

Federal Budget 2025

On Tuesday November 4, 2025, Finance Minister François-Philippe Champagne tabled the Liberal government's 2025 Federal Budget in Parliament, entitled "Canada Strong".

This summary was prepared by *Aviso Tax and Estate Specialist* Doug Carroll who attended the media lockup as expert guest to Personal Finance Journalist Erica Alini of *The Globe and Mail*. It highlights provisions relevant to savings, investment and financial planning of individuals, families and small businesses.

Budget 2025 includes a wide range of measures. We begin with a change in how the Budget is delivered, followed by a summary of current tax rates, and then turn to the Budget's themes:

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- Eliminating GST on first time home
- Carbon tax rebate
- Luxury tax on aircraft vessels
- Underused housing tax

Note that a Budget is a statement of the governing party's intention. Until passed into law, its content is to be considered as proposals, particularly where the ruling party has a minority of the seats, as is the case presently.

Budget delivery

Traditionally, the Budget has been tabled in the early part of the year, ahead of the start of the government's fiscal year which begins in April and runs to the following March.

Beginning with Budget 2025, the government is transitioning to a fall budgeting cycle. The rationale for the new timing is to facilitate expenditure oversight in Parliament and to help builders, investors, and other levels of government make planning decisions leading into the coming year.

Fall budgets will be complemented by economic and fiscal updates in the spring.

Federal income tax brackets & rates

Middle-class tax cut

Following the Spring 2025 election, the governing Liberals implemented their election promise to lower the first marginal personal income tax rate from 15% to 14%. The rate reduction, which is currently before Parliament as part of Bill C-4, applies to taxable income of up to \$57,375 in 2025. The provision was implemented as of July 1, 2025, resulting in an effective rate of 14.5% for the full 2025 tax year.

Top-up tax credit

The rate applied to most non-refundable tax credits is based on the first marginal personal income tax rate.

In combination with the lowering of that bracket as noted above, in some cases where an individual's non-refundable tax credit amounts exceed the first bracket threshold (\$57,375 in 2025), the decrease in the value of these credits may exceed their tax savings from the rate reduction. For example, this could happen where an individual claims a large one-time expense, like high tuition or medical expenses, or claims a combination of large tax credits.

To counter this effect, the new non-refundable Top-Up Tax Credit will effectively maintain the current 15% rate for non-refundable tax credits claimed on amounts in excess of the first income tax bracket threshold. It will be available for the 2025 to 2030 taxation years.

Individual bracket indexing

Personal brackets for 2025 were indexed by 2.7% over 2024 levels. The index factor is estimated to be 2.0% for 2026, but is yet to be released/confirmed from official government sources.

2024 from	Tax rate	2025 from	Tax rate	2026 from	Tax rate
\$0	15.0%	\$0	14.5%	\$0	14.0%
\$55,867	20.5%	\$57,375	20.5%	\$58,523	20.5%
\$111,733	26.0%	\$114,750	26.0%	\$117,045	26.0%
\$173,205	29.0%	\$177,882	29.0%	\$181,440	29.0%
\$246,752	33.0%	\$253,414	33.0%	\$258,842	33.0%

Corporations

The general rate remains 15%, and the small business rate remains 9% on the first \$500,000 of taxable income.

Federal spending and workforce

Comprehensive expenditure review

The opening chapters of Budget 2025 outline the government's intention to conduct a Comprehensive Expenditure Review (CER). The target is to reduce spending by \$13 billion annually by 2028-29, for a projected total with other savings and revenues of \$60 billion over five years.

This CER is to be achieved through planned 15% savings targets over 3 years in most departments. Few specifics are provided, but the departmental summaries refer to avoiding duplication, flattening management structures, eliminating redundancies, and overall reduction of general expenses and human resources. The estimated workforce reduction is 40,000 (including 1,000 leadership roles) or 10% from the 2023-24 peak towards a more sustainable public service size of roughly 330,000 by 2028-29.

Early retirement incentive

With a recognition of the hardship to affected federal employees and the organizational challenges that will accompany these changes, the budget includes an early retirement incentive (ERI).

Public servants at age 50 or above for Group 1 and age 55 or above for Group 2 who have at least ten years of employment, with at least two years of pensionable service in the Public Service Pension Plan may apply to participate in the ERI. Eligible employees will be able to retire with an immediate pension based on years of service with no penalty for early retirement.

Implementation would proceed by January 15, 2026, or when legislation receives Royal Assent, and the government intends to conclude the ERI process within one year.

