

# 2025 Tax Updates, Estate & Succession Planning

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Information presented is current to November 10, 2025, some topics are based on draft legislation.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we intend to provide accurate and timely information, there is no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. This information should not be used for tax planning purposes without use of appropriate professional tax and legal advice. Manning Elliott LLP cannot be held liable for any inaccurate information included in this presentation.

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## Agenda

- 2025 Budget highlights
- Excessive Interest and Financing Expense Limitation (EIFEL)
- Other updates
  - Voluntary Disclosures Program (VDP)
  - Trust reporting update
- Estate planning and freeze using Holdcos and Family Trusts
- Vefghi Holding Corp. v. Canada, 2025 FCA
- Tax implications at death and postmortem planning

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## 2025 Budget highlights

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**Immediate expensing and tax incentives** 

- Reinstatement of the accelerated investment incentive, creating an enhanced first-year write-off for most depreciable capital assets;
- Immediate expensing of:
  - manufacturing or processing machinery and equipment;
  - clean energy generation and energy conservation equipment, and zero-emission vehicles;
  - patents, data network infrastructure, computers and other productivity-enhancing assets; and
  - scientific research and experimental development (SR&ED) capital expenditures.

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**Immediate expensing and tax incentives (cont.)** 

- \*Immediate expensing for manufacturing and processing buildings
  - Building must be acquired on or after budget day,
  - Must become available for use for manufacturing or processing before 2030, and
  - At least 90% of the building's floor space must be used to manufacture of process goods for sale or lease.
- \*Reinstatement of the accelerated capital cost allowance (CCA) rates for liquefied natural gas (LNG) equipment and related non-residential buildings
  - Increase CCA rate for LNG equipment to 30% from 8%.
  - Increase CCA rate for non-residential buildings used in LNG to 10% from 6%.
- Enhanced SR&ED credits
- Various clean economy tax credits
  - Clean technology, carbon capture, utilization and storage, clean electricity
- Flow-through shares enhancement
  - Continue to provide Critical Mineral Exploration Tax Credit (CMETC) - 30% non-refundable tax credit.
  - Proposal adds additional minerals that may qualify as CMETC.
  - Mineral Exploration Tax Credit (METC)- 15% non-refundable tax credit to continue to March 2027.

\*Proposal

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**Other updates** 

- Underused Housing Tax (UHT)
  - Budget proposes to eliminate the UHT for the 2025 calendar year onwards. (In effect from 2022-2024)
- Lowest federal personal income tax rate decreased from 15% to 14% effective July 1, 2025 (up to \$57,375 of income)
- Anti-avoidance provisions with respect to deferral of Part IV tax using Holding companies (suspending refundable taxes)
- Budget 2025 confirms the government's intent to proceed with previously announced tax measures (approval of various draft legislation).
  - Capital gains inclusion rate remains at 50% (not proceeding with the proposed increase in the inclusion rate)
  - Lifetime capital gains exemption limit increased to \$1,250,000.

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Other updates – personal/trust/administrative 

- Bare trust reporting rules
- Trusts and 21- year rule
- Top-Up Tax Credit
- Home accessibility tax credit
- Reporting by NPOs
- Information sharing – worker classification
  - Reporting fee for service – T4A filings

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Other updates – personal/trust/administrative 

- CRA transition to online mail only
  - Individuals
  - Businesses starting May 2025
    - New businesses – new business numbers and CRA program account registrations
    - Existing businesses – already registered for My Business Account
    - Businesses with representatives – authorized users with online access via Represent a Client
  - Nonresident businesses

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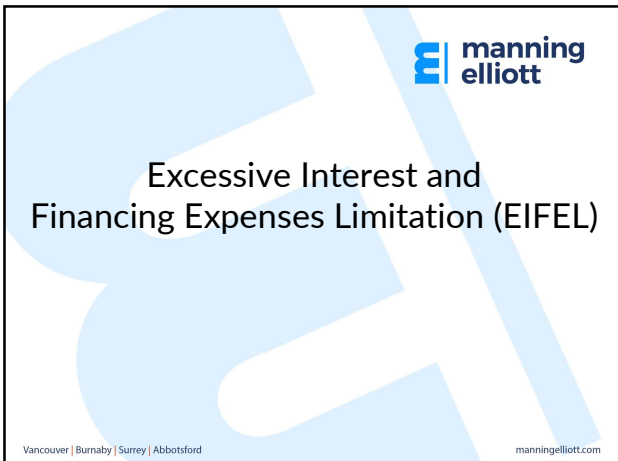
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**Excessive Interest and Financing Expenses Limitation (EIFEL)**

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What is EIFEL? 

