

NORTHERN ARC

PUBLIC AFFAIRS

PRODUCTIVITY MEGA DEDUCTION SECTOR BRIEFING

Effective September 15, 2026 | Department of Finance Canada | 100% Immediate Expensing

Prepared for

Canadian Businesses Planning Capital Investment

October 2026

Prepared by

NORTHERN ARC PUBLIC AFFAIRS

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"This is one of the most significant changes to Canada's business tax system in half a century."

The Honourable François-Philippe Champagne,
Minister of Finance and National Revenue, September 15, 2026

100%

First-Year Deduction on
Eligible Property

6.4%

Marginal Effective Tax Rate,
Down from 13.0%

2/3

Share of Capital Investment
Now Eligible

Sept 15

Acquisition Date Threshold,
2026

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Executive Summary

On September 15, 2026, at the first Canada Investment Summit in Toronto, Prime Minister Mark Carney and Minister of Finance and National Revenue François-Philippe Champagne introduced the Productivity Mega Deduction. The Department of Finance released draft legislative proposals the same day. The measure proposes immediate expensing on a permanent basis for most depreciable property: a business would deduct 100% of the cost of eligible property in the year it becomes available for use, rather than spreading the deduction over the life of the asset. Immediate expensing would also extend to Canadian development expenses incurred on or after September 15, 2026.

The coverage change is the headline. The Productivity Super-Deduction introduced in Budget 2025 reached about 15% of investment in capital assets. Finance says about two-thirds of investment in capital assets would be eligible under the Mega Deduction, and the Prime Minister's Office describes the increase as roughly 15% of assets to more than 65%. Finance estimates the change cuts Canada's marginal effective tax rate on new business investment from 13.0% to 6.4%, compared with 16.9% in the United States and 19.0% for the OECD average. The incremental fiscal cost is **\$36 billion** over five years, beginning in 2026-27.

The deduction sits inside a larger investment agenda. The government has described immediate expensing as a central part of its plan to catalyse **\$1 trillion** in additional investment, and the Prime Minister's Office places it alongside about **\$280 billion** in government capital investments and incentives over five years. The Major Projects Office is advancing 27 nation-building initiatives representing over **\$192 billion** in investment, and on September 14, 2026, the Canada Revenue Agency announced it will prioritize advance income tax ruling requests related to investments of **\$1 billion** or more in Canada.

The practical entry point is a capital plan review. A business should map its planned purchases against the capital cost allowance (CCA) classes with its tax advisors, confirm acquisition dates fall on or after September 15, 2026, and identify which assets fall outside the measure. This briefing sets out how the deduction works, where it stops, and how it interacts with the discretionary federal programs that decide which projects Ottawa backs.

WHAT MAKES CANADIAN INVESTING COMPANIES DIFFERENT NOW

The Write-Off Moved to Year One. Eligible property is deducted in full in the year it becomes available for use. Tax savings that once arrived over many years now arrive at the start, which shortens the after-tax payback on equipment, technology, and development spending.

Coverage Widened Fourfold. Eligible coverage moves from about 15% of capital investment under the Budget 2025 Super-Deduction to about two-thirds under the Mega Deduction.

More Competitive Than the U.S. in Every Major Sector. Finance estimates Canada's rate on new investment at 6.4% against 16.9% in the United States, and more tax competitive than the U.S. across all major sectors.

The Deduction Is Automatic. The Programs Around It Are Not. No application unlocks the deduction. Every grant, contribution, loan, and procurement position that stacks on top of it is still decided by people.

Investment Economics: Quantified

The Mega Deduction changes the math on every eligible project at once. Its value for a given company depends on what it buys, when it buys it, and where the project sits against the exclusions.

Cash Timing. The deduction moves deductions forward rather than adding to them. The total amount deducted over an asset's life does not change; the timing does. Earlier deductions mean earlier tax savings, lower after-tax project cost in present-value terms, and more internal cash available for the next phase of investment.

