TaxNewsFlash
Canada

New Investment Deduction Expands Immediate Expensing

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Canadian businesses will generally be able to immediately expense the full cost of most depreciable property acquired on or after September 15, 2026, following Finance's recent announcement. The new Productivity Mega Deduction, which was announced on September 15, 2026, significantly expands the Productivity Super-Deduction announced in the 2025 federal budget and supersedes many of the previous CCA measures. The proposed deduction generally allows taxpayers to write off the cost of many additional capital investments in the year that they become available for use. This measure also includes special rules for liquefied natural gas (LNG) facilities and Canadian development expenses (CDE).

The Productivity Mega Deduction is welcome news for businesses as it significantly broadens access to immediate expensing and may accelerate tax deductions for businesses that make substantial capital investments. Although certain types of property remain ineligible, including buildings and certain vehicles, businesses that have been considering major equipment, technology, infrastructure or resource-sector investments should now determine whether planned acquisitions may qualify for immediate expensing.

Background
Finance introduced the Productivity Super-Deduction in the 2025 federal budget. This deduction, which has partially been superseded by the new announcement, provided immediate expensing to certain investments in capital assets, including:

- Machinery, equipment, and buildings used for manufacturing and processing

- Clean energy generation and energy conservation equipment
- Zero-emission vehicles
- Patents
- Data network infrastructure
- Computers
- Capital expenditures for scientific research & experimental development.

According to Finance, the new deduction expands immediate expensing to more than 65% of investments in capital assets, compared to about 15% under the Productivity Super-Deduction. For details on the Productivity Super-Deduction, see *TaxNewsFlash-Canada* 2025-41, "2025 Federal Budget Highlights".

Eligible property and expenses

Under this new deduction, taxpayers that make capital investments in Canada can immediately expense many additional types of depreciable property. The deduction applies to all capital property that is subject to the CCA rules acquired on or after September 15, 2026, with certain exceptions for:

- Buildings included in CCA classes 1 and 3, including manufacturing and processing buildings and additions to buildings
- Property included in CCA classes 14 and 14.1, such as franchises, licenses and goodwill
- Property included in CCA class 51, such as regulated natural gas distribution pipelines
- Certain vehicles in classes 10 and 10.1, effectively restricting eligibility to qualifying new Canadian-assembled vehicles
- An industrial mineral mine (or a right to remove industrial minerals from such a mine)
- A timber limit or right to cut timber, other than a timber resource property
- Qualified liquefication equipment.

KPMG observations
Although manufacturing and processing buildings are not eligible for the Productivity Mega Deduction, these buildings would still be eligible for temporary immediate

expensing as previously announced in the 2025 federal budget. Generally, this measure provides a 100% CCA deduction rate on the cost of eligible manufacturing or processing buildings, including eligible additions or alterations, effective for eligible property acquired on or after November 4, 2025 and used for manufacturing and processing before 2030.

The other excluded assets would continue to be eligible for the temporary Reaccelerated Investment Incentive also announced in the 2025 federal budget. However, property that qualifies as immediate expensing property under the Productivity Mega Deduction will no longer qualify for the Reaccelerated Investment Incentive regime, preventing taxpayers from claiming multiple enhanced capital cost recovery incentives on the same asset.

Canadian development expenses

Under this new change, businesses that incur Canadian development expenses will also be able to immediately claim the deduction for expenses incurred on or after September 15, 2026. Previously, these expenses had to be claimed over time.

Special eligibility rules

Used property and rollover transactions

Although the new deduction generally applies to both new and used property (other than vehicles), used property will qualify only where neither the taxpayer nor a non-arm's-length person previously owned the property and the property was not transferred to the taxpayer on a tax-deferred rollover basis.

Individuals and partnerships

In addition, the deduction includes rules to prevent individuals, and partnerships with members who are individuals and trusts, from creating or increasing a loss through the immediate expensing rules. If the taxpayer is not a corporation or an eligible partnership, the deduction is limited to the lesser of the immediate expensing otherwise available and income earned from business or property.

LNG facilities

The new deduction provides immediate expensing for LNG facilities that invest in Class 47 liquefaction equipment through an additional allowance that effectively increases the CCA deduction rate to 100%. However, this allowance can only be claimed against income that is attributable to the liquefaction of natural gas at that facility. This change, which modifies the Productivity Super-Deduction (which previously announced a 50% CCA deduction rate for Class 47 assets), is available for eligible assets acquired on or after November 4, 2025.

Further, LNG facilities will no longer be required to satisfy the emissions intensity requirement proposed in the Spring Economic Update 2026 to qualify for either immediate expensing for Class 47 liquefaction equipment or the accelerated CCA for eligible Class 1 non-residential buildings.

Finance advises that the 10% accelerated CCA rate, as proposed in the Spring Economic Update 2026, for eligible LNG facility buildings will continue to apply.

KPMG observations
Previously, Finance announced it would reinstate the accelerated CCA for eligible LNG equipment and related buildings for low-carbon LNG facilities. For details, see *TaxNewsFlash-Canada* 2026-27, "Highlights of the 2026 Federal Spring Economic Update".

We can help

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