- OECD mandate to harmonize tax rules and prevent harmful tax competition
- Limit on deductibility of net interest and other financing expenses based on a fixed ratio of “tax-adjusted” EBITDA (adjusted taxable income or “ATI”)
- Applicable to all Canadian corporations and trusts, unless it is an “excluded entity”
- Denied IFE may be carried forward indefinitely
- No carryback mechanism

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What is EIFEL? 

**Subsection 18.2(2)**  
 $(A - (B + C + D + E)) / F$  or  $(A - (B + C + D + E))$

- A = Taxpayer’s IFE
- B = Taxpayer’s ATI x Applicable fixed ratio
- C = Taxpayer’s IFR
- D = Taxpayer’s received capacity
- E = Taxpayer’s absorbed capacity
- F = Amount determined for A above

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EIFEL Exceptions 

- Excluded entities – at least one of the following four conditions:
  - CCPC (alone or with associated group) with taxable capital not in excess of \$50M
  - Canadian groups with net interest expense not in excess of \$1M
  - Certain broader group of taxpayers who are sufficiently “Canadian”
  - Public Private Partnership (“P3”) infrastructure projects
- Excluded interest – two group members can elect
- Exempt interest – interest in respect of financing of Canadian P3 infrastructure projects
- Potential exemption for rental housing providers (not enacted)

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12

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## Trust Reporting Updates

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### Trust Reporting Updates Enhanced T3 Reporting

- Currently enacted legislation: all trusts, including bare trusts, are required to file a return and Sch 15 unless it meets an exception.
- August 2024, 2025- same core filing obligations but major new or expanded exemptions
  - Trusts < 3 months in existence during the year (original at end of the year)
  - Value of any asset ≤ \$50,000 FMV with no asset-type restrictions
  - Family-only trusts (FMV ≤ \$250,000 (asset list broadened)
    - trustees & beneficiaries individuals and all beneficiaries are related to all trustees
  - Client-specific lawyer/professional trust accounts ≤ \$250,000, money only (2025+: includes deposits/GICs)
  - GREs included even if no return filed
  - AET JPT contingent beneficiary information not required (was required initially)
  - Narrow definition of settlor
  - Employee ownership trusts

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14

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### Trust Reporting Updates Bare Trust

- Bare trusts are not required to file for 2023, 2024 and now for 2025
- Aug 2025 draft legislation
  - New definition of bare trust and new exceptions for bare trusts to reduce the filing scope in some common situations such as
    - All beneficiaries = all legal owners (e.g., many joint ownership structures)
    - Legal owners are related individuals; property could be a principal residence
    - Legal owner holds property for spouse/partner as principal residence
    - Property held solely for use of a partnership (and information return is filed)
    - Property held due to a court order
    - Trust holds Canadian resource property for listed companies
    - NPO holds gov't funding for other NPOs
  - The 2025 Budget confirms the government's intent to proceed with the measure.
    - No draft legislation released with the budget
  - Further revisions are expected, as the proposed rules remain complex and still wide in scope.

