

2025 year end tax tips

November 1, 2025

Jamie Golombek

Managing Director, Tax and Estate Planning, CIBC Private Wealth



Tax planning should be a year-round affair. But as year-end approaches, now is a particularly good time to review your personal finances and take advantage of any tax planning opportunities that may be available to you before the December 31st deadline.

As we enter the final weeks of 2025, here are some tax tips you may wish to consider for:

- Investors
- Home buyers and owners
- Families with students
- Family members with disabilities
- Individuals making gifts
- Individuals expecting changes to tax rates; and
- Business owners and employers.

Investors

Tax-loss selling

Tax-loss selling involves selling investments in non-registered accounts with accrued losses at year end to offset capital gains realized elsewhere in your portfolio. Any net capital losses that cannot be used currently may either be carried back three years or carried forward indefinitely to offset net capital gains in other years.

In order for your loss to be immediately available for 2025 (or one of the prior 3 years), the trade date must take place by December 30, 2025 to complete settlement by the Dec 31st year end.

If you purchased securities in a foreign currency, the gain or loss may be larger or smaller than you anticipated once you take the foreign exchange component into account. For example, Jake bought 1,000 shares of a US company in November 2012 when the price was USD \$10 per share and the US dollar was at par with the Canadian dollar. Today, the price of the shares has fallen to USD \$9 and Jake decides he wants to do some tax loss harvesting, to use the USD \$1,000 $[(USD \$10 - USD \$9) \times 1,000]$ accrued capital loss against gains he realized earlier this year.

Well, before knowing if this strategy will work, he'll need to convert the potential US dollar proceeds back into Canadian dollars. If the exchange rate is USD \$1.00 = CAD \$1.40, selling the US shares for USD \$9,000 yields CAD \$12,600. So, while there is a capital loss of USD \$1,000 (USD \$10,000 - USD \$9,000) in US currency, there is actually a capital gain of CAD \$2,600 (CAD \$12,600 - CAD \$10,000) for Canadian tax purposes. If Jake had gone ahead and sold the US stock, he would actually be doing the opposite of tax loss selling and accelerating his tax bill by crystallizing the accrued capital gain in 2025!

Superficial loss

If you plan to repurchase a security you sold at a loss, beware of the “superficial loss” rules that apply when you sell property for a loss and buy it back within 30 days before or after the sale date. The rules apply if property is repurchased within 30 days and is still held on the 30th day by you or an “affiliated person”, including your spouse or partner, a corporation controlled by you or your spouse or partner, or a trust of which you or your spouse or partner are a majority beneficiary (such as your RRSP or TFSA). Under the rules, your capital loss will be denied and added to the adjusted cost base (tax cost) of the repurchased security. That means any benefit of the capital loss could only be obtained when the repurchased security is ultimately sold.

Transfers and swaps

While it may be tempting to transfer an investment with an accrued loss to your RRSP or TFSA to realize the loss without actually disposing of the investment, the loss is specifically denied under our tax rules. There are also harsh penalties for “swapping” an investment from a non-registered account to a registered account for cash or other consideration.

To avoid these problems, consider selling the investment with the accrued loss and, if you have the contribution room, contributing the cash from the sale into your RRSP or TFSA. If you want, your RRSP or TFSA can then “buy back” the investment after the 30-day superficial loss period.

Make RRSP contributions

Although you have until March 2, 2026¹, to make RRSP contributions for the 2025 tax year, contributions made as early as possible will maximize tax-deferred growth. Your 2025 RRSP deduction is limited to 18% of income earned in 2024, to a maximum of \$32,490, less any pension adjustment plus any previous unused RRSP contribution room and any pension adjustment reversal.

¹ The normal 60-day deadline of March 1st falls on a Sunday in 2026, so taxpayers get an extra day to make their 2025 tax deductible RRSP contributions.

Delay RRSP withdrawals under the HBP or LLP

You can withdraw funds from an RRSP without immediate tax under the Home Buyer's Plan (HBP) or the Lifelong Learning Plan (LLP).

