

Budget 2025: Building Canada's Strength

November 5, 2025

Introduction

On November 4, 2025 (Budget Day), the Honourable François-Philippe Champagne, Finance Minister, delivered the 2025 federal budget titled, “Canada Strong” (Budget 2025), the Liberal Party’s first federal budget under Prime Minister Mark Carney.

The Federal Government (Government) announced its desire to maintain its global economic position as part of its release. Although Budget 2025 did not amend federal corporate or personal tax rates under the *Income Tax Act* (Canada) (Tax Act) certain tax measures were announced, including the following:

- Introducing a productivity super-deduction and enhancing the Scientific Research and Experimental Development program, driving growth and innovation;
- Broadening an anti-avoidance rule targeting trust structures;
- Advancing measures related to critical minerals;
- Simplifying and streamlining qualified investment opportunities; and
- Adopting international tax measures to align with global standards and ensure fairness in cross-border taxation.

The following is a summary of select tax measures announced in Budget 2025 that are most relevant to taxpayers, including:

- [Personal Income Tax Measures](#);
- [Business Income Tax Measures](#);
- [International Tax Measures](#);
- [Sales and Excise Tax Measures](#);
- [Indigenous Tax Measures](#);
- [Previously Announced Measures](#); and
- [Charity and Not-for-profit Measures](#).

Personal Tax Measures

Top-Up Tax Credit

In May 2025, the Government announced that the basic income tax rate will be cut from 15% to 14.5% for the 2025 tax year, and to 14% for 2026 and subsequent tax years. Since many of the non-refundable tax credits are in reference to the basic income tax rate, it is possible that individuals may end up paying more taxes as a result of the rate reduction. For example, if an individual claims a large one-time expense such as high tuition expenses. Budget 2025 proposes to introduce a new non-refundable top-up tax credit to effectively maintain the 15% rate for non-refundable tax credits.

Qualified Investments for Registered Plans

Budget 2025 proposes certain amendments to simplify, streamline, and harmonize the “qualified investment” rules that dictate the types of investments that may be made to the following seven types of registered plans: registered retirement savings plans (RRSPs), tax-free savings accounts (TFSA), registered education savings plans (RESPs), registered disability savings plans (RDSPs), registered retirement income funds (RRIFs), first home savings accounts (FHSAs), and deferred profit sharing plans (DPSPs).

Small Business Investments

RDSPs will be permitted to invest in shares of specified small business corporations, venture capital corporations, and specified cooperative corporations, similar to RRSPs, TFSAs, RESPs, RRIFs and FHSAs.

Shares of eligible corporations and interests in small business investment limited partnerships and small business investment trusts would no longer be qualified investments.

These amendments would apply as of January 1, 2027.

Registered Investment Regime

Registered investments are qualified investments for all registered plans. For a corporation or a trust to be a registered investment, it must be registered with the Canada Revenue Agency (CRA). Units of a mutual fund trust are qualified investments, but the mutual fund trust can also be a registered investment.

Stakeholders have suggested that the registration process does not add sufficient value to justify its associated compliance and administration burdens. As such, Budget 2025 proposes to replace the registered investment regime with two new categories of qualified investments which do not involve registration:

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- 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 the Tax Act) managed by a registered investment fund manager as described in National Instrument 31–103 published by the Canadian Securities Administrators.

The registered investment regime would be repealed as of January 1, 2027. The new categories of qualified investment trust rules would apply as of Budget Day.

Other Changes

Budget 2025 also proposes to make a number of other technical legislative amendments to simplify the qualified investment rules. Notably, the qualified investment rules for six types of registered plans (except DPSPs) would be consolidated into one definition in the Tax Act. These changes would apply as of January 1, 2027.

Information Sharing – Worker Misclassification

Budget 2024 (released on April 16, 2024) announced that Employment and Social Development Canada (ESDC) and the CRA would enter into data-sharing agreements to facilitate inspections and enforcement to address worker misclassification.

Although ESDC recently began sharing information with the CRA, information-sharing restrictions prevent the CRA from sharing the required information with ESDC. Budget 2025 proposes to amend the information sharing provisions of the Tax Act and the *Excise Tax Act* (Canada) (ETA) to allow the CRA to share taxpayer information (under the Tax Act) and confidential information (under the ETA) with ESDC for the purposes of the administration and enforcement of the Canada Labour Code as it relates to the classification of workers.

