



KT PARTNERS LLP

Chartered Professional Accountants

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YEAR-END TAX PLANNING

December 31, 2025 is fast approaching... see below for a list of tax planning considerations. Please contact us for further details or to discuss whether these may apply to your tax situation.

- 1) In 2024, the government proposed to increase the taxable portion of capital gains from 50% to two-thirds. However, the proposal did not proceed. As a result, the existing rule remains in place: only **50% of capital gains** are **taxable**.
- 2) A senior whose 2025 net income exceeds \$93,454 will lose some or all of their **old age security** pension. Seniors will also begin to lose their age credit if their net income exceeds \$45,522. Consider limiting income over these amounts, if possible. Alternatively, deferring receipt of old age security amounts (for up to 60 months) may be beneficial if it would otherwise be eroded due to high income levels.
- 3) **Canada pension plan** (CPP) receipts may be **split** between spouses aged 65 or over (application to CRA is required). Also, it may be advantageous to apply for CPP early (age 60-65) or late (age 65-70).
- 4) Consider **triggering capital losses** at year-end to offset capital gains. **Net capital losses** that cannot be used in the current year can be **carried back three years or forward indefinitely**.
- 5) Looking to **sell your business**? **Several** tax-efficient **options** exist. These include the ability to shelter up to \$1.25 million in capital gains under the lifetime capital gains exemption (indexed starting in 2026), updated and broadened intergenerational transfer rules for sales to children, a deferral of capital gains when proceeds are reinvested in a new business, and the use of employee ownership trusts for sales to employees. Effective dates for these incentives vary.

This publication is a high-level summary of the most recent tax developments applicable to business owners, investors and high net worth individuals. Enjoy!

TAX TIPS & TRAPS

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- 6) Consider **restructuring your investment** portfolio to convert non-deductible interest into deductible interest. It may also be possible to convert personal interest expense, such as interest on a house mortgage or personal vehicle, into deductible interest.
- 7) If you have equity investments or loans to a Canadian small business that has become insolvent or bankrupt, an **allowable business investment loss (ABIL)** may be available. For loans to corporations to be eligible, the borrower must act at arm's length. ABILs can offset income beyond capital gains, such as interest, business or employment income.
- 8) If a **commercial debt** you owe (generally a business loan) has **been forgiven**, special rules apply that may result in additional taxes or other adjustments to the tax return.
- 9) Certain expenditures made by individuals by December 31, 2025 will be eligible for **tax deductions or credits**, including digital news subscriptions, moving expenses, multigenerational home renovation expenditures, childcare expenses, charitable donations, political contributions, registered journalism organization contributions, medical expenses, alimony, eligible employment expenses, union, professional or like dues, carrying charges and interest expense. Ensure you keep all receipts related to these expenses.
- 10) If you own a **business or rental property**, consider making any necessary **capital asset purchase** by the end of the year. As long as the asset has been received and is available for use by year-end, a full year of depreciation may be claimed. There are also several assets that may be eligible for enhanced depreciation.
- 11) Expenses incurred to earn **short-term rental income** are not deductible for tax purposes when the rental operation is not compliant with the applicable provincial or municipal licensing, permitting or registration requirements. If the operation is compliant for only a portion of the rental period, deductions will generally be denied on a pro-rata basis.
- 12) You have until **March 2, 2026**, to make tax-deductible **registered retirement savings plan (RRSP)** contributions for the 2025 year. Consider having the higher-income earner contribute to their spouse's RRSP via a spousal RRSP for greater tax savings.
- 13) Individuals should consider contributing to their **tax-free savings account (TFSA)**. An additional \$7,000 may be contributed starting on January 1, 2026. Consider a catch-up contribution if you have not contributed the maximum amount for prior years.
- 14) Consider using the **home buyers' plan (HBP)** to withdraw up to \$60,000 from your RRSP to fund the purchase of your first home. Taxpayers must repay the amounts withdrawn under the HBP over a 15-year period. For withdrawals between January 1, 2022 and December 31, 2025, the 15-year period has been temporarily deferred, such that it now starts with the fifth year following the year the first withdrawal was made.
- 15) Consider contributing to a tax-free **first home savings account (FHSA)**. Eligible contributions are deductible, and withdrawals to purchase a first home are not taxable. Up to \$8,000 can be contributed annually to a maximum lifetime limit of \$40,000. Contributions made in 2025 and unused contributions from 2024 can be deducted against 2025 income.
- 16) **NEW!** If buying a **first home** on or after March 20, 2025 valued at less than \$1.5 million, you may be eligible for a **GST rebate** (or rebate of the federal portion of the HST). The law permitting this rebate has not yet passed. Applications for the rebate may be made if and when it receives Royal Assent.
- 17) A **Canada education savings grant** for registered education savings plan (RESP) contributions equal to 20% of annual contributions for children (maximum \$500 per child per year) is available. In addition, lower-income families may be eligible for the Canada learning bond.

