



TaxNewsFlash

Canada

2026 Federal Budget — Are You Ready for Tax Changes?

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Canada's 2026 federal budget will be released on November 5, 2026. In the lead-up to budget day, there is often considerable speculation on what measures Finance may be considering. Although the government has broadly signalled that this year's budget may focus on themes such as affordability, attracting investment to Canada and new infrastructure initiatives, any specifics about upcoming changes are usually kept under wraps until the budget is released.

One potential source of clues about the government's budget priorities is the pre-budget report by the House of Commons Standing Committee on Finance (Finance Committee). This annual report, which is based on feedback from stakeholders, including industry groups, as part of the budget consultation process, typically recommends a range of tax measures for Finance to consider when preparing the budget. This year, the Finance Committee's report recommends that Finance consider changes to undertake a comprehensive review of Canada's tax system and expand federal investment tax credits including clean economy investment tax credits, among other suggested measures.

Catch KPMG's budget coverage

Whatever tax changes are announced in this year's budget, your KPMG adviser can help you understand their effect on your personal finances or business affairs, and point out ways to ease their impact or recognize new opportunities. You can [register for our budget highlights webcast](#) planned for the day after the budget. Ensure you are [subscribed to TaxNewsFlash-Canada](#) to receive tax highlights from our special federal budget edition of *TaxNewsFlash-Canada* available shortly after the budget is released or access it on our [website](#).

Complete tax-sensitive transactions before budget day

As with any budget, the government may make unexpected announcements that could affect your personal or business tax situation. Since federal budgets often propose measures that take effect on budget day, your best defense against adverse tax changes is to complete or close all tax-sensitive transactions before budget day, providing that doing so makes sense from an investment and business perspective.

Possible tax changes — 2026 federal budget

As part of its upcoming federal budget, Finance could announce measures affecting the following areas:

- Business tax
- Clean economy tax
- Innovation incentives
- Personal tax
- Charities and non-profit organizations
- Indirect tax
- Other changes

In KPMG's annual pre-budget survey, more than six in 10 (62%) of Canada's business leaders say the most pressing issue facing Canada's economy that the upcoming federal budget should take into account is the impact of the Canada–U.S. trade conflict and tariffs. Additionally, the survey indicates that while leaders consider targeted tax incentives to be important, they are not enough on their own to boost productivity and ensure Canada's tax system is fit for a changing economy. As a result, nearly nine in 10 (87%) want the federal government to conduct a comprehensive review of Canada's tax system, while 85% feel Canada's tax system should be simplified to reduce complexity and 82% feel Canada needs to make the tax system more competitive. For details, see [KPMG's survey results](#).

Business tax

Federal investment tax incentives

In this year's budget, Finance could consider changes to modernize federal investment tax incentives. In its pre-budget report, the Finance Committee recommends that Finance consider ways to simplify eligibility requirements for these incentives and improve access for small and medium-sized enterprises (SMEs). In addition, Finance recommends establishing a permanent and refundable investment tax credit (ITC) framework for productivity-enhancing investments in advanced manufacturing, digital infrastructure,

artificial intelligence (AI), clean technologies, and strategic domestic food production, processing, storage and distribution infrastructure.

CCA and immediate expensing

The Finance Committee also recommends that Finance make permanent the accelerated capital cost allowance (CCA) regime for productivity-enhancing investments.

KPMG observation

Note that Finance recently proposed a permanent Productivity Mega Deduction (see *TaxNewsFlash-Canada* 2026-41 "[New Investment Deduction Expands Immediate Expensing](#)") which appears to address this recommendation.

Flow-through share financing

The report also recommends that sedimentary rock phosphate be added to the *Income Tax Act* definition of "mineral resource." This recommendation would enable access to flow-through share financing and ensure consistent eligibility for federal exploration incentives.

Tax on Internet Service Providers

The Finance Committee recommends that Finance introduce a tax on internet service providers.

Canadian Journalism Labour Tax Credit

Finance could use the upcoming budget to introduce new enhancements to the Canadian Journalism Labour Tax Credit. The Finance Committee report recommends that Finance consider broadening eligibility for this credit to owner-operators, employees in broadcasting and partners in news businesses.

KPMG observation

Earlier in 2026, the government held a consultation on extending the Canadian Journalism Labour Tax Credit to audio and audiovisual news production. For details, see *TaxNewsFlash-Canada* 2026-27, "[Highlights of the 2026 Federal Spring Economic Update](#)".

Clean economy tax

Clean Economy Investment Tax Credits

Finance may make further adjustments to the clean economy investment tax credits (ITCs) that have been introduced over the last few years. Among other targeted recommendations, the Finance Committee suggests that Finance should:

- Extend the Clean Economy ITCs to at least 2040 (most are currently scheduled to end or begin phasing out by 2035)
- Expand eligibility for these credits to include intra-provincial transmission and electrical distribution equipment
- Introduce a domestic content adder to incentivize the procurement of made-in-Canada goods

The Finance Committee also recommends specific changes to the following Clean Economy ITCs:

- Clean Technology ITC — Allow certain heat pumps and integrated systems that combine different eligible projects to qualify under the definition of "Clean Technology Property", and make clean fuel production equipment eligible for the credit
- Clean Hydrogen ITC — Clarify and enhance the Clean Hydrogen Investment Tax Credit, including to expand eligibility to derivatives and affiliated assets.

