



Wealth
Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

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2025 year-end tax planning for business owners

Opportunities to reduce taxes, both for you and
your corporation

A corporation can generally choose any tax year-end, subject to certain exceptions. As your corporation's year-end approaches, taking some time to review your corporate financial affairs and implement some tax planning strategies may yield significant tax savings. To ensure you leave no stone unturned, here's a summary of some common year-end tax planning strategies for incorporated business owners.

Any reference to a spouse in this article also includes a common-law partner.

Implement tax loss selling

If your corporation's portfolio contains investments that have decreased in value and are no longer aligned with its investment strategy, you may be thinking of selling these investments before the corporation's tax year-end, to realize a capital loss. This strategy of selling securities at a loss to offset capital gains realized during the year is a year-end tax planning technique commonly known as "tax loss selling." Consider all costs, including transaction costs, before selling investments for the purpose of triggering the tax loss.

When disposing of a security, the sale will be deemed to have taken place on the settlement date for Canadian

tax purposes. If your corporation has a December 31 year-end and assuming a one-day settlement period, transactions must be initiated by December 30, 2025, for both Canadian and U.S. securities in order to settle during 2025. Check with your RBC advisor for mutual fund settlement dates.

Consider the stop-loss rules

If you intend to repurchase any investment your corporation sold at a loss, it's important to ensure you don't trigger the "stop-loss rules." The stop-loss rules may occur when your corporation sells property (e.g., shares or mutual funds) at a loss and then it, or an affiliated party, repurchases the identical property within 30 days and

continues to hold it on the 30th day. If the stop-loss rules apply, the loss is suspended (unavailable for use) in your corporation until the time your corporation or the affiliated party disposes of the identical property to a non-affiliated party (e.g. into the market).

Consider adjustments to the capital dividend account (CDA)

If you plan on triggering a capital loss in your corporation, it may be advantageous to pay out a capital dividend if your CDA is positive, prior to triggering the loss. It's crucial to accurately determine your CDA balance before paying out a capital dividend. If your corporation pays out a capital dividend in excess of its CDA balance, it may be subject to an additional tax. It's advisable to have a qualified tax advisor carefully calculate the CDA balance at a particular point in time before paying out a capital dividend.

Consider carrying forward or carrying back capital losses

A capital loss must first be applied against any capital gains (including capital gain distributions from mutual funds) realized in the current tax year. Any unused net capital losses (i.e. capital losses that weren't able to be offset by current-year capital gains) can be carried back to be claimed against taxable capital gains realized in the three previous tax years or carried forward indefinitely to be claimed against taxable capital gains realized in a future year.

If your corporation carries back an unused net capital loss to offset a previous year's taxable capital gain, it will reduce the corporation's taxable income for that previous year. This reduction may result in a refund of previously paid taxes.

Claim a capital gains reserve

If your corporation already sold or is planning to sell capital property in 2025, you may be able to defer a portion of the capital gain and the associated taxes by claiming a capital gains reserve if you receive the proceeds over a number of years. You can generally spread the capital gain over a maximum of five years.

Claim a business income reserve

If your corporation sold goods or real property, classified as inventory, in 2025 and the proceeds aren't due until after the tax year-end, you may be able claim a reserve on sale profits and defer tax, over a maximum of three years.

Pay salaries before year-end

Before the corporate year-end, consider paying additional salary or bonus to yourself and/or family members who work in the business. The payment will provide your corporation with a tax deduction and it will also allow your family members to have earned income for RRSP,

To achieve income splitting, consider paying dividends to adult family members who are shareholders in your company and who are in a lower tax bracket. If your family members have no other income, they may be able to receive dividends without triggering any personal income tax, due to the basic personal exemption.

CPP and childcare expense purposes. The salaries paid must be reasonable based on the services performed by you and/or your family members. A general rule or guideline is to pay your family members what you'd pay someone who isn't related to you for the work performed in the business.

Declare bonuses before year-end

If you want to decrease corporate income without increasing your personal income for the current tax year, consider declaring a bonus before your corporation's tax year-end and paying the amount within 180 days after the corporation's year-end. This will ensure your corporation gets a corporate deduction for its tax year and you'll only have to include the bonus in your personal income in the year you receive it.

Pay dividends before year-end

To achieve income splitting, consider paying dividends to adult family members who are shareholders in your company and who are in a lower tax bracket. If your family members have no other income, they may be able to receive dividends without triggering any personal income tax, due to the basic personal exemption. The amount that can be received tax-free will depend on their province or territory of residence and whether the corporation can pay non-eligible or eligible dividends. Be mindful of the tax on split income (TOSI) rules which may affect this strategy.

Purchase assets for your business

If you intend on purchasing assets for your business (e.g. a computer, furniture, equipment, etc.), consider making this purchase before year-end. If the asset is available for use, this year-end purchase will allow your business to deduct capital cost allowance (CCA), which represents depreciation on the asset for tax purposes. For most assets, half of the regular allowable CCA can be claimed for tax purposes in the first year of an asset purchase, regardless of when it was purchased during the year.