Attracting private sector expertise

Despite the general reduction of the size of the public service, there remains a need to bring in talent and perspectives from outside the government into the public service. Through its Build Canada Exchange program, it has "an ambitious, immediate-term goal" of integrating 50 external leaders in technology, finance, science, and other sectors into the public service.

Support for those with significant needs

Personal support workers tax credit

This is a proposed tax credit to provide eligible personal support workers working for eligible health care establishments with a refundable tax credit of 5% of eligible earnings (generally taxable employment income), providing a credit value of up to \$1,100. While no further financial details are provided, that would appear to provide tax relief on eligible income up to \$22,000.

Eligible health care establishments would be hospitals, nursing care facilities, residential care facilities, community care facilities for the elderly, home health care establishments, and other similar regulated health care establishments. Employers would need to certify their employees' eligible earnings in prescribed form. There is no mention of services provided in a person's home. This measure will apply to the 2026 to 2030 taxation years.

Automatic tax credits for lower income

Canada's tax system is based on self-assessment and self-reporting. In general, individuals need to file a tax return annually to receive the benefit and credit payments delivered through the tax system, such as the GST/HST Credit, the Canada Child Benefit and the Canada Workers Benefit.

Millions of lower-income Canadians do not file their taxes, either because they do not have the resources to do so or because they think their income is too low to owe taxes. This means that people who most need benefits often do not receive them.

Budget 2025 proposes to give the Canada Revenue Agency (CRA) the discretionary authority to file a tax return for certain eligible individuals. The government will consult on the proposals. Interested parties are invited to send written representations to the Department of Finance Canada at autotaxfiling-autoimpot@fin.gc.ca by January 30, 2026.

Accessing Canada disability benefit

The Canada Disability Benefit provides direct financial support to people with disabilities who are between 18 and 64 years old. Eligible individuals can receive up to \$200 per month, totaling \$2,400 annually. The main criterion is that the person qualifies for the Disability Tax Credit (DTC), which requires certification by a medical professional.

To help offset the cost of applying for the DTC, Budget 2025 proposes a one-time supplemental Canada Disability Benefit payment of \$150 in respect of each Disability Tax Credit certification, or re-certification, giving rise to a Canada Disability Benefit entitlement. This one-time payment would be retroactive to the launch of the Canada Disability Benefit, with payments to be made before the end of 2026-27 fiscal year.

Combined HATC + METC claims

The Home Accessibility Tax Credit (HATC) is a tax credit available to someone age 65+ or eligible for the Disability Tax Credit, for eligible home renovations up to \$20,000 per year. Expenses must be incurred to improve the home's safety, accessibility, or functionality. Such expenses often also fit the definition for the Medical Expense Tax Credit (METC), which can be claimed on expenses in excess of the lesser of 3% of net income or \$2,834 (2025).

Budget 2025 proposes that an expense claimed under the METC cannot also be claimed under the HATC. This measure would apply to the 2026 and subsequent taxation years

Qualified investments for registered plans

In Budget 2024, the government invited stakeholders for suggestions on how to better manage the qualified investments regime for seven types of registered plans: 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 (FHSAs), and Deferred Profit Sharing Plans (DPSPs).

Small Business Investments

Much of the focus was on if and how registered plans could invest in small businesses, with two sets of overlapping rules covering 6 of those registered plans, and RDSPs left out entirely. Based on feedback received through the consultation process, Budget 2025 proposes to have one broad set of rules that applies to all registered plans, including RDSPs, to simplify, streamline, and harmonise the qualified investment rules.

Qualified investment trust rules

Where a mutual fund does not meet a minimum 150 unitholder threshold, it could be subject to added taxes and compliance burden to fit the '*registered investment*' regime to qualify for registered plans. Budget 2025 proposes to replace this regime with two new categories of qualified investments that will not require such registration.

Parents, family and youth

National school food program

The National School Food Program aims to provide meals to 400,000 more kids every year, beyond those served by existing school food programs. The program is saving participating families with two children an average of \$800 per year on groceries. The program was launched in 2024-25 with an investment of \$1 billion over five years. Budget 2025 proposes to legislate ongoing annual funding starting in 2029-30 to make the program permanent.

Bereavement, EI parental benefits

Budget 2025 proposes to allow claimants receiving Employment Insurance parental benefits to access an additional eight weeks of parental benefits in the event of the death of the child.

Student financial assistance

The Canada Student Financial Assistance Program facilitates access to post-secondary education. It is essential that it is used as intended to provide a fair chance to students who rely on this support. The government intends on introducing amendments to address integrity issues related to private educational institutions generally limiting access to the **Canada Student Grant** for Full-time Students to students attending public educational institutions and not-for-profit private institutions within Canada. Internationally, **Canada Student Loans and Grants** generally would only be provided to those who attend public institutions.

