

Budget 2025: Effect on M&A Market

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The recent Federal budget outlines several factors influencing M&A and PE. Please see our [Budget 2025: Building Canada's Strength](#) article for a more detailed insight on the budget.

- **No increase in capital gains inclusion rate:** The budget did not indicate any intention to revisit the previously announced cancellation of the capital gains inclusion rate hike, keeping the inclusion rate unchanged at 50%. This is significant for PE exits and M&A transactions, as it preserves the current tax treatment of gains.
- **Lifetime Capital Gains Exemption (LCGE) raised to \$1.25M** for the sale of qualifying small business corporation shares and qualifying farm or fishing property. This benefits sellers in mid-market deals and succession planning.
- **Immediate expensing for manufacturing and processing buildings:** the introduction of a 100% capital cost allowance deduction for eligible properties used in Canada to manufacture or process goods for sale or lease acquired after Nov 4, 2025, and used before 2030. This could influence valuation and post-acquisition capex planning.
- **Productivity Super-Deduction:** The government reaffirmed their previous commitments to introduce accelerated write-offs for most capital assets, including patents, clean tech, and scientific research and experimental development-related investments; the government is calling these initiatives, together with the immediate expensing for manufacturing and processing buildings, a “productivity super-deduction”. Buyers may factor these incentives into integration and growth strategies.
- **Expanded SR&ED expenditure limits** and clean economy tax credits (e.g., for carbon capture, clean electricity, and critical minerals). These make portfolio companies in tech, energy, and manufacturing more attractive.
- **Modernized transfer pricing rules:** The budget proposes to better align Canada’s transfer pricing rules with international consensus and ensure the rules are applied in a manner consistent with the analytic framework set out by the OECD transfer pricing guidelines. This affects cross-border M&A and PE investments with international affiliates.
- **Expanded 21-year trust deemed disposition rule anti-avoidance measures:** The budget proposes to broaden current anti-avoidance rules for planning that avoids a deemed disposition of trust property. This measure is important for estate planning and trust structures often used in private wealth planning.
- **Infrastructure and real assets:** \$51B Build Communities Strong Fund and \$10B boost to Canada Infrastructure Bank create opportunities for PE in airports, ports, energy, and Arctic projects.

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