For the HBP, the withdrawal limit is \$60,000. Normally, the first repayment instalment is due in the second calendar year after the withdrawal. Under a temporary measure, for HBP withdrawals taken from January 1, 2023 through December 31, 2025, the first instalment will be due the fifth calendar year following the year in which you withdrew the money, meaning that if you plan to participate in the HBP in the near future, taking the funds out prior to January 1, 2026 (assuming you qualify) means you can delay the initial repayment schedule by three years.

For the LLP, you and your spouse or partner can each withdraw up to \$20,000 for your or your spouse's or partner's post-secondary education. With each plan, you must repay the funds in future annual instalments, based on the year in which funds were withdrawn.

If you are contemplating withdrawing RRSP funds under the LLP, you can delay repayment by one year if you withdraw funds early in 2026, rather than late in 2025.

Make TFSA contributions

The TFSA dollar limit for 2025 is \$7,000 but there is no deadline for making a TFSA contribution. If you have been at least 18 years old and resident in Canada since 2009, you can contribute up to \$102,000 in 2025 if you haven't previously contributed to a TFSA.

Take TFSA withdrawals

If you withdraw funds from a TFSA, an equivalent amount of TFSA contribution room will be reinstated in the following calendar year, assuming the withdrawal was not made to correct an over-contribution.

Be careful, however, because if you withdraw funds from a TFSA and then re-contribute in the same year without having the necessary contribution room, overcontribution penalties can result. If you wish to transfer funds or securities from one TFSA to another, you should do so by way of a direct transfer, rather than a withdrawal and recontribution, to avoid an overcontribution problem.

If you are planning a TFSA withdrawal in early 2026, consider withdrawing the funds by December 31, 2025, so you would not have to wait until 2027 to re-contribute that amount.

Pay investment expenses

Certain expenses must be paid by year end to claim a tax deduction or credit in 2025. This includes investment-related expenses, such as interest paid on money borrowed for investing and investment counseling fees, for non-registered accounts.

You can't claim a tax deduction for fees related to investments in a registered plan but it may still be worthwhile to pay fees for TFSA investments from outside the plan. For RRSPs and RRIFs, the decision is more complex. For more information, see the CIBC report [Inside out: Fees for registered plans](#).

Convert a portion of your RRSP to a RRIF once you turn age 65

If you're at least 65 years of age but don't have any pension income, consider moving \$14,000 (\$2,000 per year × 7 years) of your RRSP to a RRIF in the year you turn 65. You can withdraw \$2,000 annually from age 65 through age 71 to take advantage of the annual pension income credit, so you'll pay no tax on the income.

Convert your RRSP to a RRIF by age 71

If you turned age 71 in 2025, you have until December 31 to make any final contributions to your RRSP before converting it into a RRIF or registered annuity.

It may be beneficial to make a one-time overcontribution to your RRSP in December before conversion if you have earned income in 2025 that will generate RRSP contribution room for 2026. While you will pay a penalty

tax of 1% on the overcontribution (above the \$2,000 permitted overcontribution limit) for December 2025, new RRSP room will open up on January 1, 2026 so the penalty tax will cease in January 2026. You can then choose to deduct the overcontributed amount on your 2026 (or a future year's) return.

This may not be necessary, however, if you have a younger spouse or partner, since you can still use your contribution room after 2025 to make contributions to a spousal RRSP until the end of the year your spouse or partner turns 71.

Home buyers and owners

First Home Savings Account

If you are a first-time home buyer who is resident of Canada and at least 18 years of age, the First Home Savings Account (FHSA) allows you to save on a tax-free basis towards the purchase of a home in Canada.

