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Productivity Mega Deduction: Canada Expands Immediate Expensing to Accelerate Capital Investments and Bolster Canada’s Tax Competitiveness

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As part of the federal government's efforts to encourage investment in Canada, Prime Minister Mark Carney announced the new Productivity Mega Deduction on September 15, 2026 at the inaugural Canada Investment Summit.[1]

The proposed measure would allow taxpayers to immediately write off most eligible depreciable property acquired on or after September 15, 2026, in the year the property becomes available for use, rather than deduct the cost over a number of years under the capital cost allowance (CCA) system.

If enacted, the Productivity Mega Deduction would significantly expand Canada’s immediate expensing regime and improve the economics of investing in capital-intensive projects in Canada. The Department of Finance estimates that the measure will have an incremental cost of $36 billion over five years beginning in 2026-2027 and will reduce Canada’s marginal effective tax rate (METR) on business investment from 13% to 6.4%, compared with a 16.9% METR in the United States and an OECD average of 19%.

What is New?

Budget 2025 introduced the “Productivity Super-Deduction” which combined previously announced and new immediate expensing and accelerated depreciation measures. The Productivity Mega Deduction would provide immediate expensing to a wider scope of eligible property. The federal government estimates that the Productivity Mega Deduction will increase the proportion of capital investment eligible for immediate expensing from approximately 15% under the Productivity Super-Deduction to 65%. Eligible property includes a broad range of infrastructure, technology, transportation and resource-sector assets, including fibre-optic cable, mining property, oil and gas pipelines, software, research and development, computer equipment, aircraft and vehicles, patents, rail track, bridges, and roads.

Effect of Proposed Measure

The Productivity Mega Deduction would allow taxpayers that acquire eligible depreciable property on or after September 15, 2026, to claim a 100% CCA deduction in the year the property becomes available for use. Unlike previous accelerated depreciation measures, which have been temporary, this is proposed as a permanent measure with no sunset date. This should provide greater certainty for businesses undertaking long-term capital investments by allowing them to factor immediate expensing into investment decisions without concern that the incentive will expire.

Canadian development expenses (CDE) incurred on or after September 15, 2026, would also be eligible for immediate expensing, including CDE deemed to have been incurred as a result of a renunciation under a flow-through share agreement entered into on or after September 15, 2026. This is a welcome measure particularly for resource companies engaged in capital intensive projects as the previous Productivity Super-Deduction did not provide immediate expensing of CDE.

Eligible Assets and Restrictions

The broad scope of eligible property is a key feature of the Productivity Mega Deduction. Subject to certain exclusions, immediate expensing will generally be available across a wide range of industries and asset classes, substantially expanding the availability of accelerated tax depreciation in Canada. In particular, the proposed rules would generally apply to all depreciable capital property, except for:

- buildings (and additions to buildings) included in CCA classes 1 and 3;
- property included in CCA classes 14 and 14.1 (e.g., franchises, licenses and goodwill);
- property included in CCA class 51 (e.g., regulated natural gas distribution pipelines);
- certain vehicles in CCA classes 10 and 10.1;
- qualified liquefaction equipment;
- an industrial mineral mine or a right to remove industrial minerals from an industrial mineral mine; and
- a timber limit or a right to cut timber from a limit, other than a timber resource property.

The previously announced temporary Accelerated Investment Incentive would continue to be available for any property that is not eligible for immediate expensing under the Productivity Mega Deduction.

With respect to property that was previously used or was acquired for use for any purpose, such property would not benefit from immediate expensing if it was previously owned by a non-arm’s length person or if it was transferred to the taxpayer on a tax-deferred basis. Additional rules would prevent individuals, and partnerships with members who are individuals, from using the Productivity Mega Deduction to create or increase a loss from a business or property.

The Productivity Mega Deduction also introduces special rules for the immediate expensing and accelerated depreciation of equipment and non-residential buildings used in liquefied natural gas facilities.

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Cassels Key Insights

Institutional investors, project developers, and infrastructure funds typically assess capital intensive projects by reference to expected returns, including the internal rate of return. Accelerating the deduction of investment costs has the potential to lower the after-tax cost of deployment and supports stronger overall investment returns by improving cash flow in the early years of a project. From a project finance standpoint, the key advantage of the Productivity Mega Deduction is the ability to benefit from that deduction much sooner which improves project economics and increases net present value. While the proposed Productivity Mega Deduction may accelerate capital investment in Canada, it does not alter the GST/HST, QST or provincial sales tax treatment of qualifying expenditures. Businesses should continue to assess commodity tax recovery, documentation, and self-assessment requirements separately.

For investors and Canadian businesses considering major projects in Canada, the Productivity Mega Deduction, combined with measures to accelerate project approvals and the Department of Finance's announcement at the Canada Investment Summit to prioritize advance income tax ruling requests for investments of at least $1 billion in Canada, are intended to strengthen Canada's position as an attractive destination for long-term investment.

If you have any questions about the Productivity Mega Deduction, please contact any member of the Cassels Tax & Trusts Group or our National Major Projects Team.

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[1] https://www.pm.gc.ca/en/news/news-releases/2026/09/15/prime-minister-carney-introduces-new-productivity-mega-deduction

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