

FEDERAL BUDGET 2025

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2025 Canadian Federal Budget Commentary – Tax Initiatives

Introduction

On November 4, 2025 (Budget Day), Canada's Minister of Finance and National Revenue, François-Philippe Champagne, tabled the Liberal Government's budget, *Building Canada Strong*, in the House of Commons (Budget 2025).

The stated goals of Budget 2025 are to: (i) build the Canadian economy by increasing competitiveness and supercharging growth; (ii) empower Canadians by reducing costs, decreasing housing costs by investing in affordable housing, and reducing operational spending and increasing capital spending, referred to as "spending less to invest more"; and (iii) protect Canadian sovereignty and keep Canada safe.

Rather than any broad-based corporate tax rate reduction or other sweeping policy changes, Budget 2025 attempts to promote Canadian investment and business through a number of targeted measures, including the accelerated deduction of certain capital expenses. Budget 2025 also contains a number of tax measures impacting Canadian businesses, including: (i) a substantial modernization of Canada's transfer pricing rules; (ii) harmonization of the qualified investment concept for deferred plans, including the replacement of the existing registered investment regime; and (iii) amendments to, or extensions of, the clean technology manufacturing investment tax credit; the carbon capture, utilization and storage investment tax credit; and the clean electricity investment tax credit.

In addition to the measures impacting Canadian businesses, Budget 2025 includes new anti-avoidance rules applicable to the deferral of Part IV tax and indirect trust-to-trust transfers and eliminates the underused housing tax and the luxury tax on aircraft and vessels (but not vehicles).

Our commentary on the tax initiatives in Budget 2025 follows. Unless otherwise stated, all statutory references are to the *Income Tax Act* (Canada) (Tax Act).

Business Tax Measures

PRODUCTIVITY SUPER-DEDUCTION: TAX INCENTIVES TO SUPERCHARGE GROWTH

Budget 2025 announces the Government's intention to introduce a new "productivity super-deduction." The productivity super-deduction is not a single deduction or tax measure but comprises several enhanced tax incentives to promote investment and innovation in Canada, including the following previously announced measures:

- reinstatement of the accelerated investment incentive, creating an enhanced first-year write-off for most depreciable capital assets;
- immediate expensing of manufacturing or processing machinery and equipment;
- immediate expensing of clean energy generation and energy conservation equipment, and zero-emission vehicles;
- immediate expensing of patents, data network infrastructure, computers and other productivity-enhancing assets; and
- immediate expensing of scientific research and experimental development (SR&ED) capital expenditures.

Additionally, Budget 2025 proposes that the productivity super-deduction include two new measures:

- immediate expensing for manufacturing and processing buildings; and
- reinstatement of the accelerated capital cost allowance (CCA) rates for liquefied natural gas (LNG) equipment and related non-residential buildings.

Immediate Expensing for Manufacturing and Processing Buildings

Budget 2025 proposes to temporarily increase the CCA rate for eligible manufacturing or processing buildings to 100% for the first year that such property is used for manufacturing or processing. To be eligible for immediate expensing:

- the building must be acquired on or after Budget Day;
- the building must become available for use for manufacturing or processing before 2030; and
- at least 90% of the building's floor space must be used to manufacture or process goods for sale or lease.

The cost of eligible additions or alterations made to such buildings acquired on or after Budget Day and used for manufacturing or processing before 2030 will also qualify for the accelerated rate.

Property that is not new property when it is acquired by the taxpayer will be eligible for the accelerated first year deduction provided that:

- the property was not previously owned by the taxpayer (or any person with whom the taxpayer does not deal at arm's length); and
- the property was not transferred to the taxpayer on a tax-deferred basis.

Eligible property acquired on or after Budget Day and first used for manufacturing or processing in 2030 or later will be eligible for enhanced first-year CCA rates as follows:

- eligible property first used for manufacturing or processing between January 1, 2030 and December 31, 2031 will be eligible for an accelerated 75% first-year deduction; and
- eligible property first used for manufacturing or processing between January 1, 2032 and December 31, 2033 will be eligible for an accelerated 50% first-year deduction.

For eligible property that is first used for manufacturing or processing after 2033, the accelerated rate would not apply.

Accelerated CCA Rates for LNG Equipment and Related Buildings

Previously enacted measures providing for accelerated CCA for LNG equipment and related buildings expired at the end of 2024. Those measures increased the CCA rate for LNG equipment to 30%, from 8%, and the rate for non-residential buildings used in LNG facilities to 10%, from 6%.

Budget 2025 proposes to reinstate the accelerated rate for LNG equipment and related buildings acquired on or after Budget Day and before 2035. In order to be eligible for the accelerated rate, the relevant property must be used in low-carbon LNG facilities. The applicable rate for the eligible equipment and related buildings depends on the emissions performance of the LNG facility to which they belong:

- an LNG facility that is in the top 25% of emissions performance is eligible for an accelerated CCA rate of 30% for LNG equipment and 10% for related buildings; and
- an LNG facility that is in the top 10% of emissions performance is eligible for an accelerated CCA rate of 50% for LNG equipment and 10% for related buildings.

An LNG facility that is not in the top 25% of emissions performance will not be eligible for the enhanced rate.

The Government intends to release details regarding the emissions performance requirements at a later date.

Canada's Marginal Effective Tax Rate

Budget 2025 does not propose any change to headline corporate tax rates. However, Budget 2025 asserts that the productivity super-deduction will reduce the marginal effective tax rate (METR) by more than 2% and that this reduction will result in Canada's METR being both (a) the lowest METR in the G7; and (b) below the average METR as measured by the Organisation for Economic Co-operation and Development (OECD). This is stated to make Canada's per-sector METRs competitive with those in the United States, particularly in the manufacturing and processing sectors through the immediate expensing measures proposed in Budget 2025. Further, the productivity super-deduction is expected to make Canada's overall METR lower than the United States' METR, reflecting the Government's commitment to making Canada an attractive destination for investment that is directly competitive with the United States.

SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT: ENHANCED INCENTIVE AND PROCEDURAL CHANGES

Budget 2025 announces the Government's intention to enact previously announced amendments to the SR&ED program to:

- increase the existing \$10 million and \$50 million taxable capital thresholds at which the 35% refundable tax credit is progressively eliminated to \$15 million and \$75 million, respectively;
- extend the eligibility for the 35% refundable tax credit to eligible Canadian public corporations; and
- restore the eligibility of certain capital expenditures for the SR&ED program.

Budget 2025 proposes to increase the annual expenditure limit for the 35% refundable tax credit to \$6 million, effective for taxation years that begin on or after December 16, 2024. This is an increase from the annual expenditure limit of \$4.5 million announced in 2024.

Budget 2025 also announces the following changes to the administration of the SR&ED program:

- implement an elective pre-claim approval process and reduce the time to review such claims to 90 days, from 180 days;
- shorten processing times of low risk claims through the increased use of artificial intelligence (AI); and
- eliminate unnecessary steps and reduce information requirements.

These administrative changes are expected to be implemented as of April 1, 2026.

The Government also intends to conduct targeted consultations, including to review the SR&ED claim form (Form T661).

CANADA'S CLEAN ECONOMY TAX CREDITS

Budget 2025 builds upon the Government's previous commitments to build Canada's clean economy by announcing a new climate competitiveness strategy. The strategy is intended to create an investment environment to position Canadian businesses to compete and succeed on a global scale.

As part of the climate competitiveness strategy, Budget 2025 reiterates the Government's commitment to modernize Canada's electrical grid and build Canada's clean economy through tax credits. The previously enacted clean economy tax credits are:

- the Investment Tax Credit for Carbon Capture, Utilization, and Storage (CCUS ITC) available in respect of the capital cost of eligible property acquired on or after January 1, 2022;
- the Clean Technology Investment Tax Credit (CT ITC) available in respect of the capital cost of eligible property acquired and available for use on or after March 28, 2023;
- the Clean Hydrogen Investment Tax Credit (CH ITC) available in respect of the capital cost of eligible property acquired and available for use on or after March 28, 2023; and
- the Investment Tax Credit for Clean Technology Manufacturing (CTM ITC) available in respect of the capital cost of eligible property acquired and available for use on or after January 1, 2024.