Starting in the year that you open an FHSA, you can contribute (or transfer from RRSPs) a total of \$8,000 plus any carryforward available from the previous year (for a maximum of \$16,000 in any year), and up to \$40,000 during your lifetime. If you opened an FHSA in 2024 but did not yet make any contributions to the FHSA, you can contribute a total of \$16,000 in 2025. You can claim a tax deduction for contributions within this limit, in the year the contribution was made (or a future year if not claimed previously). Unlike RRSPs, contributions you make within the first 60 days of 2026 cannot be deducted in 2025.

Withdrawals to purchase a qualifying home, including withdrawals of any investment income or growth earned in the account, are non-taxable, just like a TFSA. You can also withdraw up to \$60,000 from your RRSP using the HBP for the same home purchase.

If you choose not to use the FHSA to buy a first home, you always have the option (until age 71 or 15 years after opening an FHSA, whichever comes first) of transferring funds from an FHSA to your RRSP or RRIF on a tax-free basis. These transfers won't affect your RRSP contribution room or the annual FHSA limit. Funds in your RRSP or RRIF will only be taxed upon ultimate withdrawal.

Make renovations for home accessibility

The non-refundable Home Accessibility Tax Credit (HATC) assists seniors and those eligible for the disability tax credit with certain home renovations.

The tax credit is equal to 15% of expenses towards renovations that permit these individuals to gain access to, or to be more mobile or functional within, their home, or reduce their risk of harm within their home or from entering their home. The amount of eligible expenses is \$20,000, so this credit could be worth up to \$3,000.

The HATC will apply in respect of payments made by December 31st for work performed or goods acquired in 2025. A single expenditure may qualify for both the HATC and the medical expense tax credit, and both may be claimed.

Make renovations to allow relatives to live with you

If you are a homeowner who is either at least 65 years of age, or at least 18 years of age and you qualify for the disability tax credit, the Multigenerational Home Renovation Tax Credit (MHRTC) may help you with the cost of creating a secondary unit in your home that will be occupied by a relative. The refundable credit is worth 15% of the value of your qualifying expenditures, up to a maximum spend of \$50,000. So, if you spend \$50,000 (or more) on the renovation, your credit is worth \$7,500.

A qualifying relative includes your (or your spouse's or common-law partner's) parent, grandparent, child or grandchild, brother, sister, aunt, uncle, niece or nephew. Renovations, alterations or additions to your home must be for a self-contained housing unit with a private entrance, kitchen, bathroom facilities and sleeping area.

Expenses can only be claimed in the tax year in which the renovations are completed. The cost of pretty much all renovation materials and services, along with the cost of permits and the rental of equipment used in the qualifying renovation will qualify. Unfortunately, if either (or both) of the medical expense tax credit (METC) and

the home accessibility tax credit (HATC) were claimed for any expenses, you can't double-dip and also claim the MHRTC for those expenses.

Speak to your tax adviser before undertaking renovations, as claiming the MHRTC may affect your ability to claim the principal residence exemption that could eliminate tax on capital gains when you eventually sell, or otherwise dispose of, your home.

Families with students

Make RESP contributions

RESPs allow for tax deferred savings for children's post-secondary education. The federal government will pay into an RESP a Canada Education Savings Grant (CESG) equal to 20% of the first \$2,500 of annual RESP contributions per child or \$500 annually. While unused CESG room is carried forward to the year the beneficiary turns 17, there are a couple of situations in which it may be beneficial to make an RESP contribution by December 31.

Each beneficiary who has unused CESG carry-forward room can have up to \$1,000 of CESGs paid into an RESP annually, with a \$7,200 lifetime limit, up to and including the year in which the beneficiary turns 17. If enhanced catch-up contributions of \$5,000 ($\$2,500 \times 2$) are made for just over 7 years, the maximum total CESGs of \$7,200 will be obtained. If you have less than 7 years before your (grand)child turns 17 and haven't maximized RESP contributions, consider making a contribution by December 31.

Also, if your (grand)child turned 15 this year and has never been a beneficiary of an RESP, no CESG can be obtained in future years unless at least \$2,000 is contributed to an RESP by the end of the year. Consider making your contribution by December 31 to receive the current year's CESG and create CESG eligibility for 2026 and 2027.

