

Tax planning 2025: Year-end considerations for businesses and individuals

RSM

RSM Canada's 2025 year-end tax guide summarizes the key federal and provincial tax updates that may create risk or opportunity for middle market taxpayers going into 2026.

This year saw some notable tax changes, including the end of the capital gains inclusion rate and the cancellation of the digital services tax. The prorogation of Parliament and the election of a new prime minister subsequently delayed the release of the 2025 federal budget—but the government recently introduced new draft legislation, bringing forward many proposals from 2024.

Explore our tax guide for a comprehensive discussion of these crucial tax developments to ensure you are well prepared for year-end obligations and 2026 tax planning opportunities.

Federal corporate tax: Page 1

Individual and trust tax considerations: Page 5

International tax: Page 6

Transfer pricing: Page 8

Audit and enforcement: Page 9

Credits and incentives: Page 10

Indirect tax considerations: Page 12

Customs and tariffs: Page 12

Provincial tax considerations: Page 13

Federal corporate tax

Incentivizing innovation and fixed assets investment

The federal government took steps to improve cash flow for companies that invest in capital properties in Canada with the recent legislative proposals. This includes measures such as enhanced capital cost allowance (CCA) and tax credits that specifically target expanding Canada's clean energy resources.

Extending the accelerated investment incentive and immediate expensing measures

The [accelerated investment incentive \(AII\)](#) started phasing out in 2024 and is set to be fully eliminated after 2027. It provides an enhanced first-year CCA for eligible depreciable capital property that is available for use after 2023.

Similarly, immediate expensing provisions—which allow for the immediate expensing of eligible property such as manufacturing or processing machinery and zero-emission vehicles—began phasing out at the same time.

THE POWER OF BEING UNDERSTOOD
ASSURANCE | TAX | CONSULTING

The [2024 fall economic statement \(FES\)](#) proposed fully reinstating these incentives for a five-year period beginning Jan. 1, 2025—effectively reversing the phase-out period that began in 2024. A four-year phase-out would begin for both after 2029.

[New draft legislation](#) in August 2025 re-introduced some measures from the 2024 FES, but notably excluded the All and immediate expensing proposed amendments.

Taxpayers with All-eligible properties or properties eligible for immediate expensing should monitor whether proposed legislation to reinstate these measures is formally enacted before the end of the year.

Other legislative amendments and case law

Important legislative measures to consider for 2025 and beyond include the cancellation of the capital gains inclusion rate increase and the proposed amendments from the 2025 draft legislation.

Capital gains cancelled

Prime Minister Mark Carney announced on March 21, 2025, that the federal government would cancel the proposed increase to the [capital gains inclusion rate \(CGIR\)](#) from one-half to two-thirds for capital gains realized by corporations. [Legislation](#) was drafted to implement this measure, but the rules were not enacted despite the Canada Revenue Agency's (CRA) [decision](#) to administer the increased CGIR in 2024.

As a result, taxpayers who overpaid corporate tax instalments—taking into consideration the higher CGIR—should have received a refund with interest at prescribed CRA rates.

Capital gains rollover on investments

As part of the August 2025 draft legislation, the federal government proposed amending the rules under section 44.1 of the Income Tax Act, which permits the deferral of capital gains on the disposition of shares of certain active corporations by individuals—other than trusts.

Effective for dispositions occurring on or after Jan. 1, 2025, a taxpayer can defer capital gains on the disposition of shares where the proceeds are re-invested in eligible small business investments. The amendments remove the requirement that the replacement share be a common share, increase the carrying value test to expand eligibility of an eligible small business corporation share and allow the replacement share to be acquired in the calendar year following the year of disposition.

SCCPC amendments

[Legislation](#) passed in June 2024 established substantive Canadian-controlled private corporations (SCCPCs) as a new category of corporation for the purposes of the Income Tax Act. The change, first announced in the [2022 federal budget](#), is effective from April 7, 2022.

The government introduced the SCCPC rules to curtail the use of tax planning techniques where a Canadian corporation would continue (or migrate) to a foreign jurisdiction before recognizing a significant capital gain so it could avoid the refundable tax of 10.67 per cent on investment income that is applicable to CCPCs.

As such, an SCCPC would be taxed similarly to a CCPC—but would not receive the benefits that are available to CCPCs, such as deferred taxes under a subsection 85(1) rollover or the small business deduction.

The August 2025 draft legislation brought forth some subsequent updates related to SCCPCs, including changes to various corporate tax attributes—such as the capital dividend account—and the introduction of the new [foreign accrual business income](#) rules.