Budget 2025 provides an update on the Government's timeline for delivering the not yet enacted Clean Electricity Investment Tax Credit (CE ITC), proposed to be available in respect of the capital cost of eligible property acquired and available for use on or after April 16, 2024, provided that the project did not begin construction before March 28, 2023. Budget 2025 indicates that the Government intends to release legislation implementing the CE ITC "soon."

Budget 2025 further confirms the Government's commitment to follow through on outstanding proposals to expand eligibility for the CT ITC, CTM ITC and CH ITC with retroactive effect, including the following:

- providing the CT ITC for eligible property acquired for use in certain waste biomass generation projects that is acquired and becomes available for use on or after November 21, 2023;
- expanding eligibility for the CT ITC for property used in small modular nuclear reactors by removing the megawatt electric threshold and modularity requirement and increasing the megawatt thermal threshold for nuclear fission reactors effective for property that is acquired and becomes available for use on or after March 28, 2023;
- expanding the CTM ITC for eligible property acquired for use in polymetallic mining activities that is acquired and becomes available for use on or after January 1, 2024; and
- providing the CH ITC for eligible property acquired for use in methane pyrolysis projects that is acquired and becomes available for use on or after December 16, 2024.

Although the Electric Vehicle Supply Chain Investment Tax Credit (announced in Budget 2024) was included in the Prime Minister's election platform and draft legislation was released on February 21, 2025, Budget 2025 does not mention whether the Government is committed to move forward with the credit, and it is absent from the Government's table outlining the timeline for delivering on the clean economy tax credits included in Budget 2025.

Clean Technology Manufacturing Investment Tax Credit

The CTM ITC is a 30% (subject to gradual phasing-out beginning in 2032) refundable tax credit. The CTM ITC is available in respect of the capital cost to a taxable Canadian corporation of "CTM property" acquired and available after December 31, 2023 and before January 1, 2035, for a "CTM use." The use of property "in a qualifying mineral activity producing all or substantially all qualifying materials" qualifies as a CTM use. "Qualifying material" is defined to mean lithium, cobalt, nickel, copper, rare earth elements, and graphite.

To support investments in the extraction, processing and recycling of co-product and by-product critical minerals, Budget 2025 proposes to expand the “qualifying material” definition to include antimony, indium, gallium, germanium and scandium. The expanded definition will apply in respect of CTM property that is acquired and becomes available for use on or after Budget Day.

Investment Tax Credit for Carbon Capture, Utilization and Storage

The CCUS ITC is an up to 60% refundable tax credit in respect of expenses incurred in a taxation year to acquire or install eligible equipment used in an eligible CCUS project that results in carbon dioxide being used for an eligible use.

The rate of the CCUS ITC depends on the type of expense and when the expense is incurred. Between January 1, 2022 and December 31, 2030, the following rates (full rates) apply:

- 60% for expenses related to eligible equipment used in direct air capture projects;
- 50% for expenses related to eligible equipment used in projects other than direct air capture projects; and
- 37.5% for expenses related to eligible transportation, storage and use equipment.

Between January 1, 2031 and December 31, 2040, the rates are one-half of those rates (reduced rates) described above.

Budget 2025 extends the availability of the full rates until December 31, 2035. Eligible expenditures incurred between January 1, 2036 and December 31, 2040 will be subject to the reduced rates.

Budget 2025 also announces that the Government is postponing its review of the CCUS ITC and that it intends to undertake that review before 2035 instead of before 2030 as previously announced in Budget 2022.

Clean Electricity Investment Tax Credit

The Government announced its intention to introduce the CE ITC in Budget 2023. The CE ITC is an up to 15% refundable tax credit applicable to investments in eligible property that is acquired and becomes available for use on or after April 16, 2024. The 2023 Fall Economic Statement indicated that the Government intended to differentiate between the application of the CE ITC to taxpayers that are publicly owned utilities and its application to taxpayers that are not publicly owned utilities. Budget 2024 announced design and implementation particulars of the CE ITC.

Canada Growth Fund

The CE ITC may be claimed by a “qualifying entity” in respect of the capital cost of “clean electricity property” (each as defined in subsection 127.491(1)) in respect of a project that commenced construction on or after March 28, 2023. Qualifying entities for the CE ITC include taxable Canadian corporations, provincial and territorial Crown corporations, corporations owned by municipalities or Indigenous communities, pension investment corporations, and the Canada Infrastructure Bank.

Subsection 127.491(10) provides that, for purposes of the CE ITC, the capital cost to a qualifying entity of clean electricity property is reduced by the amount of any “government assistance” or “non-government assistance” (each as defined in subsection 127(9)) received in or before the year in which the clean electricity property is acquired, or an amount that the qualifying entity is entitled to or can reasonably expect to receive that would be government assistance or non-government assistance if received by the entity in the taxation year.

Budget 2025 proposes to include the Canada Growth Fund as a qualifying entity for the CE ITC and to specify that financing provided by the Canada Growth Fund will not reduce the capital cost of clean electricity property for purposes of the CE ITC. This is similar to the changes proposed in the 2024 Fall Economic Statement to make the Canada Infrastructure Bank a qualifying entity and to provide that financing provided by the Canada Infrastructure Bank would not reduce the capital cost of clean electricity property for purposes of the CE ITC.

These changes are effective in respect of eligible property that is acquired and becomes available for use on or after Budget Day.

Provincial and Territorial Crown Corporations

The availability of the CE ITC to provincial and territorial Crown corporations was to be conditional on the province or territory in which the Crown corporation makes its investment being a designated jurisdiction. Budget 2024 announced that, in order for a jurisdiction to be a designated jurisdiction, the relevant provincial or territorial government was required to make certain public commitments (i.e., committing to achieve net-zero by 2050 and pass along the benefit of the CE ITC to ratepayers) and meet certain public reporting requirements.

Budget 2025 proposes to “remove the conditions imposed on provincial and territorial governments for their Crown corporations to be eligible to claim the [CE ITC],” with a view to enabling provincial and territorial Crown corporations to – subject to meeting the other conditions – access the tax credit and “effectively and efficiently support clean electricity investment while reducing administrative burden.” It is assumed that the conditions being removed include the net-zero commitment and the requirement to pass along the benefit of the CE ITC, in addition to the public reporting; however, this was not expressly stated.

Since the CE ITC is not enacted, presumably the removal of the conditions will be retroactively effective for eligible property acquired and available for use back to April 16, 2024. This should be made clear when the Government releases its revised legislation for the CE ITC. Budget 2025 indicates the Government intends to release legislation implementing the CE ITC “soon.”

Domestic Content Consultation

Budget 2025 announces the Government’s intention to consult Canadians on the possibility of introducing domestic content requirements for the CT ITC and the CE ITC. Budget 2025 does not provide additional particulars in respect of the consultation.

FLOW-THROUGH SHARES AND CRITICAL MINERAL EXPLORATION TAX CREDIT

The Critical Mineral Exploration Tax Credit (CMETC) is a 30% non-refundable tax credit that can be claimed in respect of flow-through critical mineral mining expenditures. Flow-through critical mineral mining expenditures are generally specified Canadian exploration expenses (CEE) incurred by a principal-business corporation in conducting mining exploration activity primarily targeting designated critical minerals and renounced to an eligible subscriber of a flow-through share.

Budget 2025 proposes to include bismuth, cesium, chromium, fluor spar, germanium, indium, manganese, molybdenum, niobium, tantalum, tin and tungsten as critical minerals eligible for the CMETC. Once enacted, eligible CEE incurred in relation to deposits of such minerals could qualify for the CMETC if renounced to an eligible subscriber of a flow-through share. This expanded eligibility for the CMETC will apply to flow-through share agreements entered into after Budget Day and before April 2027.

