Legislative Proposals Relating to the Income Tax Act and the Income Tax Regulations

Disability Tax Credit

1 (1) Subparagraph 118.3(1)(a.2)(ii) of the Act is replaced by the following:

(ii) a speech impairment or an impairment with respect to an individual's ability in feeding themself, a speech-language pathologist,

(2) Subparagraph 118.3(1)(a.2)(iii) of the Act is replaced by the following:

(iii) a hearing impairment, an audiologist or a speech-language pathologist,

(3) Subparagraph 118.3(1)(a.2)(iv) of the Act is replaced by the following:

(iv) an impairment with respect to an individual's ability in feeding or dressing themself, an occupational therapist or a physiotherapist,

(4) Subparagraph 118.3(1)(a.2)(v) of the Act is replaced by the following:

(v) an impairment with respect to an individual's ability in walking, an occupational therapist, a physiotherapist or a podiatrist,

(5) Paragraph 118.3(1)(a.2) of the Act is amended by adding "and" at the end of subparagraph (vi) and by adding the following after subparagraph (vi):

(vii) an impairment with respect to eliminating (bowel or bladder functions), an occupational therapist,

(6) Subparagraphs 118.3(1)(a.3)(i) and (ii) of the Act are replaced by the following:

(i) an impairment with respect to the individual's ability in feeding or dressing themself, or in walking, a medical doctor, a nurse practitioner, occupational therapist or a physiotherapist,

(ii) an impairment with respect to eliminating (bowel or bladder functions), a medical doctor, a nurse practitioner or an occupational therapist,

(iii) an impairment with respect to the individual's ability in speaking, hearing, or feeding, a medical doctor, a nurse practitioner or a speech-language pathologist, and

(iv) in the case of any other impairment, a medical doctor or nurse practitioner,

(7) Subsection 118.3(1) of the Act is amended by adding the following after paragraph (a.3):

(a.4) in the case of an impairment in mental functions the effects of which are such that the individual's ability to perform a basic activity of daily living is markedly restricted, if

(i) the individual is under the care of a provincial public guardian, public trustee, le Curateur public or similar provincial department, agency or institution that is legally authorized to act on behalf of the individual and is responsible for filing the individual's return of income under this Part for the year (in this subparagraph, the "guardian"), and the guardian has certified in prescribed form that the individual has a valid certificate of incapacity or equivalent document issued in accordance with the applicable provincial law for determining capacity, or

(ii) the individual is, pursuant to section 51 of the *Indian Act*, subject to the administration of their property by the Minister of Indigenous Services Canada, or by the Minister of Crown-Indigenous Relations and Northern Affairs Canada, where such jurisdiction has been delegated under section 14 of the *Department of Indigenous Services Act* and such minister has certified in prescribed form that the individual has a valid certificate of incapacity or equivalent document issued in accordance with the applicable provincial law for determining capacity,

(a.5) in the case of an individual who has one or more impairments in physical or mental functions, a medical doctor, a nurse practitioner or other medical practitioner as described in paragraph (a.2) or (a.3), has certified in prescribed form that the individual has one or more of the following conditions: Alzheimer's disease, amyotrophic lateral sclerosis/Lou Gehrig's disease, Angelman syndrome, autism spectrum disorder level 3, bilateral blindness (legally blind), bilateral hearing loss (severe or profound), cardiac functional class of 4/IV or an ejection fraction of 20% or less, cerebral palsy (severe), chronic obstructive pulmonary disease, stage III or higher, colostomy (permanent), cystic fibrosis, dementia, Down Syndrome/Trisomy 21, Duchenne muscular dystrophy (advanced or severe), Edwards syndrome/Trisomy 18, hemipelvectomy, hemophilia A (severe), hip disarticulation, Huntington disease, ileostomy (permanent), intellectual disability (severe, profound or IQ of 70 or below), lower limb amputation (leg or foot), microcephaly, paraplegia, Parkinson's disease (advanced or severe), Patau syndrome/Trisomy 13, phenylketonuria, Prader-Willi syndrome, profound hearing loss in one ear and severe hearing loss in the other ear, progeria, quadriplegia or tetraplegia, relies only on lip-reading and/or use sign language to understand conversations or communicate, renal (kidney) failure requiring lifelong hemodialysis or peritoneal dialysis, requires lifelong continuous supplemental oxygen (O2), schizophrenia, sickle cell disease (severe) requiring transfusions, sign language is primary means of communicating due to profound hearing loss or expressive aphasia, spinal muscular atrophy of type 1 and 2, stroke (severe) no functional recovery, Tay-Sachs disease (infantile/juvenile), total mutism, traumatic brain injury (severe) and upper limb amputations (transcarpal or higher),

(8) Paragraph 118.3(1)(b) of the Act is replaced with the following:

(b) the individual has filed for a taxation year with the Minister a certificate described in paragraph (a.2), (a.3), (a.4) or (a.5), and

(9) Paragraph 118.3(4)(b) of the Act is replaced by the following:

(b) if the information referred to in paragraph (a) is provided by a person referred to in paragraph (1)(a.2), (a.3), (a.4) or (a.5) the information so provided is deemed to be included in a certificate in prescribed form.

(10) Subsections (1) to (6) apply to the 2027 and subsequent taxation years in respect of certificates described in paragraph 118.3(1)(a.2) or (a.3) of the *Income Tax Act*, as amended by subsections (1) to (6), that are issued after 2026.

(11) Subsections (7) to (9) apply to the 2026 and subsequent taxation years.

2 (1) The portion of subsection 118.4(2) of the Act before paragraph (a) is replaced by the following:

Reference to medical practitioners, etc.

(2) For the purposes of sections 63, 64, 118.2, 118.3 and 118.6, a reference to an audiologist, dentist, medical doctor, medical practitioner, nurse, nurse practitioner, occupational therapist, optometrist, pharmacist, physiotherapist, podiatrist, psychologist or speech-language pathologist is a reference to a person authorized to practise as such,

(2) Subsection (1) applies to the 2027 and subsequent taxation years.

Red Seal Completion Bonus

1 (1) Subsubclause B(II)2. of the description of B in subparagraph 8(1)(r)(ii) of the Act is replaced by the following:

2. the amount, if any, by which the amounts required by paragraph 56(1)(n.1) or (n.2) to be included in computing the taxpayer's income for the taxation year exceed the amount required by paragraph 60(p) to be deducted in computing that income, and

(2) Clause (ii)(B) of the description of A in paragraph 8(1)(s) of the Act is replaced by the following:

(B) the amount, if any, by which the amounts required by paragraph 56(1)(n.1) or (n.2) to be included in computing the taxpayer's income for the taxation year exceed the amount required by paragraph 60(p) to be deducted in computing that income; and

(3) Subsections (1) and (2) are deemed to have come into force on April 28, 2026.

