CORPORATE Newsletter

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Corporate Income Tax: Federal Budget 2025 Highlights

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Federal Budget 2025: *Canada Strong* ("Budget 2025") was tabled November 4, along with many new tax measures. This article briefly summarizes the key corporate tax announcements from Budget 2025.

Capital Cost Allowance Measures

Immediate Expensing for Manufacturing and Processing Buildings

Manufacturing and processing buildings are already eligible for an additional capital cost allowance of 6%, which makes the total annual allowance 10% (when combined with the regular 4% allowance for buildings). Budget 2025 proposes to take this accelerated CCA a step further by providing 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 November 4, 2025, and is first used for manufacturing or processing before 2030. An enhanced first-year capital cost allowance ("CCA") rate of 75% would be provided for eligible property that is first used for manufacturing or processing in 2030 or 2031, and a rate of 55% would be provided for eligible property that is first used for manufacturing or processing in 2032 or 2033. The enhanced rate would not be available for property that is first used for manufacturing or processing after 2033.

Extending the Accelerated Investment Incentive and Immediate Expensing

Budget 2025 reiterated the government's intention to extend the accelerated investment incentive and immediate expensing (for certain types of assets). On November 18, 2025, the federal government introduced Bill C-15, which included for the first time legislation to implement these extensions.

Consequently, "reaccelerated investment incentive property" acquired on or after January 1, 2025 is eligible for a first-year CCA deduction equal to three times the regular amount (due to non-application of the half-year rule and a further 50% increase to the base allowance). Property that becomes available for use after 2029 is exempt from the half-year rule but the 50% increase would be phased out. The incentive will completely expire for property acquired after 2033.

The immediate expensing for manufacturing and processing equipment, clean energy generation and conservation equipment, and zero-emission vehicles is also being extended. Manufacturing and processing equipment and clean energy generation and conservation equipment must also be considered "reaccelerated investment incentive property" to qualify, but zero-emission vehicles generally do not. The immediate expensing is effective for property that becomes available for use after 2024 and before 2030. A phased-out rate of 75% applies to property that becomes available for use in 2030 and 2031. A further phased-out rate of 55% applies to property that becomes available for use in 2032 and 2033. The rate reverts to normal in 2034.

"Reaccelerated investment incentive property" has a complex technical definition, but it effectively requires that the property you acquire be either new (i.e., not previously depreciated by another taxpayer) or acquired from an arm's length seller (i.e., was not rolled over or acquired from a non-arm's length person).

Immediate Expensing for Productivity-Enhancing Assets

Federal Budget 2024 announced immediate expensing for productivity-enhancing assets; the government repeated its commitment to this measure in Budget 2025 and the proposed amendments were finally included in Bill C-15.

Eligible property includes the following:

- Patents and rights to use patented information;
- Data network infrastructure equipment and related systems software; and
- General-purpose electronic data processing equipment, systems software, and ancillary data processing equipment.

The immediate expensing for classes 44, 46, and 50 applies to property that becomes available for use after April 15, 2024 and before 2027. After 2026, the incentive expires—there is no phase-out period. The property must also be "reaccelerated investment incentive property".

Scientific Research and Experimental Development ("SR&ED") Tax Incentive Program

The *2024 Fall Economic Statement* proposed several changes to the SR&ED program that would:

- increase the expenditure limit from $3 million to $4.5 million and increase the lower and upper prior-year taxable capital phase-out boundaries to $15 million and $75 million, respectively;
- extend eligibility for the enhanced tax credit to eligible Canadian public corporations; and
- restore the eligibility of SR&ED capital expenditures for both the deduction against income and investment tax credit components of the SR&ED program.

Budget 2025 confirms its intention to introduce legislation to implement these measures.

Budget 2025 also proposes to *further* increase the expenditure limit on which the SR&ED program's enhanced 35% credit can be earned, from the previously announced $4.5 million to $6 million. This measure would apply for taxation years that begin on or after December 16, 2024 (the date of the *2024 Fall Economic Statement*).

Agricultural Cooperatives: Patronage Dividends Paid in Shares

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.

Changes Applicable to Trusts

Personal trusts are subject to a deemed disposition of their capital property on the 21st anniversary of their creation and every subsequent 21st anniversary—"the 21-year rule". However, in response to taxpayers engaging in strategies to avoid the application of the 21-year rule, Budget 2025 proposes to broaden an anti-avoidance rule to include indirect property transfers.

More notably, Budget 2025 announced a further delay of the application of the tax reporting requirements for bare trusts. These requirements were to originally apply to the 2023 taxation year, but the CRA later announced that it would not require bare trusts to file for 2023 nor 2024. Budget 2025 announced that the rules would again not apply to 2025. Now they are expected to apply to taxation years ending on or after December 31, 2026.

Tax Deferral Through Tiered Corporate Structures

Budget 2025 proposes to limit the deferral of tax on investment income using tiered corporate structures with mismatched year ends. Generally, the proposed limitation would suspend the dividend refund that could be claimed by a payer corporation on the payment of a taxable dividend to an affiliated recipient corporation if the recipient corporation's balance-due day for the taxation year in which the dividend was received ends after the payer corporation's balance-due day for the taxation year in which the dividend was paid. The determination of whether the dividend payer and payee are affiliated would be based on current affiliation rules in the *Income Tax Act*. This measure would apply to taxation years that begin on or after November 4, 2025.

Transfer Pricing

After consideration of stakeholder comments received during the consultation announced in Budget 2021, Budget 2025 proposes to modernize Canada's transfer pricing rules to better align with the international consensus on the application of the arm's length principle. In addition, an interpretation rule would be added to ensure that Canada's transfer pricing rules are applied in a manner consistent with the analytic framework set out by the OECD Transfer Pricing Guidelines. These measures would apply to taxation years that begin after November 4, 2025.

Underused Housing Tax ("UHT")

Budget 2025 proposes to eliminate the UHT as of the 2025 calendar year. As a result, no UHT would be payable and no UHT returns would be required to be filed in respect of the 2025 and subsequent calendar years.

Luxury Tax on Aircraft and Vessels

Budget 2025 proposes to amend the *Select Luxury Items Tax Act* ("SLITA") to end the luxury tax on subject aircraft and subject vessels. All instances of the tax would cease to be payable after November 4, 2025, including the tax on sales, the tax on importations, and the tax on improvements.

Previously Announced Measures

Budget 2025 confirms the government has considered each of the outstanding tax measures announced by the previous government and confirms it intends to proceed with the following measures, as modified to take into account consultations and deliberations since their release:

- Legislative and regulatory proposals released on August 15, 2025, including with respect to the following measures,
    - Capital Gains Rollover on Small Business Investments;
    - Tax exemption for sales to Employee Ownership Trusts;
    - Tax exemption for sales to Worker Cooperatives;
    - Excessive Interest and Financing Expenses Limitation Rules; and
    - Substantive CCPCs.
- Legislative proposals released on June 30, 2025, to ensure that all Canada Carbon Rebates for Small Businesses are provided tax-free, and to extend the filing deadline for the 2019 to 2023 calendar years.