Canadian taxpayers controlling foreign corporations that are managed from Canada should consider revisiting their corporate structure in light of the SCCPC rules and the proposed amendments.

Implications of the DAC case

The Tax Court of Canada released its judgment on [DAC Investment Holdings Inc. v. the King](#) in May 2024—a decision the federal government is appealing.

The court considered whether the general anti-avoidance rule (GAAR) in the Income Tax Act was applicable to a transaction undertaken to avoid the refundable tax applicable to CCPCs. This transaction was undertaken prior to the taxpayer, DAC Investment Holdings Inc., recognizing a significant capital gain.

The court considered that the federal government intended to have different regimes apply to CCPCs and non-CCPCs; by selecting the more desirable tax regime ahead of the transaction, this scheme of the Income Tax Act was not abused.

This decision was welcomed by taxpayers who may have engaged in similar tax planning. However, the national revenue minister appealed this decision to the Federal Court of Appeal—which is scheduled to hear the appeal in October 2025.

Taxpayers should pay close attention in case the decision is overturned on appeal. In the interim, the federal government enacted the SCCPC framework as noted above to prevent this type of planning in the future.

For taxpayers currently disputing a similar assessment, it is imperative to stay in touch with the appropriate advisors to monitor the outcome of this appeal and assess next steps accordingly.

Reporting by non-profit organizations

Amendments related to reporting requirements for non-profit organizations were proposed as part of the August 2025 draft legislation.

In the proposal, subsection 149(12) of the Income Tax Act was amended to require non-profit organizations with receipts for the period in excess of \$50,000—including capital receipts—to file an information return. If enacted, this would be effective for fiscal periods on or after Jan. 1, 2026.

The new subsection 149(13) will require any exempt organization to file a short-form information return that must contain a description of the organization's activities as well as the names and addresses of directors, officers or trustees.

Non-profit organizations will need to assess their obligations in advance of this measure receiving royal assent

Encouraging entrepreneurship and succession planning

The federal government introduced several tax measures aimed at fostering entrepreneurship in Canada. While personal tax implications took up most of the public discourse, corporations and business owners should remain mindful of other notable considerations, especially those looking at succession planning.

Intergenerational business transfer rules

The [revised intergenerational business transfer \(IBT\) rules](#) in section 84.1 of the Income Tax Act, introduced through [Bill C-59](#), are in effect for transactions on or after Jan. 1, 2024.

The revised rules aim to maintain the intended relief from anti-surplus stripping rules for genuine business successions while closing loopholes created by the earlier [Bill C-208](#).

The rules permit two types of transfers:

- **Immediate transfer:** Transfer must be completed within 36 months of the sale (or another reasonable period)
- **Gradual transfer:** Transfer must be completed within 60 months of the sale (or another reasonable period)

Each type of transfer has specific control, ownership and active involvement requirements to ensure genuine transfers. Parents may retain limited economic influence over the transferred corporation in a gradual transfer, subject to restrictions, but they cannot retain legal control under either transfer option. The CRA also released a view earlier this year in which it provides its interpretation on de facto control for the purposes of the IBT.

Businesses considering a transfer of business to the next generation should account for the revised intergenerational transfer rules. Early planning will be key to meeting the post-transfer requirements, including completing the [joint election](#) that CRA released earlier this year.

Canadian entrepreneurs' incentive

The [Canadian entrepreneurs' incentive](#) (CEI) is a new measure designed to encourage business growth and innovation by allowing entrepreneurs to pay lower taxes on qualifying capital gains, enhancing [tax-efficient exits](#).

The CEI provides for an effective one-third inclusion rate on capital gains arising on the dispositions of qualifying property on or after Jan. 1, 2025. This limit will start at \$400,000 for the 2025 year, with annual increases of the limit by \$400,000 each following year until it reaches a \$2 million lifetime limit in 2029.

Eligible property includes either a qualified farm or fishing property or shares that meet specific eligibility criteria. The CEI is not available to certain businesses, including shares of professional corporations.

Combined with the increased \$1.25 million [lifetime capital gains exemption](#) announced in the [2024 federal budget](#), the CEI could allow eligible business owners to benefit from tax-efficient exits on shares worth up to \$6.25 million.

Businesses looking to leverage this incentive should consider structuring shares and holdings to meet CEI criteria and optimize future succession or sale planning. Interested entities should also carefully review the CEI's eligibility conditions to make sure they don't fall under the excluded business category.

