



# TaxNewsFlash

Canada

## Canada Enacts 2025 Budget Measures

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Businesses should be aware that Canada has now enacted many tax measures proposed or confirmed in the 2025 federal budget. These measures implement changes related to transfer pricing, Scientific Research and Experimental Development (SR&ED), substantive Canadian-controlled private corporations (CCPCs), clean economy investment tax credits, the Excessive Interest and Financing Expenses Limitation (EIFEL) rules, accelerated capital cost allowance, trust reporting and lifetime capital gains exemption limit, among others. These measures were included in Bill C-15, which received Royal Assent on March 26, 2026.

Now that these measures have received Royal Assent, affected businesses and individuals should act quickly to identify opportunities and confirm how their tax obligations may be affected. Your KPMG tax adviser can help you determine how to take advantage of business-friendly tax measures or mitigate the effects of other tax changes in these wide-ranging new rules.

### Background

The Department of Finance Canada has proposed many significant business and personal tax measures over the last several years including in the 2025 federal budget. For details, see *TaxNewsFlash-Canada* 2024-17, "[2025 Federal Budget Highlights](#)".

Bill C-15 does not contain certain notable tax measures from the 2025 federal budget, including allowing immediate expensing for manufacturing and processing buildings, eliminating the tax deferral through tiered corporate structures and the changes to qualified investments for registered plans.

## Business tax changes

Canada has enacted many business tax measures included in the 2025 federal budget.

### *Transfer pricing rules*

Bill C-15 overhauls Canada's transfer pricing rules. Specifically, the bill provides for new transfer pricing adjustment rules and documentation requirements. This bill also requires taxpayers to analyze cross-border transactions between non-arm's-length persons based not only on the contractual terms of the transaction or series, but also on other economically relevant characteristics, among other related measures. The revised transfer pricing rules and documentation requirements apply to taxation years beginning after November 4, 2025.

For more details and insights, see TaxNewsFlash-Canada 2025-44, "[MNEs — Prepare for Canada's New Transfer Pricing Rules](#)".

### *SR&ED tax incentive program enhancements*

Bill C-15 enhances the Scientific Research and Experimental Development (SR&ED) program. Specifically, Bill C-15 increases the annual SR&ED expenditure limit to \$6 million (from \$4.5 million, as previously proposed). Moreover, Bill C-15:

- Increases the lower and upper prior-year taxable capital phase-out boundaries to \$15 million and \$75 million (from \$10 million and \$50 million)
- Restores the eligibility of SR&ED capital expenditures for both the deduction against income and investment tax credit components
- Extends the enhanced credit to eligible Canadian public corporations
- Allows CCPCs to elect to have their expenditure limit for the enhanced SR&ED credit determined based on the same gross revenue phase-out structure proposed for Canadian public corporations.

These measures generally apply to taxation years that begin on or after December 16, 2024. For more information, see *TaxNewsFlash-Canada* 2025-41, "[2025 Federal Budget Highlights](#)", and *TaxNewsFlash-Canada* 2025-35 "[Finance Releases Plethora of Draft Legislation](#)".

### *CCPC — FAPI Treatment*

Bill C-15 includes the anti-deferral rules and foreign accrual business income (FABI) regime rules that affect CCPCs and substantive CCPCs which earn investment income indirectly through a controlled foreign affiliate (CFA) as foreign accrual property income (FAPI). Under these rules, such CCPCs will no longer be eligible for the related corporate tax deferral, but qualifying entities may elect to apply the FABI regime to regain access to

the tax deferral on certain types of FAPI. The proposed legislation also includes several consequential changes to address the integration of FAPI.

Notably, Bill C-15 includes amended definitions of FAPI and FAPI surplus that specify how losses of a foreign affiliate are to be treated in computing its FAPI and FAPI surplus.

