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Your guide to tax season: federal budget highlights

Speaker Participants

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Presentation

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Good afternoon everyone, and welcome to our Wealth Insights webinar. I'm Alex Emergui, a Private Wealth Consultant at Manulife Private Wealth.

As a private wealth consultant, I have the pleasure of connecting directly with clients, including many of you here today. We understand that as a high-net-worth client, you have complex needs requiring specialized expertise. That's why we host these exclusive sessions: to give you a sense of the extensive knowledge and experience you benefit from when investing with us. We hope you find this session informative.

Today, I'm pleased to welcome two tax experts from Manulife's insurance and investment businesses: Hemal Balsara, head of tax, retirement and estate planning, individual insurance for Canada; and John Natale, head of tax, retirement and estate planning for Wealth, under Manulife Investments.

With the year-end approaching faster than many of us would probably like, we thought this would be a great opportunity to discuss tax planning tips. We'll also take a look at highlights from the recent federal budget that may have implications for your tax planning.

As always, this event is prepared solely for your information. For those interested in a replay or in sharing it with others, we're recording this segment, and a copy of the recording will be available on our website at manulifepriatewealth.ca or LinkedIn at Manulife Private Wealth.

We'll have time for questions at the end of the session. Please submit any questions using the button at the bottom of your screen. If you wish to remain anonymous, you can select that option before submitting.

And now I'll turn things over to Hemal.

Hemal Balsara, CPA, CA, CFP, TEP, FEA

Head of Tax, Retirement, and Estate Planning,
Individual Insurance, Canada, Manulife

As Alex mentioned, we're really going to focus on two separate parts. I am going to be doing the budget 2025, getting into the various measures from the perspective of individuals and corporations, some of the implications for trust and then just some other general thoughts. Then Sean's going to get into all of the great year-end planning stuff as well.

So, with that, let's actually jump into this. If we move on from this page, you know, Manulife this year like many of the previous years, we participated in the budget lockup. This is a picture of Jack, who's somebody on John Natalie's team and me in Ottawa at parliament the morning of the budget.

What a lock up is, effectively, you get access to the budget documents before the public does. But in order to do so, you actually have to do certain things which include basically turning off your cell phone and turning off your smartwatch.

You know, the first time I actually participated in lock up, and this is my third time participating. I had to figure out how to turn off my Apple watch since I'd never done that before. So it was just the button on the side.

But anyway, long story short, you have to turn off everything. Then you put it into an envelope and either give it to them or hold on to it, but you can't open it until they give you permission to do so.

So basically, you're kissing your phone goodbye for a solid three or four hours. For us this year, it was like you got in around 12, and you got the documents at 12:30. They give you the documents on a USB key, you put it into your laptop, and you start reviewing.

What was evident in our initial scan of the budget and ultimately our conclusion was that there were no severe measures. When I say severe measures, I mean there was no introduction of a wealth tax.

You know, we've heard rumors of this every now and then, but there's not going to be the introduction of a wealth tax. In addition to that, there were no changes to corporate tax rates at the federal level, so corporate tax rates will remain the same. There were also no changes to the minimum withdrawal rules. There were some rumors going around in advance of the budget that this might

actually be coming through the pipeline, but unfortunately, there are no modifications to those rules at this point.

The other thing that came through was that there were no further changes to personal tax rates, other than the lowest federal tax bracket dropping to 14%. This change will be fully effective in 2026 in subsequent tax years.

For 2025 there's going to be a blended rate of about 14.5%, which takes into account the mid-year change effective July 1, 2025. According to the government, this measure is expected to benefit about 22 million people.

Moving on to personal tax measures, there were a couple introduced. The first is aimed at specifically supporting health care workers, and the other one is preserving tax credit values. The personal support workers' tax credit offers a temporary, refundable credit of 5% of eligible earnings, up to \$1,100, for workers in regulated health care establishments such as hospitals and nursing facilities. This credit applies from 2026 to 2030 but excludes earnings in B.C., Newfoundland and Labrador, and the Northwest Territories due to existing bilateral agreements.

Additionally, there was a top up tax credit that addresses the impact of the middle class tax cut, which reduces the first marginal tax rate from 15% to 14% in 2026, to maintain the value of nonrefundable credits. Effectively, the top up tax credit preserves the 15% rate for credit amounts exceeding the first income tax bracket threshold. These measures ultimately reflect the government's intent to support people who have nonrefundable tax deductions in excess of the small bottom tax bracket.

This is a good measure because there was concern in the tax community that taxpayers with non-refundable tax credits above the first threshold of about \$57,000 might face a tax penalty associated with the rate decrease. This measure addresses that concern and gives taxpayers five years to benefit from it, from 2026 to 2030.

The other thing that was kind of cool and something that we've been keeping an eye on is the proposal to grant the CRA the authority to file tax returns on behalf of eligible low-income individuals. This initiative targets individuals whose income falls below the federal or provincial basic personal amount, including applicable age or disability amounts.

Before filing, the CRA will provide the individual with available tax information, allowing a 90-day window for review and amendments. If no response is received, the CRA will proceed with filing and issue a Notice of Assessment followed by benefit entitlements. This automation aims to increase the benefit intake, reduce filing costs, and improve compliance.