2 (1) Subsection 56(1) of the Act is amended by adding the following after paragraph (n.1):

(n.2) the total of all amounts, each of which is an amount received by the taxpayer in the year under the Red Seal Completion Bonus program administered by the Department of Employment and Social Development;

(2) Subsection (1) is deemed to have come into force on April 28, 2026.

3 (1) Paragraph 60(p) of the Act is replaced by the following:

Repayment of apprenticeship grants

(p) the total of all amounts each of which is an amount paid in the taxation year as a repayment under the Apprenticeship Incentive Grant program, the Apprenticeship Completion Grant program or the Red Seal Completion Bonus program of an amount that was included under paragraph 56(1)(n.1) or (n.2) in computing the taxpayer's income for the taxation year or a preceding taxation year;

(2) Subsection (1) is deemed to have come into force on April 28, 2026

4 (1) Paragraph (b) of the definition *earned income* in subsection 63(3) of the Act is replaced by the following:

(b) all amounts that are included, or that would, but for paragraph 81(1)(a) or subsection 81(4), be included, because of section 6 or 7 or paragraph 56(1) (n), (n.1), (n.2), (o) or (r), in computing the taxpayer's income,

(2) Subsection (1) is deemed to have come into force on April 28, 2026.

5 (1) Subsection 153(1) of the Act is amended by adding the following after paragraph (d.2):

(d.3) an amount described in paragraph 56(1)(n.2),

(2) Subsection (1) is deemed to have come into force on April 28, 2026.

6 (1) The definition *remuneration* in subsection 100(1) of the *Income Tax Regulations* is amended by striking out "or" at the end of paragraph (q), by adding "or" at the end of paragraph (r) and by adding the following after paragraph (r):

(s) an amount that is required by paragraph 56(1)(n.2) of the Act to be included in computing a taxpayer's income;

(2) Subsection (1) is deemed to have come into force April 28, 2026.

7 (1) Subsection 103(6) of the Regulations is amended by striking out "or" at the end of paragraph (h), by adding "or" at the end of paragraph (i) and by adding the following after paragraph (i):

(j) a payment described in paragraph 153(1)(d.3) of the Act.

(2) Subsection (1) is deemed to have come into force on April 28, 2026.

Accelerated Capital Cost Allowances for Low-Carbon Liquified Natural Gas Facilities

1 (1) Subparagraph 1100(1)(a.3)(i) of the *Income Tax Regulations* is replaced by the following:

(i) the income for the taxation year from the taxpayer's eligible liquefaction activities in respect of the eligible liquefaction facility (taking into consideration any deduction under paragraphs (a.31), (yb) and (yc) and before making any deduction under this paragraph), and

(2) Subsection 1100(1) of the Regulations is amended by adding the following after paragraph (a.3):

(a.31) any additional amount that the taxpayer may claim in respect of property that is primarily used to support the functioning of a certified liquefaction facility for which a separate class is prescribed by subsection 1101(5b.3), not exceeding the lesser of

(i) the income for the taxation year from the taxpayer's eligible liquefaction activities in respect of the certified liquefaction facility (taking into consideration any deduction under paragraphs (a.3), (yb) and (yc) and before making any deduction under this paragraph), and

(ii) 6% of the undepreciated capital cost to the taxpayer of property of that separate class as of the end of the taxation year (before making any deduction under this subsection for the taxation year);

(3) Subparagraph 1100(1)(yb)(i) of the Regulations is replaced by the following:

(i) the income for the taxation year from the taxpayer's eligible liquefaction activities in respect of the eligible liquefaction facility (taking into consideration any deduction under paragraphs (a.3), (a.31) and (yc) and before making any deduction under this paragraph), and

(4) Subsection 1100(1) of the Regulations is amended by adding the following after paragraph (yb):

(yc) any additional amount that the taxpayer may claim in respect of property that is primarily used to support the functioning of a certified liquefaction facility for which a separate class is prescribed by subsection 1101(4j), not exceeding the lesser of

(i) the income for the taxation year from the taxpayer's eligible liquefaction activities in respect of the certified liquefaction facility (taking into consideration any deduction under paragraphs (a.3), (a.31) and (yb) and before making any deduction under this paragraph), and

(ii) 42% of the undepreciated capital cost to the taxpayer of property of that separate class as of the end of the taxation year (before making any deduction under this subsection for the taxation year);

(5) Subsections (1) to (4) apply in respect of property acquired on or after November 4, 2025.

2 (1) Section 1101 of the Regulations is amended by adding the following after subsection (4i):

Certified Liquefaction Equipment

(4j) If a taxpayer acquires property that is certified liquefaction equipment to be primarily used to support the functioning of a certified liquefaction facility of the taxpayer, a separate class is prescribed for those properties that were acquired for the purpose of gaining or producing income from that facility.

(2) Subsection 1101(5b.1) of the Regulations and the heading before it are replaced by the following:

Eligible Non-Residential or Manufacturing Building

(5b.1) For the purposes of this Part, a separate class is prescribed for each eligible non-residential building or eligible manufacturing building (other than an eligible liquefaction building or a certified liquefaction building) of a taxpayer in respect of which the taxpayer has elected (in the taxpayer's return of income under Part I of the Act for the taxation year in which the building is acquired) that this subsection apply.

(3) Section 1101 of the Regulations is amended by adding the following after subsection (5b.2):

Certified Liquefaction Buildings

(5b.3) If a taxpayer acquires property that is a certified liquefaction building to be primarily used to support the functioning of a certified liquefaction facility of the taxpayer, a separate class is prescribed for those properties that were acquired for the purpose of gaining or producing income from that facility.

(4) Subsections (1) to (3) apply in respect of property acquired on or after November 4, 2025.

3 (1) Subsection 1104(2) of the Regulations is amended by adding the following in alphabetical order:

carbon dioxide equivalent means the carbon dioxide emissions that would be required to produce a warming effect equivalent to any specified greenhouse gas, determined in a manner acceptable to the Minister of Natural Resources; (*équivalent en dioxyde de carbone*)

certified liquefaction building, in respect of a certified liquefaction facility of a taxpayer, means property of the taxpayer that

(a) is acquired by the taxpayer after November 3, 2025 and before 2035,

(b) is included in Class 1 in Schedule II because of paragraph (q) of that Class,

(c) has not been used or acquired for use for any purpose before it was acquired by the taxpayer,

(d) is not a residential building, and

(e) is primarily used to support the functioning of the certified liquefaction facility; (*bâtiment de liquéfaction certifié*)

certified liquefaction equipment, in respect of a certified liquefaction facility of a taxpayer, means property of the taxpayer that

(a) is acquired by the taxpayer after November 3, 2025 and before 2035,

(b) is included in Class 47 in Schedule II because of paragraph (b) of that Class,

