The 2025 Federal Budget:

Meeting the Moment but Straining the Future

4 November 2025

Introduction

Meeting the Moment but Straining the Future

For those who have been following the news in recent months it will come as no surprise that the 2025 Federal Budget has been designed to avoid any significant controversial measures. The reality is that the Carney government needs the support of some MPs outside of the Liberal Party for Budget 2025 to pass. And while few MPs will acknowledge it publicly, there seems to be very little appetite for the budget to fail and for an election to be called.

If we can summarize the overall theme of Budget 2025 it would simply be *meeting the moment but straining the future*. That is, this budget attempts to spend money – and a lot of it – in certain areas to address the challenges posed by, among other things, rising tariffs and the impact of U.S. protectionism on our economy. The government would have us believe that this is "meeting the moment."

The problem, however, is that the total expected deficit for the 2025-26 fiscal year will be $78.3 billion, and our federal debt at the end of 2025-26 will be $1.347 trillion, growing to $1.591 trillion by the end of 2029-30. This is an increase of $244 billion over four years, or $5,800 more in debt for every man, woman, and child in the country over that short time.

We expected the budget to reveal savings from the downsizing of the government and reducing other expenditures. While there are some savings expected here – a total reduction in the government workforce of 40,000 people over five years, and a total reduction in spending of about $13 billion annually over that time – the reality is that this is not enough.

Our federal debt at the end of 2025-26 is expected to be 41.2% of Canada's Gross Domestic Product (GDP – the total of all goods and services produced by our country in a year). This is expected to worsen by 2028-29 to reach 43.3% of GDP. It's our children and grandchildren that will pay the cost of our growing federal debt.

If you're the average Canadian wondering what this budget means for you, you'll likely be disappointed with the absence of any tax cuts or meaningful incentives aimed at making life more affordable. We'll highlight a few small things later in this summary.

For those who are business owners, there may be some good news. The budget is clearly trying to encourage improvements to productivity and business investment in this country. As productivity and investment improves – and it needs to – our GDP per capita should also improve. GDP per capita is a measure of the financial well-being, or standard of living, of the average Canadian.

GDP per capita has been stagnant over the last decade of Liberal government mis-management. The current government under Carney is hoping to improve these metrics. We'll share more details on the changes in the budget below in the Business Tax Measures section.

Spending Less

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Reducing the Size of Government

We were expecting Budget 2025 to reduce the overall cost of government. The budget does reign in spending in two ways: (1) reducing the number of employees in the public service, and (2) through a comprehensive expenditure review of all departments of the government.

Over the last decade, from 2015 to 2024, the federal public service grew by 40% - which is double the rate of economic growth. After direct program expenses began to fall from their COVID-19 peak in 2020-21, the federal public service continued to expand. These increases are unsustainable and placed significant strain on federal finances.

From a peak of almost 368,000 employees in 2023-24, the public service population is expected to reach about 330,000 by the end of 2028-29 – a decline of about 40,000 positions, or about 10%. Most of the reductions will come through retirements and voluntary departures.

Comprehensive Expenditure Review

In addition to the savings from reducing the size of the public service, the government has asked each department to spend less on operations.

The review is not an across-the-board reduction exercise. It is a measured and strategic approach to improve public service productivity. Federal departments and agencies undertook a review of their organizations, identifying programs and activities that were underperforming, duplicative, or that had strayed from the core federal mandate.

The Cabinet Committee on Government Transformation / Government Efficiency reviewed all the proposals to ensure appropriate oversight and to apply a consistent, whole-of-government approach. The planned savings identified by the government fall under three general themes:

- Modernizing Government Operations
- Streamlining Program Delivery
- Recalibrating Government Programs

In total, the budget aims to reduce government spending by $13 billion annually by 2028-29. While this is a start, we have concerns that the federal budget still reflects a deficit of $78.3 billion in the current 2025-26 fiscal year. This is $45 billion more than the projected deficit put forward by the Trudeau Liberal government last year.

Immigration and Defence

Immigration

Over time, Canada's immigration system has become inefficient and dysfunctional. The pace of new arrivals to our country began to exceed our country's capacity to absorb and support newcomers.

In 2018, 3.3% of Canada's population were temporary residents. By 2024, that number had more than doubled to 7.5%. This unprecedented rate of growth has put pressure on our housing supply, healthcare system, and schools. This is not sustainable.