21-Year Rule

Generally, Canadian resident trusts are subject to a deemed disposition of trust property every 21 years (21-Year Rule). The 21-Year Rule can generally be addressed by having trust property distributed on a tax deferred basis to a beneficiary who is a resident of Canada within the 21-year period. The 21-year period cannot be restarted by transferring trust property directly to a new trust since the new trust will inherit the 21-year period of the original trust under an Anti-Avoidance Rule. With the goal of effectively avoiding both the 21-Year Rule and Anti-Avoidance Rule, planning could be done to indirectly transfer trust property to a

new trust by way of a corporate beneficiary that is owned by a new trust. This planning technique was already required to be disclosed under the notifiable transaction regime, but 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.

Canada Carbon Rebate

Budget 2025 proposes to amend the Tax Act to provide that no Canada Carbon Rebate payments would be made in respect of tax returns, or adjustment requests, filed after October 30, 2026.

Miscellaneous Personal Tax Measures

Budget 2025 also introduced the following personal tax measures:

1. A credit up to \$1,100 for eligible personal support workers (for 2026 to 2030 taxation years);
2. Taxpayers will no longer be able to double dip on the Home Accessibility Tax Credit and the Medical Expense Tax Credit where taxpayers were eligible for both credits on the same expense (for 2026 and subsequent taxation years). Therefore, if an individual claims the Home Accessibility Tax Credit in relation to an expense, they can no longer claim the Medical Expense Tax Credit for that same expense (and vice versa); and
3. Granting the CRA the authority to automatically file tax returns for the 2025 and subsequent taxation years for individuals whose income is less than the federal basic personal amount of the provincial equivalent while still allowing them access to certain benefit and credit payments.

Business Income Measures

Immediate Expensing for Manufacturing and Processing Buildings

Productivity Super-Deduction

Budget 2025 proposes a “productivity super-deduction”, comprising a combination of previously announced and new immediate expensing and accelerated depreciation measures. This “super-deduction” is targeted at businesses making specific types of productivity-enhancing investments, such as investments in machinery, equipment and technology.

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Budget 2025 claims that the effect of the “super-deduction” will reduce Canada’s marginal effective tax rate (METR) by over 2 percentage points, from 15.6% to 13.2%, enhancing Canada’s competitiveness with the US following its own tax reforms implemented in the *One Big Beautiful Bill Act* (OBBBA). However, the productivity super-deduction will be most beneficial to capital-intensive industries, such as manufacturing and processing.

Budget 2025 indicates that these measures are expected to provide an average of \$2.7 billion in annual support, attracting private capital investment and generating an economic output of up to \$9 billion annually over the next ten years.

Previously Announced Measures

The Government intends to move forward with all previously announced measures:

- reinstating the Accelerated Investment Incentive, which provides an enhanced first-year write-off for certain capital assets;
- immediate expensing of manufacturing or processing machinery and equipment;
- immediate expensing of clean energy generation and energy conservation equipment, and zero-emission vehicles;
- immediate expensing of productivity-enhancing assets, including patents, data network infrastructure, and computers; and
- immediate expensing of capital expenditures for scientific research and experimental development.

New Measures

Currently, the capital cost allowance (CCA) rate applicable to eligible buildings used in Canada to manufacture or process goods for sale or lease (manufacturing or processing buildings) is 10% (4% applicable to Class 1 plus an additional allowance of 6% for manufacturing or processing buildings). In order to access the additional 6% allowance, at least 90% of the building’s floor space must be used to manufacture or process goods for sale or lease.

Budget 2025 proposes to introduce temporary immediate expensing for manufacturing or processing buildings (including the cost of eligible additional or alterations to such buildings). This enhanced allowance would provide for a 100% deduction in the first taxation year that the property is used for manufacturing or processing, provided the 90% floor space requirement is satisfied.

Property that has been used, or acquired for use, for any purpose before it is acquired by the taxpayer would be eligible for immediate expensing only if the following conditions are satisfied:

- neither the taxpayer, nor a person that does not deal at arm’s length with the taxpayer, has

- previously owned the property; and
- the property has not been transferred to the taxpayer on a tax-deferred basis.

If there is a change in use to a manufacturing or processing building, recapture rules may apply.

The immediate expensing for manufacturing or processing buildings will be effective for eligible property that is acquired on or after Budget Day and is first used for manufacturing or processing before 2030. This measure will be phased out over a four-year period beginning in 2030, with an enhanced first-year CCA rate of 75% for eligible property that is first used for manufacturing or processing in 2030 or 2031, and a rate of 55% for eligible property that is first used for manufacturing or processing in 2032 or 2033.

