# Canada's Shift to Accelerated Capital Expensing

## A New Era for Capital Investment in Canada

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Through a combination of targeted budget measures and permanent policy expansions, Canadian businesses may soon qualify for significantly enhanced first-year tax deductions intended to reduce the upfront cost of capital investment.

This article is an overview of how the rules are changing, what qualifies, and key exclusions your business should consider.

## 1. Baseline Rules vs. Accelerated Expensing

- Standard CCA: As a general rule, the cost of depreciable capital property is not deducted as a current expense. Instead, the property is included in a prescribed capital cost allowance ("CCA") class and deducted over time, subject to any applicable immediate-expensing or accelerated-CCA provisions. Assets are pooled into prescribed classes and depreciated over time (e.g., Class 1 buildings at 4% to 10%; Class 53 M&P machinery at 50%). The standard "half-year rule" limits deductible allowance in the acquisition year to 50% of net additions.

- Accelerated Expensing: In certain cases, accelerated first-year CCA increases the deduction otherwise available in the year an asset becomes available for use, including by suspending the half-year rule. Immediate expensing goes even further by permitting a deduction of up to 100% of an eligible asset's capital cost in that year.

## 2. 2025: Productivity Super Deduction (Temporary)

The "Productivity Super Deduction" announced in 2025 brought several accelerated deduction measures, including immediate expensing for eligible manufacturing and production ("M&P") machinery and equipment, clean-energy equipment, zero-emission vehicles and qualifying M&P buildings. Related changes were also proposed for the SR&ED tax incentive program. These changes included:

- M&P Buildings: Provided a 100% first year CCA deduction for eligible manufacturing buildings, including qualifying additions or alterations, acquired on or after November 4, 2025, provided they are available for M&P activities before 2030. At least 90% of the building's floor space must be used directly in eligible M&P operations (i.e., office/warehousing uses cannot exceed 10%).

- Machinery & Green Tech: Confirmed full first-year expensing (until 2030) for Class 53 machinery, clean energy equipment (Classes 43.1/43.2), and zero-emission vehicles.

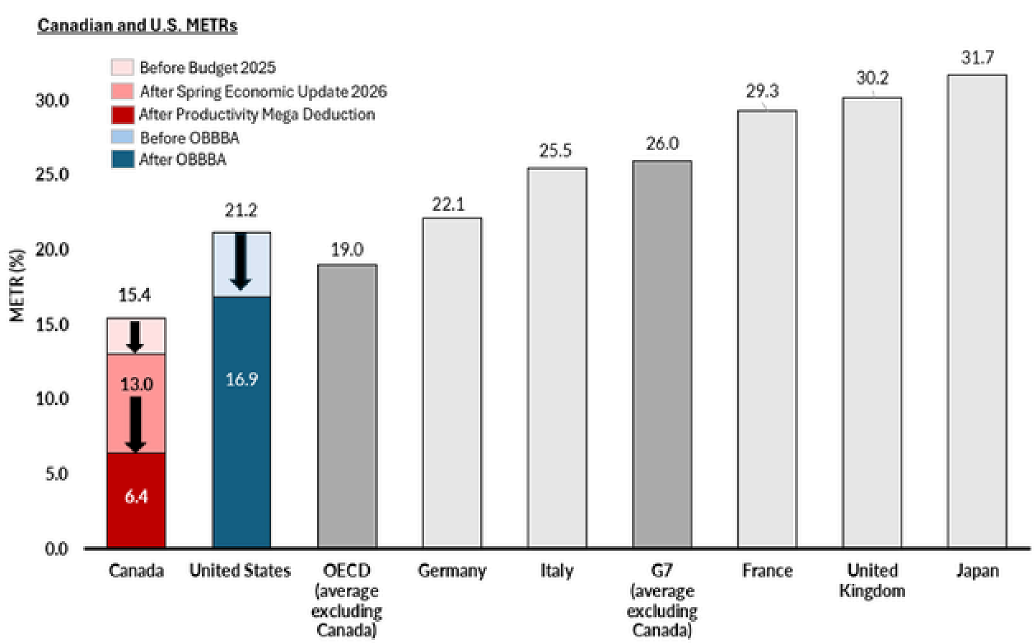
The Productivity Super Deduction is subject to the following phase-out schedule:

- 2025–2029: 100% deduction
- 2030–2031: 75% deduction
- 2032–2033: 55% deduction
- 2034 onward: Reversion to standard CCA rates

## 3. The Productivity Mega Deduction (Proposed as a Permanent Expansion)

On September 15, 2026, the Government of Canada proposed the "Productivity Mega Deduction". The proposal aims to provide a permanent 100% first-year deduction to most depreciable property acquired on or after September 15, 2026. If enacted as proposed, approximately two-thirds of capital investment would qualify for immediate expensing, compared with approximately 15% under the Productivity Super-Deduction. Details of the Mega Deduction include:

- Permanent Treatment: Unlike prior temporary stimulus measures, the proposed regime removes sunset dates for eligible asset categories. According to Department of Finance estimates, the measure would reduce Canada's marginal effective tax rate on new business investment to 6.4%, which Finance describes as the lowest rate in the G7.




Source: Department of Finance of Canada

- Broad Asset Coverage: As proposed, immediate expensing would generally apply to depreciable property subject to the CCA regime that is acquired on or after September 15, 2026, unless the property falls within a specified excluded category. A parallel deduction would also apply to Canadian development expenses ("CDE") incurred on or after that date, and includes CDE that a taxpayer is deemed to have incurred pursuant to a flow-through share agreement entered into on or after the same date.

- Key Conditions:
  - Previously used property would qualify only if neither the taxpayer nor a non-arm's-length person previously owned it and the property was not transferred to the taxpayer on a tax-deferred rollover basis. This will be an important point to keep in mind for both buyers and sellers of qualifying assets. From a structuring standpoint, this may change the way asset deals are conducted.
  - Special restrictions would apply to individuals and partnerships with individual members to prevent immediate expensing from creating or increasing a loss.
  - A key feature of the proposal is the absence of a sunset clause. Unlike many recent tax incentives, including the Productivity Super Deduction, the proposed rules are not currently scheduled to phase out over time. If passed as proposed, this could make the incentive substantially more valuable by giving businesses greater confidence when making long-term investment decisions.

## 4. Key Exclusions: What Does Not Qualify?

Immediate permanent expensing does not apply universally. Notable exclusions include:

1. Standard Buildings (Classes 1 & 3): Standard commercial and residential properties are excluded. (Eligible M&P buildings remain covered under the temporary Budget 2025 phase-out schedule, not the permanent regime.)
2. Intangibles (Classes 14 & 14.1): Goodwill, franchises, concessions, and limited-life licences remain under standard amortisation.
3. Gas Distribution (Class 51): Regulated natural gas local distribution pipelines.
4. Passenger Vehicles (Classes 10 & 10.1): Fleet passenger cars, taxis, and personal corporate vehicles remain restricted, unless assembled in Canada and never previously used.
5. Resource Properties (Schedules V & VI): Industrial mineral mines, quarries, and timber-cutting limits or rights.

## 5. Next Steps

These incentives depend strictly on timing, asset classification, and other conditions. Businesses planning substantial capital outlays should review procurement timelines and corporate structure with tax counsel to maximise year-one write-offs. Because these incentives operate as deductions from taxable income rather than refundable credits, their value will generally be greatest for taxpayers that would otherwise be cash-taxable in the yearly years of a project.

McLeod Law's tax and corporate teams are happy to help assist you in determining if your business can benefit from these recently announced measures.