Budget 2025 confirms that the Government will proceed with the extension, announced on March 3, 2025, of the Mineral Exploration Tax Credit (METC) for an additional two years until March 31, 2027. The METC is a 15% tax credit in respect of eligible expenses incurred in respect of mineral exploration renounced to an eligible subscriber for flow-through shares.

Budget 2025 indicates that the Government will not proceed with amendments to the alternative minimum tax (AMT) announced on August 12, 2024 that would have deleted a rule that limits the deduction of resource expenses (including CEE) in computing adjusted taxable income to specified resource income of the taxpayer.

CANADIAN EXPLORATION EXPENSE DEFINITION

CEE includes certain expenses incurred by a taxpayer for the purpose of determining the existence, location, extent or quality of a mineral resource in Canada. Budget 2025 proposes to codify, as of Budget Day, the long-held Canada Revenue Agency (CRA) administrative position that expenses incurred for the purpose of determining the quality of a mineral resource in Canada do not include expenses related to determining the economic viability or engineering feasibility of the relevant mineral resource. This proposal is a direct response to the Supreme Court of British Columbia’s decision in *Seabridge Gold Inc. v British Columbia* (2025 BCSC 558). In that case, the Court held that the term “quality” within the “qualified mining

exploration expense” definition for the mining exploration tax credit under section 25.1 of the *Income Tax Act* (British Columbia) includes expenses related to determining the economic viability of mineral deposit. The British Columbia qualified mining exploration expense is the provincial equivalent of CEE.

AGRICULTURAL COOPERATIVE PATRONAGE DIVIDENDS PAID IN SHARES

Historically, a patronage dividend paid by an agricultural cooperative corporation to a member thereof by issuing shares of the cooperative was taxable to the member in the taxation year of the member in which the shares were received, and the cooperative was required to withhold and remit an amount on account of the member’s resulting income tax liability.

Relieving measures, introduced in 2005, allow for the temporary deferral of (1) the income tax liability of the recipient of a patronage dividend from an agricultural cooperative corporation, and (2) the cooperative’s corresponding withholding obligation in respect of that patronage dividend, in respect of dividends paid in-kind by the issuance of tax-deferred cooperative shares. This deferral lasts until the disposition or deemed disposition of the tax-deferred cooperative shares.

The relevant legislation that provides for this relief will expire at the end of 2025. Budget 2025 proposes to extend this relief to the end of 2030.

International Tax Measures

FOREIGN AFFILIATE PROPERTY INCOME: INCOME FROM INSURANCE

The Tax Act prevents taxpayers from avoiding Canadian tax by shifting “foreign accrual property income” (FAPI) to other jurisdictions. FAPI of a controlled foreign affiliate of a taxpayer resident in Canada is taxable in the hands of the Canadian taxpayer on an accrual basis.

Existing subparagraph 95(2)(a.2)(i) effectively includes in the FAPI of a controlled foreign affiliate its income from the insurance of “specified Canadian risks,” subject to a safe harbour if more than 90% of the affiliate’s gross premium revenue (net of reinsurance ceded) is from the insurance of risks (other than specified Canadian risks) of persons with whom the affiliate deals at arm’s length. Specified Canadian risks are risks in respect of a person resident in Canada, a property situated in Canada, or a business carried on in Canada. According to Budget 2025, some taxpayers are taking the position that income earned by a controlled foreign affiliate from assets held for the purpose of backing specified Canadian risks insured by another person is not included in FAPI.

Budget 2025 proposes to amend subparagraph 95(2)(a.2)(i) to include in FAPI income derived from the holding of any property by the affiliate in connection with the insurance or reinsurance of specified Canadian risks by any person or partnership, subject to the safe harbour.

This amendment is to apply to taxation years that begin after Budget Day.

TRANSFER PRICING

Following the consultation conducted in the summer of 2023, Budget 2025 proposes extensive changes to Canada’s transfer pricing rules. The proposed amendments would do the following:

- expand the circumstances in which a transaction or series is deemed not to be arm’s length;
- introduce new definitions of “actual conditions” and “arm’s length conditions” that focus on the conditions that actually apply between participants, instead of a hypothetical arm’s length test, and that provide for the possibility that no transaction would have occurred if the participants were arm’s length;
- introduce a new definition of “economically relevant characteristics” to consider the parties’ actual conduct and economic circumstances in priority to contractual terms/form;
- incorporate the current OECD transfer pricing guidelines into the Tax Act; and

- shorten the time for providing contemporaneous documentation to 30 days from three months.

The proposed measures would apply to taxation years that begin after Budget Day.

Transfer Pricing Adjustment Application Rule

The current transfer pricing rule in subsection 247(2) is to be replaced with a new transfer pricing adjustment rule, applicable where a transaction or series of transactions between a taxpayer or partnership and a non-resident person (or partnership of which the non-resident person is a member) that does not deal at arm's length with the taxpayer or partnership (or a member of the partnership) includes "actual conditions" that are different from "arm's length conditions." This new rule would consolidate the current "repricing" rule in paragraphs 247(2)(a) and (c) and "recharacterization" rule in paragraphs 247(2)(b) and (d).

The "actual conditions" of a transaction or series would not be limited to the contractual terms of the transaction or series, but would be determined based on "economically relevant characteristics." This results in a more substance-based test, which is stated by the *Consultation on Reforming and Modernizing Canada's Transfer Pricing Rules*, June 6, 2023 (Transfer Pricing Consultation Paper) to be in response to recent case law including *The Queen v Cameco Corporation* (2018 TCC 195, aff'd 2020 FCA 112). "Economically relevant characteristics" include (generally consistent with the Transfer Pricing Consultation Paper):

- the contractual terms of the transaction or series, and other relevant transactions or series involving any of the participants or another member of the multinational enterprise group, but only to the extent that those terms are "not inconsistent with the actual conduct of the participants";
- the actual conduct and functions of the participants, including:
 - assets and assumed risks;
 - the relationship of those functions to the value generated by the multinational enterprise group as a whole;
 - surrounding circumstances; and
 - industry practices;
- the characteristics of property transferred or services performed;
- the economic circumstances of the participants and market context; and
- the business strategies of the participants.

Consistent with the proposals in the Transfer Pricing Consultation Paper, "arm's length conditions" are the terms and conditions that would have been entered into between the participants had they been dealing at arm's length in comparable circumstances. Budget 2025 indicates that this test is intended to apply to the actual participants, and not hypothetical arm's length parties. The actual conditions are deemed to be different from arm's length conditions where a condition does not apply to the transaction or series, but would have applied, had the participants been dealing at arm's length. The definition of arm's length conditions also contemplates circumstances in which the participants would have entered into a different transaction or series, or no transaction or series at all. This effectively replaces the recharacterization rule in existing paragraphs 247(2)(b) and (d) and provides the ability to make adjustments to disregard a transaction. Notably, there is no longer a "tax benefit" purpose test that must be met in order to recharacterize a transaction or series, but Budget 2025 indicates that, consistent with the Transfer Pricing Guidelines (described below), a transaction or series should be recharacterized "only in exceptional circumstances."

Where the actual conditions of the transaction or series are different from arm's length conditions, any amounts determined for purposes of applying the Tax Act to the taxpayer or partnership are to be adjusted to those that would have been determined, had arm's length conditions applied. Budget 2025 indicates that such determination should take into account the options "realistically available" to the participants at the time the transaction or series was entered into; however, in a

departure from the proposed amendments that were included in the Transfer Pricing Consultation Paper, this limitation does not appear in the proposed amendments themselves.

Each of the actual conditions, whether such conditions differ from arm's length conditions, and any adjustments to amounts for purposes of the Tax Act would be required to be determined by reference to the "Transfer Pricing Guidelines" as defined in the Tax Act. The proposed definition of "Transfer Pricing Guidelines" refers to *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*, as adopted by the Committee on Fiscal Affairs on January 7, 2022, but contemplates that Canada could prescribe by regulation either its own guidelines or updated OECD Transfer Pricing Guidelines after January 7, 2022. This interpretation rule adopts a static approach, referring to the OECD guidelines most recently published as of Budget Day, and does not incorporate by reference future amendments to such guidelines, unless later adopted by regulation. This approach is a departure from other interpretive rules recently introduced in the Tax Act, including in the hybrid mismatch arrangement rules, which take an ambulatory approach.