Employee ownership trust tax exemption

The employee ownership trust (EOT) regime provides business owners with a tax-efficient succession strategy.

Under this framework, the first \$10 million of capital gains on the sale of a business to an EOT may be exempt from tax—provided the trust ensures employee control and majority benefit. With flexible options for financing and succession planning, using an EOT can support a smooth business transition while preserving tax advantages.

The August 2025 draft legislation updates the previously enacted EOT measures, maintaining the \$10 million capital gains exemption for sales of a business to an EOT, effective Jan. 1, 2024.

Key proposals include:

- Limiting multiple claims of the capital gains deduction
- Ensuring holding period and active business asset tests apply when shares are exchanged
- Allowing certain sales of holding corporation shares to qualify
- Clarifying the 24-month active engagement requirement prior to disposition
- Providing exceptions when a qualifying business ceases due to asset disposition for debt satisfaction
- Introducing a new ordering rule for individuals claiming multiple exemptions, effective Aug. 12, 2024

Early planning can help ensure that the transaction meets all conditions and maximizes the benefits under the proposed new rules.

Clean energy and green incentives

The federal government introduced several measures to help businesses transition to sustainable practices as part of its ongoing commitment to clean energy and a greener economy.

Non-taxability of Canada carbon rebates

The government proposed making all [carbon rebate](#) payments for small businesses [tax-exempt](#), which would allow small businesses to retain the full benefit of the rebate. This measure would apply retroactively to payments corresponding to the fuel charge years 2019–2020 through 2023–2024, as well as the final rebate covering 2024–2025.

Once enacted, the CRA will retroactively process amended T2 corporate income tax returns for businesses that previously included the rebate in taxable income when filing their T2 return. Businesses that filed their 2023 T2 return between July 15 and Dec. 31, 2024, and their 2024 T2 return by July 15, 2025, will qualify for retroactive rebates upon legislative approval.

Businesses should monitor further guidance to ensure smooth application of this tax relief.

Individual and trust tax considerations

Bare trust filing relief extended, but prepare for future compliance

The CRA's last-minute decision in March 2024—to waive the new bare trust T3 and Schedule 15 filing requirements unless filing is specifically requested for the 2023 taxation year—was extended to the 2024 taxation year.

While this offers short-term relief, the [Office of the Taxpayers' Ombudsperson](#) criticized the CRA's poor communication and recommended stronger stakeholder engagement, simpler forms and clearer guidance for legislative changes.

The [2025 August draft legislation](#) proposes changes to the trust reporting rules, including a new definition for bare trusts with certain bare trust arrangements carved out and expanding the trusts exempt from filing Schedule 15.

Taxpayers with potential bare trust arrangements should review these changes to understand their likely filing obligations for the 2025 taxation year.

CRA endorses post-mortem pipeline as double tax relief tool

The death of a private corporation shareholder can trigger double taxation; once on the deemed capital gain at death and again when corporate assets are subsequently distributed as dividends.

A [post-mortem pipeline](#) mitigates this by transferring shares to a new corporation for a promissory note, allowing repayment as a tax-free return of capital. When structured correctly, the post-mortem pipeline remains a CRA-accepted and powerful estate and succession planning tool.

The CRA issued several positive rulings supporting pipelines and generally avoided GAAR. This includes deferred repayments of the promissory note (from 12 to 24 months), economic substance and compliance with surplus-stripping rules.

These favourable rulings were also applied with similar treatment to trust 21-year rule scenarios.

Short-term rentals may eliminate GST/HST exemption on sale

Switching a property, such as a condominium, to or from short-term rental use can trigger GST/HST on eventual sale or change in use—even for non-registrants.

The [Federal Court of Appeal](#) confirmed that a condo used mainly for short-term rentals was taxable when sold and did not qualify for the used residential complex exemption, even if it was rented long-term in the past.

This ruling, alongside new federal measures denying expense deductions where short-term rentals are not permitted, increases compliance risks for property owners. Owners with short-term rental exposure should assess potential GST/HST liabilities and change-in-use implications to avoid unexpected tax costs.

Capital gains inclusion rate hike abandoned

With Carney [officially](#) scrapping the increase to the capital gains inclusion rate, as noted above, individuals who already filed under the proposed higher rate can amend returns or await reassessments from the CRA.

Middle-income tax rate cut

As part of the Liberal Party's [election platform](#), Carney proposed reducing the lowest federal income tax bracket from 15 per cent to 14 per cent, effective July 1, 2025. The measure is currently before the House of Commons; if it receives royal assent, it will deliver tax relief for approximately 27 million Canadians.

