



TaxNewsFlash

Canada

Highlights of the 2026 Federal Spring Economic Update

April 28, 2026

No. 2026-27

Canada's Finance Minister delivered the 2026 Spring Economic Update on April 28, 2026. The Update anticipates a deficit of \$66.9 billion for 2025-26 and projects deficits of \$65.3 billion for 2026-27 and \$63.1 billion for 2027-28. The Update, which does not include any new changes to the corporate or personal income tax rates, provides details on the accelerated capital cost allowance (CCA) for eligible liquefied natural gas (LNG) equipment and facilities, and updates the design of the Carbon Capture, Utilization, and Storage (CCUS) tax credit. The Update also makes permanent the capital gains tax exemption on the sale of a business to an employee ownership trust and workers cooperative, extends the temporary grace period under the home buyers' plan and revises the application process for the Disability Tax Credit, among other changes.

Business tax changes

CCA for eligible LNG equipment and facilities

The 2026 Spring Economic Update includes implementation details on reinstating the accelerated CCA for eligible LNG equipment and related buildings for low-carbon LNG facilities. For certified LNG facilities, the accelerated CCA rates would be available for eligible assets acquired on or after November 4, 2025 and up to the end of 2034.

The Update notes that the reinstated rules for accelerated CCA for LNG equipment and related buildings would very generally apply in the same way as the previous measures that expired at the end of 2024. Specifically, certain Class 47 property (50% CCA rate) and Class 1 property (10% CCA rate) would be eligible for the additional CCA allowance, but not equipment used exclusively for regasification or property acquired for the production of

oxygen or nitrogen, electrical generating equipment, or property consisting of a breakwater, dock, jetty, wharf or similar structure.

The Update advises that these additional CCA allowances can only be claimed against certain income of the taxpayer that was attributable to the liquefaction of natural gas at that facility. Where a taxpayer is not engaged exclusively in the operation of a liquefaction facility, their income attributable to the liquefaction of natural gas would be determined as though the liquefaction facility were a separate business of the taxpayer, and the cost to the taxpayer of natural gas that is owned by the taxpayer before it enters into the facility was equal to its fair market value at that time.

The Update notes that, to claim the accelerated CCA rates, an LNG facility must first be certified by the Minister of Energy and Natural Resources. To be certified, LNG facility owners must submit a one-time report prepared by a qualified third-party Canadian engineering firm that provides information on expected emissions intensity, among other things.

Investment Tax Credit for CCUS

The Update expands the CCUS refundable tax credit to enhanced oil recovery (EOR) as an eligible end use for captured CO₂. The Update provides additional details of the design of the CCUS tax credit, including to note that capture and transportation equipment of a qualified CCUS project that stores CO₂ through EOR would generally be eligible under the CCUS tax credit, as well equipment required to inject and store CO₂ through EOR. This credit is also available on certain mixed-use projects. This measure would apply as of April 28, 2026, subject to the designation of the jurisdiction.

The Update states that the effective tax credit rates for EOR are 50% of the standard CCUS tax credit rates set out for dedicated geological storage or storage in concrete, as follows:

Effective CCUS Tax Credit Rates for EOR		
	April 28, 2026 to December 31, 2035	January 1, 2036 to December 31, 2040
Eligible capture equipment used in a direct air capture project	30%	15%
All other eligible capture equipment	25%	12.5%
Eligible transportation, storage, and use equipment	18.75%	9.375%

The Update provides additional details on the design of the credit including:

- *Storage requirements* — The storage of captured CO₂ through EOR would contribute to a project's eligible use only in jurisdictions where there are sufficient regulations to ensure that at least 95% of the CO₂ is permanently stored, and the

designation of EOR-eligible jurisdictions would follow the same process as for dedicated geological storage under the existing CCUS tax credit rules.

- *Recovery of tax credit* — The recovery mechanism that applies to EOR would be based on the actual amount of CO₂ sent to EOR over each five-year period.
- *Related adjustments to other clean economy investment tax credits* — EOR would be recognized as a form of CO₂ storage under the Clean Hydrogen investment tax credit for the purposes of a project's carbon intensity calculation, in a manner similar to dedicated geological storage.

The Update notes that additional details on equipment eligibility will be made available through technical guidance published by Natural Resources Canada.

Electric Vehicle Affordability Program (EVAP)

The Update designates the Electric Vehicle Affordability Program (EVAP) as a prescribed program under 1102(26) of the *Income Tax Regulations*, effective February 16, 2026. As a result, businesses will not be permitted to claim both an EVAP rebate and immediate expensing for the same electric vehicle, consistent with the tax treatment under the former Incentives for Zero-Emission Vehicles (iZEV) program.