Penalties

Budget 2025 also introduces administrative amendments to section 247.

Among the administrative amendments is a proposed increase to the threshold for the application of the transfer pricing penalty in subsection 247(3). Currently, the penalty applies where the total transfer pricing adjustment exceeds a *de minimis* threshold. This threshold is currently equal to the lesser of \$5 million and 10% of the taxpayer's gross revenue for the year. Budget 2025 proposes to raise that threshold to the lesser of \$10 million and 10% of the taxpayer's gross revenue for the year. This would be the first adjustment to the penalty threshold since 1997.

Contemporaneous Documentation

Budget 2025 also proposes amendments to the contemporaneous documentation requirement set out in subsection 247(4), including the details that must be included in that documentation and the time within which such documentation must be provided to the Minister. The changes to the content required to be included in contemporaneous documentation generally reflect the economically relevant characteristics to be considered in applying the arm's length principle. The time within which contemporaneous documentation must be provided to the Minister upon written request would be reduced from three months to 30 days. Proposed subsection 247(4.1) would simplify the documentation requirements where a taxpayer meets certain prescribed conditions.

PILLAR TWO

Budget 2025 does not contain any new measures relating to Pillar Two of the OECD/Group of 20 Inclusive Framework on Base Erosion and Profit Shifting, nor Canada's *Global Minimum Tax Act (Canada)* (GMTA) implementing these rules.

Notably, Budget 2025 does not include an undertaxed profits rule (UTPR). Budget 2025 does, however, affirm the Government's intention to implement the August 2024 proposed amendments to the GMTA, which included proposals to introduce a UTPR, as well as the August 2025 proposed amendments, which proposed to enact various measures including to address administrative guidance that was released by the OECD since the GMTA was originally enacted.

On June 28, 2025, the G7 announced that it had reached an agreement to implement a "side-by-side" system (G7 Statement) which may impact Canada's implementation of the UTPR. Under the side-by-side system, the Pillar Two rules and the United States' global intangible low-taxed income (GILTI) minimum tax would co-exist, in return for the United States agreeing to remove proposed tax code Section 899 from the *One Big Beautiful Bill Act*. The G7 Statement provides that United States-parented groups would be exempt from the Pillar Two income inclusion rule and the UTPR. To date, no further details have been announced regarding the implementation of the side-by-side approach. In this regard, there are material differences between Pillar Two and the GILTI rules. For example, the GILTI rules do not provide for jurisdictional blending. In the OECD Secretary-General Tax Report to the G20 in October 2025, it was indicated that technical work is ongoing, with a hope for a solution by end of year.

Budget 2025 indicates that the Government expects to earn \$2.1 billion of revenues from Pillar Two by 2029-2030.

Select Personal Tax Measures and Other Tax Measures Applicable to Trusts and Registered Plans

QUALIFIED INVESTMENTS FOR REGISTERED PLANS

The Tax Act permits the creation of various tax-assisted plans to encourage savings and investment for specific purposes: registered retirement savings plans (RRSPs); registered retirement income funds (RRIFs); registered education savings plans (RESPs); tax-free savings accounts (TFSA); registered disability savings plans (RDSPs); first home savings accounts (FHSAs); and deferred profit sharing plans (DPSPs). DPSPs are sponsored by employers, while the remaining plans (RRSPs, RRIFs, RESPs, TFSA, RDSPs and FHSAs, referred to herein as “registered plans”) are created by individuals (referred to herein as the “controlling individual”).

The Tax Act limits investments by a registered plan, or by a DPSP, to “qualified investments” for the particular type of plan and imposes adverse tax consequences if a plan acquires or holds an investment that is not a qualified investment in respect of that plan (referred to as a “non-qualified investment”). In the case of a registered plan that acquires a non-qualified investment, the controlling individual may be liable to a penalty tax, refundable in certain circumstances. In the case of a DPSP that acquires a non-qualified investment, the DPSP is liable to pay a penalty tax, also refundable in certain circumstances. If a property held by a DPSP becomes a non-qualified investment after it is acquired, the DPSP is liable to a penalty tax while it continues to hold the property. In addition, a registered plan is liable to tax under Part I of the Tax Act on its income from a non-qualified investment and the full amount of any capital gain on the disposition thereof. The prohibited investment rules are a second limitation on investments that may be made by a registered plan. The controlling individual of a registered plan may be liable to tax if the registered plan acquires or holds a prohibited investment, even if the property is a qualified investment.

Whether a particular property is a qualified investment for a registered plan or DPSP currently requires the consideration of a myriad of provisions of the Tax Act and the *Income Tax Regulations* (Tax Regulations), as the rules have developed and expanded on an *ad hoc* basis, generally in response to the development of new investment products. In addition, the Tax Act contains a regime applicable to registered investments (RIs). Under the RI regime, specific types of collective investment vehicles structured as a corporation or trust that comply with particular investment restrictions can apply to the CRA for registration as an RI for a DPSP or certain types of registered plans. A share or unit of a corporation or trust that is an RI for a DPSP or registered plan will be a qualified investment for a DPSP or registered plan of that type, as applicable.

Small Business Investments and Qualified Investment Harmonization

Under current law, investments in a small business via a share of an eligible corporation, an interest in a small business investment limited partnership, or an interest in a small business investment trust are qualified investments for RRSPs, RESPs, and RRIFs pursuant to subsection 4900(6) of the Tax Regulations. Investments in a specified small business corporation, certain venture capital corporations, or qualifying shares of specified cooperative corporations are qualified investments for RRSPs, RESPs, RRIFs, FHSAs and TFSA under subsection 4900(14) of the Tax Regulations. There is potential overlap between these regimes, particularly as they relate to shares of corporations carrying on an active business and where the proposed investor is an RRSP, RESP or RRIF. However, neither regime applies where the proposed investor is an RDSP.

Budget 2025 proposes to harmonize the qualified investment rules for small business investments, and to harmonize the qualified investment rules for deferred plans more generally. This will be achieved by:

- amending the RRSP, RESP, RRIF and RDSP rules to delete their separate definitions of “qualified investment” and to change various references to “qualified investment” or “non-qualified investment” to refer to the definitions of “qualified investment” and “non-qualified investment” in subsection 207.01(1), which already apply to FHSAs and TFSA;
- substantially amending the definition of “qualified investment” in subsection 207.01(1) so that it applies to all registered plans – the term “registered plan” already being defined in subsection 207.01(1) as meaning an FHSAs,

RDSP, RESP, RRIF, RRSP or TFSA – and to incorporate many of the items previously included in the section 204 definition of “qualified investment,” as well as various categories of annuities that are qualified investments for RDSPs, RRIFs and RRSPs;

- amending the definition of “qualified investment” in section 204 – which formerly applied for the purposes of RRSPs, RESPs, RRIFs and RDSPs, in addition to DPSPs – by replacing several categories of qualified investments with a reference to the definition of “qualified investment” in subsection 207.01(1);
- deleting Part XLIX of the Tax Regulations (which currently prescribes various classes of investments in section 4900 of the Tax Regulations) in its entirety and replacing it with new sections 5000 to 5006, which will, among other things, reorganize the various categories of qualified investments currently listed in subsections 4900(1) to (14) of the Tax Regulations;
- adopting definitions of the terms “specified cooperative corporation” and “specified small business corporation” in proposed section 5000 of the Tax Regulations, substantially similar to the current definitions in subsection 4900(1) of the Tax Regulations which, along with certain venture capital corporations described in sections 6700 to 6700.2 of the Tax Regulations, will now be the only way for a small business investment to be a qualified investment for a registered plan; and
- eliminating the “small business investment limited partnership,” “small business investment trust,” and “eligible corporation” categories of qualified investment, except where these interests were acquired before January 1, 2027, and were qualified investments both at the time of acquisition and on December 31, 2026.