International tax

Digital Services Tax Act (DSTA) repeal

The DSTA imposed a 3 per cent tax on Canadian digital services revenue earned by large corporations. In-scope taxpayers included corporate groups with \$20 million of digital services revenue in Canada and global revenue from all sources of €750 million.

The federal government announced in June that it would [repeal the DSTA](#). The first filing deadline was June 30, 2025, covering revenues from Jan. 1, 2022. Some businesses may have already filed or paid the tax, but the CRA said no refunds will be issued until repeal legislation is enacted.

Repealing the DSTA will eliminate a significant tax on revenue and compliance burden for affected digital businesses. Digital businesses can re-focus on growth, but should stay informed of ongoing developments by monitoring the status of the legislation and CRA guidance on refund timing and administration.

These entities should also remain cognizant of developments on future digital taxation measures, which could arise from Canada's ongoing participation in the [base erosion and profit shifting \(BEPS\) project](#).

Global Minimum Tax Act (GMTA) changes

The [GMTA](#) implements the Organisation for Economic Co-operation and Development's Pillar Two global minimum effective tax rate of 15 per cent for large multinational enterprise (MNE) groups with €750 million or more in consolidated revenue in at least two of the four preceding fiscal years and at least one Canadian entity.

The rules apply to fiscal years beginning on or after Dec. 31, 2023, with the first returns due by June 30, 2026.

Following the [2025 G7 agreement](#), Canada will exempt U.S.-headquartered MNE groups from the income inclusion rule (IIR) in recognition of existing U.S. minimum tax measures. The undertaxed payments rule (UTPR) will not apply to U.S.-headquartered multinational groups, as proposed under the G7 agreement.

The G7 agreement may simplify compliance for U.S.-parented groups by limiting the application of the IIR and UTPR, but affected MNEs should begin preparing for 2026 GMTA filings.

Key considerations include:

- Assessing whether the MNE meets the revenue threshold and whether U.S.-headquartered status provides an exemption
 - Beginning to collect information for reporting
 - Reviewing any updates to the tax process to meet compliance requirements
 - Monitoring the adoption of GMTA updates that may apply retroactively to 2023, which could create uncertainty
- Providing exceptions when a qualifying business ceases due to asset disposition for debt satisfaction

Excessive interest and financing expenses limitation (EIFEL)

The [EIFEL](#) rules limit the deduction of net interest and financing expenses for in-scope taxpayers who are not eligible for an exception to a fixed ratio of adjusted taxable income—with some exceptions.

The domestic exception of EIFEL generally applies to groups with no significant foreign affiliate presence and minimal cross-border financing. As such, groups with foreign affiliates may fall out of the domestic exception, resulting in the EIFEL limits applying in full to domestic and foreign financing.

Compliance burdens will also increase for groups with foreign affiliate financing or income inclusion under foreign accrual property income (FAPI) rules.

[Newly enacted tax reforms in the U.S.](#) may allow foreign affiliates to claim higher interest deduction. While this can be beneficial at the affiliate level, it may also reduce the amount of interest Canadian companies can deduct under Canada's EIFEL rules.

In practice, this means that even if a Canadian parent's borrowings are unrelated to its foreign affiliate, the affiliate's interest expenses could still limit the parent's domestic interest deduction capacity.

Disallowed interest deductions could affect both cash flow for the Canadian group and the overall cost of offshore operations.

Groups with any foreign presence or foreign ownership should consider the following before the end of 2025:

- Determining whether they qualify for an EIFEL exception
- Modelling the application of EIFEL on interest and financing expenses
- Coordinating EIFEL compliance with foreign affiliate planning to avoid unintended FAPI and financing cost consequences
- Assessing EIFEL mitigation strategies to limit the impact of the EIFEL rules
- Monitoring the impact of draft legislation, including industry-specific exemptions

CRA's revised policy on regulation 105

[Regulation 105](#) of the Income Tax Regulations imposes a 15 per cent withholding tax on payments made to non-residents for services rendered in Canada.

Historically, the CRA aligned with the Tax Court of Canada's decision in [Weyerhaeuser Company Limited v. The Queen](#), accepting that reimbursements for disbursements or travel costs were not subject to withholding, as these payments are not income to the recipient.

The CRA revised its administrative positions [in a view released in April 2024](#), stating that payments made to reimburse a non-resident for fees related to subcontractor services performed in Canada would be subject to regulation 105 withholding. This position did not extend to reimbursement of travel and meal expenses.