Take RESP withdrawals for students

If your (grand)child is an RESP beneficiary and attended a post-secondary educational institution in 2025, consider having Educational Assistance Payments (EAPs) made from the RESPs before the end of the year. Although the amount of the EAP will be included in the income of the student, if the student has sufficient personal tax credits, the EAP income will be effectively tax-free.

The maximum EAP that can be taken in the first 13 weeks of post-secondary education is \$8,000 for full-time students and \$4,000 for part-time students.

If your (grand)child is an RESP beneficiary and stopped full-time attendance at a post-secondary educational institution in 2025, EAPs can be paid out for up to 6 months after the student has left the school. You may, therefore, wish to consider having final EAPs made from RESPs of which the student is a beneficiary.

Family members with disabilities

Contribute to a Registered Disability Savings Plan (RDSP)

RDSPs are tax-deferred savings plans available for Canadian residents eligible for the Disability Tax Credit. Up to \$200,000 can be contributed to the plan until the beneficiary turns 59, with no annual contribution limits.

While RDSP contributions are not tax deductible, all earnings and growth accrue on a tax-deferred basis.

Federal government assistance in the form of Canada Disability Savings Grants (CDSGs), which are based on contributions, and Canada Disability Savings Bonds (CDSBs) may be deposited directly into the plan up until the year the beneficiary turns 49. The government may contribute up to a maximum of \$3,500 CDSG and \$1,000 CDSB per year of eligibility, depending on the net income of the beneficiary's family. Eligible investors may wish to contribute to an RDSP before December 31 to get this year's assistance. There is a 10-year carryforward of CDSG and CDSB entitlements.

RDSP holders with shortened life expectancy can withdraw up to \$10,000 annually from their RDSPs without repaying grants and bonds. A special election must be filed with the Canada Revenue Agency (CRA) by December 31 to make a withdrawal in 2025.

Pay family medical expenses

A federal tax credit may be claimed when total eligible medical expenses exceed the lower of 3% of your net income or \$2,834 in 2025. Provincial or territorial tax credits are also available.

For medical expenses, it may be worthwhile to look for unclaimed expenses prior to 2025 as well. The medical expense tax credit may be claimed for eligible medical expenses that were paid during any 12-month period that ended within the calendar year (extended to 24 months when an individual died in the year.)

Alternative Minimum Tax

The Alternative Minimum Tax (AMT) system imposes a minimum level of tax on taxpayers who claim certain tax deductions, exemptions or credits to reduce the tax that they owe to very low levels. Under the AMT system, there is a parallel tax calculation that allows fewer deductions, exemptions, and credits than under the regular income tax calculation. If the amount of tax calculated under the AMT system is more than the amount of tax owing under the regular tax system, the difference owing is payable as AMT for the year. AMT is described more fully in the CIBC report [The new Alternative Minimum Tax \(AMT\)](#).

You may face AMT in 2025 if your taxable income is over \$177,882, and you have income taxed at lower rates than ordinary income, or deductions or credits that reduce taxes payable, including:

- Capital gains,
- Stock options,
- Canadian dividends,
- Unused non-capital losses, net capital losses, or limited partnership losses from prior years, and
- Non-refundable tax credits, including the donation tax credit.

Speak to your tax professional to see how AMT could affect your situation.

Charitable giving

Make charitable donations

Both the federal and provincial governments offer donations tax credits that, in combination, can generally result in tax savings of up to 55% of the value of your gift in 2025, depending on your province or territory of residence.

With total cash donations up to \$200 in a year, the federal donation credit is 15% of the donation amount. For total donations exceeding \$200 in a year, the federal donation credit jumps to 29% (33% to the extent taxable income exceeds \$253,414) of the donation amount. Provincial donation credits are also available and the total credit may be up to 55% once total annual donations exceed the \$200 in a calendar year.