Accelerated CCA for LNG Equipment and Buildings

The accelerated CCA for liquefied natural gas (LNG) equipment and related buildings was introduced in 2015 and expired at the end of 2024. The prior measures increased the CCA rate for liquefaction equipment from 8% to 30%, for non-residential buildings used in LNG facilities from 6% to 10%.

Budget 2025 proposes to reinstate the accelerated CCA for LNG equipment and related buildings, but will only be available for low-carbon LNG facilities. A LNG facility must satisfy higher standards of emissions performance in order to be eligible for the accelerated CCA:

- Facilities in the top 25% in terms of emissions performance would be eligible for accelerated CCA at the same rates as the previous measures (30% for liquefaction equipment and 10% for non-residential buildings used in LNG facilities).
- Facilities in the top 10% in terms of emissions performance would be eligible for accelerated CCA of 50% for liquefaction equipment and 10% for non-residential buildings used in LNG facilities.

These measures are expected to apply to property acquired on or after Budget Day and before 2035. Details regarding the new emissions performance requirements will be provided at a later date.

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

Under the SR&ED program, qualifying expenditures are fully deductible in the year they are incurred. Additionally, these expenditures are generally eligible for an investment tax credit. The tax credit is provided at two rates:

- a fully refundable tax credit at an enhanced rate of 35% is available for Canadian Controlled Private

Corporations (CCPCs) on up to \$3 million of qualified SR&ED expenditures annually, phased out where a CCPC's taxable capital employed in Canada for the previous taxation year is between \$10 million and \$50 million; and

- a non-refundable tax credit at the general rate of 15%, available for corporations other than CCPCs and for qualified SR&ED expenditures of CCPCs that do not qualify for the enhanced credit.

Budget 2025 confirms the Government's intention to introduce legislation to implement measures introduced in the 2024 Fall Economic Statement, including to increase the expenditure limit from \$3 million to \$4.5 million, 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 (e.g., certain machinery/equipment). Budget 2025 also proposes to further increase the expenditure limit on which the SR&ED program's enhanced 35% tax 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.

Improve the Administrative Process for Applying to the SR&ED Program

Budget 2025 announces the Government's intention for the CRA to implement an elective pre-claim approval process to provide businesses with an up-front technical approval of their eligible SR&ED projects, before businesses undertake any work or incur costs. For claims submitted through this elective process that require an expenditure review, the CRA estimates that processing time will be cut in half to 90 days from 180 days. Additionally, the Government intends to increase the use of artificial intelligence in the program's administration, to enable the CRA to avoid subjecting low risk claims to unnecessary audit interventions, allowing them to be processed faster. Finally, the CRA intends to streamline the review process by eliminating unnecessary steps and reducing burdensome information requirements that can delay the final determination of claims.

Critical Mineral Exploration Tax Credit

Budget 2025 proposes to expand eligibility for the Critical Mineral Exploration Tax Credit (CMETC) to include the following 12 critical minerals necessary for defence, semiconductors, energy, and clean technologies: bismuth, cesium, chromium, fluorspar, germanium, indium, manganese, molybdenum, niobium, tantalum, tin, and tungsten.

The following critical minerals are currently eligible for the CMETC: nickel, cobalt, graphite, copper, rare earth elements, vanadium, tellurium, gallium, scandium, titanium, magnesium, zinc, platinum group metals, uranium, and lithium (including lithium from brines).

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.

Clean Technology Investment Tax Credits

In response, to a sharp rise in energy demand, particularly from sectors such as manufacturing, oil and gas extraction, pulp and paper, and mineral processing, along with emerging areas such as AI data centres and electrified transportation, the following four refundable clean economy investment tax credits (collectively, the Clean Economy ITCs) were introduced: a Carbon Capture, Utilization, and Storage investment tax credit (CCUS ITC) ranging from 37.5% to 60%; a 30% Clean Technology investment tax credit (Clean Tech ITC); a Clean Hydrogen investment tax credit (Clean Hydrogen ITC) ranging from 15% to 40%; and a 30% Clean Technology Manufacturing investment tax credit (CTM ITC). While the Clean Economy ITCs have already been enacted, Budget 2025 reiterated the Government's commitment to the following previously announced measures.