Sector Rates. Finance estimates post-measure marginal effective tax rates (U.S. 2026 in brackets) of -1.2% for manufacturing and processing (11.1%), 9.9% for services (26.3%), -2.3% for transportation and storage (8.6%), 1.8% for forestry (19.7%), and 19.3% for retail trade (23.3%).

What Is Excluded. Class 1 and 3 buildings and additions, Classes 14 and 14.1 (franchises, licences, and goodwill), Class 51 (regulated natural gas distribution pipelines), certain Class 10 and 10.1 vehicles, and property under Schedules V and VI. Manufacturing and processing buildings are excluded from the Mega Deduction but remain eligible for the temporary immediate expensing introduced in Budget 2025. Assets that do not qualify keep the enhanced first-year deduction under the Accelerated Investment Incentive.

Used Property. Used property is eligible only if neither the taxpayer nor a non-arm's-length person previously owned it, and it was not transferred on a tax-deferred rollover basis.

Economic Effect. Finance estimates economic activity of 1.4 to 3 times the federal cost, average output of up to around **\$22 billion** annually, and up to 80,000 jobs annually ten years out.

THE COMPETITIVE GAP: WHY THE DRAFT STAGE MATTERS

The Mega Deduction is a proposal supported by draft legislation, and no royal assent date has been set. The exclusions, the treatment of used and borderline assets, and the interaction with other incentives can still be clarified before the rules are final. Property acquired from September 15, 2026 is covered if the legislation passes as proposed, so companies are making capital decisions today ahead of the final text.

The deduction lowers the cost of capital for every company that invests, including competitors. It does not decide which projects Ottawa prioritizes, which companies the government points to as proof the investment agenda is working, or which projects the Major Projects Office advances.

The question is not whether your purchases qualify. It is whether your project is understood in Ottawa before the rules and the funding queues settle.

How Federal Decisions Are Actually Made

Before examining specific programs, it is essential to understand how federal funding decisions actually happen. Public program pages describe eligibility criteria and application steps. They do not describe how discretionary funding decisions are prioritized within a finite envelope. That gap is where opportunities are won or lost.

The Three Levels of Federal Decision-Making

Political Level: Ministers and Ministerial Staff. Ministers set strategic priorities for their departments and regional development agencies. Ministerial offices filter what reaches the Minister and shape how files are framed. When the offices of the Minister of Finance and National Revenue, the Minister of Industry, or the responsible regional development agency minister understand that a particular company's investment represents domestic capacity, productivity, and jobs aligned with the government's investment agenda, that understanding flows through to the officers assessing the file.

Bureaucratic Level: Deputy Ministers and ADMs. Deputy Ministers oversee departmental and agency operations. Program officers at Innovation, Science and Economic Development Canada and the regional development agencies evaluate applications, assess viability, and recommend funding decisions. A company known to the relevant program officer and regional office is positioned ahead of applicants who submit without that context.

Central Agency Level: The Prime Minister's Office and Treasury Board. The PMO coordinates national economic strategy and sets priorities across departments, including the files the Major Projects Office advances. When the PMO understands a company is essential to the investment agenda or to regional employment, that understanding shapes how multiple programs approach it.

Why Alignment Matters

These three levels must be aligned for a significant funding outcome. A Minister's office may express support, but if the program's assessment team has not prioritized the file, the application moves at the pace of the general queue. Most companies engage only with the program's general intake line. They submit and wait.

The application becomes confirmation of a decision that has already been shaped at every level that matters.

Part One: Federal Funding and Procurement Programs

Productivity Mega Deduction

Proposed permanent immediate expensing of 100% of the cost of most depreciable property acquired on or after September 15, 2026, and of Canadian development expenses incurred on or after that date. Delivered through the tax system with no application, intake, or ministerial sign-off. Status: draft legislative proposals released September 15, 2026; not yet enacted.