The CRA provided a grace period, noting that its updated policy would apply to payments on or before Sept. 30, 2024. The period has since been extended to June 30, 2026.

While this provides some relief, taxpayers should consider the following recommended actions to manage withholdings on payments to non-residents for any services rendered in Canada:

- **Specify withholding tax in contracts:** Revisit contracts with non-residents that sub-contract work to account for CRA's updated policy.
- **Prepare detailed invoices:** Ensure non-resident payees provide detailed invoices that separately identify reimbursable travel and meal expenses, which are not subject to withholding under regulation 105. Coordinating EIFEL compliance with foreign affiliate planning to avoid unintended FAPI and financing cost consequences
- **Request a tax waiver:** Non-resident contractors may apply for a regulation 105 waiver depending on their facts and circumstances, such as if the withheld amount will be greater than the Canadian tax obligation or if no such tax obligation exists for the non-resident payee. Start this process well in advance of the contract start date or initial payment, as the 15 per cent withholding on payments is required until a waiver is granted. The CRA will require at least 30 days to determine the merits of a waiver request.

Crypto-asset reporting framework and the common reporting standard

The 2025 draft legislation implements the OECD's [crypto-asset reporting framework](#) into Canadian law, effective for the 2026 calendar year and beyond.

This framework requires Canadian crypto-asset service providers to report detailed user information and transactions involving crypto-assets—including fiat and crypto-to-crypto exchanges, retail payments over US\$50,000 and transfers involving hosted and unhosted wallets. It also applies to certain foreign crypto-asset service providers such as exchanges, brokers, wallet providers and platforms.

Concurrent amendments to the common reporting standard expand definitions to include relevant crypto-assets, specified electronic money products and central bank digital currencies. This aligns crypto reporting with traditional financial asset reporting and applies transitional relief for certain reporting obligations until 2028.

Those holding crypto-assets will need to familiarize themselves with these new rules, provided they receive royal assent.

U.S. tax reforms

The adoption of new U.S. tax reforms introduced a series of changes that could significantly influence year-end planning for Canadian businesses with cross-border operations. Measures such as enhanced interest deductibility, bonus depreciation, and expanded treatment of research and development expenses may create planning opportunities by improving the after-tax position of U.S. operations.

These provisions could indirectly support more tax-efficient repatriation of earnings from U.S. foreign affiliates, particularly through the [exempt surplus](#) account. Dividends paid out of exempt surplus are generally deductible for Canadian parent corporations, providing a path to bring profits home without additional Canadian tax.

At the same time, the U.S. tax law changes may directly affect the amount of U.S. tax that qualifies for the [foreign tax credit](#) in Canada. This could alter both Canadian tax liabilities and net after-tax income.

Provisions affecting cross-border lending arrangements may also result in higher Canadian tax exposure for Canadian lenders with intercompany loans into the U.S.

While some businesses may find opportunities for favourable repatriation planning and enhanced U.S. tax efficiency, others could face heightened compliance and increased Canadian tax costs—making proactive year-end planning essential.

Canadian businesses with U.S. affiliates or cross-border structures should revisit their tax planning to identify opportunities for tax-efficient repatriation, manage potential risks under both Canadian and U.S. tax rules, and determine strategies to optimize cash repatriation, minimize tax exposure and stay compliant.

Transfer pricing

Tariffs

Multinational enterprises should reassess their transfer pricing strategies and models to help mitigate the effects of tariffs as trade negotiations continue between Canada and the U.S.

Aligning transfer pricing strategies with the realities of the current trade landscape would allow Canadian businesses to mitigate costs, avoid regulatory challenges and navigate these disruptions to stay competitive.

Canadian businesses [could consider these tactics](#) to stay apprised of the latest developments:

- Reviewing historical pricing methodologies to identify areas where adjustments are needed to better align multinational entities with the current tariff environment
- Examining alternative transfer pricing strategies that address the specific concerns identified during the review process
- Identifying tariff-affected goods or components within the supply chain and procurement strategies and evaluating opportunities to reduce the impact of those tariffs
- Exploring the potential establishment of US subsidiaries to sell products into the U.S.

MEGlobal Canada ULC v. The King

In MEGlobal Canada ULC v. The King, the taxpayer's (MEGlobal) predecessor corporation entered into a sales agreement to sell ethylene glycol to a non-arm's length non-resident corporation.

The CRA reassessed the taxpayer's transfer pricing methodology and concluded that the price paid for the sale of ethylene glycol was too high. As a result, MEGlobal was reassessed to reflect an upward transfer pricing adjustment.

