

Mackenzie Tax and Estate Planning Team

2025 Federal Budget Analysis

On November 4, 2025, the Honourable François-Philippe Champagne, Minister of Finance and National Revenue, tabled the 2025 Federal Budget under the theme “Building a Strong Canada to Meet Today’s Challenges.”

This budget outlines an ambitious investment strategy aimed at stimulating economic growth while maintaining a strong commitment to responsible fiscal management.

In a rapidly changing global environment, Budget 2025 is designed to help Canada adapt to ongoing transformations and leverage its economic strengths to address both current and future challenges.

The following sections highlight the tax measures most relevant to financial advisors and their clients.

Personal tax measures

Personal Support Workers Tax Credit

The government is introducing a temporary refundable tax credit for eligible personal support workers. The Personal Support Workers Tax Credit will provide 5% of eligible earnings, up to a maximum of \$1,100 annually, for those employed by qualifying health care institutions.

To qualify, workers must provide one-on-one care and essential support under the direction of a regulated health professional or community health organization. Eligible earnings must be certified by the employer.

This measure applies from the 2026 through 2030 taxation years.

Automatic federal benefits for low-income Canadians

The Canada Revenue Agency (CRA) will gain the authority to automatically file tax returns on behalf of certain low-income individuals who meet specific criteria, including:

- Income below the basic personal amount (plus the age and/or disability amount, where applicable);
- All income reported on information tax slips is filed with the CRA;
- A history of non-filing for at least one of the preceding three years; and
- No return filed within 90 days of the deadline for the relevant year.

Individuals may choose to opt out. This measure applies starting with the 2025 taxation year, meaning automatic filings could begin in 2026.

Top-Up Tax Credit to offset the middle-class rate cut

Starting July 1, 2025, the first marginal tax rate was reduced from 15% to 14%. Following the reduction in the first marginal personal income tax rate, from 15% to 14.5% in 2025 and 14% in 2026, some taxpayers could face higher net tax liabilities when making large claims of non-refundable credits calculated at the lower rate.

To address this, the government will introduce a Top-Up Tax Credit, ensuring that no taxpayer is worse off under the new structure. This measure effectively maintains a 15% value for non-refundable tax credits claimed on amounts exceeding the first income tax bracket threshold (\$57,375 in 2025). It will apply for the 2025 through 2030 taxation years.

Home Accessibility Tax Credit

To prevent double-claiming, expenses used for the Medical Expense Tax Credit can no longer also be claimed under the Home Accessibility Tax Credit.

This change takes effect for the 2026 and subsequent taxation years.

Canada Carbon Rebate wind-down

With the elimination of the federal fuel charge effective April 1, 2025, the government issued a final quarterly Canada Carbon Rebate (CCR) payment beginning that month. To close out the program, no CCR payments will be issued for tax returns or adjustment requests submitted after October 30, 2026.

Extending Employment Insurance parental benefits during bereavement

Claimants receiving Employment Insurance (EI) parental benefits will be able to access up to eight additional weeks of benefits in the event of a child's death, providing extended support for grieving parents.

Early retirement options for frontline public servants

Eligibility for early retirement under the Public Service Superannuation Act will be extended to additional frontline employee groups, including firefighters, border services officers and parliamentary protection officers.

These employees may retire with an unreduced pension after 25 years of actual service, or at age 50 with at least 25 years of combined actual and deemed operational service (including a minimum of 10 years actual service).

Enhancing access to the Canada Disability Benefit

The Canada Disability Benefit provides financial support to people with disabilities. The maximum amount of benefit from July 2025 to June 2026 is \$2,400 (\$200 per month), which is adjusted for inflation annually. The Budget confirms that the Canada Disability Benefit will be exempt from being treated as income.

The government is providing a one-time \$150 supplemental payment for each Disability Tax Credit certification or re-certification tied to a Canada Disability Benefit entitlement.

Supplemental payments are expected to start before the end of 2026-2027. These payments will be retroactive to the launch of the Canada Disability Benefit.

Deferral of bare trust reporting requirements

Previously the government announced enhanced trust reporting rules for taxation years ending on or after December 31, 2023. Under the rules, all trusts, unless specific conditions are met, must file a T3 return (including Bare Trusts).

Bare trusts were exempt from the enhanced reporting rules for the 2023 and 2024 tax years. In addition, further exemptions were released in a draft legislation on August 15, 2025. To provide additional time for implementation and compliance, the government has again deferred the new reporting rules for bare trusts to taxation years ending on or after December 31, 2026.