(c) has not been used or acquired for use for any purpose before it was acquired by the taxpayer,

(d) is not excluded equipment, and

(e) is primarily used to support the functioning of the certified liquefaction facility; (*matériel de liquéfaction certifié*)

certified liquefaction facility means an eligible liquefaction facility that the Minister of Natural Resources has determined meets an expected emissions intensity that is less than or equal to 0.20, based on and subject to conformity with the liquefaction facility plan filed in respect of the facility; (*installation de liquéfaction certifiée*)

expected emissions intensity, in respect of an eligible liquefaction facility, means the number determined by the formula

$$(A - B) \div C$$

where

A is the quantity of carbon dioxide equivalent, expressed in tonnes, expected to be emitted by the facility during its first operating year, determined in a manner that is acceptable to the Minister of Natural Resources, from

(a) the combustion of any fuel, including fuel used to generate any integrated power or electricity,

(b) the combustion (including thermal oxidation, flaring and incineration) or venting of gas, including acid gas, and

(c) fugitive losses of methane,

B is the quantity of carbon dioxide, expressed in tonnes, expected to be captured from the facility and stored in an *eligible use* (as defined in subsection 127.44(1) of the Act) during the first operating year, determined in a manner that is acceptable to the Minister of Natural Resources, and

C is the quantity of liquefied natural gas, expressed in tonnes, expected to be produced by the facility during the first operating year, determined in a manner that is acceptable to the Minister of Natural Resources; (*intensité des émissions attendue*)

first operating year of an eligible liquefaction facility means the first cumulative 365-day period during which the facility is expected to operate in accordance with its specified operating configuration, as set out in its liquefaction facility plan, disregarding any day during which the facility is not expected to produce liquefied natural gas in any amount; (*première année d'exploitation*)

liquefaction facility plan means a plan for an eligible liquefaction facility of a taxpayer that

(a) is prepared by a qualified engineering firm,

(b) includes engineering, design and operational information that is consistent with, at minimum, a front-end engineering design study (or an equivalent study as determined by the Minister of Natural Resources) for the facility that is sufficient to enable the determination of the expected emissions intensity in accordance with the applicable methodology,

(c) sets out the expected emissions intensity of the facility, as determined by the qualified engineering firm based on the facility's specified operating configuration,

(d) includes any information required by the Minister of Natural Resources, and

(e) is filed by the taxpayer with the Minister of Natural Resources, in the form and manner determined by the Minister of Natural Resources; (*plan d'installation de liquéfaction*)

qualified engineering firm, in respect of an eligible liquefaction facility of a taxpayer, means an engineer or engineering firm that

(a) is registered and in good standing with a professional association that has the authority or recognition by law of a jurisdiction in Canada to regulate the profession of engineering in

(i) the jurisdiction where the facility is located, or

(ii) if there is no professional association in the jurisdiction described in subparagraph (i), a jurisdiction in Canada where a professional association regulates the profession of engineering,

(b) has appropriate insurance coverage,

(c) at all times, is independent of, deals at arm's length with and is not an employee of the taxpayer, and

(d) meets the requirements described in any technical guideline published by the Minister of Natural Resources; (*firme admissible d'ingénierie*)

specified greenhouse gas means carbon dioxide, methane, nitrous oxide and any other greenhouse gas described in any guidance published by the Minister of Natural Resources; (*gaz à effet de serre déterminé*)

specified operating configuration means the configuration of an eligible liquefaction facility, based on its design and as set out in the facility's liquefaction facility plan, that reflects its expected operation at the start of commercial operations at its design capacity, taking into consideration

(a) all property that will form part of the facility at that time, including property already in use and property to be acquired, and

(b) the sources of energy, fuel and utilities available at that time; (*configuration d'exploitation déterminée*)

(2) The portion of subsection 1104(18) of the Regulations before paragraph (a) is replaced by the following:

(18) For the purposes of paragraphs 1100(1)(a.3), (a.31), (yb) and (yc), a taxpayer's income for a taxation year from eligible liquefaction activities in respect of an eligible liquefaction facility of the taxpayer is determined as if

(3) Section 1104 of the Regulations is amended by adding the following after subsection (18):

Authority of the Minister of Natural Resources

(19) For the purpose of determining the expected emissions intensity of an eligible liquefaction facility, any guidance published by the Department of Natural Resources, and as amended from time to time, is to apply conclusively with respect to engineering and scientific matters.

(4) Subsections (1) to (3) apply in respect of property acquired on or after November 4, 2025.

Investment Tax Credit for Carbon Capture, Utilization, and Storage

1 (1) The definition *ineligible use* in subsection 127.44(1) of the Act is amended by adding "and" at the end of paragraph (a) and by replacing paragraphs (b) and (c) with the following:

(b) any storage or use that is not an eligible use or an eligible EOR use. (*utilisation non admissible*)

(2) The definition *projected eligible use percentage* in subsection 127.44(1) of the Act is replaced by the following:

projected eligible use percentage, in respect of a CCUS project, for a period is the amount, expressed as a percentage, determined by the formula

$$(A + \underline{A.1}) \div B$$

where

A is the quantity of captured carbon that the CCUS project is expected, based on the project's most recent project plan, to support for storage or use in eligible use during the period;

A.1 is 50% of the quantity of captured carbon that the CCUS project is expected, based on the project's most recent project plan, to support for storage in eligible EOR use during the period; and

B is the total quantity of captured carbon that the CCUS project is expected, based on the project's most recent project plan, to support for storage or use in eligible use, eligible EOR use and ineligible use during the period. (*pourcentage d'utilisation admissible prévu*)

(3) Paragraph (b) of the definition *project plan* in subsection 127.44(1) of the Act is amended by striking out "and" at the end of subparagraph (i) and by adding the following after subparagraph (i):

(i.1) eligible EOR use, and

(4) The definition *project plan* in subsection 127.44(1) of the Act is amended by adding the following after paragraph (b):

(b.1) if the CCUS project is expected to support the storage of captured carbon in an eligible EOR use, includes a method of capturing and reinjecting the carbon that is mixed with the oil in the process of enhanced oil recovery;

(5) The definition *qualified CCUS expenditure* in subsection 127.44(1) of the Act is amended by striking out “or” at the end of paragraph (c) and by adding the following after paragraph (c):

(c.1) qualified EOR storage expenditure; or

(6) The definition *qualified CCUS project* in subsection 127.44(1) of the Act is amended by striking out “and” at the end of paragraph (c) and by adding the following after paragraph (c):

(c.1) if the most recent project plan includes plans for eligible EOR use, a minimum of 95% of captured carbon intended for eligible EOR use over the total CCUS project review period is expected to be permanently stored; and

(7) The portion of paragraph (b) of the definition *specified percentage* in subsection 127.44(1) of the Act before subparagraph (i) is replaced by the following:

(b) qualified carbon transportation expenditure, qualified carbon storage expenditure, qualified EOR storage expenditure or qualified carbon use expenditure if incurred

(8) Subsection 127.44(1) of the Act is amended by adding the following in alphabetical order:

dedicated EOR storage means a geological formation that is

(a) located in a designated EOR jurisdiction;

(b) capable of permanently storing captured carbon;

(c) authorized and regulated for the storage of captured carbon under the laws of the designated EOR jurisdiction; and

(d) a formation in which captured carbon is used for enhanced oil recovery. (*stockage pour la RAP dédié*)

designated EOR jurisdiction means any jurisdiction within Canada (including the exclusive economic zone of Canada) or the United States for which a designation by the Minister of the Environment under subsection (13.1) is in effect. (*juridiction de RAP désignée*)

eligible EOR use means the storage of captured carbon in dedicated EOR storage in connection with enhanced oil recovery. (*utilisation pour la RAP admissible*)

qualified EOR storage expenditure of a taxpayer for a taxation year means an amount that is 50% of the capital cost incurred by the taxpayer to acquire in the year, in respect of a qualified CCUS project of the taxpayer, a property that is

(a) expected, based on the qualified CCUS project’s most recent project plan before the time the expenditure is incurred, to support storage of captured carbon solely for eligible EOR use;

(b) described in (and, in the case of property acquired before the first day of commercial operations of the project, verified by the Minister of Natural Resources as being property described in) paragraphs (a) to (e) of Class 58 in Schedule II to the *Income Tax Regulations*; and

(c) not

(i) situated outside of Canada, or

(ii) used all or substantially all in the handling or processing of oil. (*dépense admissible de stockage pour la RAP*)

(9) Subsection 127.44(9) of the Act is amended by striking out “and” at the end of paragraph (i), by adding “and” at the end of paragraph (j) and by adding the following after paragraph (j):

(k) once captured carbon has been stored in dedicated EOR storage, if the carbon dioxide is released into the atmosphere for *bona fide* reasons outside the control of the taxpayer, it is deemed to be stored in an eligible EOR use at the time of the release and all subsequent times.

(10) Section 127.44 of the Act is amended by adding the following after subsection (13):

Designation of EOR jurisdiction

(13.1) For the purposes of this section and Part XII.7, the following rules apply in relation to the definition ***designated EOR jurisdiction*** in subsection (1):

(a) if the Minister of the Environment determines that a jurisdiction within Canada or the United States has sufficient environmental laws and enforcement governing the permanent storage of captured carbon, the Minister of the Environment may designate the jurisdiction for the purposes of this section and Part XII.7;

(b) the designation under paragraph (a) shall specify the time at and after which it is in effect, which time may, for greater certainty, precede the time at which the designation is made; and

(c) the Minister of the Environment shall publish on a website maintained by the Government of Canada the designation referred to in paragraph (a).

(11) The portion of subsection 127.44(14) of the Act before paragraph (b) is replaced by the following:

Revocation of designation

(14) If a jurisdiction makes significant changes to its environmental laws or enforcement governing the permanent storage of captured carbon, and the Minister of the Environment determines that as a result of those changes a jurisdiction designated pursuant to subsection (13) or (13.1) has ceased to have sufficient environmental laws or enforcement governing the permanent storage of captured carbon, the following rules apply:

(a) the Minister of the Environment may revoke the designation made under subsection (13) or (13.1);

(12) Subparagraphs 127.44(14.1)(a)(i) and (ii) of the Act are replaced by the following:

(i) located in a jurisdiction that is not a designated jurisdiction or a designated EOR jurisdiction, that jurisdiction is deemed to be a designated jurisdiction or a designated EOR jurisdiction, as the case may be, at that time if it was so designated at the time of an earlier qualified CCUS expenditure of the taxpayer in respect of the project, or

(ii) not authorized and regulated for the storage of captured carbon under the laws of the designated jurisdiction or designated EOR jurisdiction, that geological formation is deemed to be so authorized and regulated if it was so at the time of an earlier qualified CCUS expenditure of the taxpayer in respect of the project;

(13) Paragraph 127.44(14.1)(b) of the Act is amended by striking out "and" at the end of subparagraph (ii) and by adding the following after subparagraph (ii):

(iii) for the purposes of calculating a qualified carbon capture expenditure or a qualified carbon transportation expenditure in respect of the particular expenditure, neither the description of A.1 in the definition *projected eligible use percentage* in subsection (1) nor the description of A.1 in the definition *actual eligible use percentage* in subsection 211.92(1), for any period, include any quantity of expected or actual storage of carbon in a geological formation located in a jurisdiction that, at the time that the particular expenditure is incurred, is not dedicated EOR storage because it is located in a jurisdiction that is not a designated EOR jurisdiction or is not authorized and regulated for the storage of captured carbon under the laws of a designated EOR jurisdiction, and

(iv) a qualified EOR storage expenditure in respect of a qualified CCUS project does not include the cost of property to the extent that the property is expected to support the storage of carbon in a geological formation located in a jurisdiction that, at the time that the particular expenditure is incurred, is not dedicated EOR storage because it is located in a jurisdiction that is not a designated EOR jurisdiction or is not authorized and regulated for the storage of captured carbon under the laws of a designated EOR jurisdiction; and

(14) Paragraph 127.44(14.1)(c) of the Act is replaced by the following:

(c) for the purposes of calculating the actual eligible use percentage in respect of the CCUS project for any period, the descriptions of A and A.1 in the definition *actual eligible use percentage* in subsection 211.92(1) include any quantity of carbon stored in a geological formation to which paragraph (a) applies.

(15) Subsections (1) to (14) apply in respect of expenditures made on or after April 28, 2026.

2 (1) The definition *clean hydrogen project plan* in subsection 127.48(1) of the Act is amended by adding the following after paragraph (d):

(d.1) if the project expects to produce captured carbon to be stored in an *eligible EOR use* (as defined in subsection 127.44(1)), includes a method of capturing and reinjecting the carbon that is mixed with the oil in the process of enhanced oil recovery;

(2) Paragraph 127.48(6)(d) of the Act is amended by adding the following after subparagraph (ii):

(ii.1) any captured carbon that is subject to an *eligible EOR use* (as defined in subsection 127.44(1)) is deemed to be permanently stored, other than captured carbon emitted into the atmosphere in connection with enhanced oil recovery,

(3) Subsections (1) and (2) are deemed to come into force on April 28, 2026.

3 (1) The description of E in the definition *emission intensity* in subsection 127.491(1) of the Act is replaced by the following:

E is the quantity of carbon dioxide captured from the system and stored in dedicated geological storage or dedicated EOR storage, expressed in tonnes, during the operating year, as determined in a manner that is acceptable to the Minister of Natural Resources; and

(2) Subsection 127.491(1) of the Act is amended by adding the following in alphabetical order:

dedicated EOR storage has the same meaning as in subsection 127.44(1). (*stockage pour la RAP dédié*)

(3) Subsections (1) and (2) are deemed to have come into force on April 28, 2026.