MEGlobal filed a notice of objection with the CRA to dispute the reassessment. Unsuccessful, MEGlobal appealed to the Tax Court of Canada and simultaneously filed a judicial review application with the Federal Court.

The Tax Court of Canada relied on the Supreme Court of Canada's decision in Dow Chemical Canada ULC v. Canada, which

reaffirmed that the TCC lacks jurisdiction to hear disputes involving downward transfer pricing adjustments as they are based on the federal finance minister's discretion.

The Supreme Court's decision in the Dow Chemical case emphasized that the TCC is limited to appeals on assessments or specific matters related to the Income Tax Act, and discretionary decisions are not assessments. Accordingly, the only recourse available for taxpayers is to file a judicial review with the Federal Court.

The TCC's decision underlines the importance of understanding the distinct roles of Canada's judicial bodies. It serves as a reminder to taxpayers that selecting the correct legal avenue can help reduce associated legal and administrative costs when challenging the CRA's decisions in transfer pricing disputes.

Audit and enforcement

2025 ushered in significant proposed changes to the CRA's audit and enforcement powers and an overhaul of an existing compliance program.

Voluntary disclosures program (VDP) overhaul

Effective Oct. 1, 2025, the CRA is updating the VDP to improve accessibility and support for taxpayers when correcting unintentional errors. [Key updates](#) include a simplified application process, broader eligibility and new relief tiers.

The notable changes, outlined below, aim to encourage voluntary compliance and streamline the correction of past filing issues:

- **Increased eligibility and relief:** Taxpayers and registrants who receive CRA communications will now be eligible to apply. However, those under audit or investigation, or who were egregiously non-compliant, remain ineligible.
- **Updated relief structure:** Two new relief tiers will be introduced for eligible VDP applications.
- **General relief:** Unprompted applications will receive 75 per cent interest relief and 100 per cent penalty relief.
- **Partial relief:** Prompted applications will receive 25 per cent interest relief and up to 100 per cent penalty relief.
- **Document requirements clarified:** Applicants must include relevant supporting documents such as returns, forms and schedules. Therefore, the CRA has outlined the required documentation periods, indicated below. However, it is important to note that the CRA may request additional documents beyond these time frames if necessary.
- **Foreign-sourced income or assets:** Most recent 10 years
- **Canadian-sourced income or assets:** Most recent six years
- **GST/HST disclosures:** Most recent four years

CRA audit changes

Expect increased audits from the CRA—especially as it targets high net worth individuals, corporations with complex structures and those with cross-border operations. The CRA's [departmental plan](#) for 2025–2026 outlines its goal of targeting aggressive tax planning through data analytics, experienced auditors and modernized criminal investigation.

It will also expand education-based compliance reviews for small employers, enhance AI-driven taxpayer services and introduce digital tools for taxpayer relief guidance, all under its five-year digital transformation framework.

Here's how you can reduce your audit risk:

- Keep organized records for at least six years, including contracts, invoices, shareholder registers and documentation for reorganizations or acquisitions
- Ensure tax-return accuracy by matching schedules to financial records to avoid inconsistencies that could trigger audits
- Follow proper withholding procedures for payments to non-residents and apply for waivers or certifications where possible

- Maintain accurate documentation for valuations, capital gains, trusts and revenue/expense allocations between Canada and other jurisdictions
- Designate a single contact for all CRA communications and respond promptly to requests
- Request written questions before audit interviews and provide documents in the format CRA prefers, with electronic copies ready
- Engage with auditors early to clarify issues, narrow the audit scope and resolve matters promptly
- Review your filings proactively to identify and address potential audit risks pre-emptively

In the event of an audit, a proactive approach can save time, reduce stress and improve your position.

Amendments proposed in draft legislation

The CRA's expanded audit and taxation powers were first proposed in [last year's budget](#) and were carried forward in August's draft legislation. [Key proposals involve](#) notices of non-compliance, information requested under oath, compliance order penalties and extended reassessment timelines.

If passed, these changes could lengthen audits, increase costs, raise compliance burdens for high net worth individuals and corporations, and expand the scope of who is liable for tax. Reduce your audit risk with the tips above.

CRA's shift to digital mail

The CRA launched an initiative to make [online mail](#) the default method for delivering most business correspondence. New and existing businesses will start receiving digital mail automatically through the My Business Account portal.

This shift is particularly timely due to recent labour disruptions and strike risks at Canada Post. Businesses can reduce the effects of potential disruptions by adopting digital best practices with the CRA through My Account and My Business Account.