- **Clean Electricity Investment Tax Credit:** Budget 2023 announced a refundable Clean Electricity investment tax credit (Clean Electricity ITC) equal to 15% of the capital cost of eligible investments in equipment related to low-emitting electricity generation, electricity storage, and the transmission of electricity between provinces and territories. Budget 2024 clarified many of the details of the Clean Electricity ITC, such as eligible claimants, eligible property, and repayment obligations – for further details, please see our [Cassels Budget 2024 Summary](#).
- **Clean Tech ITC:** The 2023 Fall Economic Statement proposed expanding the Clean Tech ITC to include the capital cost of systems that produce electricity, heat, or both electricity and heat (i.e. cogeneration) from “specified waste materials”, such as wood waste, plant residue, or pulp and paper by-product. The 2024 Fall Economic Statement also proposed broadening the eligibility requirements for small nuclear energy property under the Clean Tech ITC by removing the 300 megawatt electric threshold and modularity requirement, and increasing the 1,000 megawatt thermal threshold to 1,400 megawatts.
- **CTM ITC:** Budget 2024 proposed expanding eligibility for the CTM ITC to include investments in eligible property used in qualifying mineral activities that are expected to produce “primarily” (i.e., 50% or more) qualifying materials at mine or well sites (including tailing ponds and mills located at these sites), rather than 90% or more.
- **Clean Hydrogen ITC:** The 2024 Fall Economic Statement proposed expanded eligibility for the Clean Hydrogen ITC to include the cost of eligible property used in the production of hydrogen from methane pyrolysis.

Budget 2025 also made the following new commitments related to the Clean Economy ITCs and the Clean Electricity ITC.

- **CCUS ITC:** As currently enacted, the value of the CCUS ITC is reduced by ½ beginning in 2030.

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Budget 2025 proposes to extend this phase-out by five years, so that the full rates of between 37.5% to 60% apply to eligible expenditures incurred from the start of 2022 to the end of 2035. Eligible expenditures that are incurred from the start of 2036 to the end of 2040 would continue to be reduced by $\frac{1}{2}$, and the 2040 end date remains unchanged. The Government will also postpone the planned review of the CCUS ITC rates (previously announced in Budget 2022) by five years, to before 2035.

- **Clean Electricity ITC:** Budget 2025 proposes to include the Canada Growth Fund as an eligible entity under the Clean Electricity ITC and introduce an exception so that financing provided by the Canada Growth Fund would not reduce the cost of eligible property for the purpose of computing the Clean Electricity ITC. Budget 2025 also proposes to remove the conditions imposed on provincial and territorial governments for their Crown corporations to be eligible, to effectively and efficiently support clean electricity investment while reducing administrative burden.
- **CTM ITC:** Currently, the CTM ITC provides a refundable tax credit equal to 30% of the cost of investments in new machinery and equipment used to extract, process, or recycle certain critical minerals. Budget 2025 proposes to expand this list of critical minerals to include antimony, indium, gallium, germanium, and scandium.

The Clean Economy ITCs (other than the CTM ITC) and the Clean Electricity ITCs are currently subject to labour requirements related to prevailing wages and apprenticeships. Budget 2025 indicates that the Government will consult on the possibility of introducing a domestic content requirement under the Clean Tech ITC and the Clean Electricity ITC. These measures, if enacted, would add to the administrative burden related to claiming the various investment tax credits.

Tax Deferral Through Tiered Corporate Structures

Budget 2025 introduced a new anti-deferral rule aimed at clamping down on a particular deferral strategy for corporate earned investment income.

Currently, investment income earned by a CCPC is subject to an additional refundable tax that increases the corporation's tax rate to approximate the highest marginal combined federal-provincial personal income tax rate.

When a CCPC pays a taxable dividend, it is entitled to a refund of a portion of this additional tax, since an individual shareholder will be subject to personal income tax on that taxable dividend.

However, a corporate shareholder (recipient corporation) is generally not subject to income tax on a taxable dividend received from another corporation (subject to certain conditions) as it can claim an offsetting inter-corporate dividend deduction.

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The current anti-deferral tax rules impose a special refundable tax under Part IV of the Tax Act on the recipient corporation when it receives a taxable dividend if the recipient corporation is a “connected corporation” (generally, a corporation that owns shares carrying more than 10% of the votes and value of the payer corporation), *and* the payer corporation is entitled to a dividend refund. This Part IV tax is equal to the dividend refund to the payer corporation, which is due on the balance-due day for the recipient corporation’s taxation year in which the dividend is received. However, this day can be *after* the balance-due day for the payer corporation’s taxation year in which the dividend was paid. As a result, one can take advantage of this timing difference to defer this Part IV tax by interposing corporations with staggered year ends in a corporate chain.

Budget 2025 proposes to amend the Tax Act to limit this deferral of refundable tax payable by the recipient corporation through the use of tiered corporate structures with staggered year ends, for taxation years that begin on or after Budget Day.