4 (1) The definition *actual eligible use percentage* in subsection 211.92(1) of the Act is replaced by the following:

actual eligible use percentage, in respect of a CCUS project, for a period means the amount, expressed as a percentage, determined by the formula

$$(A + A.1) \div B$$

where

A is the quantity of captured carbon that the CCUS project supported for storage or use in eligible use during the period;

A.1 is 50% of the quantity of actual eligible EOR use during the period; and

B is the total quantity of captured carbon that the CCUS project supported for storage or use in eligible use, eligible EOR use and ineligible use during the period. (*pourcentage réel d'utilisation admissible*)

(2) The portion of the definition *reporting-due day* in subsection 211.92(1) of the Act before paragraph (a) is replaced by the following:

reporting-due day means the later of December 31, 2026 and

(3) Subsection 211.92(1) of the Act is amended by adding the following in alphabetical order:

actual eligible EOR use, in respect of a CCUS project, for a period means the amount determined by the formula

$$A - B$$

where

A is the quantity of captured carbon that the CCUS project supported for storage in eligible EOR use during the period; and

B is the amount, if any, determined by the formula

$$C - (5\% \times A)$$

where

C is the portion of A that was emitted into the atmosphere in connection with enhanced oil recovery. (*utilisation pour la RAP admissible réelle*)

(4) Subsections (1) and (3) apply to taxation years ending after April 28, 2026.

(5) Subsection (2) is deemed to have come into force on January 1, 2022.

Investment Income Derived from Assets Supporting Canadian Insurance Risks

1 (1) Subparagraph 95(2)(a.2)(i) of the Act is replaced by the following:

(i) there shall be included the income of the affiliate for the year from the insurance of specified Canadian risks (which, for the purposes of this paragraph, includes the reinsurance of specified Canadian risks <u>and, if the affiliate does not deal at arm's length with an insurer resident in Canada, the holding of any property by the affiliate in connection with the insurance or reinsurance of specified Canadian risks</u>), unless more than 90% of the gross revenue of the affiliate for the year from the insurance of risks (net of reinsurance ceded) was in respect of the insurance of risks (other than specified Canadian risks) of persons with whom the affiliate deals at arm's length,

(2) Subsection (1) applies to taxation years of a foreign affiliate of a taxpayer that begin after November 4, 2025.

Transfer Pricing

1 (1) The Regulations are amended by adding the following after section 9700:

PART XCVIII

Transfer Pricing

Definitions

9800 The definitions in subsection 247(1) of the Act apply in this Part.

Small Taxpayers and Partnerships

9801 (1) For the purpose of paragraph 247(4.1)(a) of the Act, a taxpayer or partnership is deemed to satisfy the prescribed conditions for a particular taxation year or fiscal period in respect of any transaction or series between the taxpayer or the partnership and a non-resident person with whom the taxpayer or partnership, or a member of the partnership, does not deal at arm's length (or a partnership of which the non-resident person is a member) if

a) the total of the gross revenue of the taxpayer or partnership, and of the gross revenue of any other member of the multinational enterprise group that is resident in Canada, other than a member of the aforementioned partnership, does not exceed $25,000,000 during the immediately preceding taxation year or fiscal period;

b) the taxpayer or partnership did not dispose of an intangible property (or incorporeal property) during the taxation year or fiscal period to a non-resident person with whom the taxpayer or partnership, or a member of the partnership, does not deal at arm's length;

c) the taxpayer or partnership did not pay or credit to, or receive from, a non-resident person with whom the taxpayer or partnership, or a member of the partnership, does not deal at arm's length, a royalty payment during the taxation year or fiscal period; and

d) the taxpayer or partnership elects in prescribed form and manner, on or before the taxpayer's or partnership's documentation-due date for the taxation year or fiscal period, to have subsection 247(4.1) apply.

(2) If a taxpayer or partnership meets the conditions under subsection (1) for a particular taxation year or fiscal period, the taxpayer or partnership is deemed to satisfy the conditions in paragraph 247(4.1)(b) of the Act in respect of a transaction or series if the taxpayer or partnership

a) makes or obtains on or before the taxpayer's or partnership's documentation-due date for the taxation year or fiscal period in which the transaction or series is entered into, records or documents that provide an accurate description of

(i) the calculation of the gross revenue of the taxpayer or partnership and any other member of the multinational enterprise group that is resident in Canada, other than a member of the aforementioned partnership, during the immediately preceding taxation year or fiscal period,

(ii) the terms and conditions of the transaction or series, including a description of the identity of the participants in the transaction or series, the property or services to which the transaction or series relate and the amounts paid or payable (or received or receivable), and

(iii) the analysis performed to determine that the amounts are based on arm's length conditions;

b) for each subsequent taxation year or fiscal period, if any, in which the transaction or series continues, makes or obtains, on or before the taxpayer's or partnership's documentation-due date for the year or period, records or documents that provide an accurate description of each material change in the year or period to the matters referred to in any of subparagraphs (a)(i) to (iii) in respect of the transaction or series; and

c) provides the records or documents described in paragraphs (a) and (b) to the Minister within 30 days after service, made personally or by registered or certified mail, of a written request therefor.

Tangible Property — Sales or Purchases

9802 (1) For the purpose of paragraph 247(4.1)(a) of the Act, a taxpayer or partnership is deemed to satisfy the prescribed conditions for a particular taxation year or fiscal period in respect of a transaction or series that is a sale or purchase of tangible property (or corporeal property) between the taxpayer or the partnership and a non-resident person with whom the taxpayer or partnership, or a member of the partnership, does not deal at arm's length (or a partnership of which the non-resident person is a member) if

a) the gross amount paid or payable (or received or receivable) for the tangible property (or corporeal property) by the taxpayer or partnership during the taxation year or fiscal period does not exceed $5,000,000; and

b) the taxpayer or partnership elects in prescribed form and manner, on or before the taxpayer's or partnership's documentation-due date for the taxation year or fiscal period, to have subsection 247(4.1) apply.

