claim for the spousal tax credit.

The election should only be made if it results in lower overall taxes. Transferring this income between you and your spouse might not always be beneficial.

Old Age Security (OAS) Claw Back

If you are collecting OAS and your net income in 2025 is over $93,454, you are required to repay some or all of your OAS benefits. This "claw back" is the lesser of your OAS benefits received in the year and 15% of your net income that is over $93,454. The OAS claw back is calculated solely on your net income and is not affected by your spouse's income.

If your net income is $151,668 or greater in 2025, you're required to repay all of your OAS benefits.

If you are eligible to receive OAS but are subject to a full claw back, you may consider deferring receiving OAS until a year in which the claw back is reduced or eliminated.

Deferring the receipt of OAS will increase your OAS entitlement when you begin to collect it, and it will increase your maximum annual net income to receive OAS.

Pension Income-Splitting

If you are earning eligible pension income, you may be able to split up to 50% of this income with your spouse or common-law partner. Eligible pension income excludes Canada Pension Plan, Old Age Security, and certain foreign pension income.

Pension income-splitting may be done by filing a joint election with your income tax return and can result in significant tax savings if your spouse or common-law partner is in a lower tax bracket.

Your spouse or common-law partner may also be able to claim the pension tax credit on the income that they are deemed to have received (see below).

Pension Sharing

Collecting the Canada Pension Plan may allow you to share this income with your spouse. If a taxpayer's spouse is in a lower marginal tax bracket, this may be an effective means of income splitting and reducing the couple's overall tax bill. Individuals must apply through Service Canada by completing form ISP1002.

Pension Tax Credit

A $2,000 pension tax credit is available if you earn eligible pension income, which typically includes income from a registered pension plan, registered retirement income fund (RRIF), and annuity payments from an RRSP. If you are eligible to receive pension income and are not currently doing so, you may consider converting a portion of your RRSP to an RRIF to receive eligible pension income on which the pension tax credit can be claimed. Please contact your Crowe MacKay advisor to discuss the age restrictions that apply to your circumstances.

Registered Disability Savings Plan (RDSP)

The RDSP is a registered long-term savings plan for people eligible for the disability tax credit. The beneficiary, a family member, or any other authorized contributor may make contributions. There is no annual contribution limit; however, there is a lifetime contribution limit of $200,000.

Although contributions to the plan are not tax-deductible, income earned inside the plan is only taxed once the beneficiary withdraws it. Contributions can be made until the end of the year in which the beneficiary turns 59. Payments from the RDSP must begin by the end of the year in which the beneficiary turns 60.

There are currently two income-based programs to enhance the funds contributed to the RDSP: the Canada Disability Savings Grant Program and the Canada Disability Savings Bond Program.

The rules related to RDSPs can be complex. We recommend that you speak with your Crowe MacKay tax advisor if you believe this program may be right for you or a family member.

Registered Education Savings Plan (RESP)

Make contributions to a RESP before December 31 to qualify for any 2025 grants you may be eligible for. As in years past, beneficiaries under 18 qualify for the Canada Education Savings Grant, which is equal to 20% of annual contributions made for a beneficiary, subject to a $500 annual cap and a $7,200 lifetime maximum. Additional grants are possible where there is unused grant room from a previous year and for families with lower net income. Some provinces have similar grants or programs.

Registered Retirement Savings Plan (RRSP)

Regular and spousal contributions for the 2025 taxation year may be made up to March 2, 2026. Similarly, if you must repay a portion of your Home Buyers' Plan or your Lifelong Learning Plan, payments must be made by that date.

There may be an opportunity to income-split with your spouse if you contribute to a spousal RRSP and withdraw from that spousal RRSP in a subsequent year. Be careful of attribution rules that will apply if the funds are withdrawn within three years of your last contribution to a spousal RRSP. If you turn 71 and can no longer contribute to your own RRSP, you can still contribute to a spousal RRSP until the end of the year in which your spouse turns 71.

The Home Buyers' Plan and Lifelong Learning Plan are also useful RRSP tools as they allow you to withdraw funds from your RRSP on a tax-deferred basis to help fund a home purchase, full-time training, or education. Please be aware that if the required repayments under these plans are not made by the RRSP deadline, these amounts would be included in your income for the 2025 tax year.

We suggest contacting your Crowe MacKay tax advisor if you have questions about RRSPs.