Youth employment

Canadian youth are facing challenges in the labour market, with the youth unemployment rate sitting at 14.7% in September 2025. Budget 2025 proposes the following investments:

- \$594.7 million over two years, starting in 2026-27, for **Canada Summer Jobs** to support around 100,000 summer jobs in summer 2026
- \$307.9 million over two years, starting in 2026-27, for the horizontal **Youth Employment and Skills Strategy** to employment, training, and wraparound supports (e.g., mentorship, transportation, mental health counselling) to around 20,000 youth facing employment barriers annually
- \$635.2 million over three years, starting in 2026-27, for the **Student Work Placement Program** to support around 55,000 work-integrated learning opportunities for post-secondary students in 2026-27

Personal financial management

Helping credit unions grow and compete

Small- and medium-sized banks, as well as provincial and federal credit unions, are critical for consumer choice across Canada. All Canadians will benefit from improvements to the federal credit union framework since allowing more financial institutions like credit unions to grow will create more competition in the financial sector. Competition drives down fees, improves interest rates on deposits, and leads to better customer services as banks compete for market share, bringing benefits to the diverse regions across Canada that credit unions serve.

To help smaller financial institutions invest, scale, and compete, Budget 2025 proposes measures to support their unique needs:

- Make it easier for federal credit unions to achieve scale via amalgamation or asset acquisitions, and for provincial credit unions to enter the federal framework, including by providing the flexibility for them to continue their existing auto leasing business on a permanent basis
- Amend ownership dollar values to allow small financial institutions to grow larger before having to change their ownership structure
- Work with banks to develop a voluntary code of conduct to strengthen smaller financial institutions' access to distribution channels for brokered deposits.

Combatting financial fraud

Budget 2025 announces the government's intention to develop a whole-of-government National Anti-Fraud Strategy, and to introduce regulations to:

- Require banks to have policies and procedures to address consumer-targeted fraud.
- Allow consumers to adjust maximum transaction amounts, and require banks to obtain the express consent of consumers to enable certain account features and permit consumers to disable features
- Require banks to report data on consumer-targeted fraud to the Financial Consumer Agency of Canada

Protecting against economic abuse

Economic abuse—such as restricting access to money, sabotaging employment, or forcing debt—is a common form of gender-based violence. It can also affect seniors, who can be vulnerable to financial manipulation or coercion by those they often know and trust. Canada’s financial sector has a critical role to play in detecting signs of abuse early and providing safe pathways for victims and survivors—many of which are women, ensuring that everyone can build safe and independent futures

Budget 2025 proposes to introduce a voluntary Code of Conduct for the Prevention of Economic Abuse for federally regulated banks, to be overseen by the Financial Consumer Agency of Canada, establishing clear expectations for how banks can identify, prevent, and respond to economic abuse to better protect Canadians.

Financial fees review

The government will review fees charged by banks and other federally regulated financial institutions including Interac e-Transfer fees and ATM fees, to address any unjustified fees and pain points for Canadians

Access to funds deposited by cheque

Access to cheque fund rules are now over a decade old and have not kept pace with cost-of-living increases or technological advances. Budget 2025 proposes to:

- Amend the Bank Act to raise the first amount of immediately available deposited cheque funds from \$100 to \$150 and to remove the timing distinction between funds deposited in person and via other means
- Make regulations in the coming months to reduce the number of days banks may hold deposited cheque funds before releasing them to their customers

Business investment support

Immediate expensing for manufacturing and processing buildings

Under the capital cost allowance (CCA) system, eligible buildings used to manufacture or process (M&P) goods are prescribed a CCA rate of 10%, being the regular 4% rate, plus 6% if at least 90 per cent of the building’s floor space is used for M&P.

Budget 2025 proposes to provide temporary immediate expensing for the cost of eligible manufacturing or processing buildings, including the cost of eligible additions or alterations made to such buildings. The enhanced allowance would provide a 100% deduction in the first taxation year that eligible property is used for manufacturing or processing, provided the minimum 90% floor space requirement is met.

This measure would be effective for eligible property that is acquired on or after Budget Day and is first used for manufacturing or processing before 2030.

Scientific research and experimental development (SR&ED) tax incentive program

Under the Scientific Research and Experimental Development (SR&ED) tax incentive program, qualifying expenditures are fully deductible in the year they are incurred. Additionally, these expenditures are generally eligible for an investment tax credit.