Repay a shareholder loan from your corporation

If your corporation loaned you money, ensure you repay the loan before the end of the corporation's tax year after

the year the loan was granted to avoid having to include the value of the loan as income on your personal tax return.

Donate securities in-kind

Whether you've made a philanthropic commitment or simply want to assist a registered charity, consider donating securities in-kind from your corporation, especially if your corporation doesn't have the cash on hand. This can be an effective donation strategy, especially if your corporation has securities with large accrued capital gains. When your corporation donates securities in-kind, it benefits not only from an elimination of the capital gain accrued on the securities, but also from a corporate tax deduction based on the value of the securities donated. This deduction would help reduce the corporation's overall tax liability.

In addition, the full value of the eliminated capital gain is added to the corporation's CDA. This increases the amount that can be paid tax-free to the corporation's shareholders. If the securities your corporation donates happen to be in a loss position, the corporation can still benefit by claiming the capital loss as well as the donation deduction.

Before donating in-kind, it's important to contact the registered charity and verify whether they can accept in-kind donations.

Although there's no limit to the amount your corporation can donate in a year, for tax purposes, a corporation can generally claim a deduction for charitable donations up to 75% of the corporation's net income for the year. If your corporation is unable to claim the full donation in one year, it can carry forward the unclaimed donations for up to five years.

Consider tax-advantaged investment choices

The government provides tax incentives to encourage investment in certain areas of the economy. For example, flow-through investments may provide your corporation with tax deductions that may reduce your corporation's overall tax liability.

While evaluating investments based on the tax merits is important, you should also consider other factors such as the investment risk, diversification, opportunity for capital appreciation, liquidity and so on. Flow-through investments are considered higher-risk investments and typically must be held for a set period of time. Also, certain investments, such as limited partnerships, require more complex tax reporting. You should factor in any restrictions and increased filing complexities when evaluating whether an investment is right for your corporation.

Contributions to an IPP provide an immediate tax deduction to your company and are exempt from payroll and healthcare taxes. The deduction can help reduce your corporation's tax liability for its fiscal year. Your corporation may be able to deduct the IPP contributions it makes in a tax year, or up to 120 days after its tax year-end for tax purposes.

Establish an individual pension plan (IPP)

An IPP is a defined benefit pension plan that would be established and sponsored by your company. It's often established to enhance the retirement benefits for key employees or for you, the business owner, since it can provide greater annual contribution room than a registered retirement savings plan (RRSP). The benefits of an IPP may be extended to your spouse and other family members if they're also employed by your corporation.

Contributions to an IPP provide an immediate tax deduction to your company and are exempt from payroll and healthcare taxes. The deduction can help reduce your corporation's tax liability for its fiscal year. Your corporation may be able to deduct the IPP contributions it makes in a tax year, or up to 120 days after its tax year-end for tax purposes. For the contributions to be deductible, they must relate to service performed in the current tax year or a previous year. Contributions that relate to service after the end of the tax year wouldn't be deductible. Investment management fees may also be tax-deductible if they're paid outside the IPP by your corporation.

In addition to the corporate tax deduction, an IPP has other potential benefits. Personal tax is deferred and only payable when you receive the benefit in a future year (potentially when you're in a lower tax bracket). In addition, you may be able to split your IPP retirement income with your spouse, which may further reduce your family's future overall tax bill. Lastly, the assets in an IPP are also generally protected from creditors should your business ever run into financial difficulty. Overall, an IPP may allow you to set aside a significant amount of tax-deferred income for your retirement while having the assets protected from corporate creditors.

Manage passive investment income

Earning passive investment income over \$50,000 in your corporation (or in any associated corporation, including a holding company) may grind down your corporation's access to the small business limit for the following year. There are ways to minimize the impact of these rules by

reducing passive income earned in your corporation this tax year and/or deferring recognizing passive income to future tax years. For example, you could consider:

- Claiming expenses such as investment management fees and interest paid on an investment loan to reduce your corporation's passive income.
- Strategies to reduce assets that generate passive income or remove excess cash from the corporation such as paying out a tax-free capital dividend to shareholders or repaying shareholder loans or reimbursing shareholders for business expenses paid personally.
- Corporate investment strategies to reduce passive income, such as a buy and hold investment philosophy, investing in low dividend paying securities, investing in exchange traded funds (ETFs) and mutual funds that don't make annual distributions, or investing in securities that pay return of capital.
- Ways to reduce cash build-up in the corporation by investing in alternative investment vehicles such as purchasing corporate-owned life insurance (if you have an insurance need), an IPP or a retirement compensation arrangement (RCA).

Plan ahead

As part of proactive planning for the future, it's important to understand the significance and potential impact of implementing these strategies to minimize tax and preserve your corporation's net worth. Speak with a qualified tax advisor to determine if any of the tax planning opportunities discussed in this article are suitable for your corporation. In addition to the tax considerations, you should also review your corporation's financial plan to ensure it accurately reflects your investment objectives and business goals.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.



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