The RRSP contribution limit is 18% of your previous year's earned income, up to a maximum of $32,490 for 2025 and $33,810 for 2026.

Shareholder Loans

If you have a shareholder loan from your company that has been outstanding since the December 31, 2024, year-end (i.e. it is at risk of showing up as a receivable on two consecutive balance sheets), ensure it is repaid by December 31, 2025, or it may result in a deemed taxable benefit to you.

Consult your Crowe MacKay tax advisor to determine if the amount must be repaid and what repayment methods are available, such as dividends or net wage compensation.

Family Income Splitting Loans

If you have a spousal or family income splitting loan, ensure the interest is paid by January 30, 2026, by a "documented" method such as a deposited cheque. These loans with interest at the prescribed rate (currently 3%) are typically used for income-splitting where families have large investment pools (generally over $1M).

Multigenerational Home Renovation Tax Credit (MHRTC)

The MHRTC allows for the deduction of certain renovation expenses that are incurred for the explicit purpose of creating a self-contained secondary unit. For the expenses to be eligible, the secondary unit needs to be occupied by a family member who is a senior citizen (someone over the age of 65) or an adult eligible for the disability tax credit.

Qualifying costs up to $50,000 can be claimed, 15% of which will be eligible for the credit to a maximum of $7,500. To be eligible for the credit, the renovation needs to have been completed in the year (regardless of when it was started) and must have the following characteristics:

- relate to a self-contained secondary unit with a private entrance, kitchen, bathroom, and sleeping area, and
- the unit is newly constructed or created from an existing living space that did not already meet local requirements to be considered a secondary dwelling unit.

In general, the person making the claim must be a resident of Canada, reside (or intend to reside) in the renovated home, and be the family member described above, or related to that individual. This credit is refundable, so a refund will be received if the amount of this credit exceeds taxes otherwise owing.

Deduction for Tradesperson's Tools Expense

The maximum employment deduction for tradesperson's tools is $1,000. A tradesperson can generally claim a deduction of up to $1,000, by which the total cost of eligible new tools acquired in a taxation year as a condition of employment exceeds the amount of the Canada Employment Credit ($1,471 in 2025).

As a result of this change, extraordinary tool costs eligible under the apprentice mechanics' tools deduction are those that exceed the greater of:

- the combined amount of the increased deduction for tradesperson's tool expenses ($1,000) and the amount of the Canada Employment Credit ($1,471 in 2025), and
- 5% of the taxpayer's income earned as an apprentice mechanic (including apprenticeship grants less any claim for the tradesperson's deduction for tools and the amount of any apprenticeship grant overpayments repaid during the taxation year).

Tax-Free First Home Savings Account (FHSA)

The FHSA is a registered plan that allows a first-time home buyer to save to buy or build a qualifying first home tax-free. Contributions to the account are tax-deductible in a similar fashion to an RRSP, but the withdrawal (provided it was for the purchase of a new home) is non-taxable, similar to the existing tax-free savings account.

The maximum lifetime contribution limit is $40,000. Unused contribution room can be carried over to the next year, up to a maximum of $8,000, and contributions can be made for up to 15 years.

To be eligible, an individual must be at least 18 (and no less than the age of majority in your province), be a resident of Canada, have a Social Insurance Number and not have owned a home where they lived this year or at any time in the preceding four calendar years.

What's New For 2025?

Underused Housing Tax (UHT) - *Eliminated Post 2024*

Starting back in 2022, residential real estate owned by non-resident, non-Canadians that is vacant, or underutilized had a new national tax of 1% levied on the assessed value annually. Previous changes to the legislation had been introduced such that the majority of Canadian owners of residential property would not have to file a UHT return or pay the tax.

Under those previously enacted rules, the legal owner of the residential property would need to file an annual declaration unless they are an "excluded owner" such as:

- an individual who is a Canadian citizen or permanent resident of Canada and holds a direct interest in the property,
- a corporation incorporated in Canada and listed on a Canadian stock exchange,
- a registered charity,

- an Indigenous governing body or a corporation owned by an Indigenous governing body, or
- certain other public service bodies (e.g., universities, public colleges, school authorities, hospital authorities).

An owner who is not excluded can be exempt from the tax if the residence in question is the primary place of residence of:

- the owner (if the owner is an individual),
- the owner's spouse or common-law partner,
- a child of the owner or of the owner's spouse or common-law partner, but only if the child is in Canada for the purposes of authorized study and the occupancy relates to that purpose, or
- a tenant occupying the residence under a written agreement at fair rent.