Essentially, the proposed measure 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 payer corporation would generally be entitled to claim the suspended dividend refund in a subsequent taxation year when the recipient corporation pays a taxable dividend to a non-affiliated corporation or an individual shareholder.

This rule would not apply if each corporate dividend recipient in the chain of affiliated corporations pays a subsequent dividend on or before the payer’s balance-due day (this is because there is no deferral as a result). This rule will also not apply to a payer corporation that is subject to an acquisition of control where the taxable dividend is paid within 30 days before that acquisition date (this is to accommodate bona fide commercial transactions).

The Government estimates that this measure will result in revenue of \$540 million between 2026 and 2030 (with \$470 million of that amount coming in the 2026-2027 fiscal period).

Eligible Activities: Canadian Exploration Expense

Canadian exploration expenses (CEE) may include expenses incurred by a taxpayer for the purpose of determining the existence, location, extent, or quality of a mineral resource in Canada.

The determination of a mineral resource’s “quality” for CEE purposes has been interpreted by the CRA to relate to the physical characteristics of the mineral resource. Expenses for technical studies (which are typically undertaken to assess a mineral resource’s engineering feasibility and economic viability as a mining project, rather than its underlying physical characteristics) have generally been viewed by the CRA

as being excluded from CEE.

A recent decision of the Supreme Court of British Columbia, *Seabridge Gold Inc. v British Columbia*, 2025 BCSC 558 ([Seabridge](#)) held that the reference to “quality” in the definition of “qualified mining exploration expenses” (QMEE) under the *British Columbia Income Tax Act* (BC Legislation) could be interpreted to include the economic viability, and not just the physical characteristics, of a mineral resource. Amongst tax practitioners, this decision provided much needed guidance and clarity on the interpretation of “quality” of a mineral resource for purposes of the Tax Act since the definition of QMEE under the BC Legislation is nearly identical to definition of CEE under the Tax Act.

Budget 2025 proposes to amend the Tax Act to clarify that expenses incurred for the purpose of determining the quality of a mineral resource in Canada do not include expenses related to determining the economic viability or engineering feasibility of the mineral resource. The result of this proposed amendment is to narrow the application of the *Seabridge* decision for purposes of the Tax Act.

This amendment would apply as of Budget Day.

International Tax Measures

Transfer Pricing

Canada’s transfer pricing rules aim to ensure that the income recognized for Canadian tax purposes properly reflects the respective contributions of taxpayers and participating non-arm’s length persons of a multinational enterprise (MNE) in cross-border transactions. The rules are premised on the concept of the “arm’s length principle” which provides that profits accrued by associated enterprises should be in accord with the profits that would have accrued had the conditions been those that would have been made between independent enterprises.

Budget 2025 proposes to modernize Canada’s transfer pricing rules, effective for taxation years that begin after Budget Day, to better align with the international consensus on the application of the arm’s length principle. Additionally, the proposed measures aim to provide more detail on how cross-border transactions between non-arm’s length persons must be analyzed and include several new defined terms and a new transfer pricing adjustment application rule that will, among other things, pay closer attention to “economically relevant characteristics” instead of the legal form of transactions, including the conduct of the participants.

The new rules also aim to modify the following administrative measures:

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- providing relief for taxpayers through an increase in the threshold for the transfer pricing penalty to apply from an assessment (from a \$5 million transfer pricing adjustment to a \$10 million adjustment);
- clarifying the transfer pricing contemporaneous documentation requirements to more closely align them with the new proposed definitions and providing for simplified documentation requirements in certain circumstances; and
- reducing the time to provide transfer pricing documentation from 3 months to 30 days.

Investment Income Derived from Assets Supporting Canadian Insurance Risks

Canada's foreign affiliate taxing rules prevent taxpayers from avoiding Canadian tax by shifting certain income to other jurisdictions. For example, certain types of income earned by a controlled foreign affiliate of a taxpayer resident in Canada may be treated as foreign accrual property income (FAPI), which is taxable in the hands of the Canadian taxpayer on an accrual basis. A specific rule in the FAPI regime is intended to prevent avoidance of Canadian tax by shifting income from a business involving the insurance of Canadian risks (i.e., risks in respect of persons resident in Canada, property situated in Canada, or businesses carried on in Canada) into a foreign affiliate. Under that rule, the insurance business income is included in computing the affiliate's income.