Budget 2025 aims to stabilize permanent resident admission targets at 380,000 per year for three years, down from 395,000 in 2025. The new plan will also reduce the target for new temporary resident (temporary worker) admissions from 673,650 in 2025 to 385,000 in 2026, and 370,00 in 2027 and 2028.

Foreign Credential Recognition

Many newcomers to Canada have training in sectors where we are experiencing labour shortages, including doctors, nurses, and other healthcare professionals. Yet, these professionals face challenges in having their training and experience recognized in Canada.

The budget proposes to provide $97 million over five years, starting next year, to establish the *Foreign Credential Recognition Action Fund* to work with the provinces and territories to improve foreign credential recognition, with a focus on the health and construction sectors.

Recruiting International Talent

Budget 2025 proposes to provide about $1.6 billion to recruit international researchers to Canadian universities, establish research infrastructure to support these people, enable top international doctoral students and post-doctoral fellows to relocate to Canada, and to support universities' recruitment of international assistant professors.

Defence Spending

The budget makes good on the commitment to spend 2% of our GDP on defence starting this fiscal year. There is a long-term NATO goal of 5% of GDP which Canada will plan to reach by 2035.

The total invested in defence-spending will be $30 billion over the next five years, broken down as follows:

- $20 billion in expanding capabilities
- $5 billion in infrastructure and equipment
- $5 billion in industrial support

Personal Tax Measures

Personal Measures

21-Year Rule

In general, trusts in Canada undergo a deemed disposition event once every 21 years. A trust can generally avoid the 21-year deemed disposition event by rolling its assets to Canadian resident beneficiaries. There were certain tax planning that was frowned upon where trusts could transfer assets to a Canadian corporate beneficiary, where the shareholder of this Canadian corporation is another trust. This plan essentially restarts the 21-year clock, and a repeat of this technique once every 21 years, can defer the capital gain tax indefinitely.

This planning technique was already required to be disclosed under the Notifiable Transaction Regime. However, Budget 2025 seeks to codify the anti-abuse by broadening the anti-avoidance rule for direct trust-to-trust transfers to include indirect transfers of trust property to another trust.

This measure applies on transactions that occur on or after Budget Day.

Underused Housing Tax

The underused housing tax took effect in 2022 to tax certain owners (generally non-resident owners) on residential properties at a rate of 1% on the value of the property.

Budget 2025 proposes to eliminate the underused housing tax as of the 2025 calendar year.

Luxury Tax on Aircraft and Vessels

Currently, the luxury tax imposes a tax on vehicles and aircraft with a value above $100,000 and vessels (e.g. boats) with a value above $250,000. The luxury tax equals to the lesser of 1) 10% of the total value and 2) 20% of the value above the threshold.

Budget 2025 proposes to end luxury tax on aircraft and vessels (luxury tax continues to be applicable for vehicles). Tax will crease to apply after Budget Day.

Home Accessibility Tax Credit

Currently, the Home Accessibility Tax Credit is available to individuals up to $20,000 on eligible home renovations. At the same time, the Medical Expense Tax Credit is available to qualifying medical and disability expenses up to 3% of individuals' income. Qualifying medical expenses include cost to renovate a home to improve access or mobility for persons with disabilities.

At present, if the eligibility rules are met, a person can claim both tax credits. Budget 2025 proposes to eliminate "double dipping" on the credits such that a claim under the Medical Expense Tax Credit cannot also be claimed under the Home Accessibility Tax Credit.

Personal Tax Measures

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Automatic Federal Benefits for Lower-Income Individuals

For years, Canadian individuals have needed to file income tax returns in order to receive benefits and credit payments from the government as the CRA needs to determine entitlement for these benefits based on tax returns filed.

Budget 2025 proposes to grant the CRA the authority to automatically file tax returns for certain individuals. Prior to filing the tax returns, the CRA would provide the individual with information it has on file, and the individual will have 90 days to review and submit changes to the CRA.

Eligible individuals are individuals that meet the following requirements:

- Individual's income lower than either the federal basic personal amount or the provincial equivalent
- All income of the individual is from sources for which specified information returns (i.e. T4) have been filed with the CRA, and
- At least once in the last 3 years, the individual has not filed a tax return.

Individuals can opt out of automatic tax filing. This measure would apply to the 2025 and subsequent years. The government has a consultation period on this measure up to January 30, 2026.