December 31 is the last day to make a donation and get a tax receipt for 2025. Keep in mind that many charities offer online, internet donations where an electronic tax receipt is generated and emailed to you instantly.

Gifts “in-kind”

Gifting publicly-traded securities, including mutual funds and segregated funds, with accrued capital gains “in-kind” to a registered charity or a foundation not only entitles you to a tax receipt for the fair market value of the security being donated, it eliminates capital gains tax too. You should plan gifts in-kind well before year end, to allow for sufficient time to make arrangements.

If you plan to make significant gifts in kind, and have taxable income over \$177,882, AMT may affect you. Only 80% of the donation tax credit would be allowed when calculating AMT. Also, if you make in-kind donations of publicly listed securities, or a donation is made on the exercise of a qualified employee stock option of publicly listed securities, 30% of capital gains on those securities would be added when calculating AMT (although none of the capital gain was included prior to 2024). The CIBC report [Alternative minimum tax: Impact on charitable giving](#) provides additional information for donors.

You should consult with a tax advisor well before year end to determine any strategies that may help to reduce your exposure to AMT.

Donor advised funds

When you are not immediately sure of the charities you wish to support, you might consider making the gift to a donor advised fund (“DAF”), which is an account at a public foundation that holds your donation. You will get a tax receipt for your donation in the year that you contribute to the DAF. Each year you can recommend distributions to be made from your DAF to other registered charities.

Individuals with changes to tax rates

If you anticipate that your income tax rates will be substantially different in 2026, it may be worthwhile to shift income and expenses between 2025 and 2026, where feasible.

Perhaps you may have just started, or returned to, work in 2025 so your income (and taxes) may be lower in 2025 than in the future. If so, you may wish to realize income in 2025 by taking steps such as selling investments with a capital gain, exercising stock options or taking bonuses in 2025 rather than 2026, where feasible. It may also make sense to defer deductible expenses until 2026 where possible.

On the other hand, you may anticipate that your tax rate could decrease in 2026, perhaps if you plan to retire or if you had a one-time sale of an appreciated investment. If you expect your tax rate to be lower in 2026, you may wish to defer income by taking steps such as waiting to sell investments with a capital gain, exercise stock options, take bonuses or distribute dividends to owner-managers from a corporation, where feasible, in 2026 rather than 2025.

Business owners and employers

Compensation planning for owners of incorporated businesses

A corporation may distribute its income to you (as a shareholder and employee of the corporation) either as salary or dividends.

If corporate income is paid to you as salary (or bonus), the corporation (employer) can claim an income tax deduction for the salary (and applicable payroll taxes), which reduces its taxable income. You include the salary in your taxable income and pay tax at personal, graduated tax rates.

As an alternative to distributing income as salary, the corporation can pay tax on its corporate income. In the year the income is earned or a future year, the corporation can distribute its after-tax corporate income to you as dividends. You generally pay no tax on capital dividends² and pay a lower tax rate (than for salary) on eligible and non-eligible dividends due to the dividend tax credit (DTC), which is meant to compensate for taxes paid by the corporation.

So how do you choose between salary and dividends?

As a general rule-of-thumb, if you need to withdraw funds from your corporation, perhaps to pay personal expenses, then consider withdrawing salary to create RRSP contribution room. Receiving salary of up to \$187,833 in 2025 would create RRSP contribution room for next year of up to \$33,810 (the 2026 maximum).

² Capital dividends, which are not taxable to Canadian residents, can be paid to the extent there is a positive balance in a corporation's notional Capital Dividend Account (CDA). The CDA balance includes the non-taxable portion of capital gains less allowable capital losses, as well as certain tax-free life insurance death benefit proceeds.

If you do not need to withdraw funds from your corporation, you may still wish to withdraw sufficient funds to maximize contributions to RRSPs and TFSAs. The CIBC report [RRSPs and TFSAs: Smart choices for business owners](#) provides more details.