An exemption was also available for residential properties owned by specified Canadian corporations, which are Canadian corporations of which foreign individuals or corporations own less than 10% of the votes and value of their shares.

Additional exemptions for vacation/recreational properties would apply to properties:

- located in an area of Canada that is not an urban area within either a census metropolitan area or a census agglomeration having 30,000 or more residents, and
- personally used by the owner (or the owner's spouse or common-law partner) for at least four weeks in the calendar year.

An owner eligible for any of the above exemptions would claim the exemption in the annual return that they would be required to file with the Canada Revenue Agency in respect of the residential property.

The UHT rules no longer apply after calendar 2024, therefore eliminating this three-year program. Although the ***UHT rules no longer apply for 2025***, and beyond, returns and remittances will still be required for the calendar years of 2022 to 2024, along with applicable interest and penalties.

Employee Ownership Trusts (EOT)

New rules have been proposed, effective January 1, 2024, to facilitate the use of an EOT to acquire and hold shares of certain businesses. The maximum deferral period for recognizing the capital gain upon a sale to an EOT is ten years, as opposed to the usual five years, and, if certain conditions are met, the first $10 million of capital gains may be exempt from taxation for sales from January 1, 2024 to December 31, 2026.

We suggest contacting your Crowe MacKay tax advisor if you are considering a transfer of ownership of your business to your employees and have questions about EOTs.

Alternative Minimum Tax

What is the Alternative Minimum Tax (AMT)?

The Alternative Minimum Tax (AMT) impacts Canadian taxpayers by ensuring that high-income individuals and trusts pay a minimum amount of tax each year, notwithstanding that they have access to various tax deductions and incentives. This is achieved by adjusting taxable income, such as adding back certain deductions and incentives like the Lifetime Capital Gains Exemption and the employee stock option deduction. Most provinces have their own provincial AMT based on a percentage of the federal AMT. The AMT paid can be carried forward as a credit for up to seven taxation years and can be applied to reduce future income taxes where the regular federal income tax exceeds the federal AMT for the particular subsequent year.

Changes to the AMT Regime

For 2025, the **AMT Rate** remains at **20.5%**, and the **Basic Exemption** under AMT has slightly increased, aligning with the fourth federal income tax bracket (indexed annually to inflation). This threshold is **$177,882** for the 2025 tax year ($173,205 for 2024)

As a reminder, the new calculation of **Adjusted Taxable Income (ATI)** for AMT purposes has changed in the following ways:

- the inclusion rate for capital gains, allowable capital losses, and gains from personal property increases to 100% (from 80%).
- the employee stock option deduction is no longer available; this effectively increases the inclusion rate for taxable stock option benefits to 100% (from 80%).
- the inclusion rate for capital gains on donations of:
  - Publicly listed securities increases to 30% (from 0%), and
  - All other property increases to 100% (from 80%).
- the inclusion rate for business investment losses is now only 50% (down from 80%).
- the deduction for certain expenses is limited to 50%, including most employment expenses, interest and carrying charges incurred to earn property income, investment counsel fees, moving expenses, childcare expenses, the disability supports deduction, and the Northern Residents' deductions.
- the deduction for non-capital losses and limited partnership losses of other years is limited to 50% (from 100%).
- the inclusion rate for capital losses carried forward and back is reduced to a maximum of 50% (from 80%).
- Non-refundable tax credits are generally limited to 50%, with the key exception of the charitable donations tax credit, which is limited to 80%.

AMT Changes Affecting Trusts

The changes have been extended to include additional trusts exempted under the AMT rules - Graduated Rate Estates, Employee Ownership Trusts and certain Indigenous trusts now fall under this category. Also, Qualified Disability Trusts are now eligible for the basic AMT exemption (described above). Other *inter vivos* trusts, including family trusts, will continue to remain subject to the AMT without benefiting from the basic exemption.

Impact of AMT Changes

The changes to the AMT beginning in 2024 should ensure that lower and middle income taxpayers are not subject to AMT, while more high income taxpayers will be subject to AMT. For those who are subject to AMT, the tax burden will increase significantly. Planning will become even more important to ensure that a strategy can be deployed to reasonably ensure the recovery of AMT paid within the 7 year carry forward period.