To ensure that Canadian multinational insurers do not avoid tax on their Canadian insurance business, Budget 2025 proposes to clarify that investment income derived from assets held by a foreign affiliate to back the insurance or reinsurance of Canadian risks is included in FAPI regardless of which entity holds those assets.

This measure would apply to taxation years that begin after Budget Day.

Sales and Excise Tax Measures

Elimination of Underused Housing Tax and Luxury Tax on Aircraft and Vessels

Budget 2025 proposes to eliminate the Underused Housing Tax and eliminate the Luxury Tax payable on aircraft and vessels. These measures came into force in 2022, despite their administrative complexity and increased costs to both taxpayers and the Government (which Budget 2025 acknowledges). The Luxury Tax will continue to apply to certain vehicles priced over \$100,000.

GST/HST Treatment of Manual Osteopathic Services

Many supplies of healthcare services are exempt supplies. Budget 2025 proposes restricting the relevant exempt supply rules which would cause GST/HST to apply on services provided by manual osteopathic practitioners who are not doctors.

GST/HST Carousel Fraud

Further to a previously announced initiative in 2024, Budget 2025 proposes amendments to the ETA that aims to prevent a type of fraudulent business arrangement referred to as a carousel fraud scheme.

What is a Carousel Fraud Scheme?

A carousel scheme is a type of arrangement that typically involves a network of businesses, which can include shell companies, that create a circular or repetitive chain of transactions where a company in the chain, known as the “missing trader,” charges GST/HST on its sales but fails to remit the collected tax to the CRA. Meanwhile, other companies in the chain claim input tax credits (ITCs) for the GST/HST they purport to have paid to the missing trader, despite the tax never actually having been remitted to the CRA. The same goods or services, or simply invoices without any actual provision of goods or services, may be cycled through the chain multiple times, creating a “carousel” effect. In some cases, the goods transferred in the carousel of transactions are claimed to be exported (outside of Canada) or a zero-rated supply (i.e., where GST/HST applies at 0%), allowing the companies to claim GST/HST credits or refunds without GST/HST ultimately remitted to the CRA on their sales. This scheme results in significant losses in tax revenue to the Government. Businesses found to be involved in such schemes are often reassessed for denied ITC claims, charged for unremitted GST/HST amounts, and, in some cases, face criminal charges.

Budget 2025 proposes to counter these carousel schemes through a new “reverse charge mechanism” (“RCM”) beginning with certain supplies in the telecommunications sector. Under the proposed changes, the RCM would apply to *specified telecommunication services* which are described as those enabling real-time voice communication or the transmission of data (e.g., writing, images, sound) when linked to such voice services, such as VoIP minutes.

When the RCM applies, suppliers do not collect GST/HST and instead, the recipient must self-assess and report the tax in their GST/HST return and may claim an input tax credit (ITC) in the same return (if eligible). The RCM applies only when the recipient is registered under Subdivision D of Division V of Part IX of the ETA and acquires the services for resupply.

ITCs can only be claimed if the recipient is registered (or required to be registered) at the time the tax

becomes payable or is paid in error. If tax is mistakenly paid to a supplier instead of the Receiver General, the recipient must seek a refund directly from the supplier, not the CRA.

Suppliers must indicate on invoices that the supply is subject to the RCM to ensure recipients properly account for the tax.

Other Sectors May be Targeted

The Government notes that it will monitor activity in other sectors and will propose new legal authority that will allow other types of supplies (i.e., beyond specified telecommunication services) to be prescribed by regulation and subject to the proposed new rules for carousel schemes.

The Government invites feedback on these proposals by January 12, 2026.

Finance Focused on Telecommunication Sector: Response to Iris Technologies and Gold Line?

In its Budget 2025 release, the Government noted that certain individuals and groups have been trying to take advantage of the Canadian tax system by engaging in these schemes which undermine the tax system. The proposed rules initially focus on the telecommunication sector, which appears to be a direct response to tax disputes targeting a network of companies connected to an alleged carousel scheme involving VoIP services, which have resulted in various decisions such as with *Newave Consulting Inc. v Canada (National Revenue)*, 2021 FC 1203 ([Newave](#)), *Minister of National Revenue v Gold Line Telemanagement Inc.*, 2024 TCC 119 ([Gold Line Telemanagement](#)), and *Iris Technologies Inc. v Canada (Attorney General)*, 2024 SCC 24 ([Iris Technologies Inc.](#)).

Canada Revenue Agency Changes

Budget 2025 proposes additional funding for the CRA to ensure integrity and to deliver on the commitments related to tax fairness for global corporations, specifically 1) Global Minimum Tax, 2) Excessive Interest and Financing Expense Limitation rules and 3) Mandatory Disclosure Rules.