Budget 2025 also proposes to expand the scope of the investments that are prescribed as “prohibited investments” of a registered plan under paragraph (d) of that definition in subsection 207.01(1). Most notably, proposed paragraph 5006(b) of the Tax Regulations would include as a prohibited investment an option, warrant or similar right issued by a person who is a “connected person” under the registered plan. Proposed section 5000 of the Tax Regulations would define a “connected person” as the “controlling person” (as defined in subsection 207.01(1)) in respect of the registered plan or a person who does not deal at arm’s length with the controlling person.

If enacted, these amendments would come into force on January 1, 2027.

It appears unlikely that the proposed amendments will materially affect the circumstances in which shares of a corporation carrying on a small business will be a qualified investment for a registered plan. However, there will undoubtedly be some edge cases. For example, a share of a corporation controlled *de facto* (but not *de jure*) by non-residents could have been a qualified investment for RRSPs, RRIFs and RESPs under subsection 4900(6) of the Tax Regulations, but will not be a qualified investment for any registered plans under proposed paragraph 5002(d) of the Tax Regulations because the “specified small business corporation” definition in proposed section 5000 of the Tax Regulations excludes corporations controlled *de facto* by one or more non-resident persons.

Registered Investment Repeal and Replacement

The Tax Act currently contemplates that six types of trusts or corporations can become RIs.

A mutual fund corporation (or investment corporation) or a mutual fund trust can become an RI without any restriction on the types of investments it holds, provided that it limits its undertakings as contemplated by the definitions of “mutual fund corporation” or “mutual fund trust” under the Tax Act, as applicable. In addition, a corporation or trust that would otherwise be a mutual fund corporation (or investment corporation) or mutual fund trust, if the corporation or trust met prescribed conditions relating to the minimum number of shareholders or unitholders, can become an RI for a DPSP or a certain type of registered plan provided that it restricts its investments to those properties that would be qualified investments for DPSPs or that type of registered plan, as applicable. Finally, paragraphs 204.4(2)(a) and (b) of the Tax Act contemplate trusts that meet specific conditions relating to their investments, which can include investments in real estate for the purpose of producing income from property.

Budget 2025 states that “stakeholders have suggested that the registration process does not add sufficient value to justify its associated compliance and administration burdens.” Accordingly, Budget 2025 proposes replacing the RI regime with two new categories of qualified investments that do not require registration:

- units of a trust that is subject to, and substantially complies with, the requirements of *National Instrument 81–102 Investment Funds*, as amended from time to time, of 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 subsection 251.2(1)) provided that the investments of the trust are managed by a person that is registered as an investment fund manager as described in *National Instrument 31–103 Registration Requirements, Exemptions and Ongoing Registrant Obligations*, as amended from time to time, of the Canadian Securities Administrators.

These new categories of qualified investments are effective on Budget Day, but the repeal of the RI regime is to be effective on January 1, 2027.

Budget 2025 indicates that “it is generally expected that units or shares of funds that were [RIs] would continue to qualify, either under existing rules or under one or both of the new categories of qualified investment trusts.” However, it appears that some securities of existing RIs would not qualify. The two new categories only contemplate units of a trust and not shares of a corporation. In addition, a trust that holds real or immovable property or an interest therein generally cannot meet the requirements of *National Instrument 81–102 Investment Funds*, nor qualify as an “investment fund” as defined in subsection 251.2(1), notwithstanding that such investments are permitted investments for RIs contemplated by paragraphs 204.4(2)(a) and (b).

REPORTING FOR BARE TRUSTS

The bare trust reporting requirements in subsection 150(1.3) were first enacted in 2022, with effect for taxation years ending after December 30, 2023. Since bare trusts should all be required to maintain a calendar year fiscal period, the implication of the rules applying after December 30, 2023 was that all bare trusts not otherwise exempted from filing under subsection 150(1.2) would have a reporting requirement for 2023. The effect of these rules was that a bare trust would be required to file a T3 income tax return and Schedule 15 (disclosure of the settlor, beneficiaries and trustees) annually.

On March 28, 2024, two days before the 2023 T3 return filing deadline, the CRA issued a press release administratively waiving the 2023 filing requirements for bare trusts. On August 12, 2024, the Government proposed that subsection 150(1.3) be repealed for taxation years ending after December 30, 2024 (i.e., the 2024 taxation year), and would be re-enacted with effect for taxation years ending after December 30, 2025 (i.e., the 2025 taxation year). The CRA subsequently issued a press release on October 29, 2024 confirming that bare trusts would not be required to file for 2024. Finally, in August 2025, Finance released updated draft legislation repealing the bare trust reporting requirement for 2023 and 2024, and implementing the bare trust reporting requirements for taxation years ending after December 30, 2025.

Successive iterations of enacted or proposed subsections 150(1.3) to (1.4) have reduced the potential requirement to file in common situations in which such requirement was viewed as unnecessary or too burdensome (e.g., parents holding a nominal interest in title to a home to assist their child in qualifying for a mortgage). Nevertheless, concerns remained with respect to the application of the bare trust reporting requirements, including to common natural resource extraction arrangements and bare trusts mandated for end user protection under the *Retail Payment Activities Act*.

While Budget 2025 indicates that the Government intends to proceed with the measure, it does not contain revised draft legislation addressing bare trust reporting. Further, Budget 2025 states that the implementation of the bare trust reporting requirements will be deferred, such that they will now apply to taxation years ending on or after December 31, 2026.

21-YEAR RULE

Trusts are deemed by subsection 104(4) to dispose of their property every 21 years, in order to prevent an indefinite deferral of tax on accrued capital gains, potential recapture of capital cost allowance, or gains on land inventory and resource

properties held by the trust. In the past, taxpayers had sought to defeat the 21-year deemed disposition by causing a trust to distribute its property to a new trust prior to the 21st anniversary of the creation of the transferor trust. Subsection 104(5.8) was enacted in 1994 to prevent these arrangements, by deeming the transferee trust to have the transferor trust's deemed disposition date in circumstances in which the transferor trust availed itself of a rollover under either subsection 107(2) or 107.4(3) or paragraph (f) of the definition of "disposition" in subsection 248(1).

However, subsection 104(5.8) has proven insufficient to prevent this perceived abuse because it applies only where one trust has transferred property directly to another trust. Taxpayers identified that it would be possible to achieve the same result by causing the transferor trust to make a tax-deferred distribution of its property to a beneficiary that is a corporation controlled by the transferee trust. The CRA was aware of these transactions and has stated on various occasions that it would apply the general anti-avoidance rule (GAAR) to deny the resulting tax benefits. Indirect trust-to-trust transfers via a controlled corporation were also designated as a notifiable transaction for the purposes of section 237.4 (NT-2023-02).

Budget 2025 now proposes to address this tax planning through a legislative measure. An amendment to subsection 107(5.8) would cause it to apply where property has been transferred "directly or indirectly in any manner whatever" from one trust to another, in circumstances where either subsection 107(2) or 107.4(3) or paragraph (f) of the definition of "disposition" in subsection 248(1) applies. Given the breadth of the phrase "directly or indirectly in any manner whatever" as interpreted by the Federal Court of Appeal in a case involving an indirect transfer of property to a trust (see *Garron Family Trust v. R*, 2010 FCA 309 at paras 73-80), this proposed amendment can reasonably be expected to cause subsection 104(5.8) to apply to the trust-to-corporation transfers described in NT-2023-02.

If enacted, this measure will apply to all transfers occurring on or after Budget Day.

PART IV TAX PLANNING

When a private corporation (Opco) with a non-eligible refundable dividend tax on hand (NERDTH) balance or an eligible refundable dividend tax on hand (ERDTH) balance pays a taxable dividend, the private corporation is entitled to a dividend refund under subsection 129(1). If the sole dividend recipient is another private corporation (Holdco) connected with the dividend payer corporation (within the meaning in subsection 186(4)), the dividend recipient corporation will be subject to Part IV tax in an amount equal to the dividend payer corporation's dividend refund under paragraph 186(1)(b) and will be entitled to add a corresponding amount to its NERDTH or ERDTH balance. Holdco could avoid remitting the Part IV tax by paying a taxable dividend and obtaining a dividend refund prior to the end of its taxation year in which it received the dividend from Opco. The regime is designed to incent the distribution of investment income earned by a private corporation to an individual by way of taxable dividend such that the individual level of tax on the investment income is not perpetually deferred.