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New VDP Program 

- IC00-1R7 – Effective for applications made on or after October 1, 2025
- Applicable to income tax and GST disclosures
- Must be voluntary
  - No relief if taxpayer or related party is under audit or investigation re information being disclosed
- No longer General and Limited Programs

Unprompted (general relief)	Prompted (partial relief)
No prior compliance communication from the CRA	Submitted after receiving compliance communication from the CRA
Eligible for 75% interest relief and 100% penalty relief	Eligible for 25% interest relief and up to 100% penalty relief
No criminal prosecution or GNP	No criminal prosecution or GNP

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16

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New VDP Program Requirements 

- Returns, forms, statements and schedules:
  - If Canadian source income or assets -6 most recent years
  - If foreign source income or assets : 10 most recent years
  - 4 years for GST/HST
- RC199 Form – Updated
- Payment or request for payment arrangement
- Must include information regarding a year that is at least one year past due for filing
- Errors or omissions must carry a potential application of penalties or interest, or both
- Information regarding non-compliance: consider submitting a letter with a explanation regarding the non-compliance
- Failure to respond to prior CRA requests may lead to VDP denial
- Processing times

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Estate Planning

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### Why undergo an Estate Freeze



- Planning for the inevitable
  - Determine and fund the deemed disposition tax
  - Succession planning
  - Mitigate probate fees & wills variation
  - Ease of administration
  - Taking care of vulnerable beneficiaries
  - Planning around ownership of corporate owned shares

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19

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### Estate freeze Example 1



#### Introducing children to the business

- Allows the shareholder(s) to freeze their current interest in the business (convert common shares into fixed value preferred shares).
- Can introduce children to the business at a nominal cost.
- Flexibility in terms of type of shares issued to children (voting vs. non-voting).
- Cannot revert the transaction without tax consequences.
- Cost effective approach, however not as much flexibility as a Family Trust.



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### Estate freeze Example 2



#### Introducing employees to the business

- Allows the shareholder(s) to freeze their current interest in the business (convert common shares into fixed value preferred shares).
- Can introduce employee(s) to the business at a nominal cost. (May be beneficial for Employees to purchase votes and value in the business)
- Flexibility in terms of type of shares issued to employees (voting vs. non-voting).
- Cannot revert the transaction without tax consequences.



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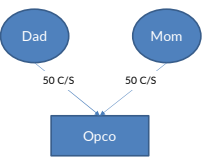
### Estate freeze Example 3



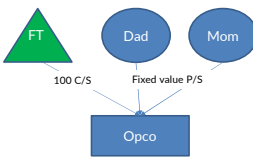
**Introducing a family trust**

- Allows the shareholder(s) to freeze their current interest in the business (convert common shares into fixed value preferred shares).
- Introduce children to the business at a nominal cost, through the Family Trust (FT).
- Flexibility in terms of splitting income (Subject to TOSI rules).
- No requirement to give income or future growth to the children.
- Ability to multiply the lifetime capital gains exemption. (\$335,000 in tax savings for each exemption). (Note- Opco shares must be QSBC shares).
- See next slides for further details on use of Family Trusts.

**Before**



**After**



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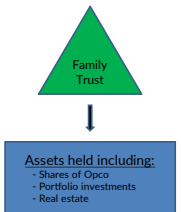
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### What is a Family Trust



**Settlor-** Family Friend  
**Trustee-** Parent(s)  
**Beneficiaries-** Parents & Children



**Financial/Legal**

- Separate legal entity.
- Family trust owns assets for the benefit of the beneficiaries.
- Beneficiaries typically have no direct ownership or control of assets.
- Trustee makes decision on who gets the income/capital of the Family Trust.

**Taxation**

- Income retained in the trust is taxed at highest personal tax rates (approx. 53.5%) as it is an inter vivos trust for tax purposes.
- Income for tax purposes paid out or made payable to beneficiaries is included in beneficiary's income and taxed at their marginal tax rates in effect.
- Future distribution of trust assets to beneficiaries generally at adjusted cost base. (no gain typically realized on distribution)
- Trust will be subject to 21 year deemed disposition rules for tax purposes. Potential planning opportunities may be available.
- New reporting obligations.

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23

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### Why Family Trust



- A family trust allows a business owner to transfer future growth in the value of a family business to family members, while retaining flexibility and control.
- The trust structure enables the business owner to monetize current value, fund retirement in an orderly manner, and minimize future estate tax liability through an estate freeze.
- Using a family trust facilitates effective estate and probate fee planning, as well as management of estate tax and liability.
- Growth shares held by the trust defer taxes on future business appreciation to the next generation, and assets can typically be distributed to beneficiaries at the trust's tax cost, avoiding immediate capital gains.
- Potential to multiply the lifetime capital gains exemption (LCGE), allowing multiple family members to each shelter up to \$1,250,000 of capital gains tax-free, resulting in significant tax savings (approximately \$335,000 per LCGE, subject to AMT rules).