Accelerated Investment Incentive and Budget 2025 Measures

Assets excluded from the Mega Deduction keep the enhanced first-year deduction under the Accelerated Investment Incentive. Manufacturing and processing buildings remain eligible for the temporary immediate expensing introduced in Budget 2025. Liquefied natural gas equipment in Class 47 receives an additional allowance bringing CCA to 100% for assets acquired on or after November 4, 2025, claimable against income from liquefying gas at that facility. Asset classification is a real planning question, because the same project can draw on more than one regime.

CRA Prioritized Advance Income Tax Rulings

Announced September 14, 2026: the Canada Revenue Agency will prioritize advance income tax ruling requests related to investments of **\$1 billion** or more in Canada. For large projects, an early ruling on how the Mega Deduction and related rules apply reduces tax uncertainty before capital is committed.

Major Projects Office

The Major Projects Office is advancing 27 nation-building initiatives representing over **\$192 billion** in investment and more than 330,000 jobs. Projects that reach this level move through a coordinated federal process. Which projects are referred and advanced is a priority-setting decision made at the political and central agency level.

Strategic Response Fund (ISED)

The Strategic Response Fund builds on the former Strategic Innovation Fund and supports large-scale, transformative projects that build economic resilience. Its priorities include a tariff response stream for steel, aluminum, and forest products, large-scale R&D and innovation projects in sectors such as critical minerals, aerospace, cleantech, biomanufacturing, and life sciences, and the AI Compute Challenge. Contributions are discretionary and stack on top of the tax savings the Mega Deduction delivers.

Regional Development Agency Programming

Canada's regional development agencies deliver business investment programming, including the enhanced Regional Tariff Response Initiative, a **\$3.45 billion** national envelope offering up to **\$3 million** in non-repayable support per eligible business. For mid-sized investors, the regional development agency is often the first discretionary program a capital project meets.

Clean Economy Investment Tax Credits

The Clean Technology Manufacturing investment tax credit is a refundable credit that encourages capital investment in clean technology manufacturing and processing and in critical mineral extraction and processing, for property acquired from January 1, 2024 to December 31, 2034. Companies investing in clean technology assets should model these credits alongside the Mega Deduction with their tax advisors, since the two regimes interact.

Scientific Research and Experimental Development (SR&ED)

SR&ED provides a deduction against income and an investment tax credit for eligible research and development. The Mega Deduction does not replace SR&ED; companies investing in both new capital and R&D should coordinate claims so that each regime is used where it delivers the most value.

Key Dates and Deadlines

Program	Date	Status
CRA advance ruling priority (\$1B+)	Announced September 14, 2026	IN EFFECT
Productivity Mega Deduction	Property acquired on or after September 15, 2026	DRAFT LEGISLATION
Mega Deduction royal assent	Not yet set	PENDING
LNG Class 47 additional allowance	Assets acquired on or after November 4, 2025	PROPOSED
Clean Technology Manufacturing ITC	January 1, 2024 to December 31, 2034	OPEN
Regional Tariff Response Initiative	Rolling intake until funds committed	OPEN

Part Two: Federal Departments and Positioning

Department of Finance Canada

Minister François-Philippe Champagne leads the Mega Deduction and the draft legislation that implements it. Finance sets the final rules, including the exclusions and the treatment of used and borderline property, and it is the department to understand while those details remain open.

Canada Revenue Agency

The CRA administers the deduction and the new priority for advance income tax rulings on investments of **\$1 billion** or more. For large investors, the ruling process is where tax certainty is secured before construction starts.

Innovation, Science and Economic Development Canada (ISED)

ISED, under Minister Mélanie Joly, oversees the Strategic Response Fund and Canada's industrial strategy. ISED decides which large-scale projects receive discretionary contributions, and it is the department most likely to treat a company's Mega Deduction-enabled expansion as a strategic file.