(2) If a taxpayer or partnership meets the conditions under subsection (1), the taxpayer or partnership is deemed to satisfy the conditions in paragraph 247(4.1)(b) of the Act in respect of the transaction or series referred to in subsection (1) if the taxpayer or partnership

a) makes or obtains on or before the taxpayer's or partnership's documentation-due date for the taxation year or fiscal period in which the transaction or series is entered into, records or documents that provide an accurate description of

(i) the terms and conditions of the transaction or series, including a description of the identity of the participants in the transaction or series, the property to which the transaction or series relates and the amounts paid or payable (or received or receivable), and

(ii) the analysis performed to determine that the amounts are based on arm's length conditions;

b) for each subsequent taxation year or fiscal period, if any, in which the transaction or series continues, makes or obtains, on or before the taxpayer's or partnership's documentation-due date for the year or period, records or documents that provide an accurate description of each material change in the year or period to the matters referred to in any of subparagraphs (a)(i) and (ii) in respect of the transaction or series; and

c) provides the records or documents described in paragraphs (a) and (b) to the Minister within 30 days after service, made personally or by registered or certified mail, of a written request therefor.

Intra-Group Services

9803 (1) For the purpose of paragraph 247(4.1)(a) of the Act, a taxpayer or partnership is deemed to satisfy the prescribed conditions for a particular taxation year or fiscal period in respect of a transaction or series that is a provision or receipt of services between the taxpayer or the partnership and a non-resident person with whom the taxpayer or partnership, or a member of the partnership, does not deal at arm's length (or a partnership of which the non-resident person is a member) if

a) the gross amount paid or payable (or received or receivable) by the taxpayer or partnership for the services during the taxation year or fiscal period does not exceed $2,000,000; and

b) the taxpayer or partnership elects in prescribed form and manner, on or before the taxpayer's or partnership's documentation-due date for the taxation year or fiscal period, to have subsection 247(4.1) apply.

(2) If a taxpayer or partnership meets the conditions under subsection (1), the taxpayer or partnership is deemed to satisfy the conditions in paragraph 247(4.1)(b) of the Act in respect of the transaction or series referred to in subsection (1) if the taxpayer or partnership

a) makes or obtains on or before the taxpayer's or partnership's documentation-due date for the taxation year or fiscal period the transaction or series is entered into, records or documents that provide an accurate description of

(i) the terms and conditions of the transaction or series, including a description of the identity of the participants in the transaction or series, the services to which the transaction or series relates, and the amounts paid or payable (or received or receivable), and

(ii) the analysis performed to determine that the amounts are based on arm's length conditions;

b) for each subsequent taxation year or fiscal period, if any, in which the transaction or series continues, makes or obtains, on or before the taxpayer's or partnership's documentation-due date for the year or period, records or documents that provide an accurate description of each material change in the year or period to the matters referred to in any of subparagraphs (a)(i) and (ii) in respect of the transaction or series; and

c) provides the records or documents described in paragraph (a) or (b) to the Minister within 30 days after service, made personally or by registered or certified mail, of a written request therefor.

Loans

9804 (1) For the purpose of paragraph 247(4.1)(a) of the Act, a taxpayer or partnership is deemed to satisfy the prescribed conditions for a particular taxation year or fiscal period in respect of a transaction or series that is a lending or borrowing of money between the taxpayer or the partnership and a non-resident person with whom the taxpayer or partnership, or a member of the partnership, does not deal at arm's length (or a partnership of which the non-resident person is a member) if

a) the gross amount of interest paid or payable (or received or receivable) on the loan during the taxation year or fiscal period does not exceed $1,000,000; and

b) the taxpayer or partnership elects in prescribed form and manner, on or before the taxpayer's or partnership's documentation-due date for the taxation year or fiscal period, to have subsection 247(4.1) apply.

(2) If a taxpayer or partnership meets the conditions under subsection (1), the taxpayer or partnership is deemed to satisfy the conditions in paragraph 247(4.1)(b) of the Act in respect of the transaction or series referred to in subsection (1) if the taxpayer or partnership

a) makes or obtains on or before the taxpayer's or partnership's documentation-due date for the taxation year the transaction is entered into, records or documents that provide an accurate description of

(i) the terms and conditions in respect of the loan, including the identity of the participants in the transaction or series, the principal amount, term, issuance date, maturity, credit rating of the borrower, interest rate, currency, payment terms and the amounts paid or payable (or received or receivable),

(ii) the purpose of the loan, and

(iii) the analysis performed to determine the amounts are based on arm's length conditions;

b) for each subsequent taxation year or fiscal period, if any, in which the transaction or series continues, makes or obtains, on or before the taxpayer's or partnership's documentation-due date for the year or period, records or documents that provide an accurate description of each material change in the year or period to the matters referred to in any of subparagraphs (a)(i) to (iii) in respect of the transaction or series; and

c) provides the records or documents described in paragraphs (a) and (b) to the Minister within 30 days after service, made personally or by registered or certified mail, of a written request therefor.

Anti-avoidance

9805 Notwithstanding sections 9801 to 9804, a taxpayer or partnership is deemed not to meet the prescribed conditions in subsection 247(4.1) of the Act for a taxation year or fiscal period in respect of a transaction or series of transactions, or in any subsequent taxation year or fiscal period in which the transaction or series continues, if it is reasonable to conclude that one of the purposes of the transaction or series of transactions is to benefit from subsection 247(4.1) of the Act.

(2) Subsection (1) applies to taxation years and fiscal periods that begin on or after January 1, 2026.

Hybrid Mismatch Arrangements

1 (1) Subsection 12.7(3) of the Act is replaced by the following:

Secondary rule — consequences

(3) Subject to subsection 18.4(5), if this subsection applies in respect of a payment of which a taxpayer is a recipient, an amount equal to the hybrid mismatch amount for a taxation year in respect of the payment shall be included in computing the taxpayer's income for the year and is deemed to be from the same source and particular place as the payment.

Investor hybrid payer mismatch amount

(4) If a taxpayer has an investor hybrid payer mismatch amount, in respect of a payment, for a taxation year

(a) an amount equal to that investor hybrid payer mismatch amount shall be included in computing the taxpayer's income for the year; and

(b) the amount so included is deemed to be from the same source, or sources, in a particular place as the income or loss, as the case may be, of the hybrid payer that is computed taking into account an amount deductible in respect of the payment.

(2) Subsection (1) applies in respect of payments arising on or after July 1, 2026.

2 (1) The portion of subsection 18(4) of the Act before paragraph (a) is replaced by the following:

Limitation on deduction of interest

(4) Notwithstanding any other provision of this Act (other than subsection (8)), in computing the income for a taxation year of a corporation or a trust from a business (other than the Canadian banking business of an authorized foreign bank) or property, no deduction shall be made in respect of that proportion of any amount that would, in the absence of this subsection and sections 18.2 and 18.4, be deductible in computing that income in respect of interest paid or payable by it on outstanding debts to specified non-residents that

(2) Subsection (1) applies in respect of payments arising on or after Announcement Date.

3 (1) The portion of subsection 18.4(1) of the Act before the first definition is replaced by the following:

Hybrid mismatch arrangements — definitions

18.4 (1) The following definitions apply in this section, paragraphs 20(1)(yy) to (aaa) and subsection 20(31).