Additionally, the CRA will modernize its administrative approach to enable greater productivity, and wind down its business units that are no longer connected to government priorities. This includes the Digital Services Tax, the Federal Fuel Charge, and the Canada Carbon Rebate for individuals and for businesses. Further, the proposals in Budget 2025 relating to the elimination of the Underused Housing Tax and luxury tax on aircraft and vessels, is expected to result in administrative savings.

A portion of these savings will be reinvested to improve services, strengthen compliance, and reduce tax debt. Budget 2025 indicates that this reinvestment will help protect the tax base, with an estimated positive

fiscal impact of \$1.1 billion annually from 2028-2029 onwards.

Indigenous Tax Measures

Budget 2025 provides that the Government is working to conclude value-added sales tax agreements with interested Indigenous governments on specific goods, including fuel, alcohol, cannabis, tobacco, and vaping products. The Government will explore other flexible, opt-in approaches for tax jurisdiction arrangements that will support Indigenous governments in exercising greater fiscal autonomy.

Advancing Infrastructure and Indigenous-Owned Projects

Budget 2025 contains the following commitments by the Government to support Indigenous infrastructure projects and Indigenous-owned projects:

- Continuing to explore new financing tools to make existing funding more effective and expand the options available to communities to deliver critical infrastructure.
- Exploring the creation of a bonding and surety backstop pilot project for First Nations contractors on reserve to enable on-reserve construction companies to bid for infrastructure projects, as well as a standalone pilot scheme to monetise federal transfers to support financing for First Nations infrastructure on reserve.
- Increasing the Canada Infrastructure Bank's target for investments in Indigenous infrastructure that benefit First Nations, Inuit, and Métis communities from at least \$1 billion to at least \$3 billion across its priority sectors.
- Providing \$213.8 million over five years, starting in 2025-26, for the Major Projects Office. This funding will also support the Indigenous Advisory Council. Of this amount, \$19.8 million will be sourced from existing departmental resources.
- Providing \$10.1 million over three years, starting in 2025-26, to Crown-Indigenous Relations and Northern Affairs Canada to continue leading the Federal Initiative on Consultation to support the meaningful participation of Indigenous rightsholders in consultation processes throughout the review cycle of national interest projects listed under the *Building Canada Act*, including through Indigenous-led resource centres and consultation protocols.
- Empowering and supporting opportunities for proactive partnerships with Indigenous Peoples, including through the Canada Infrastructure Bank's Indigenous Equity Initiative and the Indigenous Loan Guarantee Program, enabling more Indigenous communities to become owners of major projects.
- Budget 2025 announces the Government's intention for the Canada Indigenous Loan Guarantee Corporation to work with Indigenous investors on greenfield projects.
- Providing \$40 million over two years, starting in 2024-25, in funding to Indigenous Services Canada

through the Strategic Partnerships Initiative to support Indigenous capacity building and consultation on nation-building for meaningful Indigenous participation in nation-building projects.

Providing \$1 billion over four years, starting in 2025-26, to Transport Canada to create the Arctic Infrastructure Fund, which will invest in major transportation projects in the North with dual-use applications for civilian and military use, including airports, seaports, all-season roads, and highways. To facilitate the Arctic Infrastructure Fund's support for northern projects, Budget 2025 also proposes to provide \$25.5 million over four years, starting in 2025-26, to Crown-Indigenous Relations and Northern Affairs Canada, and \$41.7 million over four years, starting in 2025-26, to Canadian Northern Economic Development Agency, to help accelerate regulatory processes in Canada's North, including consultation with Indigenous governments and organisations, and local northern communities. Budget 2025 confirms that Indigenous partnerships are critical to Canada's sovereignty and security related investments.

Previously Announced Income Tax Measures

Budget 2025 confirmed that the Government intends to proceed with the following previously announced 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;
 - Reporting by Non-profit Organizations, subject to a deferred application date for taxation years beginning January 1, 2027 or later (the government is reviewing the feedback it received from consultations with stakeholders and will release final proposals in due course that minimise any additional administrative burden and clarify which organizations are, or are not, subject to the new requirement);
 - Scientific Research and Experimental Development Tax Incentive Program;
 - Crypto-Asset Reporting Framework and the Common Reporting Standard (subject to a deferred application date of January 1, 2027);
 - Tax exemption for sales to Employee Ownership Trusts;
 - Tax exemption for sales to Worker Cooperatives;
 - Non-Compliance with Information Requests;
 - Excessive Interest and Financing Expenses Limitation Rules;
 - Substantive CCPCs;
 - Goods and Services Tax/Harmonized Sales Tax (GST/HST) rules for the redemption of coupons;
 - 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);