The timing of the dividend refund and Part IV tax liability presents a deferral opportunity. Suppose Opco's taxation year ends January 31st and Holdco's taxation year ends December 31st. Opco could pay a taxable dividend on the shares owned by Holdco on January 1, 2025, which would be received by Holdco in its taxation year ending on December 31, 2025. Opco would receive its dividend refund in 2025, while Holdco would not have to remit any Part IV tax until February 28, 2026, and might avoid remitting Part IV tax entirely if it pays an equivalent taxable dividend before December 31, 2025. This creates a potential deferral of approximately 11 months. In theory, the deferral could be extended further, potentially indefinitely, for example if the shareholder of Holdco is another corporation (Topco) with a November 30th taxation year-end.

Budget 2025 proposes to eliminate this deferral opportunity through new subsection 129(1.3), which will deem a dividend that is received by a corporation (directly or indirectly through one or more trusts or partnerships) not to be a taxable dividend for the purpose of subsection 129(1) where the following conditions are met:

- the dividend does not arise in the course of a butterfly reorganization described in paragraph 55(3)(a) or (b);
- the dividend recipient corporation is affiliated (as defined in subsection 251.1(1)) with the dividend payer corporation;

- the dividend recipient corporation is a private corporation or a subject corporation (as defined in subsection 186(3)); and
- the balance-due day for the dividend recipient corporation's taxation year in which the dividend was received is after the balance-due day for the dividend payer corporation's taxation year in which the dividend was paid.

If these conditions are satisfied and the dividend is deemed to not be a taxable dividend, then the conditions for a dividend refund in subsection 129(1) would not be met and the dividend payer corporation would not receive a dividend refund. The dividend recipient corporation would not be subject to Part IV tax in respect of the dividend, as a proposed amendment to paragraph 186(1)(b) would exclude a dividend to which proposed subsection 129(1.3) applies.

Proposed subsection 129(1.3) will not apply in two circumstances:

- Where the dividend recipient corporation pays one or more taxable dividends prior to the dividend payer corporation's balance-due day for the taxation year in which the original dividend was paid, the aggregate taxable dividends are at least equal in amount to the original dividend, and the dividends were not otherwise relied on by any taxpayer to avoid the application of subsection 129(1.3). If a third corporation affiliated with the dividend payer corporation receives (directly or indirectly through one or more trusts, partnerships or other corporations affiliated with the dividend payer corporation) any part of the dividend paid by the dividend recipient corporation, it must also pay one or more taxable dividends that, in the aggregate, are at least equal in amount to the dividend received prior to the dividend payer corporation's balance-due day.
- Where the dividend payer corporation was subject to a loss restriction event within 30 days of the date that it paid the dividend. This exclusion should prevent the application of subsection 129(1.3) to pre-closing dividends paid in the course of a sale of the shares of a target corporation.

If proposed subsection 129(1.3) applies to suspend a dividend refund, proposed subsection 129(1.32) provides for the release of the suspended dividend refund via the deemed payment of a taxable dividend by the dividend payer corporation. Very generally, the suspended dividend refund will be released where:

- the dividend payer corporation has not been subject to a loss restriction event;
- the dividend recipient corporation (and any relevant upper-tier corporation) has paid one or more taxable dividends that, in the aggregate, are at least equal in amount to the original dividend, and these dividends were paid in a manner that would not produce a further deferral;
- the taxable dividends paid by the dividend recipient corporation (and any relevant upper-tier corporation) do not produce a dividend refund and do not avoid the application of proposed subsection 129(1.3) to another dividend; and
- proposed subsection 129(1.32) has not previously applied in respect of the suspended dividend.

Also included in Budget 2025 is a proposed amendment to the anti-avoidance rule in subsection 129(1.2), which denies a dividend refund where a share of a corporation is acquired in a transaction or as part of a series of transactions one of the main purposes of which is to enable the corporation to obtain a dividend refund. The proposed amendment will extend the application of subsection 129(1.2) where one of the main purposes of a transaction or series of transactions is to enable another corporation affiliated with the issuer corporation to obtain a dividend refund.

If enacted, these measures would apply to taxation years beginning on or after Budget Day.

Given the prevalence of private corporation structures in which a holding corporation (or a trust beneficiary corporation that is a "subject corporation" under subsection 186(3)) will have a different year-end than a subsidiary private corporation to permit a deferral of Part IV tax, it is likely that many taxpayers will be potentially affected by proposed subsection 129(1.3). To avoid potential traps, it may be desirable to request the CRA's consent to a change of the holding corporation or trust beneficiary's fiscal period under subsection 249.1(7) so that it is aligned with the fiscal period of the subsidiary private corporation.

INFORMATION SHARING – WORKER CLASSIFICATION

Budget 2025 proposes to amend the exchange of information provisions of paragraph 241(4)(d) of the Tax Act and paragraph 295(5)(d) of the *Excise Tax Act* (Canada) (ETA) to allow the sharing of taxpayer information with officials of Employment and Social Development Canada (ESDC), solely for the purpose of the administration and enforcement of the Canada Labour Code as it relates to the misclassification of employees.

These administrative measures are part of a joint effort by ESDC and the CRA to crack down on the misclassification of employees as independent contractors, an issue that is of particular concern in the trucking industry. The proposed amendments to the Tax Act and the ETA provide reciprocity for the exchange of information between ESDC and the CRA. In addition, Budget 2025 earmarks \$77 million over four years for the CRA to identify and address non-compliance related to personal services businesses and the trucking industry.

CANADIAN ENTREPRENEURS' INCENTIVE

As part of the proposed capital gains inclusion rate increase in Budget 2024, the Government proposed to enact the Canadian Entrepreneurs' Incentive as section 110.63. This provision would have reduced by half the capital gains inclusion rate applicable to a disposition of certain shares or qualified farm or fishing property, to a maximum of \$2,000,000 of capital gains in 2029 and subsequent taxation years. Budget 2025 confirms that, in conjunction with the cancellation of the capital gains inclusion rate increase, the Canadian Entrepreneurs' Incentive is also cancelled.

RESOURCE EXPENSE DEDUCTIONS AND ALTERNATIVE MINIMUM TAX

The AMT in Division E.1 of Part I of the Tax Act imposes additional tax on individuals whose adjusted taxable income is not taxed at a rate of at least 20.5%, taking into account certain tax credits. For the purposes of calculating "adjusted taxable income" under section 127.52, three tenths of the capital gain that would have been realized by an individual but for paragraph 38(a.1) is added back. As part of the proposed capital gains inclusion rate increase in Budget 2024, the Government proposed to limit the add-back for capital gains on the disposition of flow-through shares to the "true" capital gain realized on the disposition of the flow-through shares. Budget 2025 confirms that, in conjunction with the cancellation of the capital gains inclusion rate increase, this measure is being abandoned. As described above, the Government will not proceed with amendments to the AMT that would have deleted a rule that limits the deduction of resource expenses (including CEE) in computing adjusted taxable income to specified resource income of the taxpayer.

PERSONAL SUPPORT WORKERS' TAX CREDIT

Budget 2025 introduces a temporary refundable tax credit of 5% of eligible earnings, up to a maximum credit of \$1,100, for eligible personal support workers working for eligible health care establishments (such as hospitals, nursing and residential care facilities). To qualify as an eligible personal support worker, an individual must ordinarily provide one-on-one care and essential support to patients to meet such patients' health care needs (the main duties of which include helping with activities of daily living and mobilization) as directed by a regulated health care professional or a provincial community health organization.

Eligible earnings generally include wages, salaries and employment benefits earned as an eligible support worker performing the above duties for eligible health care establishments. Employers will be required to certify their employees' earnings in prescribed form, and an employee must file a tax return for the year to be eligible for the credit.