Canada's Regional Development Agencies

The regional development agencies, including PrairiesCan (Minister Eleanor Olszewski) and FedDev Ontario (Minister Evan Solomon), deliver regional business investment programming. Each agency is its own decision-making relationship, with its own program officers and minister.

Major Projects Office and the Prime Minister's Office

The Major Projects Office advances the nation-building initiatives the government has prioritized, and the PMO sets priorities across all departments. For the largest investments, alignment at this level shapes how every other department approaches the file.

Federal Engagement Summary

Department/Agency	Minister/Lead	Relevance
Department of Finance Canada	Min. Champagne	Mega Deduction rules, draft legislation
Canada Revenue Agency	Min. Champagne	Administration, \$1B+ advance rulings
ISED	Min. Joly	Strategic Response Fund, industrial strategy
PrairiesCan	Min. Olszewski	Regional investment programming, RTRI
FedDev Ontario	Min. Solomon	Regional investment programming, RTRI
Major Projects Office / PMO	Prime Minister's Office	Nation-building project priorities

Part Three: Provincial and International Markets

Provincial Programs

Provincial tax treatment of the Mega Deduction depends on whether each province parallels the federal capital cost allowance changes, which companies should confirm with their tax advisors province by province. Provincial investment, manufacturing, and innovation programs can stack with federal support, and provincial ministers increasingly coordinate with federal departments on major projects within their borders.

International Market Opportunities

The government's case to global investors is that Canada is now the most competitive G7 country for new business investment. Canadian companies expanding to serve export markets can pair Mega Deduction-enabled capital spending with Export Development Canada financing, the Trade Commissioner Service, and CanExport to build the market side of the investment case.

Why Canadian Investing Companies Are Positioned to Succeed

The Government Has Named Investment as Its Economic Priority. The Mega Deduction is a central part of a plan to catalyse **\$1 trillion** in additional investment. Companies that invest in Canada are delivering the outcome the government has staked its economic agenda on.

The Tax Case Is Already Made. With a 6.4% marginal effective tax rate on new investment against 16.9% in the United States, the tax argument for building in Canada is settled. What remains open is which projects Ottawa backs on top of it.

The Programs Stack. Immediate expensing, discretionary contributions from ISED and the regional development agencies, clean economy tax credits, and SR&ED can all apply to the same expansion when they are coordinated.

The Rules Are Still Being Written. The draft legislation has not been enacted, so companies that engage now are present while the final details are shaped.

POLITICAL VALUE

The Mega Deduction is a signature measure of the government's investment agenda, launched at the first Canada Investment Summit with the Prime Minister and the Minister of Finance. Every company that builds, expands, or equips a facility in Canada on the strength of it validates the government's claim that Canada is the best place in the world to invest.

That political value is what makes positioning at the ministerial level essential. The government needs these success stories as much as companies need the funding and certainty that come with them.

What Northern Arc Public Affairs Brings

Northern Arc Public Affairs is a federally registered government relations firm that works at the ministerial, Regional Development Agency, and PMO level.

Our Principal, Kent Hehr, served as a Cabinet Minister in the Government of Canada. He sat at the Cabinet table where funding decisions are approved, policy directions are set, and departmental mandates are shaped. He understands, from direct experience, what makes a Minister's office take notice of a company, what makes a Deputy Minister's team prioritize a file, and what makes the PMO see a company as aligned with national priorities.

Our Managing Partner, Abed Harb, served in the Prime Minister's Calgary Regional Office and as Director and Senior Advisor to multiple Ministers. He spent eight years navigating federal decision-making at the highest levels. He understands how the PMO coordinates national economic strategy, how ministerial offices evaluate requests, and how to ensure alignment across departments.

Northern Arc does not prepare tax filings and does not write applications. What Northern Arc does is ensure that the departments, agencies, and ministerial offices that decide discretionary funding and project priorities understand which companies represent new productive capacity, domestic supply chains, and jobs, before those decisions are made.

