2025 Federal Budget

Wealth Management Taxation, Scotia Capital Inc.

On November 4, 2025 (Budget Day), in Ottawa, Canada's Minister of Finance and National Revenue, François-Philippe Champagne, delivered the 2025 Federal Budget (2025 Budget), titled "Canada Strong".

On October 6, 2025, the Government of Canada had announced a new approach to its federal budget cycle. Starting with the 2025 Budget, the federal budget will now be tabled in the fall, with an economic and fiscal update released in the spring. The federal budget generally outlines the government's economic and fiscal plans more comprehensively, and was customarily delivered in the spring. The economic and fiscal update, commonly known as the economic statement, traditionally provides Canadians with an annual update on the government's economic and fiscal plans, and was usually delivered in the fall.

Below, we provide a summary of the most significant tax measures announced in the 2025 Budget and the potential impact on you, your family, and your business. Please note that this is not a comprehensive review of the 2025 Budget.

As well, the measures introduced in the 2025 Budget are only proposals at this time and may not be enacted into law as described, or at all. Before implementing any tax planning strategies, consult with your tax and legal advisors for further discussion and analysis on how these proposals may affect your specific situation.

The 2025 Budget does not contain any changes to personal or corporate income tax rates.

Trust reporting requirements for bare trusts

Most trusts, including bare trusts, must now file a T3 trust income tax and information return with expanded required information for trustees, beneficiaries, settlors and controlling persons. Generally, you may be the trustee of a bare trust where you have legal ownership of an asset but do not have beneficial ownership of the asset; rather, you act as agent for the beneficial owner only. Common examples of bare trusts may include in-trust-for accounts, joint bank accounts or investment accounts, or where you are the joint owner of real property for mortgage qualification or estate administration purposes.

The Government of Canada proposed new trust reporting requirements in draft legislation introduced in August 2024. This draft legislation was further amended in August 2025 but has not yet been enacted into law. For more information on the new trust reporting requirements for bare trusts, please read our article: 2025 year-end tax planning considerations.

The 2025 Budget confirms the government's intention to proceed with the August 2025 proposed draft legislation as it relates to trust reporting requirements for bare trusts, but these rules are now proposed to become effective for taxation years ending December 31, 2026, or later.

The deferred application date of the trust reporting rules for bare trusts is welcome news, allowing Canadians additional time to determine if they may be subject to the bare trust reporting requirements, and, if so, whether they may qualify for a potential exemption.

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Alternative Minimum Tax

The 2025 Budget confirms that the government intends to proceed with certain proposed legislative changes included in draft tax legislation.

One of the proposed tax measures that may impact high-income earners is the restriction of the deduction of investment counsel fees to 50% of the expense for the purposes of the calculation of the Alternative Minimum Tax (AMT). For further information on AMT, please refer to our article Alternative Minimum Tax – how it could apply to you. We will communicate any updates regarding the passage of this legislation.

The government has also confirmed in the 2025 Budget that it will not proceed with the proposal to fully allow resource expense deductions under the AMT.

Top-up tax credit

The income tax rate applied to most non-refundable income tax credits is based on the first marginal personal income tax rate. An income tax rate reduction was announced in May 2025 and is currently included in a bill before Parliament. If passed, it would reduce the first marginal personal income tax rate from 15% to 14.5% for the 2025 tax year, and to 14% for 2026 and subsequent tax years. For more information on this personal income tax rate reduction, please see our article: The government's proposed personal income tax rate reduction and 2025 federal budget update.

Where an individual's non-refundable tax credits exceed the first marginal income tax bracket threshold ($57,375 in 2025, indexed annually), the decrease in the value of these credits may exceed their tax savings from the income tax rate reduction. This could occur when an individual claims a large one-time expense, such as amounts for high tuition or medical expenses, or when claiming a combination of large tax credits.

So that no one in these circumstances has their income tax liability increased by the income tax rate reduction, the 2025 Budget proposes to introduce a new non-refundable top-up tax credit. The credit would effectively maintain the current 15% rate for non-refundable tax credits claimed on amounts in excess of the first income tax bracket threshold.

The top-up tax credit would apply for the 2025 to 2030 taxation years.

Home accessibility tax credit

The home accessibility tax credit is a non-refundable tax credit that applies at the lowest personal income tax rate on up to $20,000 of eligible home renovation or alteration expenses per calendar year.

Expenses must be incurred to improve the safety, accessibility or functionality of an eligible dwelling of a qualifying individual who is either aged 65 or older, or otherwise eligible for the disability tax credit.

The medical expense tax credit is a non-refundable tax credit that applies at the lowest personal income tax rate on the amount of qualifying medical and disability-related expenses in excess of the lesser of $2,834 (for 2025, indexed annually) and 3% of the claimant's net income. Medical expenses eligible for this tax credit include certain costs to build or renovate a home to improve access or mobility for persons with disabilities.

The 2025 Budget proposes to modify the home accessibility tax credit to no longer allow an expense to be claimed under this credit if it has been claimed as a medical expense tax credit. At present, if the eligibility criteria for both credits are met, taxpayers may claim both credits in respect of the same expense.

This measure would apply to the 2026 and subsequent taxation years.

Personal support workers tax credit

The 2025 Budget proposes to introduce a temporary personal support workers tax credit, which would provide eligible personal support workers working for eligible health care establishments with a refundable tax credit of 5% of eligible earnings, providing a credit value of up to $1,100.