Finally, consider leaving any remaining after-tax business income in your corporation to benefit from the significant tax deferral, which may provide more investment income in the long run than personal investing in non-registered plans. You may then distribute the company's income as dividends in a future year. For more information, see the CIBC report [In good company: Earning investment income in your corporation](#).

The CIBC reports [Bye-bye bonus! Why business owners may prefer dividends over a bonus](#) and [The compensation conundrum: Will it be salary or dividends?](#) discuss this compensation decision in greater detail.

Corporate loss planning

Tax-free dividends

If your corporation has unrealized losses in its investment portfolio, it's worth checking to see if there is a positive balance in your corporation's capital dividend account (CDA) before engaging in any tax-loss selling, as discussed above. The CDA is a notional account that tracks the non-taxable portion of capital gains, among other things. Dividends may be designated as capital dividends, which are generally tax-free to the shareholder, if they do not exceed the balance of the CDA. Net capital losses will decrease the CDA and will, therefore, reduce (or possibly even eliminate) the capital dividends that may be paid. Prior to realizing any capital losses, consider paying out any capital dividends to eliminate any positive balance in the CDA.

Loss consolidation

You may have more than one corporation within a corporate group. One (or more) of these companies may be profitable ("Profitco"), and one (or more) may be suffering losses ("Lossco") at this time. The CRA has generally permitted the consolidation of losses within a related group through a variety of methods. For example, Profitco may subscribe for shares of Lossco, which in turn makes a loan to Profitco. Interest payments on the loan will reduce the taxable income of Profitco, and the taxable interest income received by Lossco will be offset by its losses.

As corporate reorganizations are complex, tax and legal advisers should be consulted before implementing any loss consolidation transactions.

Business transition planning

If you're thinking about transitioning your business to new owners and you believe that your business has recently dropped in value, you may want to explore some of the planning considerations, including an estate freeze or refreeze, that are discussed in the CIBC report [Tax and estate planning in uncertain times](#), in advance of the end of the year.

Income splitting

The "tax on split income" (TOSI) rules can apply where an individual receives dividend or interest income from a corporation, or realizes a capital gain, and a related individual is either actively engaged in the business of the corporation or holds a significant amount of equity (with at least 10% of the value) in the corporation. When the TOSI rules apply, dividends are taxed at the highest marginal rate.

If your private corporation has other shareholders, such as your spouse, partner, children or other relatives, review the possible impact of the TOSI rules with your tax and legal advisors before paying dividends to these individuals in 2025.

Planning for the TOSI is more fully described in the CIBC report [The CCPC tax rules](#).

Passive investment income

The first \$500,000 of active business income in a Canadian-controlled Private Corporation (CCPC)³ generally qualifies for the small business deduction (SBD), which reduces the corporate tax rate by 12 to 21 percentage points in 2025, depending on the province or territory. This means there may be significantly more after-tax income in your corporation for investment when the SBD is available.

To limit the advantage of having additional after-tax income for investment, there are rules that reduce the SBD by \$5 for each \$1 of passive income over \$50,000 in the previous year. Once passive income reaches \$150,000 in the previous year, none of the current year's business income may be eligible for the SBD and lower tax rates.

If your corporation is approaching the \$50,000 limit for passive income in 2025, consider a “buy and hold” strategy to defer capital gains. Also, consider whether an Individual Pension Plan or corporately-owned exempt life insurance may be appropriate, as income earned within these plans will not be treated as passive income for the purpose of these SBD reduction rules.⁴

Ontario and New Brunswick have not followed the federal measure, so the provincial SBD is still available for active business income up to \$500,000 annually in these two provinces. This may lessen the negative tax impact of the federal measure. You should consult a tax advisor prior to year-end to determine how provincial and federal measures may apply.