Major Changes Coming in 2026

In conjunction with the Federal Budget of November 4, 2025

Personal Support Workers Tax Credit

Budget 2025 proposed to introduce a temporary Personal Support Workers Tax Credit to provide a refundable tax credit of 5% of eligible earnings received by eligible personal support workers. This tax credit would provide eligible personal support workers for particular health care establishments with a credit of up to $1,100 and would apply to the 2026 to 2030 taxation years.

Automatic Federal Benefits

The Canada Revenue Agency will have discretionary authority to automatically file tax returns for certain individuals beginning with the 2025 taxation year. This measure is designed to help more Canadians access their tax credits and benefits that might otherwise go unclaimed if a return is not filed. To qualify, individuals must meet all of the following conditions:

- taxable income is below the federal basic personal amount (or provincial equivalent), plus age/disability amounts where applicable;
- all income of the individual for the taxation year is from sources for which specified information returns have been filed with the Canada Revenue Agency (e.g., T4 information slips);
- at least once in the preceding three years, the individual has not filed a return;

- individual has failed to file a return for the taxation year either by the due date or within 90 days of it;
- any additional criteria, as determined by the Minister of National Revenue

Prior to filing a return, the Canada Revenue Agency will provide individuals with the information it has on record, giving them 90 days to review and make any corrections. If no response is received within that time, the Canada Revenue Agency may proceed to file the return and issue a notice of assessment. Individuals will continue to have the option to opt out of automatic filing, and the usual assessment, objection, and appeal processes will remain available.

Qualified Investments for Registered Plans

Budget 2025 introduced measures to simplify and harmonize the qualified investment rules that apply to registered plans. These include Registered Retirement Savings Plans (“RRSPs”), Registered Retirement Income Funds (“RRIFs”), Tax-Free Savings Accounts (“TFSAs”), Registered Education Savings Plans (“RESPs”), Registered Disability Savings Plans (“RDSPs”), First Home Savings Accounts (“FHSAs”), and Deferred Profit-Sharing Plans (“DPSAs”). Budget 2025 proposed the following amendments:

Small Business Investments

Budget 2025 simplified the rules for registered plan investments in small businesses while preserving the ability to make these investments. The broader first set of rules, which applies to RRSPs, RRIFs, TFSAs, RESPs, and FHSAs, will be maintained and extended to RDSPs. The narrower second set of rules, currently applying to RRSPs, RRIFs, RESPs, and DPSPs, will be repealed.

- First set of rules - RDSPs will be allowed to invest in shares of specified small business corporations, venture capital corporations, and specified cooperative corporations.
- Second set of rules - Shares of eligible corporations and interests in small business investment limited partnerships and trusts will no longer qualify after January 1, 2027.

The amendments would take effect on January 1, 2027. Investments in small business limited partnerships and trusts made before that date would remain qualified, while shares of eligible corporations would continue to qualify under the retained rules for specified small business corporations.

Registered Investment Regime

Budget 2025 replaced the registered investment regime with two new categories of qualified investment that do not involve registration:

- Units of a trust that is subject to the requirements of National Instrument 81–102 published by the Canadian Securities Administrators (which regulates certain mutual funds and non-redeemable investment funds); and
- Units of a trust that is an investment fund (as defined in existing tax rules) managed by a registered investment fund manager as described in National Instrument 31–103 published by the Canadian Securities Administrators.

It is expected that units or shares of funds previously registered will continue to qualify, either under existing rules or under the new categories of qualified investment trusts. The registered investment regime will be repealed effective January 1, 2027, with the new qualified investment trust rules applying from November 04, 2025.

Other Changes

Budget 2025 introduced several technical legislative amendments to simplify the qualified investment rules. Specifically, the rules for six types of registered plans (i.e. all except deferred profit-sharing plans) will be consolidated into a single definition in the Income Tax Act. In addition, the list of qualified investments in the Income Tax Regulations will be updated and reorganized by asset class (such as debt and equity instruments).

Restricting Part IV Tax Deferral Through Tiered Corporate Structures

The 2025 Federal Budget introduced a new measure aimed at limiting the deferral of Part IV tax on investment income where a tiered corporate structure is in place, the companies in question are affiliated, and do not have the same year-ends.