In addition, the Finance Committee recommends introducing a resiliency tax credit or a targeted funding program to support the weather hardening of electricity infrastructure and to protect against growing exposure to extreme weather events, including wildfires.

Innovation incentives

Defence and dual-use technology

In its report, the Finance Committee also recommends that Finance consider allowing defence and dual-use technology businesses to be eligible for the flow-through shares regime. If this change is introduced, companies operating in these sectors could gain access to additional tax-assisted financing opportunities.

Patent box regime

Another potential budget measure that has received favourable attention in recent years is the establishment of a "patent box" regime. Under this potential change, income from patents and other intellectual property generated by activity in Canada would be subject to a lower corporate income tax rate. While this measure doesn't appear in this year's

Finance Committee report, it has been recommended in the past and Finance undertook a stakeholder consultation on creating a patent box regime in 2024.

KPMG observation

Quebec and Saskatchewan have provincial patent box regimes, while British Columbia announced consultations on a potential patent box regime targeted at the life sciences sector in its 2026 provincial budget. For details, see *TaxNewsFlash-Canada* 2026-27, "[Highlights of the 2026 British Columbia Budget](#)".

SR&ED enhancements

The Finance Committee recommends that Finance continue to advance the SR&ED enhancements first announced in the 2025 federal budget.

KPMG observation

These earlier changes, which have already been enacted, include measures to increase the expenditure limit for the enhanced 35% SR&ED tax credit to \$6 million (from \$4.5 million, as previously proposed). For details, see *TaxNewsFlash-Canada* 2026-20, "[Canada Enacts 2025 Budget Measures](#)".

Canadian musical works

The report suggests that Finance could introduce incentives for the use of existing Canadian musical works in audiovisual productions, including making synchronization licenses eligible for federal tax credits.

Personal tax

Home improvement tax credit

In its report, the Finance Committee recommends that Finance consider introducing a new permanent refundable home improvement tax credit. This credit would be available for eligible renovations that improve energy efficiency, climate resilience, accessibility, and housing quality.

Federal Renters' Tax Credit

The Finance Committee also suggests that Finance establish a refundable, income-tested Federal Renters' Tax Credit that would be integrated into existing tax benefit programs.

Canada Caregiver Credit

Finance could follow the Finance Committee's recommendation to make the Canada Caregiver Credit refundable to ensure family caregivers receive its full value regardless of their taxable income.

Disability Tax Credit and Child Disability Benefit

The Finance Committee also recommends that Finance:

- Modernize the Disability Tax Credit
- Add multiple sclerosis to the streamlined Disability Tax Credit application pathway for long-lasting medical conditions
- Double the Child Disability Benefit to help offset the additional costs associated with disability-related care and support.

Charities and Non-profit organizations

Sector-based contribution for new dedicated social sector fund

The report recommends that Finance establish a dedicated social sector fund through introducing either a new 0.025% annual levy on unused foundation assets or a 1% tax on foundation investment income on the charitable and non-profit sector. Under this change, contributions would count towards Disbursement Quota obligations.

Indirect Tax

Beer and breweries

The Finance Committee recommends that Finance create a gradual excise tax schedule for breweries producing between 15,000 and 500,000 hectolitres, and make the reduced excise tax rate on the first 15,000 hectolitres of beer production permanent and expand the definition of a craft brewery from 75,000 to 500,000 hectolitres.

Other changes

Review of tax system

As in prior years, the Finance Committee recommends that Finance undertake a comprehensive review of Canada's tax system. According to this year's report, this review could focus on reducing certain taxes to improve productivity, economic growth, and competitiveness. The Finance Committee suggests that Finance should consider fiscally neutral reforms that place greater reliance on consumption-based taxation offset through refundable tax credits and targeted income supports.

CPA Ontario, like other organizations, made a similar suggestion in its September 2026 budget submission to Finance. Specifically, CPA Ontario recommended that the government commit to an independent and comprehensive review of the Canadian tax system and noted that the last comprehensive review occurred in the 1960s through the Carter Commission. In addition, CPA Ontario recommended that the review consider a revenue-neutral shift in the tax mix, reduce reliance on economically harmful taxes, and expand the role of consumption taxes.

KPMG observation

Finance consulted with stakeholders throughout the year on many tax measures. In particular, it will be interesting to see whether the 2026 federal budget includes any proposals arising from recent consultations, such as the consultation on the potential introduction of a domestic content requirement for the Clean Technology and Clean Electricity investment tax credits.

In addition, Finance could propose additional trade-related measures in the 2026 federal budget aimed at increasing Canada's competitiveness. The government continues to consult with stakeholders on tariffs and other initiatives intended to support Canadian businesses facing trade uncertainty and strengthen domestic supply chains.

We can help

Your KPMG adviser can help you assess the effect of the tax changes in the upcoming federal budget on your personal finances or business affairs, and point out ways to realize any benefits or ease their impact. We can also keep you abreast of the progress of these proposals as they make their way into law.

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