

Highlights from the 2025 Federal Budget

ADVANCED WEALTH PLANNING GROUP



On November 4, 2025, Finance Minister and National Revenue Minister François-Philippe Champagne tabled the much-anticipated 2025 Federal Budget (Budget 2025). With no spring budget earlier this year, Canadians have been eager for insights into the government's fiscal priorities and economic direction. Our Advanced Wealth Planning Group has summarized the key highlights and implications from this release.

Update on the Canadian Economy

Budget 2025 projects deficits of \$78.3 billion for 2025-26; \$65.4 billion for 2026-27; and \$63.5 billion for 2027-28. As a percentage of gross domestic product (GDP), the federal debt is expected to be 42.4 per cent, increasing to 43.1 per cent and 43.3 per cent in those years, respectively.

The projected deficit for 2025-26 represents an increase of \$39.4 billion or over double (101 per cent) from Budget 2024, and \$36.1 billion or about 86 per cent from the 2024 Fall Economic Statement published by the Trudeau government.

While the projected deficits and debt-to-GDP ratios are much larger than the previous government's projections, the deficit-to-GDP is projected to gradually decline from 2.5 per cent to 1.9 per cent over the next three years, though higher (roughly double) than the projections from the previous federal budget and fall economic statement.

Starting with Budget 2025, the federal budget will now be delivered in the fall each year followed by an economic and fiscal update in the spring as the new fiscal year begins. The next update on the Canadian economy will come in Spring 2026.

Tax Measures

Top-Up Tax Credit

As previously announced, the federal government is proposing to lower the first marginal income tax rate from 15 per cent to 14.5 per cent in 2025 and 14 per cent in 2026. Under existing legislation this would also reduce the value of most non-refundable tax credits. To ensure that the reduction in tax rates does not inadvertently increase the tax liability for individuals, the budget has introduced a new non-refundable Top-Up Tax Credit that would effectively maintain the current 15 per cent for non-refundable tax credits claimed on amounts that exceed the first income tax bracket. The Top-Up Tax Credit would apply for the 2025 to 2030 taxation years.

Key Facts:

- \$78.3 billion deficit
- No change to capital gains inclusion rate
- No new changes to personal or corporate income tax rates

Changes to the Home Accessibility Tax Credit

The Home Accessibility Tax Credit is a non-refundable tax credit to provide tax relief for expenses incurred to improve the accessibility and functionality of an eligible dwelling of a qualifying individual who is aged 65 or older or eligible for the Disability Tax Credit. In certain circumstances, if the expenses incurred also qualified for the non-refundable Medical Expense Tax Credit (METC), the taxpayer could claim both the Home Accessibility Tax Credit and the METC for the same expense, resulting in a “double dip” for the taxpayer.

Budget 2025 proposes to amend the Income Tax Act (ITA) so that an expense claimed under the METC cannot also be claimed under the Home Accessibility Tax Credit, removing the ability to generate two credits for the same expense.

Access to the Canada Disability Benefit

The federal government's 2025 budget proposes a one-time \$150 supplemental payment for recipients of the Canada Disability Benefit (CDB) to help cover the costs of disability tax credit certification, or re-certification. This payment will be retroactive to the CDB's launch in June 2025.

Personal Support Workers Tax Credit

Budget 2025 has introduced a temporary, refundable Personal Support Workers Tax Credit. This measure offers an eligible personal support worker a credit equivalent to 5 per cent of their eligible earnings, capped at a maximum value of \$1,100, for those employed by specified health care establishments. The proposed credit would be effective for taxation years 2026 through 2030. However, amounts earned in British Columbia, Newfoundland and Labrador, and the Northwest Territories would not be eligible due to the bilateral agreements signed with the federal government.

Luxury Tax on Aircraft and Vessels

The federal luxury tax currently applies to subject vehicles and subject aircraft over \$100,000 and subject vessels over \$250,000, calculated as the lesser of 10 per cent of the total value or 20 per cent of the amount above the threshold. Budget 2025 proposes to eliminate this tax entirely for subject aircraft and subject vessels effective from Budget Day 2025, while the tax on subject vehicles remains unchanged.

Enhancement of the Critical Mineral Exploration Tax Credit

The Critical Mineral Exploration Tax Credit (CMETC) is a non-refundable tax credit designed for individuals investing in flow-through shares of companies conducting exploration for specific critical minerals within Canada. Budget 2025 proposes to expand the list of minerals eligible for the CMETC. The proposal adds bismuth, cesium, chromium, fluorspar, germanium, indium, manganese, molybdenum, niobium, tantalum, tin, and tungsten to the list of eligible minerals, applying to expenditures renounced under flow-through share agreements made after Budget Day 2025 and before March 31, 2027.