What this measure targets would be situations where a lower-tiered corporation (“InvestCo”) earns investment income where Part IV tax applies, and, for example, has a June 30th year-end. InvestCo then pays an inter-corporate dividend up to a higher-tiered corporation (“HoldCo”) with a December 31st year-end in order to obtain a dividend refund (a refund of Part IV tax “paid”). This shifts the Part IV tax payable from InvestCo to HoldCo, which would achieve “deferring” the payment of the Part IV tax for up to six months from when it would’ve been originally payable by InvestCo.

Under this new measure, the dividend refund for InvestCo would be deferred until HoldCo pays taxable dividend(s), up to the amount of InvestCo’s original dividend, to non-affiliated corporations or individuals. This new measure is applicable to any inter-corporate dividend paid on or after November 4, 2025.

This new anti-deferral rule will not apply in situations where each corporate dividend recipient pays a dividend on or before the original payor corporation’s balance due date, whereby no deferral of Part IV tax has actually occurred within the corporate group.

Additionally, this new anti-deferral rule would not apply to any dividends paid with a 30-day period prior to an acquisition-of-control of the original payor corporation.

21-Year Rule for Trusts

For *Inter-Vivos* trusts (i.e. family trusts), every 21 years there is a “deemed disposition” of all assets held by the trust at their respective market values on the 21st anniversary of the trust. There is also an anti-avoidance rule that imposes the same deemed disposition to take effect where assets were transferred on a tax-deferred basis from one trust to another trust for the purposes of avoiding the 21-year deemed disposition.

The 2025 Federal Budget broadened the 21-year anti-avoidance rule to include scenarios where the transfer can be regarded as an indirect trust-to-trust transfer. An example of such a scenario would be where a separate trust (“New Trust”) holds shares of a corporation (“HoldCo”), and HoldCo is a beneficiary of a different trust (“Old Trust”) that holds shares of another corporation (“OpCo”). To avoid the application of the 21-year deemed disposition of OpCo’s shares, Old Trust would “roll-out” OpCo’s shares to HoldCo.

The broadening of the 21-year anti-avoidance rule includes the scenario as described above and would therefore allow the 21-year deemed disposition to apply to OpCo’s shares, even though said shares were not transferred to New Trust itself. This new measure applies to these types of transfers that occur on or after November 4, 2025.

Bare Trust Reporting

The 2025 Federal Budget officially deferred the application of the trust reporting rules for bare trust arrangements until the 2026 calendar year. Therefore, there is no requirement to file a T3 Trust Return for bare trust arrangements for the 2025 tax year, unless specifically requested by the CRA.

Income Tax Act Subsection 164(6) - Capital Loss Carry Backs from an Estate

Where a graduated rate estate incurs a capital loss from the disposition of capital property in its first taxation year, the executor or administrator of the estate may elect under subsection 164(6) of the *Income Tax Act*, to “carry back” this capital loss to the deceased taxpayer’s final T1 tax return in order to reduce, or eliminate, any capital gains incurred on death.

In the 2025 Federal Budget a measure from the August 12, 2024 draft legislation was included to extend the ITA 164(6) capital loss carry-back period from one year to three years. What this means is that, under the new legislation, capital losses incurred by the estate in its first three (3) taxation years may now be carried back to the final T1 tax return if the executor or administrator elects to do so under ss.164(6).

Alternative Minimum Tax – Resource Deductions

As part of the August 12, 2024 draft legislation, there was a proposed amendment to the AMT regime that would have allowed a 100% of resource expenses to be deducted in the ATI calculation. This draft legislation was **not** included in the 2025 Federal Budget, and therefore the resource expenses will remain deductible at 50% for AMT purposes.

Luxury Tax

The 2025 Budget effectively eliminates the luxury tax that was imposed on vessels and specified aircraft which included the sales, improvements and importation of such items. Note that the tax is still applicable on vehicles that are over $100,000 in value. The tax is applied at a rate that is equal to the lesser of 10% of the total value of the asset and 20% of the value above $100,000. Registered vendors of specified aircraft and vessels are still obligated to file a final return that includes November 4, 2025, and registrations continue to be maintained after this date to permit vendors to claim any eligible rebates. From February 1, 2028, registration for aircraft and vessels will be cancelled as no further rebates can be claimed after this date.

Personal Income Tax Rates

The personal income tax rate for the lowest tax bracket will be reduced from 15% to 14.5% for 2025 and to 14% for 2026. These are no further personal income tax rate or tax bracket changes announced, and the brackets will continue to be indexed for inflation.