- 18) A **registered disability savings plan (RDSP)** may be established for a person under 60 eligible for the disability tax credit. Non-deductible contributions to a lifetime maximum of \$200,000 are permitted. Grants, bonds and investment income earned in the plan are included in the beneficiary's income when paid out of the RDSP.
- 19) **NEW!** If eligible for the disability tax credit, consider applying for the income-sensitive **Canada disability benefit**, which provides up to \$2,400/year in support to individuals aged 18 to 64. The first payments for this benefit commenced in July 2025.
- 20) Are you a **U.S. resident, citizen or green card holder**? Consider U.S. filing obligations concerning income and financial asset holdings. Filing obligations may also apply if you were born in the U.S.
- Information exchange agreements have increased the flow of information between CRA and the IRS. Collection agreements enable CRA to collect amounts on behalf of the IRS.
- 21) If income, forms or elections have been missed in the past, a **voluntary disclosure** to CRA may be available. The program was recently updated to provide relief from some or all interest and penalties, although the tax itself must still be paid.

2025 REMUNERATION

Higher personal income is taxed at higher rates, while lower income is taxed at lower rates. Therefore, individuals may want to, where possible, **shift income from high-income years to low-income years**. This is particularly useful if the taxpayer is expecting a large fluctuation in income due to, for example, an impending:

- maternity/paternity leave;
- large bonus/dividend; or
- sale of a company or investment assets.

In addition to increases in marginal tax rates, individuals should consider other **costs of additional income**. For example, an individual with a child may receive reduced **Canada child benefit (CCB)** payments. Likewise, excessive personal income may **reduce the receipt of OAS, GIS, GST/HST credit** and other provincial/ territorial programs.

There are various ways to **smooth income over several years** to ensure an individual is maximizing access to the lowest marginal tax rates. They include:

- taking more or less **earnings out of the corporation** (in respect of owner-managed companies);
- **realizing capital gains/losses** by selling investments;
- deciding **whether to claim RRSP** contributions made in the current year or carry forward the contributions;
- **withdrawing funds from an RRSP** to increase income (however, care should be given to the loss in the RRSP room based on the withdrawal); and
- deciding **whether to claim CCA** on assets used to earn rental/business income.

Note that dividends paid to shareholders of a corporation that do not meaningfully contribute to the business may result in higher taxes due to the "tax on split income" rules.

Year-end planning considerations not specifically related to changes in income levels and marginal tax rates include:

- 1) **Corporate earnings** in excess of personal requirements could be **left in the corporation** to obtain a tax deferral (the personal tax is paid when cash is withdrawn from the company).

The effect on the qualified small business corporation status should be reviewed before selling the shares where large amounts of capital have accumulated.

- 2) Access to the corporate federal small business deduction is reduced where **more than \$50,000 of passive income** is earned in the corporation. Consider whether it is appropriate to remove passive income-generating assets from the corporation and whether a shift in the types of passive assets held is appropriate. In some provinces, it may actually be beneficial to have access to the federal small business deduction reduced. As many variables affect these decisions, consultation with a professional advisor is suggested.

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- 3) If dividends are paid out of a struggling business with a tax debt that cannot be paid, the recipient could be held **liable for a portion of the corporation's tax debt** up to the value of the dividend.
- 4) Individuals who wish to contribute to the **CPP or an RRSP** may require a salary to generate earned income. RRSP contribution room increases by 18% of the previous year's earned income, up to a yearly prescribed maximum (\$32,490 for 2025).
- 5) Consider paying taxable dividends to obtain a refund from the **refundable dividend tax on hand** account in the corporation. The refund amount may be restricted if eligible dividends are paid. Eligible dividends are subject to lower personal tax rates.
- 6) If you provide services to a small number of clients through a corporation (that would otherwise be considered your employer), CRA could classify the business as a **personal services business**. There are significant negative tax implications of such a classification. In Budget 2025, the federal government indicated that an enforcement project on these situations, starting with the trucking industry, would be commenced. Consider discussing risk and exposure minimization strategies (such as paying a salary to the incorporated worker) with a professional advisor in such scenarios.

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a newsletter such as this, a further review should be done by a qualified professional.

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If you have any questions, give us a call!

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