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TaxNewsFlash

Canada

Canada Responds to U.S. 50% Tariffs

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Canadian businesses should review the latest countermeasures announced by Canada and determine the impact on their supply chains and transfer pricing policies, and if they may benefit from new support measures. Canada announced new tariff measures on August 25, 2026 that will match the new U.S. tariffs dollar-for-dollar by tariffing $27.6 billion of comparable U.S. goods, starting September 8, 2026. These countermeasures are in response to the United States' 50% Section 338 tariffs on a wide range of imported goods from Canada that the United States imposed effective August 22, 2026. Canada's countermeasures are intended to help businesses and workers in Canada affected by these new U.S. tariffs.

The new Canadian 15%, 25% and 50% counter tariffs on goods targeted by U.S. Section 338 and Section 232 tariffs are concentrated in various sectors including steel and aluminum, fishery products, dairy, appliances, agricultural equipment, pulp and paper, plastics, and electronics. For example, existing counter tariffs on steel and aluminum will increase from 25% to 50% to match U.S. rates.

Canada also announced a $7.5 billion package to help workers and businesses. This package includes significant grants and interest free loans for impacted small and medium sized businesses through regional development funds, increased funding for BDC loans to small and medium sized businesses, and an expansion of the tariff Strategic Response Fund. Beyond assistance to business, Canada is assisting workers and employers by expanding three 2025 Employment Insurance (EI) measures that were set to expire October 10, 2026, and expanding employee retention and retraining programs designed to help keep employees on payroll through these difficult times.

Incidentally, Canada did not reintroduce the Digital Services Tax that was canceled in 2025 to accommodate trade negotiations at that time and did not extend the fuel tax holiday that is set to expire on September 8, 2026.

These new Canadian tariffs may have a broad and significant effect on many Canadian businesses' supply chains. Your KPMG adviser can help you assess the effect of these new tariff measures by providing insights, using KPMG's Tariff Modeler, into different supply chain scenarios and potential new markets. We can also help determine if your business may be eligible for tariff relief under a Canadian remission order or other customs duty deferral or drawback programs. In addition, relief under other federal and provincial business programs may be available. Your KPMG adviser can also assist you in assessing your current transfer pricing policies to help mitigate the effects of new tariffs.

Canada's new 15%, 25%, and 50% counter tariffs

Canada announced counter tariffs that will apply to a long list of imported goods from the United States, covering $27.6 billion in imports. The imported goods subject to the new Canadian 15%, 25%, and 50% tariffs include over 850 tariff items, such as a variety of fish and seafood, milk, cream, cheese, floor coverings, wood products, paper goods and paperboard, clothes, iron, steel, aluminum, screws, bolts and nuts, appliances, cutlery, base metal mountings, air or vacuum pumps, air conditioning machines, machinery and tools, telephone sets (e.g., smartphones), monitors and projectors, cosmetics, trailers and semi-trailers, video game consoles, and exercise equipment.

Canada has noted that the new tariffs apply to goods originating from the United States (i.e., based on the "country of origin" rule), and would not apply to U.S. goods that are in transit to Canada on September 8, 2026 (i.e., the day the tariffs come into force).

KPMG observations
It is important to note that it is unlikely Canada intends to raise significant revenue from these countermeasures. Rather, they appear to be intended to force businesses and consumers to seek out substitute goods originating from Canada or one of our other trading partners. This may explain the focus on food products (e.g., dairy, fish) and on end-user focused goods (e.g., appliances, cutlery, cosmetics, video game consoles).

The United States has senatorial elections in November, and Maine (currently represented by a Republican) is a battleground state. It is likely not coincidental that a significant number of goods subject to the new Canadian tariffs are fish products, a significant industry in Maine, and one that relies on processing done in Canada.

Business and EI support for workers

As part of today's announcement, Canada also announced various new and extended support measures for businesses and workers, which appears to focus on small and medium sized businesses. These measures include, among others, EI support for workers and non-tax measures (e.g., loans and grants).

