

Federal Budget 2025 - Summary of Key Tax Measures

The key highlights from the 2025 federal budget include:

- Reduction of the lowest federal personal income tax rate for Canadians
- Expansion of trust 21 year anti-avoidance rules
- Provision of temporary immediate expensing for eligible buildings used for manufacturing and processing
- New limitations on tax deferral through tiered corporate structure
- Suspension of the Underused Housing Tax (UHT) starting 2025
- Continuation and confirmation of previously announced measures

The following summarizes the key personal and corporate income tax matters relevant to individuals and small business owner managers.

Personal Tax Measures

Lowest Marginal Tax Rate and Top-Up Tax Credit

The lowest federal personal income tax rate is reduced from 15% to 14.5% for 2025, and a further reduction to 14% from 2026 onwards. As a result of the marginal tax rate reduction, a taxpayer may experience increased tax liability resulting from the decrease in the non-refundable tax. In recognition of this, a new non-refundable tax credit is introduced to maintain the current 15% non-refundable tax credit rate on amounts that exceed the first income tax bracket threshold. The Top-Up Tax Credit would apply for 2025-2030 taxation years.

Takeaway: The reduction in tax rate and is a favourable change for lower income families, and the new proposed credit is aimed at ensuring taxpayers do not have increased tax liabilities due to these changes.

Automatic Federal Benefit Filing

The budget proposes to amend the Income Tax Act to grant the CRA the discretionary authority to file a tax return on behalf of a lower-income individual, provided certain conditions are met. Before filing, the CRA must provide the eligible individual with the available tax information, and the individual has 90 days to review the information and submit changes. This measure would apply for the 2025 and subsequent taxation years.

Takeaway: This measure aims to help individuals who need to file tax returns annually to receive federal benefit and credit payments, as entitlement is generally determined based on net income.

Trust Measures

21-Year Rule Expansion

The 21 year rule is an anti-avoidance provision that deems a personal trust to have disposed of the properties held at the fair market value on the 21st anniversary of the creation of the trust. This rule exists to prevent the indefinite postponement of tax on accrued gains in a personal trust. The budget broadens the anti-avoidance rule for trusts to trust transfers to include direct and indirect transfers of trust property to another trust. This measure would apply for transfers that occur on or after November 4, 2025.

Takeaway: The proposed change expands the anti-avoidance rule with respect to trust 21 year planning techniques. Care should be taken in advance of the 21 year anniversary of the trust.

Corporate Tax Measures

Immediate Expensing – Manufacturing and Processing Buildings

Currently, eligible buildings used in manufacturing and processing have a tax depreciation (the “**capital cost allowance**”) of 10%. The budget proposes temporary immediate expensing for the cost of eligible manufacturing or processing buildings, including additions or alterations. This measure would apply for eligible property acquired on or after November 4, 2025 and first used before 2030.

Takeaway: This measure provides a significant first-year tax advantage for investments in Canadian manufacturing and processing facilities. Taxpayers with manufacturing and processing buildings should review the immediate expensing rules to determine if the building may qualify for this measure.

Tax Deferral through Tiered Corporate Structures

Currently, the Income Tax Act contains rules to prevent the use of Canadian-controlled private corporations (“**CCPCs**”) to defer personal income tax on investment income. These rules are achieved through an increase to the CCPC’s tax rate on investment income, which is refundable when the CCPC pays taxable dividends. If that dividend is paid to another corporation who is “connected”, the recipient corporation is subject to refundable Part IV tax corresponding to the portion of the payer’s refund.

Planning techniques currently exist that allow CCPCs to defer personal income tax on investment income earned through tiered corporate structures with mismatched year-ends. The budget proposes to limit this practice by generally suspending the dividend refund that a payer corporation can claim on a taxable dividend payment made to an affiliated recipient corporation if the recipient’s balance-due day occurs after the payer corporation. The suspended refund would be claimable later, typically when the recipient corporation pays a taxable dividend to a non-affiliated corporation or an individual shareholder, with certain exceptions. This measure would apply for taxation years that begin on or after November 4, 2025.

Takeaway: Corporations in a tiered corporate structures with mismatched year-ends should consider the dividend refund suspension rules as part of their annual dividend planning strategy.

Other Tax Measures and Previously Announced Measures

Elimination of Underused Housing Tax (UHT)

The budget proposes to eliminate the UHT as of the 2025 calendar year. UHT requirements would continue to apply for 2022 – 2024 calendar years.

Takeaway: While the UHT is eliminated for the 2025 and subsequent years, care should still be taken on the 2022 – 2024 filings.

Previously Announced Measures

The budget confirms that the government has considered outstanding tax measures announced by the previous government and intends to proceed with some of the measures. The measures proceeding include:

1. Cancellation of the previously announced increase to capital gains inclusion rate and Canadian Entrepreneurs’ Incentive
2. Deferred application date for reporting by bare trusts to taxation years ending on or after December 31, 2026

3. The Capital Gains Rollover on Small Business Investments
4. The increase to \$1.25 million Lifetime Capital Gains Exemption limit
5. The Alternative Minimum Tax rules, other than changes related to resource expense deductions
6. Legislative proposals related to Substantive CCPCs
7. The Excessive Interest and Financing Expenses Limitation rules

Takeaway: This confirmation re-affirms the government's commitment to implement a wide variety of previously discussed tax changes, offering increased certainty regarding the future tax landscape.

Let's Connect!

For a more detailed discussion about how these budget measures may impact you or your business, please don't hesitate to send us an email at info@jtscpa.ca.