Credits and incentives

Scientific research and experimental development

To strengthen compliance and oversight within the [scientific research and experimental development \(SR&ED\)](#) tax incentive program, the CRA revised some of its administrative policies—including expanding the gross negligence policy to apply to amended returns and to clarify penalty calculations.

The CRA also discontinued SR&ED service visits, shifting focus to pre-claim consultations and sector-specific outreach. These changes reflect a broader effort to modernize program administration while maintaining integrity and accountability in SR&ED tax incentives.

The federal government released draft legislation proposals in August that would further update the SR&ED program as part of its efforts to enhance innovation and support Canadian businesses. The [proposed changes](#) were originally announced in last year's FES.

These proposed reforms are expected to take effect for taxation years beginning on or after Dec. 16, 2024, and represent the federal government's efforts to drive economic growth and investment in Canada.

Clean economy tax credits

Several newly enacted [clean economy](#) investment tax [credits](#) (ITCs) are available for businesses after Bills C-59 and C-69 received royal assent last year.

These include:

- **Clean hydrogen ITC:** This will refund up to 40 per cent of the capital cost of eligible clean hydrogen property that is

acquired and becomes available for use in a qualifying project between March 28, 2023, and Dec. 31, 2034. Qualifying projects include the production of hydrogen from electrolysis or natural gas reform.

- **Clean technology ITC:** This will refund up to 30 per cent of the capital cost of certain clean technology capital property acquired between March 28, 2023, and Dec. 31, 2024. Generally, this includes equipment that generates or stores renewable energy as well as non-road zero-emission vehicles.
- **Clean technology manufacturing ITC:** This will refund up to 30 per cent of the capital cost of clean technology manufacturing property acquired for appropriate use between 2024 and 2034. Generally, this includes machinery and equipment used in the manufacturing process of clean technology, as well as certain property used for mineral extraction and processing.
- **Carbon capture, utilization and storage ITC:** This ITC will refund up to 60 per cent of eligible expenditures for the storage of captured carbon in geological storage and the use of captured carbon in producing concrete.

[Last year's FES](#) proposed two additional investment tax credits that practitioners should monitor amid the federal government's clean economy push in order to provide the best advice for clients.

These proposed credits, both currently awaiting royal assent, include:

- **Clean electricity ITC:** This would refund 15 per cent of the capital cost of eligible property involved in projects that generate clean electricity, store electricity without the use of fossil fuels, or transmit electricity between provinces and territories. The eligible property must be acquired and available for use between April 16, 2024, and 2034.
- **Electric vehicle supply chain ITC:** This would refund up to 10 per cent on the cost of buildings involved in the electric vehicle supply chain that are acquired and available between 2024 and 2034. Claimants will need to claim the clean technology manufacturing ITC in addition to this credit to be eligible.

Grants

Canadian businesses have access to valuable funding programs through various federal [government grants](#), including interest-free loans or non-repayable grants. These resources can play a key role in advancing strategic initiatives without giving up equity.

To maximize these opportunities, it is essential to integrate funding strategies into business planning from the outset. Applications must be submitted before any project-related expenses are incurred, so early preparation is critical.

Indirect tax considerations

Recent legislative proposals

The federal Department of Finance released draft legislative amendments to the Excise Tax Act (ETA).

These changes focused on:

- ITC eligibility relating to coupon redemptions by amending subsection 181(5) of the ETA to include stricter coupon redemption rules that impose a higher threshold for input tax credit claims for businesses involved in making mixed supplies and for financial institutions
- New attribution-based formulas for selected listed financial institutions and certain public sector bodies under section 193 of the ETA relating to real property transactions; this is meant to ensure appropriate allocation of GST/HST across participating provinces
- Extended filing deadlines for GST/HST returns and information returns in cases involving the estates of deceased individuals

Customs and tariffs

Tariff considerations

Middle market businesses in Canada may need to consider the following, as the economic landscape has evolved amid U.S. trade tensions:

- Changes to [supply chains](#) to reduce the costs of tariffs and limit uncertainty
- Revisiting the valuation of goods to lower ad valorem tariffs, particularly as Canada considers stricter [rules](#) on determining the relevant transaction for customs valuation; for related party transactions, transfer pricing will be vital to this analysis
- Strategies to offset costs, including taking advantage of government programs and ensuring all tax expenses are claimed; this can limit the need to pass tariff costs on to customers and prevent customer attrition

Remission programs

These provide relief from tariffs on qualifying goods. The federal government announced several [remission](#) programs related to tariffs imposed on goods from the U.S. that cover areas such as motor vehicles and goods for use in manufacturing.