Ties to the U.S.? Know Your Filing Obligations

U.S. Citizens Living in Canada

If you are a U.S. citizen living in Canada, you still have U.S. tax filing obligations. If you are delinquent in your U.S. filings, the IRS has a streamlined process to allow you to get caught up without penalties. However, it is unclear how much longer the IRS will keep this process open, so if you have been holding off, now is the time to get caught up. Being a U.S. citizen can also present problems if you hold investments in Canada such as RESPs, RDSPs, TFSAs, FHSAs, and mutual funds, or if you are a shareholder of a Canadian corporation. If you are or have ever been a U.S. citizen, we suggest you contact your Crowe MacKay tax advisor to determine your filing requirements.

Snowbirds

If you own property in the United States or are spending significant amounts of time down there, let your Crowe MacKay tax advisors know. You can run into tax issues on both sides of the border, so it is important to know and understand the rules and how they may affect you. Both Canada and the U.S. can now track the number of days you are spending in each country, so being aware of your compliance requirements is more important than ever.

Tax Deadlines – To Do List for Canadians

Deadline	To Do List
Dec 15, 2025	▪ Final personal tax instalment for 2025 if you are required to pay instalments
Dec 31, 2025	▪ Charitable gifts ▪ Political contributions ▪ Certain spousal and child support payments ▪ Deductible legal fees ▪ Interest on student loans ▪ Investment counsel fees, interest and other investment expenses ▪ Medical expenses ▪ Childcare expenses ▪ Moving expenses ▪ Union and professional membership dues ▪ RRSP contributions if you turned 71 in the year
Jan 30, 2026	▪ Interest on a low interest or non-interest-bearing loan from your employer to reduce your taxable benefit ▪ Interest on intra-family loans
Feb 15, 2026	▪ Reimbursement of automobile expenses to your employer to reduce your taxable benefit if you use an employer-provided automobile
Mar 2, 2026	▪ Contribution to your own RRSP or spousal RRSP for the 2025 tax year ▪ Repayments under a Home Buyer's Plan or a Lifelong Learning Plan for the 2025 tax year
Mar 16, 2026	▪ First quarter 2026 instalment is due
Apr 30, 2026	▪ Personal income tax filing deadline for individuals who do not earn self-employment income ▪ Tax balance due date for all individuals ▪
Jun 15, 2026	▪ Filing deadline for individuals who earn self-employment income

Tax Deadlines – To Do List for Those with Ties to the U.S.

Deadline	To Do List
Mar 16, 2026	▪ U.S. filing deadline for 3520-A Annual Information Return of Foreign Trust with a U.S. Owner
Apr 15, 2026	▪ U.S. individual tax filing deadline for U.S. citizens or resident aliens ▪ U.S. individual tax filing deadline for U.S. Non-resident aliens who earned U.S. wages subject to U.S. income tax withholding or had an office or place of business in the U.S. ▪ U.S. filing deadline for 3520 Annual Return to Report Transactions with Foreign Trusts and Receipt of Certain Foreign Gifts
June 15, 2026	▪ U.S. individual tax filing deadline for U.S. citizens or resident aliens living outside of the U.S (provided they did not earn U.S. wages subject to U.S. income tax withholding or have an office or place of business in the U.S. ▪ U.S. filing deadline for all other U.S. Non-resident aliens ▪ U.S. filing deadline for 8840 “Closer Connection Exception Statement for Aliens”
Sep 15, 2026	▪ U.S. filings deadline for 3520-A Annual Information Return of Foreign Trust with a U.S. Owner if extension filed
Oct 15, 2026	▪ Final U.S. individual tax filing deadline if extension filed (extended from April 15th) ▪ Final U.S. FBAR filing deadline
Dec 15, 2026	▪ Final U.S. Non-resident individual tax filing deadline if extension filed (extended from June 15th)

Top Marginal Tax Rates for Individuals in 2025

	BC	Alberta	Yukon	NWT	Nunavut
Top Marginal Rates	%	%	%	%	%
Salary and Interest	53.50%	48.00%	48.00%	47.05%	44.50%
Ineligible Dividends	48.89%	42.30%	44.05%	36.82%	37.79%
Eligible Dividends	36.54%	34.31%	28.93%	28.33%	33.08%
Capital Gains	26.75%	24.00%	24.00%	23.53%	22.25%

⇨ **Click here** to download our 2025 Tax Rate Cards.

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