What We Do

Ministerial and Departmental Positioning. Northern Arc positions investing companies at the ministerial level within Finance, ISED, and the relevant regional development agency, so program officers and ministerial staff understand the project, its scale, and its value to the government's investment agenda.

Program Coordination. Northern Arc identifies every discretionary program that can stack on top of the Mega Deduction and ensures the company's file is known at the decision-making level before applications are assessed. The company's tax advisors confirm asset eligibility; Northern Arc works the federal relationships around it.

Strategic Narrative Development. Northern Arc develops the narrative that ministerial and departmental staff carry into internal briefings: who the company is, what it is building, why it is building in Canada, and why timing matters.

THE NARRATIVE WE WILL ADVANCE

[Your company] is a Canadian business making a significant capital investment in Canada, in equipment, technology, or development, that the Productivity Mega Deduction was designed to accelerate. The company's project delivers exactly the outcomes the government has named as its economic priority: productivity, domestic capacity, and jobs. With immediate expensing lowering the cost of capital, the company is ready to build and seeks federal partners to scale the project in Canada. Positioning with the relevant ministers and departments now ensures [Your company] is not just eligible for the deduction but prioritized for the discretionary support that stacks on top of it.

Engagement Timeline and Deliverables

Months 1-2: Foundation and Immediate Priorities

Capital plan review alongside the company's tax advisors to identify Mega Deduction-eligible spending and stacking opportunities. Initial engagement with the relevant regional development agency, ISED, and responsible ministers' offices. Assessment of advance ruling value for investments of **\$1 billion** or more.

Months 3-4: Building Momentum

Strategic Response Fund and regional development agency positioning. Ministerial engagement deepening at the program officer and Deputy Minister level. Monitoring of the draft legislation as final rules on exclusions and used property are clarified.

Months 5-6: Consolidation and Major Applications

Application support for discretionary programs. Major Projects Office engagement where project scale supports it. Coordination of SR&ED, clean economy credits, and provincial programs with the company's accountant. Continued cross-program positioning across Finance, ISED, and the regional development agency.

Investment and Expected Return

Northern Arc's standard corporate retainer is **\$12,500** per month on a six-month initial term, with 30-day termination thereafter. The engagement operates on a month-to-month basis after the initial term.

The retainer covers the full scope of government relations described in this briefing: ministerial and departmental positioning, program coordination, strategic narrative development, and ongoing monitoring of the federal investment landscape.

Expected Return

Companies that engage at the ministerial and departmental level are positioned to combine the cash-timing benefit of the Mega Deduction with discretionary federal contributions, regional development agency support, and, for the largest projects, early tax certainty and Major Projects Office alignment. The precise outcome depends on project size, asset mix, region, and sector.

ONGOING ENGAGEMENT

The Mega Deduction is permanent, but the programs and priorities around it are not fixed. Draft rules will be finalized, program intakes open and close, and ministerial priorities shift as the investment agenda unfolds. Companies that maintain ministerial and departmental relationships capture new opportunities as they emerge; companies that disengage after a single application lose positioning that took months to build.

Conclusion

The Minister of Finance has called the Productivity Mega Deduction one of the most significant changes to Canada's business tax system in half a century. The government has made the full write-off permanent, widened coverage to about two-thirds of capital investment, and set out a plan to catalyse **\$1 trillion** in additional investment.

Eligibility is automatic. Priority is not. The companies that capture the most from this moment will be the ones whose projects are understood by Finance, ISED, the regional development agencies, and the PMO before the rules are final and before the funding queues fill. That is what Northern Arc delivers.

Northern Arc Public Affairs looks forward to partnering with Canadian businesses to turn the Productivity Mega Deduction into federal partnerships that build in Canada.

General information only; this briefing is not tax advice. Companies should confirm asset eligibility with their tax advisors.

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