Importers should assess whether their goods qualify for these programs to limit tariff costs.

Trade verification priorities

The Canada Border Services Agency's current verification priorities include continuing review of classification and origin of goods on products previously [identified](#) as priorities, and the correct use of GST exemption codes. The agency also identified compliance related to imports of goods originating from the U.S. and China subject to tariffs as priority areas.

Provincial tax considerations

Several provinces introduced measures aimed at increasing housing affordability and supply, supporting innovation and strategic investment, and improving overall affordability for individuals and businesses.

Housing affordability

British Columbia

Speculation and vacancy tax increase

The province will raise this tax to 1 per cent for Canadian residents and 3 per cent for foreign owners and untaxed worldwide earners, effective Jan. 1, 2026.

Extension of clean buildings tax credit

This credit was extended to March 31, 2026, for qualifying energy-efficient retrofits in commercial and multi-unit residential buildings, with retrofits to be completed by March 31, 2027.

Quebec

Foreign property reporting requirement

Quebec residents must now report foreign property holdings exceeding \$100,000 annually, with non-compliance subject to penalties and extended reassessment periods.

Saskatchewan

PST rebate for new home construction made permanent

Saskatchewan's 2025 budget [announced](#) the PST rebate for new home construction will be made permanent. The rebate (of 42 per cent of PST) applies to the purchase of a new home that was previously unoccupied and is available for newly constructed homes with a total price under \$550,000 before taxes.

Innovation and investment credits

British Columbia

Small business venture capital program

British Columbia's annual individual tax credit limit increased from \$120,000 to \$300,000 for investments over \$1 million, effective March 4, 2025.

Ontario

Manufacturing investment tax credit

The province will temporarily raise the credit rate for CCPCs to 15 per cent and extend eligibility to certain non-CCPCs as part of the [Ontario Made Manufacturing Investment Tax Credit](#).

New fund for critical minerals processing

A \$500 million investment will create the Critical Minerals Processing Fund, which is aimed at attracting investment and ensuring minerals mined in Ontario are processed by workers in the province.

Quebec

Modernization of artificial intelligence and R&D credits

Quebec will modernize its e-business tax credits by focusing on activities that significantly integrate AI, modifying the list of eligible activities and reducing tax support for intercompany outsourcing.

Existing R&D credits will be consolidated into a new refundable credit covering R&D, innovation and pre-commercialization.

Critical and strategic minerals tax credit changes

The province revised its tax credit for critical and strategic minerals by including development expenses, updating tax credit rates and introducing a \$100 million cap on eligible expenses per five-year period—effective after March 25, 2025.

Amendments to flow-through regime

Quebec will abolish additional deductions for certain exploration and surface-mining expenses, and remove the capital gains exemption for resource properties. The changes will apply to flow-through shares issued after March 25, 2025.

Affordability

Alberta

New personal income tax bracket

Alberta will introduce an 8 per cent tax rate on the first \$60,000 of income in 2025, with a new supplemental credit to offset impacts for high non-refundable credit claimants.

Ontario

Tariff relief and trade competitiveness initiatives

Provincial investments intended to provide relief against tariffs and increase competitiveness include \$5 billion in the Protecting Ontario Account and \$50 million in the Ontario Together Trade Fund. Ontario also introduced new legislation focused on removing domestic trade barriers.



Technology

Manitoba

Proposals on cloud computing

Manitoba's 2025 budget proposed an expansion of its RST to apply to cloud computing services, including software as a service (SaaS), platform as a service (PaaS), infrastructure as a service (IaaS), remote computing, data storage, web hosting and subscription-based software. The 7 per cent RST will be effective Jan. 1, 2026.

The proposal will mean increased compliance obligations for digital service providers and potentially higher costs for businesses and customers utilizing cloud-based solutions.

+1 800 274 3978

rsmus.com

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute assurance, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM Canada LLP, RSM Canada Consulting LP, and their affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed.

RSM Canada LLP is a limited liability partnership that provides public accounting services and is the Canadian member firm of RSM International, a global network of independent assurance, tax and consulting firms. RSM Canada Consulting LP is a limited partnership that provides consulting services and is an affiliate of RSM US LLP, a member firm of RSM International. The firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each firm is responsible only for its own acts and omissions, and not those of any other party. Visit rsmcanada.com/aboutus for more information regarding RSM Canada and RSM International.

RSM, the RSM logo and The power of being understood are registered trademarks of RSM International Association, used under licence.