PERSONAL **Newsletter**

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Federal Budget 2025 Personal Income Tax Highlights

Federal Budget 2025: *Canada Strong* ("Budget 2025") was tabled November 4, along with many new tax-related measures. Though there were no tax changes as pivotal as the capital gains tax increase from last year's budget (that was later scrapped), Budget 2025 did announce several personal tax changes that may be of interest. This article briefly summarizes the key personal income tax announcements from Budget 2025, notably:

- The introduction of the Personal Support Workers Tax Credit and the Top-Up Tax Credit;
- The introduction of Automatic Tax Filing; and
- Amendments to simplify, streamline, and harmonise the qualified investment rules for registered plans.

Personal Income Tax Measures

Personal Support Workers Tax Credit

Budget 2025 proposes to introduce a temporary Personal Support Workers Tax Credit, which would provide eligible personal support workers ("PSWs") working for eligible health care establishments with a refundable tax credit of 5% of eligible earnings, providing a credit value of up to $1,100. This measure would apply to the 2026 to 2030 taxation years.

Amounts earned in British Columbia, Newfoundland and Labrador, and the Northwest Territories would not be eligible for the credit, as these jurisdictions have signed bilateral agreements with the federal government to include a "Personal Support Workers and Related Professions Addendum" to their *Aging with Dignity* funding agreements, which provide funding over five years to increase personal support workers' wages.

Automatic Federal Tax Filing for Lower-Income Individuals

As previously announced, Budget 2025 proposes to amend the *Income Tax Act* to grant the CRA the discretionary authority to file a tax return for a taxation year on behalf of an individual (other than a trust) who meets all the following criteria:

- the individual's taxable income for the taxation year is below the lower of either the federal basic personal amount or provincial equivalent (plus the age amount and/or disability amount, where applicable);
- all income of the individual for the taxation year is from sources for which specified information returns have been filed with the CRA;
- at least once in the preceding three taxation years, the individual has not filed a return;
- the individual has not otherwise filed a return for the taxation year prior to, or within 90 days following, the tax filing deadline for the year; and
- any other criteria, as determined by the Minister of National Revenue.

Individuals would be able to opt out of automatic tax filing. This measure would apply to the 2025 and subsequent taxation years (i.e., filing could begin in 2026).

Top-Up Tax Credit

The rate applied to most non-refundable tax credits is based on the first marginal personal income tax rate. The middle-class tax cut announced in May 2025, and included in Bill C-4, currently before Parliament, would reduce the first marginal personal income tax rate, and thus the rate applied to most non-refundable tax credits, from 15% to 14.5% for the 2025 taxation year, and to 14% for the 2026 and subsequent taxation years.

In rare cases where an individual's non-refundable tax credit amounts exceed the first income tax bracket threshold ($57,375 in 2025), the decrease in the value of these credits may exceed their tax savings from the rate reduction. To ensure that no one in this circumstance has their tax liability increased by the middle-class tax cut, Budget 2025 proposes to introduce a new non-refundable Top-Up Tax Credit, which would effectively maintain the current 15% rate for non-refundable tax credits claimed on amounts in excess of the first income tax bracket threshold. The Top-Up Tax Credit would apply for the 2025 to 2030 taxation years.

Qualified Investments for Registered Plans

Budget 2025 proposes the following amendments to simplify, streamline, and harmonise the qualified investment rules applicable to registered plans (such as RRSPs, RRIFs, TFSAs, RESPs, etc.):

- **Small Business Investments.** Budget 2025 proposes to simplify and streamline the rules relating to registered plan investments in small businesses, while maintaining the ability of registered plans to make such investments. These amendments would apply as of January 1, 2027. Interests in small business investment limited partnerships and small business investment trusts that are acquired before 2027 under the current rules would continue to be qualified investments.
- **Registered Investment Regime.** Budget 2025 proposes to replace the registered investment regime with two new categories of

qualified investments which do not involve registration:

- Units of a trust that is subject to the requirements of National Instrument 81–102 published by the Canadian Securities Administrators; and
- Units of a trust that is an investment fund (as defined in existing tax rules) managed by a registered investment fund manager as described in National Instrument 31–103 published by the Canadian Securities Administrators.

It is generally expected that units or shares of funds that were registered investments would continue to qualify, either under existing rules or under one or both of the new categories of qualified investment trusts. The registered investment regime would be repealed as of January 1, 2027. The new qualified investment trust rules would apply as of November 4, 2025.

- **Other Changes.** Budget 2025 also proposes to make several other technical legislative amendments to simplify the qualified investment rules.

Information Sharing – Worker Misclassification

According to the federal government, the misclassification of employees as independent contractors is of particular concern in the trucking industry. Employment and Social Development Canada ("ESDC") recently began sharing information with the CRA, but information-sharing restrictions in the tax rules prevent the CRA from sharing the required information with ESDC. Budget 2025 proposes to amend the information-sharing provisions of the *Income Tax Act* and the *Excise Tax Act* to allow the CRA to share taxpayer information (under the *Income Tax Act*) and confidential information (under the *Excise Tax Act*) with ESDC for the purposes of the administration and enforcement of the *Canada Labour Code* as it relates to the classification of workers. This measure would come into force on royal assent of the enacting legislation.

Home Accessibility Tax Credit

Budget 2025 proposes to amend the *Income Tax Act* such that an expense claimed under the Medical Expense Tax Credit cannot also be claimed under the Home Accessibility Tax Credit. Previously, an expense could be claimed under both credits if it was eligible for both. Since each provides a 15% federal tax credit, the hypothetical credit would be reduced from a combined 30% to only 15% under one credit. If an expense is eligible for both, it may be better to claim it under the home accessibility tax credit since, unlike the medical credit, it does not have a minimum dollar amount in excess of which the credit can be claimed. This measure would apply to the 2026 and subsequent taxation years.

Canada Carbon Rebate

With the removal of the federal fuel charge as of April 1, 2025, the government provided a final quarterly Canada Carbon Rebate ("CCR") payment starting in April 2025 to eligible households. 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.

Other Tax Measures

21-Year Rule

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.

Underused Housing Tax ("UHT")

Budget 2025 proposes to eliminate the UHT as of the 2025 calendar year. 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.

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 Budget Day, including the tax on sales, the tax on importations, and the tax on improvements. Registrations in respect of subject aircraft and subject vessels under the SLITA would be maintained after Budget Day, allowing registered vendors the opportunity to claim rebates for which they are eligible. All registrations in respect of subject aircraft and subject vessels would be automatically cancelled on February 1, 2028, after which time vendors would no longer be able to claim rebates.

Previously Announced Measures

Budget 2025 confirms that the government has considered 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:
  - Non-compliance with information requests; and
  - Technical tax amendments to the *Income Tax Act* and the *Income Tax Regulations* (subject to a deferred application date for reporting by bare trusts, so that it would apply to taxation years ending on or after December 31, 2026).
- Legislative proposals released on January 23, 2025, to extend the 2024 charitable donations deadline.
- Legislative and regulatory proposals announced in the *2024 Fall Economic Statement*, including with respect to exempting the Canada Disability Benefit from Income.
- The proposed increase in the Lifetime Capital Gains Exemption to apply to up to $1.25 million of eligible capital gains announced in Budget 2024.