### *Clean Economy Investment Tax Credits*

Bill C-15 makes changes to various Clean Economy Investment Tax Credits (ITCs), including to:

- Implement the Clean Electricity ITC and expand eligibility for the ITC to the Canada Infrastructure Bank and Canada Growth Fund
- Expand eligibility for the Critical Mineral Exploration Tax Credit for several additional critical minerals
- Extend the full Carbon Capture, Utilization, Storage (CCUS) ITC to 2035 (from the end of 2030) and have lower credit rates apply from 2036 to 2040
- Expand eligibility under the Clean Technology ITC to support the generation of electricity, heat, or both, from waste biomass, and modify eligibility for small nuclear energy property
- Expand the list of critical minerals for the Clean Technology Manufacturing ITC, and expand eligibility to support polymetallic extraction and processing
- Introduce Clean Hydrogen ITC technical amendments.

### *Other changes*

Bill C-15 also includes the following business tax measures:

- Technical amendments to the EIFEL rules including adjusting the definition of adjusted taxable income (ATI)
- Accelerated Investment Incentive (AII) and immediate expensing for certain qualifying assets
- Accelerated CCA for purpose-built rental housing
- Reinstatement of the accelerated deduction for Canadian development expenses and oil and gas property expenses
- Purpose-built rental housing rebate for qualifying cooperative housing corporations and the rebate for new student residences
- Repeal of the *Digital Services Tax Act*

- Authority for the CRA to waive the withholding requirement for payments to certain non-resident service providers (Regulation 105)
- Elimination of the Underused Housing Tax (UHT) for 2025 and subsequent years
- Elimination of the Luxury Tax on subject aircraft and vessels
- International shipping business of Canadian resident corporations
- Various technical amendments.

## Trust tax changes

### *Trust reporting rules*

Bill C-15 includes several measures related to the trust reporting rules. Specifically, Bill C-15 includes the exceptions for listed express trusts from filing a T3 trust return and the prescribed Schedule 15 beneficial ownership information. Most of these provisions apply to taxation years that end after December 30, 2025, with some applying to taxation years after December 30, 2024.

Bill C-15 also includes proposed legislation to change the loss carry back rules to extend the period for which an election can be made under both subsection 164(6) (capital loss) and 164(6.1) (stock options) to the first three taxation years (from the first taxation year). In addition, the requirement to file an amended final T1 return of the deceased is modified to a requirement to file a prescribed form amending the final T1 return of the deceased. This amendment applies to taxation years and graduated rate estates of individuals who died on or after August 12, 2024.

## Personal Tax changes

The bill includes many personal tax measures announced or confirmed in the 2025 federal budget, including measures related to:

- Increasing the Lifetime Capital Gains Exemption limit to \$1.25 million for eligible capital gains on dispositions on or after June 25, 2024
- Alternative Minimum Tax (AMT) exemption for certain trusts that are for the benefit of Indigenous groups and for donations of flow-through share class of property
- Eligible small business corporation share rollover - no longer limited to common shares only (i.e., preferred shares now qualify)
- \$10 million capital gains exemption for sales to Employee Ownership Trusts (EOT) or Worker Cooperatives

- Excluding non-resident trusts and graduated rate estates (GREs) from the cross-border surplus stripping rules for dispositions after February 26, 2018
- Excepting a residential property that is an individual's residence from the requirement to withhold and remit Part XIII tax on rent paid by an individual (excluding trusts that are not graduated rate estates) to a non-resident landlord
- Extending the Mineral Exploration Tax Credit (METC) for individuals who invest in eligible mining flow-through shares for two years to March 31, 2027
- Extending the eligible charitable donation deadline for the 2024 taxation year
- Top-up Tax Credit
- Personal Support Workers Tax Credit
- Expanding the Disability Supports Deduction
- Exempting the Canada Disability Benefit from income
- Changes to improve the efficiency of the Home Accessibility Tax Credit
- Various other technical amendments.

#### **Tax accounting**

The business income tax measures included in Bill C-15 are considered substantively enacted for IFRS Accounting Standards and ASPE purposes on February 26, 2026, the date the bill passed third reading, as Canada has a minority government. These measures are considered enacted for U.S. GAAP on March 26, 2026, the date Bill C-15 received Royal Assent.

#### **We can help**

Your KPMG adviser can help you assess the effect of these new developments. For more details, contact your KPMG adviser.

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