There is a 15% non-refundable tax credit and 35% fully refundable credit for Canadian-controlled private corporations (CCPCs) on qualified SR&ED expenditures annually. Budget 2025 proposes to increase the expenditure limit on which the SR&ED program’s enhanced 35% tax credit can be earned to \$6 million.

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

Flowthrough shares, critical minerals

Flow-through shares allow corporations to renounce or "flow through" Canadian exploration expenses (CEE), including Canadian renewable and conservation expenses (CRCE), and Canadian development expenses (CDE) to investors, who can deduct the expenses in calculating their own taxable income (at a 100% rate for CEE, including for CRCE, and at a 30% rate on a declining-balance basis for CDE).

The Critical Mineral Exploration Tax Credit (CMETC) provides an additional income tax benefit for individuals who invest in eligible flow-through shares. The CMETC is equal to 30 per cent of specified mineral exploration expenses incurred in Canada.

Budget 2025 proposes to expand the list of about 15 critical minerals/categories by 12. This measure would apply to expenditures renounced under eligible flow-through share agreements entered into after Budget Day and on or before March 31, 2027.

Agricultural cooperatives

Prior to 2005, patronage dividends paid in shares by an agricultural cooperative to its members were taxable to the members in the year the shares were received. In 2005, the tax rules were amended to allow for the temporary deferral of income taxes and withholding obligations on patronage dividends received as eligible shares until the disposition (including a deemed disposition) of the shares. The current measure is set to expire at the end of 2025.

Budget 2025 proposes to extend this measure to apply in respect of eligible shares issued before the end of 2030.

Efficiency and integrity of tax system

Staggered corporate year-ends

To improve tax fairness, Budget 2025 proposes to amend the Income Tax Act to limit the deferral of refundable tax on investment income through the use of tiered corporate structures with staggered year ends, for taxation years that begin on or after Budget Day.

Trusts 21-yr rule avoidance

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 (the "21-year rule"). This prevents personal trusts from being used to indefinitely postpone tax on accrued gains. Certain tax avoidance planning techniques have been employed to transfer trust property indirectly to a new trust to avoid both the 21-year rule and the anti-avoidance rule.

Budget 2025 proposes to broaden the current anti-avoidance rule for direct trust-to-trust transfers to include indirect transfers of trust property to other trusts. This measure would apply in respect of transfers of property that occur on or after Budget Day.

Carousel fraud

Carousel fraud schemes exploit the general design of a value-added tax system, such as the Goods and Services Tax/Harmonized Sales Tax (GST/HST), by using a series of real or fraudulent transactions where at least one person, often known as the "missing trader", collects GST/HST in respect of a supply of property or services but does not remit it to the government.

Budget 2025 announces proposed changes to the Excise Tax Act (the "Act") to help prevent carousel fraud and improve the overall fairness of the Canadian tax system. Specifically, the government is proposing to introduce a new reverse charge mechanism (RCM) beginning with certain supplies in the telecommunications sector.

Miscellaneous new and revisited measures

Eliminating GST on first time home

Following the Spring 2025 election, the governing Liberals implemented their election promise to eliminate the Goods and Services Tax (GST) for first-time home buyers on new homes up to \$1 million and reducing the GST for first-time home buyers on new homes between \$1 million and \$1.5 million.

The removal of the GST for first-time home buyers is currently before Parliament as part of Bill C-4.

Carbon tax rebate

Budget 2025 makes it clear that the consumer fuel charge / consumer carbon rebate (CCR) is cancelled. The government provided a final quarterly CCR payment starting in April 2025 to eligible households.

Eligibility for the rebate was based on information in individual tax returns. To support the winding down of mechanisms to return fuel charge proceeds, Budget 2025 proposes to amend the Income Tax Act to provide that no CCR payments would be made in respect of tax returns, or adjustment requests filed after October 30, 2026.

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.

Budget 2025 proposes to amend the relevant legislation to end the luxury tax on subject aircraft and subject vessels

Underused housing tax

The Underused Housing Tax (UHT) took effect on January 1, 2022 and applies to certain owners of vacant or underused residential property in Canada, generally non-resident, non-Canadians. The UHT is imposed on an annual basis at a rate of 1% on the value of the property.

Budget 2025 proposes to eliminate the UHT as of the 2025 calendar year, such that no UHT would be payable and no UHT returns would be required to be filed in respect of the 2025 and subsequent calendar years. All UHT requirements continue to apply in respect of the 2022 to 2024 calendar years.

For more information, please consult your advisor and tax professional.

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