Henderson Partners LLP
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Federal Budget Summary 2025

Business tax measures

Immediate Expensing for Manufacturing and Processing Buildings

The budget provides temporary immediate expensing (100% capital cost allowance (CCA) deduction rate) for the cost of eligible manufacturing or processing buildings, including the cost of eligible additions or alterations made to such buildings. This measure is available in the first taxation year that eligible property is used for manufacturing or processing provided the minimum 90% floor space requirement is met.

Eligibility for immediate expensing will require that:

1) neither the taxpayer nor a non-arm's-length party previously owned the property, and

2) the property was not transferred on a tax-deferred basis.

This change is effective for eligible property acquired on or after November 4, 2025, and is used for manufacturing and processing before 2030.

The CCA deduction rate is gradually reduced for the years after 2030 and is eliminated after 2033.

Tax deferral through tiered corporate structures

The budget limits the deferral of tax on investment income using tiered corporate structures with mismatched year ends. Generally, this limitation suspends the dividend refund that could otherwise be claimed by a payer corporation on the payment of a taxable dividend to an affiliated recipient corporation, if the recipient corporation’s balance-due day for the taxation year in which the dividend was received ends after the payer corporation’s balance-due day for the taxation year in which the dividend was paid.

This measure will not apply if each corporate dividend recipient in the chain of affiliated corporations pays a subsequent dividend on or before the payer’s balance-due day, such that no deferral is achieved by the affiliated corporate group.

To accommodate bona fide commercial transactions, the rule would also not apply to a dividend payer that is subject to an acquisition of control where it pays a dividend within 30 days before the acquisition of control. The payer corporation would generally be entitled to claim the suspended dividend refund in a subsequent taxation year when the recipient corporation pays a taxable dividend to a non-affiliated corporation or an individual shareholder.

This measure applies to taxation years that begin on or after November 4, 2025.

Canada Carbon Rebate for Small Businesses

Budget 2025 provides additional confirmation of the government's intention for the Canada Carbon Rebate for Small Businesses to be tax-free and that the filing deadline for 2019-2023 calendar years is extended.

Tax incentives

Scientific Research and Experimental Development Tax Incentive Program

The Budget confirms the government's intention to introduce legislation to implement the changes to the SR&ED incentive program previously announced. The following are the proposed changes:

- Increasing the annual expenditure limit from $3 million to $4.5 million on which the enhanced ITC rate of 35 percent applies.
- Increasing the taxable capital phase-out threshold for determining the SR&ED expenditure limit to start at $15 million and phase out at $75 million (previously $10 million to $50 million).
- Extending eligibility for the enhanced ITC rate of 35 percent to eligible Canadian public corporations (ECPC).
- Restore the SR&ED eligibility of **capital expenditures** for both the deduction against income and the ITC components of the SR&ED program.

The Budget proposes to further increase the expenditure limit on which the SR&ED program's enhanced 35-per-cent tax credit can be earned, from the previously announced $4.5 million to $6 million.

These measures would apply for taxation years that begin on or after December 16, 2024 (i.e., the date of the 2024 Fall Economic Statement).

Clean Technology Manufacturing Investment Tax Credit (CTMITC) — Eligible minerals

The CTMITC offers a 30 per cent refundable credit in respect of investments in new machinery and equipment for producing clean technologies or processing key critical minerals (e.g., lithium, cobalt, nickel); applicable to assets acquired and put into use after November 3, 2024,

Budget 2025 proposes expanding eligibility to include antimony, indium, gallium, germanium, and scandium.

ITC for Carbon Capture, Utilization, and Storage — Extension of full tax credit rates

The Carbon Capture, Utilization, and Storage (CCUS) investment tax credit is a refundable tax credit that provides support for eligible expenditures relating to CCUS. Depending on the purpose of the equipment, different credit rates apply (ranging from 37.5% to 60%) to eligible CCUS expenditures incurred from the start of 2022 to the end of 2030.

Eligible expenditures that are incurred from the start of 2031 to the end of 2040 are subject to lower credit rates (ranging from 18.75% to 30%). The budget extends the availability of the full credit rates by five years, so that the full rates apply to eligible expenditures incurred from the start of 2022 to the end of 2035. Eligible expenditures that are incurred from the start of 2036 to the end of 2040 would continue to be subject to the lower credit rates.

The government will postpone the review of the CCUS investment tax credit rates, to be undertaken before 2035 (rather than before 2030).

Personal tax measures

Bare trust reporting rules

The budget defers the trust reporting rules applicable to bare trusts to apply to taxation years ending on or after December 31, 2026. These rules were proposed on August 15, 2025.

