

## 2025 Year End Planning Considerations

As 2025 draws to a close, both individuals and owner-managers of Canadian-Controlled Private Corporations (CCPCs) should review their tax positions and consider strategies to minimize tax liabilities, optimize cash flow, and take advantage of new and existing tax incentives. This memo summarizes key year-end tax planning considerations, recent legislative changes, and practical steps to implement before December 31, 2025.

### Year-End Tax Planning for Individuals

#### A. Registered Plans and Savings

##### 1. RRSP Contributions

- The 2025 RRSP contribution limit is \$32,490 (18% of 2024 earned income, less pension adjustments). Contributions for 2025 must be made by March 2, 2026, but earlier contributions maximize tax-deferred growth.
- If you turn 71 in 2025, you must convert your RRSP to a RRIF or annuity by December 31, 2025, and make any final contributions before that date. Consider a spousal RRSP if your spouse is younger.

##### 2. TFSA Contributions

- The 2025 TFSA limit is \$7,000. Unused room from prior years carries forward. Withdrawals made in 2025 will only increase contribution room for 2026. Over-contributions are penalized at 1% per month.

##### 3. First Home Savings Account (FHSA)

- Annual contribution limit is \$8,000, with a \$40,000 lifetime maximum. Contributions are deductible, and qualifying withdrawals are tax-free. Consider opening an FHSA before year-end to start accruing room, even if you do not plan to buy a home soon.

##### 4. RESP and RDSP Contributions

- December 31 is the deadline for 2025 contributions to maximize government grants (CESG for RESPs, CDSG/CDSB for RDSPs). RESP contributions are not deductible, but growth is tax-deferred.

#### B. Charitable Donations

- Donations must be made by December 31 to claim a 2025 tax credit. The federal credit is 15% on the first \$200 and 29% (or 33% for income over \$253,414) on amounts above \$200, plus provincial credits.
- Donating publicly traded securities with accrued gains eliminates capital gains tax and provides a receipt for fair market value. Be mindful of the new Alternative Minimum Tax (AMT) rules, which may limit the benefit of donation credits and increase the inclusion of capital gains for high-income earners.

### C. Tax-Loss Selling

- Realize capital losses by December 30, 2025 (to allow for trade settlement), to offset capital gains realized in 2025 or the prior three years. Losses not used can be carried forward indefinitely.
- Beware of the superficial loss rules: if you or an affiliated person repurchases the same security within 30 days, the loss is denied and added to the adjusted cost base of the repurchased security.

### D. Income Splitting and Family Planning

- Consider paying reasonable salaries to family members for actual work performed in a business. Salaries must be paid by year-end to be deductible in 2025 and must be reasonable for the services provided.
- Spousal RRSPs and pension income splitting can help reduce family tax burdens.
- The Tax on Split Income (TOSI) rules may apply to dividends and certain other income paid to family members, potentially subjecting them to the highest marginal tax rate unless specific exclusions apply.

### E. Other Key Deadlines

- Pay deductible expenses (e.g., investment loan interest, childcare, medical expenses) by December 31 to claim in 2025.

## Year-End Tax Planning for CCPCs

### A. Small Business Deduction (SBD) and Passive Investment Income

- The federal SBD limit remains at \$500,000 for most provinces (higher in NS and PEI as of 2025). The SBD is reduced by \$5 for every \$1 of adjusted aggregate investment income (AAIL) above \$50,000 in the previous year and eliminated at \$150,000 of AAIL.
- Consider deferring the realization of investment income or capital gains to preserve SBD access. Expenses incurred to earn investment income (e.g., interest, investment counsel fees) can reduce AAIL if reasonable and properly documented.

### B. Loss Utilization and Group Planning

- Non-capital losses can be carried back three years or forward 20 years; net capital losses can be carried back three years or forward indefinitely.
- Consider loss consolidation strategies within corporate groups, such as intercompany loans, asset transfers, or amalgamations, to utilize losses efficiently.

## C. Capital Cost Allowance (CCA) and Immediate Expensing

- Accelerated and immediate expensing measures allow for enhanced first-year CCA on eligible property:
  - **Immediate expensing:** For certain classes, like patents and computers, 100% CCA is available for property acquired after April 15, 2024, and available for use before 2027.
  - **Manufacturing & Processing (M&P) buildings:** Full write-off for eligible buildings acquired, or additions made, after November 4, 2025, and available for use before 2030.
  - **M&P machinery, clean energy equipment, zero-emission vehicles:** Immediate expensing for property acquired after January 1, 2025, and available for use before 2030.
  - **Accelerated Investment Incentive Property (AIIP):** Enhanced first-year CCA for eligible property acquired after January 1, 2025, and available for use before 2030.
- Plan capital purchases before year-end to maximize deductions in 2025.

## D. Owner-Manager Remuneration

- Review the mix of salary and dividends. Salaries create RRSP room and are deductible to the corporation; dividends may be more tax-efficient in some cases and can trigger a refund of refundable taxes on investment income.

## E. Shareholder Loans

- Repay shareholder loans within one year after the end of the corporation's tax year in which the loan was made to avoid income inclusion for the shareholder.

## F. Dividends and Capital Dividend Account (CDA)

- Consider paying out capital dividends before realizing capital losses, as losses will reduce the CDA balance and the ability to pay tax-free capital dividends.

## Conclusion

Year-end tax planning is essential for both individuals and CCPCs to optimize tax outcomes, preserve wealth, and ensure compliance with evolving tax rules. Given the complexity and frequent changes in tax legislation, consult with your Padgett advisor to tailor these strategies to your specific circumstances and to ensure all deadlines are met.



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