(2) The definitions *hybrid mismatch amount* and *structured arrangement* in subsection 18.4(1) of the Act are replaced by the following:

hybrid mismatch amount, for a taxation year, in respect of a payment, means

(a) if the payment arises under a hybrid financial instrument arrangement, the amount of the hybrid financial instrument mismatch for the year in respect of the payment;

(b) if the payment arises under a hybrid transfer arrangement, the amount of the hybrid transfer mismatch for the year in respect of the payment;

(c) if the payment arises under a substitute payment arrangement, the amount of the substitute payment mismatch for the year in respect of the payment;

(d) if the payment arises under a reverse hybrid arrangement, the amount of the reverse hybrid mismatch for the year in respect of the payment;

(e) if the payment arises under a disregarded payment arrangement, the amount of the disregarded payment mismatch for the year in respect of the payment; or

(f) if the payment arises under a hybrid payer arrangement, the amount of the hybrid payer mismatch for the year in respect of the payment. (*montant de l'asymétrie hybride*)

structured arrangement means any transaction, or series of transactions, if

(a) the transaction or series includes a payment in respect of which there would be one of the following amounts if the payment were assumed to meet the conditions set out in subparagraphs (10)(b)(ii), (12)(b)(ii), (14)(e)(ii), (15.1)(b)(ii) and (15.3)(b)(ii) and clause (15.5)(b)(i)(B):

(i) a hybrid mismatch amount, or

(ii) an investor hybrid payer mismatch amount; and

(b) it can reasonably be considered, having regard to all the facts and circumstances, including the terms or conditions of the transaction or series, that

(i) a portion of any economic benefit arising from the amount referred to in paragraph (a) is reflected in the pricing of the transaction or series, or

(ii) the transaction or series was otherwise designed to, directly or indirectly, give rise to the amount referred to in paragraph (a). (*dispositif structuré*)

(3) The description of A in the definition *foreign ordinary income* in subsection 18.4(1) of the Act is replaced by the following:

A is an amount (referred to in this definition as the “relevant amount”) that is included in respect of the payment in computing relevant foreign income or profits of the entity for the year because the entity is a recipient of the payment or has a direct or indirect equity interest in a recipient of the payment;

(4) The definition *hybrid mismatch arrangement* in subsection 18.4(1) of the Act is amended by striking out “or” at the end of paragraph (b) and by adding the following after paragraph (c):

(d) a reverse hybrid arrangement under which the payment arises;

(e) a disregarded payment arrangement under which the payment arises; or

(f) a hybrid payer arrangement under which the payment arises. (*dispositif hybride*)

(5) Paragraph (a) of the definition *specified minimum tax regime* in subsection 18.4(1) of the Act is replaced by the following:

(a) any provisions in respect of *global intangible low-taxed income* or *net CFC tested income* (as those terms are defined in section 951A of the *Internal Revenue Code of 1986* of the United States, as amended from time to time);

(6) Subsection 18.4(1) of the Act is amended by adding the following in alphabetical order:

dual inclusion income, of an entity for a taxation year, means

(a) if the entity is a hybrid entity that is resident in Canada, the total of all amounts each of which is an amount that is

(i) ordinary income of the entity, in respect of Canada, for the taxation year, and

(ii) ordinary income of an investor in the entity, in respect of a country other than Canada, for a foreign taxation year that begins on or before the day that is 12 months after the end of the taxation year; or

(b) if the entity is a dual resident or a multinational entity, the total of all amounts each of which is an amount that is

(i) ordinary income of the entity, in respect of Canada, for the taxation year, and

(ii) ordinary income of the entity, in respect of a country other than Canada, for a foreign taxation year that begins on or before the day that is 12 months after the end of the taxation year. (*revenu soumis à double inclusion*)

dual resident means an entity that is

(a) resident in a country; and

(b) resident in another country. (*double résident*)

foreign hybrid payer mismatch rule means a foreign hybrid mismatch rule that can reasonably be considered to

(a) have been enacted or otherwise brought into effect by a country with the intention of implementing, in whole or in part, Chapter 6 or 7 of *Neutralising the Effects of Hybrid Mismatch Arrangements, Action 2 — 2015 Final Report* as published by the Organisation for Economic Co-operation and Development, as amended from time to time; or

(b) have an effect that is substantially similar to that of a provision under this section or section 12.7 that is intended to implement, in whole or in part, a chapter referred to in paragraph (a). (*foreign hybrid payer mismatch rule*)

foreign structured arrangement means a transaction, or series of transactions, that would be a structured arrangement if paragraph (a) of the definition *structured arrangement* were read as follows:

(a) the transaction or series includes a payment in respect of which there would be an amount of an imported hybrid mismatch if the payment and any other payments referred to in subparagraph (15.92)(c)(ii) were assumed to meet the condition set out in clause (15.92)(c)(ii)(B); and (*dispositif structuré étranger*)

hybrid entity means an entity

(a) that is resident in a country; and

(b) any portion of the income, profits, expenses or losses of which is treated, for the purposes of an income or profits tax under the laws of another country, as income, profits, expenses or losses of another entity that is resident in the other country (or would be so treated if there were any such income, profits, expenses or losses). (*entité hybride*)

hybrid payer means a payer that is

(a) a dual resident;

(b) a hybrid entity; or

(c) a multinational entity. (*payeur hybride*)

income or profits tax does not include a tax under

(a) Part XIII or a tax substantially similar to tax under Part XIII;

(b) a controlled foreign company tax regime; or

(c) a specified minimum tax regime. (*impôt sur le revenu ou les bénéfices*)

investor, in a hybrid entity, means a particular entity if

(a) the particular entity holds, directly or indirectly, an equity interest in the hybrid entity; and

(b) any portion of the hybrid entity's income, profits, expenses or losses is treated, for the purposes of an income or profits tax under the laws of a country in which the particular entity is resident, as the income, profits, expenses or losses of the particular entity (or would be so treated if there were any such income, profits, expenses or losses). (*investisseur*)

investor dual inclusion income, of an investor, in respect of a hybrid entity, for a taxation year, means the total of all amounts each of which is an amount that is

(a) ordinary income of the investor, in respect of Canada, for the taxation year; and

(b) ordinary income of the hybrid entity, in respect of a country other than Canada, for a foreign taxation year that begins on or before the day that is 12 months after the end of the taxation year. (*revenu soumis à double inclusion d'un investisseur*)

multinational entity, means an entity that is

(a) resident in a particular country; and

(b) subject to an income or profits tax under the laws of another country, in which it is not resident, because it carries on a business in that other country,

(i) if the particular country and the other country have concluded a tax treaty in which the expression “permanent establishment” is given a meaning, through a permanent establishment, within that meaning, in the other country, and