Trusts and the 21-year rule

The budget broadens the anti-avoidance provisions relating to the 21-year trust rule to include indirect transfers of trust property to other trusts on or after November 4, 2025.

The budget states that this measure is intended to address certain tax planning that avoids the 21-year rule, such as where trust property is transferred on a tax-deferred basis to a beneficiary that is a corporation owned by a new trust.

In general, personal trusts are deemed to have disposed of their capital property and certain other property for proceeds equal to fair market value on the 21st anniversary of their creation, and every 21st anniversary thereafter, which is commonly referred to as the “21-year” rule.

Currently, the anti-avoidance rules ensure that the 21-year rule cannot be circumvented by direct trust-to-trust property transfers, such as transferring property from a trust to a new trust on a tax-deferred basis.

Canadian Entrepreneurs Incentive

As a result of the previous cancellation of the proposed capital gains inclusion rate increase, Budget 2025 confirms that the Canadian Entrepreneurs’ Incentive has also been cancelled.

Lifetime Capital Gains Exemption (LCGE)

The 2025 budget confirms the increase the LCGE on eligible capital gains up to $1,250,000 for dispositions that occur on or after June 25, 2024, as announced in budget 2024.

Qualified investments for registered plans

The budget simplifies and harmonizes the qualified investment rules that apply to certain registered plans (i.e., 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 (DPSPs)).

The budget states that the following amendments for small business investments would apply as of January 1, 2027:

- RDSPs will be permitted to invest in specified small business corporations, venture capital corporations, and specified cooperative corporations similar to RRSPs, RRIFs, TFSAs, RESPS, and FHSAs

- Shares of eligible corporations and interests in small business investment limited partnerships and small business investment trusts will no longer qualify as qualified investments. However, if these investments were acquired before 2027 under the current rules, they will continue to be qualified investments.

The budget also provides that the current registered investment regime will be repealed for all registered plans as of January 1, 2027, and replaced with two new categories of qualified investments that do not have to be registered with the CRA.

The new qualified investment trust rules apply as of November 4, 2025. The budget notes that it is generally expected that units or shares of funds that were registered investments would continue to qualify, either under existing rules or under one or both of the new categories of qualified investment trusts.

Home Accessibility Tax Credit

The budget introduces changes to ensure that an expense claimed under the Medical Expense Tax Credit cannot also be claimed under the Home Accessibility Tax Credit.

This measure applies to the 2026 and subsequent taxation years.

Top-Up Tax Credit

The budget introduces a new non-refundable Top-Up Tax Credit that would effectively maintain the current 15% for non-refundable tax credits claimed on amounts in excess of the first 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. The budget notes that this measure is intended to address situations in which an individual could have their tax liability increased by the middle-class tax cut (e.g., where an individual claims a large one-time expense, such as amounts for high tuition or medical expenses, or claims a combination of large tax credits).

Personal Support Workers Tax Credit

The budget introduces a temporary Personal Support Workers Tax Credit applicable for the 2026 to 2030 taxation years.

This tax credit provides certain eligible personal support workers working for certain health care establishments with a refundable tax credit of 5 per cent of eligible earnings up to $1,100.

Indirect tax measures

Underused Housing Tax

The budget eliminates the UHT as of the 2025 calendar year. As a result, no UHT would be payable and no UHT returns would be required to be filed in respect of the 2025 and subsequent calendar years. The budget states that all UHT requirements continue to apply for the 2022 to 2024 calendar years, including penalties and interest.

Luxury tax on aircraft and vessels

The budget ends the luxury tax on subject aircraft and subject vessels. This tax will cease to be payable after November 4, 2025, including the tax on sales, the tax on importations, and the tax on improvements. Registered vendors are required to file a final return covering the reporting period that includes November 4, 2025. Registrations in respect of subject aircraft and subject vessels must be maintained after November 4, 2025, allowing registered vendors to claim any rebates. However, the budget advises that returns of these items would otherwise no longer need to be filed for subsequent reporting periods.

The budget states that all registrations in respect of subject aircraft and subject vessels would be automatically cancelled on February 1, 2028, after which time vendors would no longer be able to claim rebates.

GST/HST treatment of manual osteopathic services

The budget clarifies that osteopathic services rendered by individuals who are not osteopathic physicians are taxable under the GST/HST. This measure would apply to supplies made after June 5, 2025, except to a supply of osteopathic services made after June 5, 2025 but on or before November 4, 2025 if the supplier did not charge, collect or remit any amount as or on account of tax in respect of the supply.