Qualified investment regime overhaul: New opportunities for the investment fund industry

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On Nov. 4, 2025 (Budget Day), the Honourable François-Philippe Champagne tabled the federal budget titled “Budget 2025: Canada Strong” (Budget 2025). Budget 2025 includes several notable tax changes, which are more fully described in our main budget analysis.

This Insight focuses only on the proposed changes to the qualified investments regime that were announced in Budget 2025. The proposed changes arose from the consultation (Consultation) that was initiated by “Budget 2024: Fairness for Every Generation,” which had the goal of modernizing the qualified investment rules on a prospective basis to improve the clarity and coherence of the registered plans regime. The Consultation included specific questions for consideration, such as:

- Whether and how the rules relating to investments in small businesses could be harmonized to apply consistently to all registered plans;
- Whether annuities that are qualified investments only for RRSPs, RRIFs, and RDSPs should continue to be qualified investments;
- Whether the conditions that certain pooled investment products must meet to be a qualified investment are appropriate, including the ongoing value of maintaining a formal registration process for registered investments;
- Whether and how qualified investment rules could promote an increase in Canadian-based investments; and
- Whether crypto-backed assets are appropriate as qualified investments for registered plans.

As explained below, the proposed changes to the qualified investments regime announced in Budget 2025 deal with some of the issues that were specifically part of the Consultation. However, some of the issues raised for discussion in the Consultation were not reflected in the proposed changes in Budget 2025 (such as the appropriateness of crypto-backed assets, such as crypto ETFs, for registered plans); there is no indication that the Department of Finance is still actively considering any submissions from the Consultation at this time.

Changes to the qualified investment rules

Investments in small businesses

Budget 2025 proposes to amend the qualified investment regime for investments in small businesses.

There are currently two sets of rules for registered plans that wish to invest in small businesses. The first set of rules permits certain registered plans to invest in specified small business corporations, venture capital corporations, and specified cooperative corporations, while the second set of rules permits certain registered plans to invest in eligible corporations, small business investment limited partnerships, and small business investment trusts. Neither of the two sets of existing rules currently permits RDSPs to invest in small businesses.

Budget 2025 proposes to streamline the qualified investment rules for small business investments by:

- Eliminating the second set of rules for small business investments as qualified investments so that there is only one set of rules; and
- Permitting RDSPs to invest in small businesses under the first set of rules.

These amendments would apply as of Jan. 1, 2027.

New categories of qualified investments for units of a trust

Budget 2025 proposes to introduce two new categories of qualified investments that do not involve registration with the Canada Revenue Agency:

- Units of a trust that is subject to the requirements of National Instrument 81-102 published by the Canadian Securities Administrators; and
- Units of a trust that is an "investment fund" (as defined in the *Income Tax Act* for purposes of the loss restriction rules) managed by a registered investment fund manager as described in National Instrument 31-103 published by the Canadian Securities Administrators.

The two new qualified investment categories for units of a trust would apply as of Budget Day.

Most regulated collective investment vehicles structured as trusts are either subject to National Instrument 81-102, or managed by an investment fund manager that is described in National Instrument 31-103. However, for trust funds seeking to be a qualified investment under the proposed latter category, care should be taken to ensure that the trust qualifies as an "investment fund" for tax purposes.

These new categories will eliminate some of the pressure for investment funds structured as trusts to meet the "mutual fund trust" definition for tax purposes. However, we would note that there remain many other tax advantages to "mutual fund trust" status under the *Income Tax Act* (i.e., other than eligibility for registered plans), which fund managers should consider when structuring their products going forward.

Ending the registered investment regime

Budget 2025 proposes to repeal the registered investment regime as of Jan. 1, 2027. We assume that the decision to repeal the regime is predicated on the fact that most “registered investments” will qualify under at least one of the two new categories of qualified investments for units of a trust (as discussed above). However, given the difficulties at the present time for some trusts to meet the “investment fund” definition for tax purposes, this presumption may not be accurate in all cases. For fund managers that had been relying on the “registered investment” category, it would be prudent to undertake an immediate analysis of their fund’s continued eligibility for registered plans following the repeal of the registered investment regime.

Aside from some trust funds that may not have the benefit of one of the two new categories of qualified investments, the repeal of the registered investment regime is generally a welcome change. In particular, funds that would otherwise be registered investments will no longer need to ensure that they are invested in “qualified investments” in order to avoid penalty taxes. This should remove some of the uncertainty around the permissibility of certain investments, and open up the opportunity for new investments that previously would have been restricted, for these funds.

Providing coherence to the list of qualified investments

To simplify and clarify the qualified investment regime for the various registered plans, Budget 2025 proposes to consolidate the list of qualified investments for all registered plans, except for deferred profit sharing plans, into a single definition in the *Income Tax Act*. The list of qualified investments will also be partially organized by asset class.

BLG can help

If you have any questions on the impact of the proposed changes to the qualified investment rules, please reach out to Grace Pereira, Tony Zhang, or any of the key contacts below.

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