Several conditions would need to be met to be considered an eligible personal support worker; namely, the person must ordinarily provide one-on-one care and essential support to optimise and maintain another individual's health, well-being, safety, autonomy, and comfort. As well, the person's main employment duties must include helping patients with activities of daily living and mobilization.

Eligible health care establishments would include hospitals, nursing care facilities, residential care facilities, community care facilities for the elderly, home health care establishments, and other similarly regulated health care establishments.

Amounts earned in British Columbia, Newfoundland and Labrador, and the Northwest Territories would not be eligible, as these jurisdictions have signed bilateral agreements with the federal government to increase personal support workers' wages.

This measure would apply to the 2026 to 2030 taxation years.

Automatic federal benefits for lower-income individuals

In general, individuals need to file an income tax return annually to receive benefit and credit payments delivered through the tax system, as the Canada Revenue Agency (CRA) determines entitlement for most benefits based on net income.

The 2025 Budget proposes to provide the CRA with the discretionary authority to file an income tax return for a taxation year on behalf of an individual (other than a trust) who meets certain criteria, such as, if the individual's taxable income for the taxation year is below the federal basic personal amount.

Prior to filing an income tax return on behalf of an eligible individual, the CRA would provide the individual with the information it has available at the time regarding their income tax return, giving the individual a chance to review the information and submit changes to the CRA, if needed. If the eligible individual does not confirm the information (with or without changes) by the end of 90 days, the CRA could file a tax return on the individual's behalf, issue a notice of assessment, and subsequently determine and issue the individual's credit and benefit entitlements.

Individuals would be able to opt out of automatic tax filing.

This measure would apply to the 2025 and subsequent taxation years (i.e., filing could begin in 2026).

Canadian Entrepreneurs' Incentive

The 2025 Budget announces the cancellation of the previously proposed Canadian Entrepreneurs' Incentive (CEI). The CEI was proposed in the 2024 Federal Budget, at the same time as the government proposed to increase the capital gains inclusion rate to 66.67% from 50%. The government cancelled the proposed capital gains inclusion rate increase earlier this year and, consequently the CEI is cancelled as well.

Underused Housing Tax

Introduced in 2022, the Underused Housing Tax (UHT) applies to certain owners of vacant or underused residential property in Canada. The UHT is imposed on an annual basis at a rate of 1% of the property's value.

The 2025 Budget proposes to eliminate the UHT as of the 2025 calendar year. As a result, no UHT would be payable and no UHT returns would require filing in respect of the 2025 and subsequent calendar years. Notably, all UHT requirements continue to apply for the 2022 to 2024 calendar years.

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Luxury tax on aircraft and vessels

The federal government imposes a tax on subject vehicles and subject aircraft with a value above $100,000 and subject vessels (e.g., boats) with a value above $250,000.

The 2025 Budget proposes to end the luxury tax on subject aircraft and subject vessels, but does not mention amendments related to subject vehicles. Generally, subject vehicles may include sedans, coupes, hatchbacks, convertibles, sport utility vehicles and light-duty pickup trucks.

All instances of the tax would cease to be payable after Budget Day.

Qualified investments for registered plans

The 2024 Budget invited feedback to provide suggestions on improving the clarity and coherence of the qualified investments regime for certain types of registered plans, governing what these plans may invest in. A broad range of assets are qualified investments for certain registered plans, including mutual funds, publicly traded securities, government and corporate bonds, and guaranteed investment certificates.

The 2025 Budget proposes to simplify and streamline the rules relating to registered plan investments in small businesses, while maintaining the ability of registered plans to make such investments. These rules would also extend to include Registered Disability Savings Plans (RDSP).

21-year rule for personal trusts

To prevent personal trusts, such as family trusts, from being used to indefinitely postpone tax on accrued capital gains, personal trusts are generally deemed to have disposed of their capital property and certain other property for fair market value proceeds on the 21st anniversary of their creation, and every 21st anniversary thereafter. This is commonly known as the "21-year rule".

Certain tax planning strategies may avoid the application of the 21-year rule where trust property is transferred indirectly to a new trust. The 2025 Budget proposes to broaden current anti-avoidance rules to include where trust property is transferred indirectly to a new trust on or after Budget Day.

Tax deferral through tiered corporate structures

The 2025 Budget proposes to limit the deferral of tax on investment income using tiered corporate structures with mismatched year-ends.

In general terms, the proposed limitation would suspend the dividend refund claimable by a payer corporation upon 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.

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 would apply to taxation years that begin on or after Budget Day.

Business income tax measures

The 2025 Budget includes various tax incentives and credits for businesses that are not discussed in depth in this article. These tax incentives and credits include items such as immediate expensing for manufacturing and processing buildings, the scientific research and experimental development tax incentive program, agricultural cooperatives patronage dividends paid in shares, a clean technology manufacturing investment tax credit, an investment tax credit for carbon capture, utilization, and storage, and a clean electricity investment tax credit.

The 2025 Budget proposes to expand the eligibility of the critical mineral exploration tax credit for individuals who invest in eligible flow-through shares, to include the additional critical minerals.

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Customer Relations Centre
Toll free: 1-800-268-8186
Tel: 514-908-3212
Email: service@dynamic.ca

dynamic.ca

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