The personal support worker tax credit will not be available in British Columbia, Newfoundland and Labrador and the Northwest Territories, because such provinces/territories have entered into bilateral agreements with the federal government to provide funding over five years to increase personal support workers' wages.

This refundable tax credit is available for the 2026 to 2030 taxation years.

AUTOMATIC FEDERAL BENEFITS FOR LOWER-INCOME INDIVIDUALS

Canada's tax system relies on self-assessment and self-reporting. However, millions of lower-income Canadians do not file their taxes every year, forgoing valuable benefits, such as the GST/HST credit, the Canada Child Benefit or the Canada Workers Benefit.

Budget 2025 introduces automatic federal benefits starting in 2026, giving the CRA discretionary authority to file tax returns on behalf of eligible individuals. Very generally, an eligible individual is an individual whose taxable income is below the basic personal amount and is from sources for which information returns (such as T-4 slips) have been filed with the CRA, provided that the individual has not filed a return at least once in the preceding three taxation years. The CRA will provide an eligible individual with a pre-filled income tax return; the individual will have 90 days to submit changes to the CRA, before the CRA automatically files and assesses the tax return. The existing processes for objections and appeals will apply to returns filed by the CRA under these measures. If, after the CRA files a return on behalf of an individual, it is determined that the individual was not eligible for automatic federal benefits, the return is deemed not to have been filed. Individuals may opt out of the automatic federal benefits by notifying the CRA.

Additional criteria for eligibility may be determined by the Minister. These measures will apply to the 2025 and subsequent taxation years. Budget 2025 earmarks \$71 million over five years for the CRA to implement these measures. Finance is seeking public comments on these measures. The consultation period ends on January 30, 2026.

TOP-UP TAX CREDIT

Most non-refundable personal tax credits apply based on the first marginal personal income tax rate. The middle-class tax cut announced in May 2025 (currently before Parliament) effectively reduces the rate applicable to non-refundable tax credits from 15% to 14.5% in 2025, and 14% thereafter. In some rare cases, the reduction in taxes will not make up for the reduced amount of non-refundable tax credits. The Top-Up Tax Credit will apply to effectively maintain the 15% rate for non-refundable tax credits for the 2025 to 2030 taxation years.

HOME ACCESSIBILITY TAX CREDIT

The Home Accessibility Tax Credit provides for a non-refundable credit for home renovations or alterations designed to improve the safety, accessibility or functionality of an eligible dwelling of qualifying individuals 65 years or older who are eligible for the Disability Tax Credit. In some cases, expenses that qualify for the Home Accessibility Tax Credit may also qualify under the Medical Expense Tax Credit, allowing claims for both credits in respect of a single expense. Budget 2025 proposes to amend the Tax Act to provide that, for the 2026 and subsequent taxation years, an expense claimed under the Medical Expense Tax Credit cannot be claimed under the Home Accessibility Tax Credit.

CANADA CARBON REBATE

The Canada Carbon Rebate (CCR) was the mechanism by which the Government returned proceeds from the federal fuel surcharge to residents of participating provinces. With the elimination of the federal fuel charge as of April 1, 2025, a final quarterly CCR payment was made to eligible households starting in April 2025. To facilitate the winding down of the program, Budget 2025 proposes to amend the Tax Act, such that no CCR payments will be made in respect of tax returns or adjustment requests filed after October 30, 2026.

Miscellaneous – Tax Enforcement, Administration and Other Income Tax Measures

BUDGET 2025 CONFIRMS LEGISLATIVE PROPOSALS WITH RESPECT TO NON-COMPLIANCE WITH INFORMATION REQUESTS

Budget 2025 confirms that the Government will proceed with “measures with respect to non-compliance with information requests” that were set out in the August 2025 legislative proposals.

These measures include the following:

- The Minister can issue a “notice of non-compliance” if the Minister determines that a taxpayer has not complied with certain requirements to provide information. The issuance of a notice of non-compliance comes with a penalty of \$50 per day (up to a maximum of \$25,000). It also suspends the normal reassessment period for the taxpayer and any non-arm’s length parties for as long as the notice is outstanding;
- A penalty for taxpayers who are issued a compliance order under section 231.7 (applicable only if the taxpayer has tax owing of \$50,000 or more for any one taxation year in respect of the compliance order); and
- The reassessment clock stops when a taxpayer seeks judicial review of a requirement or notice issued by the CRA in relation to the audit and enforcement process.

Budget 2025 is unclear whether Finance will proceed with other proposed changes to the audit power provisions that do not deal directly with “non-compliance with information requests.” For instance, the August 2025 proposals include a proposed change to paragraph 231.2(3)(b) that would permit a foreign government to ask the Minister to require Canadian taxpayers to turn over information about unnamed third parties (i.e., customers) pursuant to a listed international agreement or tax treaty. This proposed change has attracted criticism from the tax community because it raises serious privacy concerns for Canadian taxpayers. Budget 2025 is silent as to whether this proposed change will go ahead. In addition, the other proposed changes include giving the CRA the power to require taxpayers to answer information requests, either written or oral, under oath or affirmation, or by affidavit, and the CRA being able to seek a compliance order for foreign-based information requests.

Budget 2025 leaves open the possibility that the August 2025 proposals will be further revised, noting that it will proceed with the proposed measures “as modified to take into account consultations and deliberations since their release.”

REDUCTION AND MODERNIZATION OF CRA OPERATIONS; CRA FUNDING FOR CLEAN ECONOMY INVESTMENT TAX CREDITS AND “GLOBAL FAIRNESS” MEASURES

In an effort to modernize administrative operations, Budget 2025 announces measures aimed at improving the CRA’s efficiency. The Government intends to increase savings within the CRA by reducing business units that are no longer aligned with the Government’s priorities, including winding down units dealing with the Digital Services Tax, the Federal Fuel Charge, and the Canada Carbon Rebate for individuals and businesses. The Government aims to reinvest part of these savings into AI and process automation, allowing for increased efficiency in compliance and collection activities. According to CRA projections, this automation, once fully implemented, could reduce certain repetitive tasks up to 50%, allowing the CRA to focus on more complex cases and the collection of tax debts. Budget 2025 also indicates that AI will be used in the administration of the SR&ED program.

Budget 2025 allocates additional funding to the CRA to administer Clean Economy Investment Tax Credits and certain “global fairness” measures – namely, the Global Minimum Tax/Pillar Two, the excessive interest and financing expense limitation (EIFEL) rules, and the mandatory disclosure rules.

INCREASED ACCESS TO TAX COURT’S SIMPLIFIED PROCEDURE

Budget 2025 also proposes to broaden access to the simplified procedure in income tax and GST disputes by increasing the limits required to access the simplified procedure at the Tax Court of Canada.

Currently, taxpayers qualify to have their disputes adjudicated under the informal procedure with respect to income tax appeals if:

- the amount of federal tax and penalties in dispute for each taxation year is \$25,000 or less;
- the disputed loss is not more than \$50,000 per determination; or
- interest and penalties with respect to federal tax is the only matter in dispute.

GST appeals qualify for the informal procedure if the amount in dispute is \$50,000 or less.

Budget 2025 notes that these limits have not been updated since 2013, and increasing them would make dispute resolution more cost-effective. Budget 2025 does not specify what the new limits will be, but we note that this change would require amendments to the *Tax Court of Canada Act*.

This proposed change should increase access to justice for Canadian taxpayers and help reduce backlog at the Tax Court of Canada. Proceedings under the informal procedure are governed by different rules and subject to less stringent evidentiary requirements, which allows them to proceed to a resolution more quickly and efficiently. While the details of this proposed change remain to be seen, this proposal will be welcome to taxpayers seeking to challenge reassessments.