Personal tax changes

Employee ownership trust and workers cooperative tax exemption

The Update makes permanent the tax exemption for individuals (other than trusts) on up to \$10 million in capital gains realized on the sale of a business to an employee ownership trust or worker cooperative corporation, subject to certain conditions. This exemption, which was introduced as a temporary measure, previously applied to qualifying dispositions of shares that occur after 2023 and up to the end of 2026.

Home buyers' plan

The Update extends the temporary five-year grace period (previously two years) before Home Buyer's Plan repayments must begin, to withdrawals made on or before December 31, 2028 (from December 31, 2025). As a result, the 15-year repayment period would start the fifth year following the year in which a first withdrawal was made.

Labour mobility deduction for tradespeople

The Update increases the maximum amount of eligible temporary relocation expenses that tradespeople can deduct in a year under the labour mobility deduction to \$10,000 (from \$4,000) in 2026, with annual indexation thereafter. The Update also modifies the deduction's distance rule so that the temporary lodging must be at least 120 (from 150) kilometres closer to each temporary work location than the taxpayer's ordinary residence. This measure applies to the 2026 and subsequent taxation years.

Disability Tax Credit — Long-lasting medical conditions

The Update streamlines the Disability Tax Credit application process for individuals with certain long-lasting medical conditions. This change, which affects more than 40 conditions, does not affect the disability criteria to qualify for the credit. The Update:

- Provides that a qualified medical practitioner would only need to certify on the credit application that the individual has the medical condition (instead of certifying that the individual's impairment is severe and prolonged and that its effects meet the legislated thresholds regarding daily living impacts), effective for Disability Tax Credit (DTC) certifications issued for the 2026 and subsequent taxation years.
- Expands the types of qualified medical practitioners that may certify impairments for the purposes of the Disability Tax Credit, effective for DTC certifications issued after 2026 for the 2027 and subsequent taxation years.
- Allows provincial or territorial public guardians, trustees, and curators to generally certify that certain individuals have a valid certificate of incapacity (or equivalent document) issued by a healthcare professional for purposes of the Disability Tax Credit application form, effective for DTC certifications issued for the 2026 and subsequent taxation years
- Allows Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs Canada to provide similar certification for adult dependants in their care for 2026 and subsequent taxation years.

Apprenticeship training

The Update introduces a new and redesigned Apprenticeship Grant that provides apprentices with a weekly income top-up of \$400 per week while they are attending mandatory in-class technical training. This grant results in a total payment of up to \$16,000 per apprentice, paid in addition to Employment Insurance. The Update also provides a one-time \$5,000 bonus to apprentices obtaining certification in a Red Seal trade, and provides income supports for individuals between training and work.

Canada Pension Plan

The Update announces the government intends to amend the Canada Pension Plan to implement a reduction in the base CPP contribution rate to 9.5% (from 9.9%), effective January 1, 2027.

Employment insurance

The Update extends the temporary measure that provides up to five additional weeks of Employment Insurance regular benefits to seasonal claimants in 13 regions, until October 2028.

Administrative changes and consultations

The Update announces the following tax administrative changes and consultations:

- The government will hold a stakeholder consultation on extending the Canadian Journalism Labour Tax Credit to audio and audiovisual news production, with further details on the consultation process to be released on Finance's website.
- The government will consult with key stakeholders and relevant agencies on plans to modernize the framework for the charitable sector in 2026-27.
- The CRA will prioritize requests for advance income tax rulings related to large-scale, nation-building projects (e.g., housing and infrastructure), projects of national importance, clean economy initiatives and projects that may benefit from Canada's clean economy investment tax credits.

Outstanding measures

In the Update, Finance confirms its intention to proceed with a broad range of other previously announced tax measures including notable changes or new rules related to:

- Tax Deferral Through Tiered Corporate Structures
- EIFEL Elective Exemptions — Purpose-built rental housing and regulated energy utility business
- Immediate Expensing for Manufacturing and Processing (M&P) Buildings
- Second Package of Hybrid Mismatch Arrangements rules
- *Global Minimum Tax Act* (GMTA) - Undertaxed Profits Rule (UTPR) and de-consolidation rule.

KPMG observation

Shortly after the Update was tabled, Finance released proposed legislation for immediate expensing for greenhouse buildings, as well as other measures announced in the Update, on April 28, 2026.

We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's Spring Economic Update on your personal finances and business affairs. We can also keep you abreast of the progress of these proposals as they make their way into law.

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