Underused Housing Tax

The Underused Housing Tax (UHT) is an annual 1 per cent tax on the value of vacant or underused residential properties in Canada, which, though primarily aimed at foreign owners, required certain Canadian entities to file a return to claim exemptions. Budget 2025 proposes to eliminate the UHT as of the 2025 calendar year; however, all previous UHT obligations for the 2022 to 2024 calendar years would continue to apply.

Immediate Expensing for Manufacturing and Processing Buildings

Budget 2025 proposes a temporary measure allowing businesses to immediately expense the full cost (100 per cent deduction) of eligible manufacturing or processing buildings in the first year of use, provided at least 90 per cent of the building's floor space is used for manufacturing or processing activities. This measure applies to eligible property acquired on or after Budget Day 2025 and first used before 2030, with phased-down enhanced rates applying for equipment first used between 2030 and 2033.

Expanding Anti-Avoidance Measures and Limiting Tax Deferral

The 2025 budget also introduced new measures aimed at tightening the tax system and reducing tax deferral opportunities.

One key measure looks to strengthen the existing "21-year rule" for personal trusts, which requires personal trusts to pay tax on accrued gains every 21 years to prevent indefinite tax deferral. Budget 2025 proposes to broaden the current 21-year anti-avoidance rule to also cover indirect transfers of trust property, such as those involving a beneficiary corporation owned by a new trust. This budget proposal would be effective for all transfers occurring on or after November 4, 2025.

In addition to the proposed anti-avoidance rules noted above, the budget also proposes to restrict tax-deferral strategies that use a tiered corporate structure with staggered year-ends. Under current legislation, a dividend could be paid to an affiliated corporation in a way that delayed certain income tax liabilities of the corporate group. This new measure would apply to corporations with a taxation year that begins on or after November 4, 2025.

Previously Announced Measures

Budget 2025 also took the opportunity to reconfirm the federal government's commitment to an extensive list of previously announced measures that will impact Canadians. A selection of the most relevant previously announced measures has been noted below.

Bare Trust Reporting

The 2025 budget has once again deferred the application of the bare trust reporting requirements to apply to taxation years ending on or after December 31, 2026.

Increase to the Lifetime Capital Gains Exemption

Budget 2024 proposed to increase the Lifetime Capital Gains Exemption (LCGE) to \$1.25 million of eligible capital gains realized on or after June 25, 2024. Budget 2025 has confirmed the government intends to proceed with this previously announced increase.

Canadian Entrepreneurs' Incentive

In conjunction with the cancellation of the proposed capital gains tax increase, the previously announced Canadian Entrepreneurs' Incentive has also been cancelled in Budget 2025.

GST Relief for First-Time Home Buyers

Budget 2025 reaffirms the government's commitment to introducing a GST rebate for first-time homebuyers on new homes valued between \$1 million and \$1.5 million, with a full elimination of GST on new homes up to \$1 million.

Miscellaneous

Canada Revenue Agency Modernization and Efficiency

The Canada Revenue Agency (CRA) is responsible for administering Canada's tax and benefit programs while maintaining the integrity of the tax system. Budget 2025 introduces several modernization initiatives aimed at improving efficiency, compliance, and service delivery. Programs such as the UHT and Luxury Tax on Aircraft and Vessels will be wound down or eliminated to reduce administrative complexity. In addition, the CRA plans to leverage artificial intelligence (AI) and automation to streamline processes, with resulting savings being reinvested to enhance service delivery and strengthen compliance efforts.

Automatic Tax Filing for Lower-Income Individuals

Canada's income tax system is based on a self-assessment and self-reporting. Individuals generally need to file a tax return on an annual basis to receive certain benefit payments and credits. Budget 2025 proposes to grant the CRA the discretionary authority to file a tax return on behalf of an individual (other than a trust) who meets all the following criteria:

- Taxable income is below the lower of the federal basic personal amount or provincial equivalent;
- All income for the tax year is from sources for which information returns have been filed with CRA;
- At least once in the three preceding tax years the individual has not filed a return;
- A tax return has not been filed prior to or within 90 days following the tax filing deadline for the year; and
- Other criteria as determined by the Minister of National Revenue

Prior to filing a return on behalf of the eligible individual, the CRA would provide the taxpayer with their tax return information and allow for a 90-day period to review and submit any required changes to the CRA. If the information is not confirmed (with or without changes) at the end of the 90-day period, the CRA could file the taxpayers' return on their behalf. Individuals will be able to opt out of the automatic tax filing process.

This measure would apply to the 2025 and subsequent taxation years.

Systemic Review of the Canadian Tax System

Budget 2025 was largely silent on any firm commitment to a comprehensive review of Canada's tax system. While many experts argue the need for the current system to be modernized to improve efficiency and enhance Canada's economic competitiveness, Budget 2025 provided no indication that a meaningful review should be anticipated in the near future.

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