INDIGENOUS MEASURES

Advancing Indigenous Tax Jurisdiction Frameworks

Budget 2025 confirms the Government's intention to implement an opt-in fuel, alcohol, cannabis, tobacco and vaping value-added sales tax framework for Indigenous governments as detailed in the draft legislative proposals released on July 12, 2024. Budget 2025 further announces that "[t]he Government will explore other approaches for tax jurisdiction arrangements that advance fiscal relationships and create more opportunities for Indigenous governments to grow their revenues and achieve the goals of their communities."

Indigenous Consultation

Budget 2025 proposes various consultation measures involving Indigenous governments. These include \$10,100,000 of funding for Crown-Indigenous Relations and Northern Affairs Canada to support Indigenous consultation through the Federal Initiative on Consultation, in addition to the previously announced \$40,000,000 provided to Indigenous Services Canada to support Indigenous capacity-building and consultation through the Strategic Partnerships Initiative. Indigenous governments are also invited to consult on various measures, including GST/HST carousel fraud and automatic federal benefits for lower-income Canadians.

Sales and Excise Tax Measures

UNDERUSED HOUSING TAX

The Underused Housing Tax (UHT) generally applies to non-resident owners of vacant or underused residential property in Canada, subject to many exceptions. Applicable as of January 1, 2022, the UHT is levied annually at a rate of 1% of the property's value.

Budget 2025 proposes to eliminate the UHT for the 2025 calendar year onward. Obligations with respect to the 2022 to 2024 calendar years remain in effect, and failure to file required returns or pay the applicable tax for those years will still result in penalties and/or interest.

LUXURY TAX ON AIRCRAFT AND VESSELS

The *Select Luxury Items Tax Act* (Canada) (SLITA) imposes a luxury tax on aircraft with a value exceeding \$100,000 and vessels with a value exceeding \$250,000 (collectively, Subject Property), as well as vehicles with a value exceeding \$100,000. The tax generally applies to sales, importations, leases and certain improvements and is equal to the lesser of 10% of the total value of the Subject Property and 20% of the value above the relevant threshold.

Budget 2025 proposes to repeal the tax on Subject Property, effective as of November 5, 2025.

Registered vendors of Subject Property are required to file a final return for the reporting period that includes Budget Day. Registrations of Subject Property in effect prior to Budget Day will remain valid until February 1, 2028, allowing vendors to

claim applicable rebates if property is exported. As of that date, all such registrations will be automatically cancelled, and no further rebates may be claimed.

The tax will continue to apply to subject vehicles.

GOODS AND SERVICES TAX

Carousel Fraud

To combat carousel fraud schemes, Budget 2025 proposes to introduce a “reverse charge mechanism” (RCM) applicable to specific supplies in the telecommunications sector.

A carousel fraud scheme generally refers to a situation where a group of persons, working together, participate in a series of transactions wherein each person recovers the GST/HST it paid to another person via input tax credits (ITCs), with the last person who collects the GST/HST failing to remit it to the Receiver General and disappearing. These schemes limit the CRA’s ability to recover the GST/HST and typically result in a loss to the Crown.

To address this issue, the supplier of certain telecommunication services (e.g., voice-over internet protocol minutes) would not be required to collect the GST/HST payable in respect of the supply, provided that the recipient of the services is registered for GST/HST and the recipient is acquiring all or substantially of those services for purposes of resupplying them. Instead, the recipient of the services would be required to self-assess, report and, where applicable, remit the GST/HST payable to the CRA. The recipient may be entitled to claim an off-setting ITC if, among other things, it reports the GST/HST payable on or before claiming the ITC. Additionally, the ability to claim ITCs in respect of GST/HST self-assessed on the supply of telecommunication services would be limited to persons who are registered at the time the GST/HST becomes payable or is paid on the supply.

To inform the recipient of its requirement to self-assess the GST/HST on specified telecommunication services, the supplier would be required to issue an invoice indicating that the supply is subject to the RCM.

Finally, the ability of a recipient to claim a tax paid in error rebate in respect of the GST/HST payable on such telecommunication services would be limited to instances in which the recipient has paid the amount to the Receiver General. Where a recipient paid the GST/HST to the supplier rather than self-assessing, the recipient would not be entitled to a rebate for a tax paid in error and its only recourse to recover the GST/HST paid to the supplier would be to request a refund from the supplier.

A consultation regarding these proposals will remain open until January 12, 2026, and additional supplies may be included under the RCM through regulations.

Previously Announced Measures

Budget 2025 does not refer to the previously announced measures relating to the GST/HST joint venture election rules. Our understanding is that these measures have been abandoned.

Budget 2025 confirms the Government’s intention to proceed with various previously announced measures (as modified to take into account consultations, deliberations and legislative developments since their release), including the following:

- legislative proposals released on August 15, 2025, concerning:
 - capital gains rollover on small business investments;
 - reporting by non-profit organizations, with application deferred to taxation years beginning January 1, 2027 or later;
 - the SR&ED program;

- the crypto-asset reporting framework and the common reporting standard, with application deferred to January 1, 2027;
- the tax exemption for sales to employee ownership trusts and worker cooperatives;
- the EIFEL rules;
- substantive CCPCs;
- GST/HST rules for the redemption of coupons;
- technical amendments to the GMTA; and
- technical amendments relating to GST/HST and excise levies;
- legislative proposals released on June 30, 2025, with respect to the Canada Carbon Rebate for small businesses;
- the extension of the Mineral Exploration Tax Credit announced on March 3, 2025;
- legislative proposals released on January 23, 2025, with respect to extending the 2024 charitable donations deadline;
- legislative proposals announced in the 2024 Fall Economic Statement, including with respect to the following measures:
 - expanding eligibility for the CE ITC to the Canada Infrastructure Bank;
 - modifying eligibility for the CT ITC for small nuclear energy projects;
 - expanding eligibility for the CH ITC to methane pyrolysis projects; and
 - extending the accelerated investment incentive and immediate expensing measures;
- legislative proposals released on November 19, 2024 to remove the GST on the construction of new student residences;
- legislative proposals released on August 12, 2024, including with respect to the following measures:
 - AMT (other than changes related to resource expense deductions);
 - charities and qualified donees;
 - RESPs;
 - avoidance of tax debts;
 - mutual fund corporations;
 - synthetic equity arrangements;
 - manipulation of bankrupt status;
 - accelerated CCA for productivity-enhancing assets and purpose-built rental housing;
 - withholding for non-resident service providers;
 - regulations related to the application of the 100% GST rental rebate to cooperative housing corporations;
 - the CE ITC;
 - expanding eligibility under the CT ITC to support investments in generating electricity and heat from waste biomass;
 - expanding eligibility for the CTM ITC to support investments in polymetallic extraction and processing;

- amendments to the GMTA and the *Income Tax Conventions Interpretation Act*; and
- technical amendments to the Tax Act, the Tax Regulations, the ETA, excise levies and other taxes and charges;
- legislative proposals released on July 12, 2024 to implement an opt-in fuel, alcohol, cannabis, tobacco and vaping value-added sales tax framework for Indigenous governments;
- legislative amendments to suspend the Canada-Russia Tax Treaty as of November 18, 2024;
- legislative proposals announced in Budget 2024 to:
 - exempt certain trusts for the benefit of Indigenous groups from AMT; and
 - increase the lifetime capital gains exemption to apply to up to \$1.25 million of eligible capital gains;
- measures announced in Budget 2024 to amend the ETA, the *Air Travellers Security Charge Act*, the *Excise Act, 2001* and the SLITA to give effect to the proposals relating to non-compliance with information requests and to avoidance of tax debts;
- legislative proposals released on August 4, 2023, including with respect to:
 - technical amendments to GST/HST rules for financial institutions; and
 - tax-exempt sales of motive fuels for export;
- legislative proposals released on August 9, 2022, including with respect to:
 - technical amendments to the Tax Act and Tax Regulations; and
 - remaining legislative proposals to the GST/HST excise levies and other taxes and charges; and
- legislative amendments to implement rules for hybrid mismatch arrangements announced in Budget 2021 (the legislation for the first tranche of which received royal assent on June 20, 2024).

As in prior years, Budget 2025 also reaffirms the Government's commitment to implement other technical amendments to "improve the certainty and integrity of the tax system."