Information Sharing – Worker Misclassification

There was media attention in 2024 on the trucking industry where workers were purposely classified as independent contractors, as opposed to employees, in order to gain a competitive advantage.

In 2024, the Employment and Social Development Canada (ESDC) and the CRA entered into data-sharing agreements to facilitate inspections and enforcement to address worker misclassifications. Although ESDC began sharing information with the CRA, CRA could not share information with ESDC due to information-sharing restrictions in the tax rules. Budget 2025 proposes to allow the CRA to share information with ESDC for the purpose of enforcement of the Canada Labour Code as it relates to the classification of workers.

Top-Up Tax Credit

The federal government announced in May 2025 that it will cut the basic income tax rate from 15% to 14.5% for the 2025 tax year, and to 14% for 2026 and subsequent tax years. Many of the non-refundable tax credits are in reference to the 15% rate. As such, it is possible that individuals may end up paying more taxes as a result of the rate reduction because the savings from the non-refundable tax credits have been reduced more than the tax cut itself. This can happen if an individual claims a large one-time expense such as high tuition or medical expenses.

The budget proposes to introduce a new non-refundable top-up tax credit to effectively maintain the 15% rate for non-refundable tax credits. This credit applies for the 2025 to 2030 tax years.

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Business Measures

Tax Deferral Through Tiered Corporate Structures

In Canada, Canadian controlled private corporations (CCPCs) have to pay a refundable tax on passive income earned in the year. Such tax is credited in a notional account known as the refundable dividend tax on hand ("RDTOH"). Tax can be refunded from the RDTOH account when dividends are paid to a shareholder. If the shareholder is another corporation, the recipient corporation would have to pay the tax (under Part IV) on the refund from the recipient corporation. This mechanism is designed to ensure the refundable tax is not refunded as long as the money remains in the corporate system.

Historically, there have certain tax planning techniques (albeit intentional or not) where the payor corporation and the recipient corporation have different year-ends. Therefore, if the recipient corporation has a year-end that ends after the year-end where the payor corporation pays the dividend, then it is possible that one can defer the payment of the refundable tax (to a maximum of almost 12 months).

Budget 2025 proposes to suspend the refund of the refundable tax to the payor corporation if the payor corporation and an affiliated recipient corporation have different year ends. The refund would only be available under 2 conditions:

- If the affiliated recipient corporation pays a taxable dividend to an individual shareholder or to a non-affiliated corporation, and
- If the affiliated recipient corporation pays a subsequent dividend on or before the payor's balance-due day, such that no deferral is achieved by the affiliated corporate group

The suspension of refund will not happen:

- If the payor corporation and affiliated recipient corporation have the same year-ends, and
- If the payor corporation pays a dividend within 30 days before an acquisition of control (notably to accommodate any bona fide commercial buy-sale transactions)

An observation – and a problem – is that a refundable tax account (RDTOH) could be stuck in a payor corporation if a dividend was paid more than 30 days of an acquisition transaction. Such valuable tax attribute may not be recovered by the shareholders on a sale of the payor corporation other than through negotiations on the terms of the deal.

We have spoken with staff at the Department of Finance about this issue, which they were not aware of. We hope and expect that change to the rules will be made before they become law.

Business Tax Measures

Accelerated Investment Incentive and Immediate Expensing

In general, the tax amortization rate (CCA) is 4% for buildings. If the building is used for manufacturing and processing, the taxpayer is entitled to an additional 6%, for a total CCA rate of 10%. Budget 2025 is proposing a *Productivity Super-Deduction* on the cost of eligible manufacturing or processing buildings, including the cost of eligible additions or alterations of such buildings. The CCA rate would be:

- For eligible property acquired on or after Budget Day and first used for manufacturing or processing before 2030 – 100%
- For eligible property acquired on or after Budget Day and first used for manufacturing or processing in 2030 or 2031 – 75%
- For eligible property acquired on or after Budget Day and first used for manufacturing or processing in 2032 or 2033 – 55%

Scientific Research and Experimental Development Tax Incentive Program

Under the Scientific Research and Experimental Development (SR&ED) tax program, two streams of tax credits are provided to corporations that incur qualifying expenditures. These streams are:

- A refundable tax credit at 35% for Canadian controlled private companies (CCPCs) up to $3,000,000 of qualified expenditures annually, phasing out when the CCPC's taxable capital from the previous tax year is between $10 million and $50 million.
- A non-refundable tax credit at 15% for corporations under than CCPCs

Budget 2025 confirms the intention to implement suggested changes introduced in 2024 which include:

- Increase expenditure limit from $3,000,000 to $4,500,000 and increase the phase-out boundaries to $15 million and $75 million
- Extend eligibility for the 35% refundable tax credit to eligible Canadian public corporations, and
- Restore the eligibility of SR&ED capital expenditures for both deduction against income and investment tax credits for the SR&ED program

Budget 2025 also proposes to further increase the expenditure limit for the refundable tax credit of 35% from $4,500,000 to $6,000,000.