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24

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### Family Trust in action, with Opco & Holdco

The diagram illustrates the relationship between Opco, a Family Trust, and Holdco. Opco is shown as a blue box at the bottom left, with an arrow labeled 'Pay Dividend' pointing to a green triangle representing the Family Trust. From the Family Trust, an arrow labeled '100% common shares' points to Opco, and another arrow labeled 'Allocate Dividend' points to a blue box representing Holdco. A bracket on the right side of the diagram groups the Family Trust and Holdco, with the text 'Family Members & Holdco are Beneficiaries of Family Trust'. Above the diagram is an orange oval labeled 'Family (Beneficiaries)'. The Manning Elliott logo is in the top right corner.

- Can regularly undertake dividend purification transaction to remove excess cash from Opco.
- Dividends flow from Opco through trust to Holdco as tax free inter-company dividends to keep Opco as QSBC.
- No inter-company balances between Opco and Holdco to deal with in future.
- Capital gains on future sale of Opco allocated to family member beneficiaries to access multiple capital gains exemption.
- Be mindful of Part IV tax considerations (new limitations and changes).

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25

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### Intercorporate dividends and the Vefghi Case

- When Opco pays dividends to a Family Trust, which are designated to the Holdco as a beneficiary of the Family Trust, it is important to determine if Opco and Holdco are connected for the purposes of p.186(1)(a) of the Income Tax Act.
- Two corporations are considered connected if:
  - The recipient corporation (Holdco) directly owns 10% of the votes and value of the payor corporation (Opco), or
  - More than 50% of the issued share capital (votes & value) belongs to Holdco, persons who Holdco does not deal at arm's length with, or any combination thereof.
- If they are connected, Holdco receives dividends free of tax.
- If they are not connected, Part IV tax is payable by Holdco (38 1/3rd %).

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26

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### Intercorporate dividends and the Vefghi Case

- Timing of the "connected" test is critical, especially in the year Opco is sold.
- Vefghi Holding Corp. v Canada, 2025 FCA 143 case indicates that for dividends designated by a trust to a corporate beneficiary under subsection 104(19), the "connected" status for Part IV tax is determined at the end of the trust's taxation year (generally Dec 31<sup>st</sup>), not at the time the dividend is paid by the Opco to the Trust.
- Tax planning involving trusts and corporate beneficiaries must carefully be monitored for connection status at the trust's year-end to avoid unexpected Part IV tax liabilities.
- FCA's results are currently being appealed to the Supreme Court of Canada.

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27

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# Death and Taxes



**At least death only happens once!**

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## Tax impact on death

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### Agenda

1. Tax implications at passing
  1. Double and even triple taxation
2. Post-mortem planning
  1. Loss carry back and
  2. Pipeline and Bump
3. Other advisory considerations

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29

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## Tax impact on death

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- Report all income earned from Jan 1 to date of death
- Deemed disposition (unless rolled to spouse)
  - Capital gain = value less cost
  - Income = value of RRSP, RRIF, etc.
- Tax filings required
  - Date of death return
  - Estate Return?
- Probate fee on FMV
  - Ownership structure – JTWR0S or TIC

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Tax impact on death 

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- Complications with Estates (with or without an estate freeze) -
  - Non-resident beneficiaries
  - Ownership of shares of a private companies and double taxation
  - How to fund tax payments on death
    - Life Insurance
    - Sell assets
    - Form T2075
      - allows payment to be made over 10 years

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31

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Tax impact on death  
Private Company Shares 

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Double, maybe triple, taxation

- 1) Deemed disposition of shares @ death
  - Capital gain = FMV - ACB
  - Bump in ACB, no change to PUC
- 2) Sale of company assets @ liquidation
  - Capital gain/recapture
- 3) Distribution from company @ windup
  - Deemed dividend = FMV - PUC (no bump)