- Technical amendments to the Global Minimum Tax Act; and
- Technical amendments relating to the GST/HST and excise levies.
- 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.
- The extension of the Mineral Exploration Tax Credit announced on March 3, 2025.
- 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 the following measures:
 - Exempting the Canada Disability Benefit from Income;
 - Expanding Eligibility under the Clean Electricity Investment Tax Credit to the Canada Infrastructure Bank;
 - Modifying the Small Nuclear Energy Eligibility under the Clean Technology Investment Tax Credit;
 - Expanding Eligibility under the Clean Hydrogen Investment Tax Credit to Methane Pyrolysis; and
 - Extension of the Accelerated Investment Incentive and Immediate Expensing Measures.
- Legislative and regulatory proposals to remove the GST on the construction of new student residences released on November 19, 2024.
- Legislative amendments to give effect to the suspension of the Agreement Between the Government of Canada and the Government of the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital under domestic law as of November 18, 2024.
- Legislative and regulatory proposals released on August 12, 2024, including with respect to the following measures:
 - Alternative Minimum Tax (other than changes related to resource expense deductions);
 - Disability Supports Deduction;
 - Charities and Qualified Donees;
 - Registered Education Savings Plans;
 - Avoidance of Tax Debts;
 - Mutual Fund Corporations;
 - Synthetic Equity Arrangements;
 - Manipulation of Bankrupt Status;
 - Accelerated Capital Cost Allowance for Productivity-Enhancing Assets;
 - Accelerated Capital Cost Allowance for Purpose-Built Rental Housing;
 - Withholding for Non-Resident Service Providers;
 - Regulations related to the application of the Enhanced (100-per-cent) GST Rental Rebate to cooperative housing corporations;
 - Clean Electricity Investment Tax Credit;

- Expanding eligibility under the Clean Technology Investment Tax Credit to support generation of electricity and heat from waste biomass;
- Proposed expansion of eligibility for the Clean Technology Manufacturing Investment Tax Credit to support Polymetallic Extraction and Processing;
- Amendments to the Global Minimum Tax Act and the Income Tax Conventions Interpretation Act;
- Technical tax amendments to the Income Tax Act and the Income Tax Regulations; and
- Technical amendments relating to the GST/HST, excise levies and other taxes and charges.
- Legislative proposals released on July 12, 2024, related to implementing an opt-in Fuel, Alcohol, Cannabis, Tobacco and Vaping (FACT) value-added sales tax framework for interested Indigenous governments.
- The proposed exemption from the Alternative Minimum Tax for certain trusts for the benefit of Indigenous groups announced in Budget 2024.
- 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.
- Legislative and regulatory proposals announced in Budget 2024 with respect to a new importation limit for packaged raw leaf tobacco for personal use.
- Tax measures to amend the Excise Tax Act, the Air Travellers Security Charge Act, the Excise Act, 2001 and the Select Luxury Items Tax Act to give effect to the proposals relating to non-compliance with information requests and to avoidance of tax debts announced in Budget 2024.
- Legislative and regulatory proposals released on August 4, 2023, including with respect to the following measures:
 - Technical amendments to GST/HST rules for financial institutions;
 - Tax-exempt sales of motive fuels for export; and
 - Revised Luxury Tax draft regulations to provide greater clarity on the tax treatment of luxury items.
- Legislative and regulatory proposals released on August 9, 2022, including with respect to the following measures:
 - Technical amendments to the Income Tax Act and Income Tax Regulations; and
 - Remaining legislative and regulatory proposals relating to the GST/HST, excise levies and other taxes and charges.
- Legislative amendments to implement the Hybrid Mismatch Arrangements rules announced in Budget 2021.
- The income tax measure announced on December 20, 2019, to extend the maturation period of amateur athlete trusts maturing in 2019 by one year, from eight years to nine years.

Noticeably absent from this list are GST/HST changes proposed to the joint venture election rules, first announced in the Fall 2023 Economic Update.

Budget 2025 also reaffirms the Government's commitment to move forward as required with other technical

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amendments to improve the certainty and integrity of the tax system.

If you have any questions about Budget 2025, please contact any member of the [Cassels Tax & Trusts Group](#).

This publication is a general summary of the law. It does not replace legal advice tailored to your specific circumstances.