Canada announced the following EI measures:

- Extend for one year the temporary EI measure that waives the 1-week waiting period
- Extend for one year the temporary EI measure that allows workers to receive EI benefits without first using up their separation payments (such as severance or vacation pay)
- Extend for another 8 months the temporary EI measure that provides an extra 20 weeks of EI regular benefits for long-tenured workers
- Introduce a new temporary measure for one year so that workers who have voluntarily left jobs in recent months are no longer penalized when they want to access EI, as long as their most recent job loss is through no fault of their own.

Canada also announced new financial supports for Canadian businesses impacted by tariffs, including to:

- Provide additional funding through Regional Development Agencies, in which eligible small and medium sized businesses will have access to up to $3 million in non-repayable contributions, with additional interest free loans of up to $2 million
- Expand BDC programs for loans to eligible businesses ranging from $250,000 to $5 million with interest only payments over 36 months
- Expand the Strategic Response Fund with an additional $2 billion to provide assistance to companies with shovel-ready projects with a fast-track approval process.

Businesses should ensure they move quickly to access these business support measures.

Take action now

Trade and customs considerations

Affected Canadian businesses should act quickly to consider how today's new Canadian tariffs may impact their supply chains and business transactions, as well as assess how they may proactively help reduce risks. Specifically, affected businesses may want to:

- Ensure appropriate clauses are included or adjusted in sales agreements (e.g., all-inclusive contracts) dealing with sales into the United States so that any potential tariff costs can be passed on to purchasers

- Review customs bonds, as they may now be insufficient to cover all the applicable duties and other customs fees. Having an insufficient bond could delay customs clearances until the issue is resolved

- Review their import and export pricing to ensure all statutory deductions allowable under customs valuation rules are properly applied to declarations at the border to ensure the lowest possible base upon which the tariffs would be calculated

- Review their supply chains to determine if they are still efficient and effective in the current tariff environment

- Determine if any of their imported goods from the United States have no reasonable alternative substitute in Canada or from other trading partners (e.g., due to intellectual property restrictions or stringent specifications) and consider if it may be viable to bring a remission application for refund of duties

- Check to see if any imported items on which duty is payable may be used in the manufacture of goods in Canada for export, and if the business can adequately prove that the imports were consumed in making the goods for export. There may be a possibility for reduction or elimination of duty liability through drawback or deferral programs

- Verify if the materials sent to the United States for further manufacturing before being re-imported may qualify for any duty preference programs to reduce potential duty exposure.

KPMG observations
The Canadian countermeasures represent a significant but calibrated response to the new U.S. 50% Section 338 tariffs. While some businesses will be forced into bearing the cost of these tariffs, the tariff list appears tailored to incentivize importers into finding alternative sources of supply at home and from other countries.

However, finding such alternatives for some goods on the tariff list may be challenging given the integrated North American market. In addition, businesses may need to assess the tariff impact on certain goods that cross the border multiple times during the manufacturing processes. Companies should carefully consider whether any drawback or deferral opportunities exist to help mitigate duty liabilities.

Transfer pricing considerations

The new Canadian and U.S. tariffs on imported goods will disrupt existing transfer pricing policies for certain multinational enterprises. The CRA and other tax authorities may increasingly scrutinize businesses' transfer pricing policies, particularly where profits have been shifted from one country to another and replaced with significant losses because of these high tariffs. As transfer pricing policies may have an immediate impact on customs valuations, multinational businesses only have a short time to reconsider their transfer pricing policies to ensure that they are consistent with Canada's new transfer pricing rules, customs valuation rules, and income tax rules requiring consistency between the transfer prices and customs valuations of goods crossing borders.

We can help

KPMG Canada is following these developments closely. Your KPMG adviser can help you assess the effect of any potential tariffs and discuss ways to help mitigate their impact. With the use of KPMG's Tariff Modeler we can provide real-time insights into your trade data, empowering your organization to work in collaboration with our professionals to proactively navigate the complexities of tariffs. For more details, contact your KPMG adviser.