This measure applies to the 2025 tax year, with implementation beginning in 2026. It represents a positive step toward efficient tax administration and allows individuals to benefit from programs like the GST credit, the Canadian Disability Benefit, the Child Benefit,

and the Canada Workers Benefit. These measures will help people who aren't familiar with tax system to access benefits, while also creating greater efficiency since filing a tax return is not currently mandatory for those with no income. By implementing this, the government hopes to ensure that impacted individuals can extract benefits from the system.

So, moving on to luxury tax changes. The underused housing tax, which applied to nonresident owners of vacant or underused residential properties, will no longer be payable or require filing for 2025 and subsequent years. This change is expected to reduce compliance and administrative costs.

Similarly, the luxury tax on aircraft and vessels meaning boats and watercraft will be abolished. This tax will no longer apply to sales, importations or improvements after budget day. However, the luxury tax on automobiles will remain in effect. These measures will provide relief to affected industries and individuals and reflect a shift in the government's approach to targeted taxation.

For those involved in real estate development, even when inventory was held through a corporation, there was previously a requirement to file return even if nothing was owning. This change is good news as it removes that administrative burden. Unfortunately, it only for 2025 and onward; prior years up to 2024 are still subject to the existing rules.

So, moving on to corporate measures. There were a couple of key items in the budget. One addressed corporate tax deferral strategies and the other introduce incentives for manufacturing investments.

And really in terms of the tax deferral on tiered structures, this was a very, very small subset of individuals, weren't they corporations that were benefiting from this? But really, what happens is when we have investment income in corporations, it's effectively subject to a higher rate of tax. And it creates what we call refundable dividend tax on hand.

So as a result of that, if a corporation pays a taxable dividend to a corporate shareholder, we end up creating recovery of RDTOH in the corporation below. What used to happen or the mayhem they were trying to address, were situations where the subsidiary corporation had a different year end from the parent corporation. And as a result, this created a deferral of when the two would ultimately be paid.

The budget ultimately proposes to eliminate this type of planning and effectively eliminate the deferral advantage of doing this.

The other piece of the puzzle that happened with the budget was the introduction of a temporary, immediate expensing of manufacturing and processing buildings, allowing a 100% deduction in the first year of use,

provided that 90% of the floor space is dedicated to eligible activities. This incentive applies to property acquired on or after budget day and in use before 2030, with phased in reductions in deduction rates for later years.

These measures aim to enhance industrial investment. The other thing that I want to highlight here is that I feel this is a great measure, especially in light of the tariffs that have been going on, to create incentive for people to invest in Canada in terms of manufacturing and processing buildings.

So moving on. Another issue that came up in this part of the budget was the 21 year rule. And in particular, what happens when you have a typical personal trust or a family trust is every 21 years the trust is deemed to dispose of its assets at fair market value.

There was some aggressive planning happening in the marketplace. Basically, when the 21 year anniversary approached, for example, if we had corporation shares, there would be a tax deferred rollout out of the trust of these corporate shares into a new corporation. But that new corporation was owned by a new trust.

The CRA had previously said they would apply the general anti-avoidance rule to this planning and identified it as a notifiable transaction. Long story short, they now legislated against this. The budget proposes that the new trust will have the same 21 year rule as the old trust, removing any room for interpretation. This was only a small set of clients doing this type of planning, which was always thought as aggressive, so it hasn't been common in our circle.

Now, whenever you do 21 year planning, one approach is to roll out assets to capital beneficiaries. When that happens, these beneficiaries will have tax exposure relating to the shares or assets they own. And as a result, they should consider using life insurance to help fund any terminal obligations that may be owing.

From a tax perspective, the legacy of this budget will be the fact that the last two years have been very uncertain. There's been a series of legislation proposed, reaching various stages in Parliament, and the prorogation of Parliament back in January of 2025, effectively restarted everything, creating a lot of tax uncertainty. This budget included two pages of legislation they plan to proceed with and take up the chain.

Some of highlights include redemption law carry back. When somebody passes away owning private corporation shares, they have a capital gain on the disposition of those shares. The reality is you haven't pulled any money out of the corporation, so to get money out, you have to sell investments, incur dividend tax, and end up with three layers of tax that erode the estate's value. The good news is estate practitioners have tools like the redemption laws carry back, which eliminates the capital

gains tax at death. Previously, this applied for one year, but now it's extending to three years, huge news in the estate planning community.

Also, kudos to the Manulife team, Gini Lin and I, were involved in the submission that made this happen. Other positive measure include the \$1.25 million lifetime capital gains exemption proceeding with the \$10 million exemption for sales to employee ownership trusts, and a deferral transaction where sale proceeds are reinvested into another private business. This provision is rarely gets used but offers an opportunity to defer up to \$100 million of capital gains taxes. However, the Canadian entrepreneurs incentive will be canceled. For Baird trusts, deferrals apply for tax years ending after December 31, 2026 not December 31 as shown on the slide. There were also adjustments to alternative minimum tax.

To summarize, this budget legislates against transactions against Finance and CRA don't like such as the trust 21 year planning strategy and tiered structures with refundable dividend tax on hand deferral. We're also seeing the government tie up loose ends, addressing outstanding draft legislation that created tax uncertainty.

You may hear them complaining about not knowing where transactions are going or whether they could execute on things. This budget is actually providing a little bit greater sense of certainty in terms of what the government's intention is with all of that outstanding legislation.

So with that, I wanted to thank you for your attention, and I look forward to connecting a little bit later on in terms of the Q&A period. But I'm going to turn it over to my colleague John Natale to talk more about year end planning.

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