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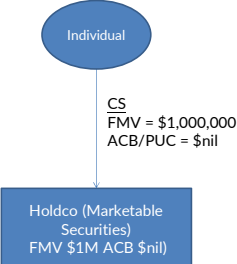
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Tax impact on death  
Private Company Shares 

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*Before death*



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            graph TD
            A((Individual)) -- "CS  
FMV = $1,000,000  
ACB/PUC = $nil" --> B[Holdco (Marketable Securities)  
FMV $1M ACB $nil]
            
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**Tax impact on death**  
Private Company Shares



Level 1 Deemed disposition of the shares @ FMV on death triggering capital gains tax

Individual

Capital gain (FMV \$1m - ACB \$nil)	\$1,000,000
<b>Tax, assume no capital gains exemption</b>	<b>\$ 267,500</b>

Estate

CS  
FMV = \$1,000,000  
ACB = \$1,000,000  
PUC = \$nil

Holdco (Marketable Securities)  
FMV \$1M ACB \$nil

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34

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**Tax impact on death**  
Private Company Shares



Level 2 - Corporate tax payable on disposition of corporate assets

Individual

TAX ON DEATH	
Capital gain (FMV \$1m - ACB \$nil)	\$1,000,000
<b>Tax</b>	<b>\$ 267,500</b>

Estate

CS  
FMV = \$1,000,000  
ACB = \$1,000,000  
PUC = \$nil

Holdco (Marketable Securities)  
FMV \$1M ACB \$nil

Sale of corporate assets -	\$1,000,000
Taxable Capital gain ((FMV \$1m - ACB \$nil) * 50%)	\$ 500,000
Gross Corporate tax (50.67%)	\$253,350
RDTOH generated on liquidation (30.67%)	\$153,350
<b>Net corporate tax</b>	<b>\$100,000</b>

**Funds available \$900,000**

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**Tax impact on death**  
Private Company Shares



Level 3 - Tax in the Estate on the withdrawal of value from corporation or distribution @ windup - no plan

Individual

TAX ON DEATH	
Capital gain (FMV \$1m - ACB \$nil)	\$1,000,000
<b>Tax</b>	<b>\$ 267,500</b>

Estate

CS  
FMV = \$1,000,000  
ACB = \$1,000,000  
PUC = \$nil

Holdco (Marketable Securities)  
FMV \$1M ACB \$nil

SHARE REDEMPTION	
Funds available to distribute	\$900,000
CDA paid out	\$500,000
Taxable non eligible dividend	\$400,000
<b>Tax, assume non-eligible (48.89%)</b>	<b>\$ 195,560</b>

**Net value to the Estate \$436,940**

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Tax impact on death  
Private Company Shares




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Summary

	No planning	Loss Carryback Plan	Pipeline Plan
	Liquidate after 1 taxation year of death	Liquidate within 1 taxation year of death (or 3 years for AET/JPT)	Reorganize
Capital gain	\$1,000,000		\$1,000,000
Dividend	\$1,000,000	\$1,000,000	
Tax payable	\$ 756,400	\$ 488,900	\$ 267,500
	Double tax	Higher dividend rate	Lower capital gains rate, \$268K/\$1M savings from LCB Plan
Other		<ul style="list-style-type: none"> <li>• Time limit to implement</li> <li>• Simpler</li> </ul>	<ul style="list-style-type: none"> <li>• Implement anytime, subject to cash needs e.g. tax payable/SHL</li> <li>• Complex</li> <li>• "Bump" available</li> <li>• Timing of cash withdrawal</li> <li>• Higher professional fees</li> </ul>

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Tax impact on death  
Private Company Shares




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- Other advisory considerations - Pre-mortem planning
- 🧑‍💻 Assess tax impact on death and explore post-mortem planning options
- 🏠 For estates with private shares, confirm if post-mortem planning is needed before distributing shares
- 📄 Draft flexible Wills to empower executors for effective tax planning
- 👤 Inform executors of post-mortem tax responsibilities
- 💰 Use life insurance to improve estate liquidity and reduce double taxation

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Thank you

Questions

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