This measure is to apply for taxation years that begin on or after December 16, 2024.

Business Tax Measures

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Critical Mineral Exploration Tax Credit

Flow-through shares allow resource companies to renounce or "flow through" tax expenses associated with their Canadian exploration activities to investors, who can deduct the expenses in calculating their own taxable income.

Currently, the Critical Mineral Exploration Tax Credit (CMETC) is available for investors who purchase "flow-through" shares with a benefit of 30% of certain critical minerals, which are: nickel, cobalt, graphite, copper, rare earth elements, vanadium, tellurium, gallium, scandium, titanium, magnesium, zinc, platinum group metals, uranium, and lithium.

Budget 2025 proposes to expand additional critical minerals which are: bismuth, cesium, chromium, fluorspar, germanium, indium, manganese, molybdenum, niobium, tantalum, tin, and tungsten. This would be eligible for flow-through share agreements entered into after Budget Day and on or before March 31, 2027.

Clean Technology Manufacturing Investment Tax Credit

Currently, a refundable tax credit is available up to 30% for the cost of investments in new machinery and equipment used to manufacture or process key clean technologies, or to extract, process or recycle critical minerals for clean technology supply chains (i.e., lithium, cobalt, nickel, graphite, copper, and rare earth elements).

Budget 2025 proposes to expand the list of critical minerals to include indium, gallium, germanium, and scandium.

Previously Announced Measures

Budget 2025 confirms the government's intention to proceed with the following previously announced tax measures.

- **Lowest Marginal Tax Rate** – Proposal made in May 2025 to lower the lowest federal marginal personal income tax rate from 15% to 14% effective July 1, 2025.
- **CRA Compliance Order** – These rules propose to issue penalties to taxpayers up to 10% of tax owing if information and documents are not provided to the CRA in a reasonable manner and time.
- **Interest deductibility** – EIFEL is a rule that generally limits deduction of interest to 30% of EBITDA. August 2024 changes proposed to relax the interest deductibility limitation to regulated energy utility businesses and purpose-built residential rentals.
- **Bare Trust rules** – Updated rules introduced in August 2024 (and further expanded in August 2025) exempt certain taxpayers from filing bare trust tax returns, addressing common low-risk situations identified by the CRA. The rules are to apply to taxation years on or after December 31, 2026.
- **Exemption on sale to Employee Ownership Trusts** – August 2024 changes proposed to exempt taxation on the first $10M in capital gains if a business is sold to an employee ownership trust.

Previously Announced Measures

- **Expanding Eligible Small Business Corporation (ESBC) shares** – Taxpayers who sell ESBC shares can defer capital gains if they reinvest the proceeds into a new business. Under the Fall Economic Statement 2024, the reinvestment window has been extended from 120 days after year-end to the end of the following year. The threshold for eligible ESBC shares has also doubled from $50 million to $100 million.

- **Anti-deferral rule for Canadian-Controlled Private Corporations with foreign affiliates** – Rules were introduced in 2022 to address a perceived tax-deferral advantage available to CCPCs with foreign affiliates that earn passive income. These rules will be retroactive for taxation years beginning on or after April 7, 2022.

- **Crypto-Asset Reporting Framework** – A new annual reporting requirement was introduced to crypto-asset service providers (entities and individuals) that provide business in Canada. The reporting would include customer information such as name, address, date of birth, residence etc. (to apply on January 1, 2027).

- **Lifetime Capital Gain Exemption Amount** – Budget 2024 announced to increase the lifetime capital gain exemption amount to $1.25 million per person.

Conclusion

The 2025 federal budget contains changes that seem to mainly affect business owners. We encourage Canadian individuals and families who may be affected by the changes described above to contact us. Our team of professionals can help you navigate through your wealth planning.

Our Family Office has assisted the Canadian business and tax community through its involvement in the Federal Budget process. We will continue providing thought leadership for these communities.

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