Business tax measures

Productivity Super-Deduction

The government is moving forward with measures designed to accelerate capital cost deductions and stimulate private sector investment. The centrepiece is a new Productivity Super-Deduction, which allows businesses to write off the full cost of a wide range of investments more quickly.

Key measures include:

- Reinstating the Accelerated Investment Incentive, providing enhanced first-year write-offs for most capital assets.
- Immediate expensing (100% first-year write-off) for manufacturing and processing machinery, phased out gradually between 2030 and 2033.
- Immediate expensing for clean energy and conservation equipment, zero-emission vehicles and productivity-enhancing assets such as patents, data network infrastructure and computers.
- Full expensing for capital expenditures related to scientific research and experimental development (SR&ED).

The government expects this super-deduction to lower Canada's marginal effective tax rate (METR) by more than two percentage points, helping restore competitiveness with the US following the recent One Big Beautiful Bill Act (OBBBA). These changes apply to eligible property acquired on or after Budget Day.

Limiting tax deferral through tiered corporate structures

Some affiliated corporations were using staggered fiscal year-ends to defer tax payments by taking advantage of the early refund of the Refundable Dividend Tax on Hand (RDTOH). To address the unintended tax deferral opportunity, the government plans to limit the ability of corporate groups to defer taxes on investment income.

Under the new rules, the refund of the RDTOH credit will be suspended when a corporation pays a dividend to an affiliated corporation whose tax balance-due date falls after its own. The refund may only be issued once the recipient corporation's tax balance becomes due.

This change will apply to taxation years beginning on or after Budget Day and is intended to align tax timing across corporate groups, reducing opportunities for intercompany deferral.

Other tax measures

Confirmation of previously announced measures

The government confirmed the cancellation of the previously proposed capital gains tax increase and the Canadian Entrepreneurs Incentive.

Simplifying registered plan investment rules

To streamline access to private market investments through registered plans, the government will simplify and harmonize the rules governing qualified investments for registered retirement savings plans (RRSPs), registered retirement income funds (RRIFs), tax-free savings accounts (TFSA), registered education savings plans (RESPs), registered disability savings plans (RDSPs), first-home savings accounts (FHSA), and deferred profit sharing plans (DPSPs).

Under the new framework:

- RDSPs will be permitted to hold shares in specified small business corporations, venture capital corporations and eligible cooperatives.
- Certain investments — such as interests in small business investment limited partnerships or trusts — will no longer qualify.

These changes will take effect January 1, 2027, and may modestly reduce access to private-market exposures within registered accounts.

Strengthening the 21-year trust rule

To counter avoidance strategies that transfer trust property indirectly to new trusts to sidestep the 21-year deemed disposition rule, the government will broaden existing anti-avoidance provisions to include indirect trust-to-trust transfers.

This measure applies to transfers made on or after Budget Day, helping maintain the integrity of intergenerational trust planning.



Improved information sharing to address worker misclassification

The government will amend information-sharing provisions to allow the CRA to share taxpayer and confidential information with Employment and Social Development Canada (ESDC) regarding worker misclassification, in particular to address the misclassification of employees as independent contractors.

Elimination of the Underused Housing Tax (UHT)

The Underused Housing Tax (UHT), which was imposed annually on vacant or underutilized foreign-owned residential properties at 1% of the property value, will be eliminated effective the 2025 calendar year.

No UHT will be payable and no returns will be required for 2025 and future years, though all filing and payment obligations for 2022 through 2024 remain in effect, including associated penalties and interest.

Ending the 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 luxury tax is equal to the lesser of 10% of the total value of the subject item and 20% of the value above the relevant threshold.

To reduce administrative complexity and encourage investment, Budget 2025 proposes to abolish the luxury tax on aircraft and vessels, although the tax on high-value vehicles will remain in effect.

All obligations under this tax will cease immediately after Budget Day. A final return is required for the reporting period including the Budget Day.

Eliminating the GST for first-time home buyers

To support housing affordability, the government will remove the Goods and Services Tax (GST) on new homes priced up to \$1 million purchased by first-time buyers. Homes priced between \$1 million and \$1.5 million will be eligible for a partial GST reduction.

This measure, included in Bill C-4, is expected to modestly support new home construction and ownership in higher-cost regions.

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