You may also wish to withdraw sufficient salary from your private corporation by December 31 to maximize contributions to RRSPs and TFSAs. These registered investment plans may offer benefits beyond those available with corporate investments, as outlined in the CIBC report [RRSPs and TFSAs: Smart choices for business owners](#). As discussed above, receiving salary of at least \$187,833 by December 31, 2025 may allow the maximum RRSP contribution of \$33,810 in 2026. Reasonable salaries may also be paid to family members who work in the business to allow them to make contributions to RRSPs and TFSAs. This will also reduce future investment income within the corporation, perhaps preserving access to the SBD.

Planning for passive investment income is more fully described in our report [CCPC tax planning for passive income](#).

Selling your incorporated business

If you are considering the sale of your incorporated business, speak to your tax adviser to find out if the tax you pay may be reduced under two new incentives.

Canadian Entrepreneurs' Incentive (CEI) - (for 2026)

In the 2024 Federal Budget the government announced the Canadian Entrepreneurs' Incentive, which would reduce the tax rate on capital gains on the disposition of qualifying shares. Draft legislation released on August 15, 2025 included details on the CEI. The CEI would reduce the capital gains inclusion rate on up to \$2 million of capital gains over an individual's lifetime. The lifetime limit will be phased in by increments of \$400,000 per year, beginning on January 1, 2026, before ultimately reaching a value of \$2 million by January 1, 2029. This measure would apply in addition to the lifetime capital gains exemption (LCGE).

To qualify for the CEI, the shares must meet certain conditions, and there are restrictions so that the CEI won't apply to shares of a professional corporation, nor to a corporation whose principal business is in the financial, insurance, real estate, food and accommodation, arts, recreation, or entertainment sectors, nor the consulting or personal care service industries. The CIBC report on the [2024 federal budget](#) has more information about the original proposals.

³ The SBD is available to a CCPC that earns active business income up to the annual limit of \$500,000 federally and provincially or territorially (except in Nova Scotia where it's \$700,000 starting April 1, 2025, P.E.I. where it's \$600,000 starting July 1, 2025, and Saskatchewan where it's \$600,000) in 2025. The SBD must be shared among associated corporations.

⁴ A tax advisor should be consulted before investing in an Individual Pension Plan or corporate owned life insurance. You should also consider whether these strategies fit into your overall financial plan.

If your corporation may qualify for the CEI, discuss with your tax adviser whether waiting until 2026 or a later year may help reduce the tax you'd pay.

Employee ownership trusts (EOTs)

An employee ownership trust is a form of employee ownership where a trust holds shares of a corporation for the benefit of the corporation's employees. EOTs can be used to facilitate the purchase of a business by its employees, without requiring them to directly pay to acquire shares.

As of 2025, EOTs are now permitted in Canada. The first \$10 million in capital gains realized on the sale of a business to an EOT in 2025, 2026 and 2027 are exempt from tax, subject to certain conditions. This \$10 million exemption applies to the business, and not to each shareholder. This means that if multiple individuals dispose of shares to an EOT as part of a qualifying business transfer and meet the qualifying conditions, they may each claim the exemption, but the total exemption claimed can't exceed \$10 million in aggregate. The individuals will be required to agree on how to allocate the exemption.

Worker cooperative

In the 2024 Federal Budget, the government also proposed an exemption from tax on the first \$10 million in capital gains realized on the sale of qualifying shares of a corporation to a worker cooperative in 2024, 2025, or 2026. A 10 year capital gains reserve would also be available. Shares of a professional corporation would not qualify for the exemption. The individual selling the shares must be at least 18 years of age, and the individual (or the individual's spouse or partner) must be actively engaged in the corporation's business for 24 months.

The purpose of this incentive is to benefit Canadian workers. To that end, at least 75% of employees must be members of the workers cooperative, at least 75% of workers and members must reside in Canada, and at least 50% of surplus earnings must be paid to qualifying cooperative workers.

Jamie Golombek, FCPA, FCA, CPA (IL), CFP, CLU, TEP is the Managing Director, Tax and Estate Planning with CIBC Private Wealth, Toronto.

jamie.golombek@cibc.com

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