(ii) in any other case, through a permanent establishment, within the meaning of section 8201 of the *Income Tax Regulations*, in the other country. (*entité multinationale*)

ordinary income, of an entity, in respect of a country, for a taxation year or a foreign taxation year, means an amount that is included in computing the entity’s income or profits for the year that are subject to an income or profits tax (other than a tax that is charged at a nil rate) under the laws of the country except to the extent that

(a) the amount can reasonably be considered to be excluded, reduced, offset or otherwise effectively sheltered from the income or profits tax under the laws of that country by reason of any exemption, exclusion, deduction, credit or other form of relief that applies specifically in respect of all or a portion of the amount and not in computing the entity’s income or profits in general; or

(b) the income or profits tax in respect of the income or profits for the year is repaid or repayable (unless it is repaid or repayable because a loss is used to reduce or offset the income or profits). (*revenu ordinaire*)

reverse hybrid entity, in respect of a payment, means a particular entity

(a) that is a recipient of the payment;

(b) that is not subject to an income or profits tax under the laws of a country on income or profits in respect of the payment because the income or profits are treated, for income tax purposes under the laws of the country, as those of one or more other entities (or would be so treated if there were any such income or profits); and

(c) in which an equity interest is held, directly or indirectly, by an entity that is not subject to an income or profits tax (other than a tax in respect of foreign accrual property income), under the laws of a country in which that entity is resident, on the income or profits in respect of the payment because under those laws the income or profits are treated as those of the particular entity (or would be so treated if there were any such income or profits). (*entité hybride inversée*)

(7) Subsection 18.4(2) of the Act is replaced by the following:

Interpretation

(2) This section, section 12.7 and subsection 113(5), as well as related provisions of the Act and the *Income Tax Regulations*, relate to the implementation of *Neutralising the Effects of Hybrid Mismatch Arrangements, Action 2 — 2015 Final Report* and *Neutralising the Effects of Branch Mismatch Arrangements, Action 2: Inclusive Framework on BEPS*, both as published by the Organisation for Economic Co-operation and Development and, unless the context otherwise requires, are to be interpreted consistently with those reports, as amended from time to time.

(8) Paragraph 18.4(3)(a) of the Act is replaced by the following:

(a) in the absence of this section and subsection 18.2(2), an amount would be deductible, in respect of the payment, in computing a taxpayer’s income from a business or property for a taxation year; and

(9) Paragraph 18.4(3)(b) of the Act is replaced by the following:

(b) there is a deduction component of a hybrid mismatch arrangement under which the payment arises.

(10) Subsection 18.4(4) of the Act is replaced by the following:

Primary rule — consequences

(4) If this subsection applies in respect of a payment, notwithstanding any other provision of this Act, in computing a taxpayer's income from a business or property for a taxation year, no deduction shall be made in respect of the payment to the extent of the hybrid mismatch amount for the year in respect of the payment.

(11) Paragraphs 18.4(5)(a) to (c) of the Act are replaced by the following:

(a) there would be no hybrid mismatch arrangement or imported hybrid arrangement in respect of the payment if the payment did not arise under, or in connection with, a structured arrangement or foreign structured arrangement, as the case may be;

(b) at the time that the taxpayer entered into, or acquired an interest in any part of a transaction that is, or is part of, the structured arrangement or foreign structured arrangement, it was not reasonable to expect that any of the following entities were aware that there would be a hybrid mismatch amount, investor hybrid payer mismatch amount or amount of an imported hybrid mismatch in respect of the payment:

(i) the taxpayer,

(ii) an entity with which the taxpayer does not deal at arm's length, or

(iii) a specified entity in respect of the taxpayer; and

(c) none of the entities described in subparagraphs (b)(i) to (iii) shared in the value of any economic benefit resulting from the hybrid mismatch amount, investor hybrid payer mismatch amount or amount of the imported hybrid mismatch, as the case may be.

(12) The description of A in paragraph 18.4(6)(a) of the Act is replaced by the following:

A is the total of all amounts, each of which would, in the absence of this section and subsection 18.2(2), be deductible in respect of the payment, in computing the income of a taxpayer from a business or property under this Part for a taxation year (referred to in this paragraph as the "relevant year"), and

(13) Paragraphs 18.4(6)(a) and (b) of the Act are replaced by the following:

(a) the following condition is met:

$$A > B$$

where

A is the total of all amounts, each of which is an amount (referred to in this paragraph as a "deductible amount") that would, in the absence of this section and subsection 18.2(2), be deductible in respect of the payment, in computing the income of a taxpayer from a business or property under this Part for a taxation year, and

B is the total of all amounts each of which, in respect of a deductible amount for a taxation year,

(i) can reasonably be expected to be — and actually is — foreign ordinary income of an entity, in respect of the payment, for a foreign taxation year that begins on or before the day that is 12 months after the end of the taxation year, or

(ii) is Canadian ordinary income of a taxpayer, in respect of the payment, for a taxation year that begins on or before the day that is 12 months after the end of the taxation year; or

(b) the following condition is met:

$$C > D$$

where

C is the total of all amounts, each of which is an amount (referred to in this paragraph as a "foreign deductible amount") that, in the absence of any foreign expense restriction rule, would be — or would reasonably be expected to be — deductible, in respect of the payment, in computing relevant foreign income or profits of an entity for a foreign taxation year, and

D is the total of all amounts, each of which, in respect of a foreign deductible amount for a foreign taxation year,

(i) would, in the absence of section 12.7, be Canadian ordinary income of a taxpayer, in respect of the payment, for a taxation year that begins on or before the day that is 12 months after the end of the foreign taxation year, or

(ii) can reasonably be expected to be — and actually is — foreign ordinary income of another entity, in respect of the payment, for a foreign taxation year that begins on or before the day that is 12 months after the end of the foreign taxation year.

(14) Section 18.4 of the Act is amended by adding the following after subsection (6):

Special rule — purchase price of property

(6.1) For the purposes of applying subsections (15.1) to (15.4) in respect of a payment that is for the purchase price of a property, the amounts determined for A in paragraph (6)(a) and C in paragraph (6)(b) do not include any amount deductible as an allowance in respect of depreciation, obsolescence or depletion.

(15) Subsection 18.4(8) of the Act is replaced by the following:

Double deduction mismatch — conditions

(7.1) For the purposes of this section and section 12.7, a payment gives rise to a double deduction mismatch if

(a) in the absence of paragraph (f) of the definition *hybrid mismatch amount* in subsection (1), an amount would be deductible, in respect of the payment, in computing the income of an entity from a business or property under this Part for a taxation year; and

(b) in the absence of any foreign hybrid payer mismatch rule, an amount would be – or would reasonably be expected to be – deductible, in respect of the payment, in computing the relevant foreign income or profits of an entity for a foreign taxation year.

Double deduction mismatch — application

(7.2) Subject to subsection (7.3), for the purposes of this section and section 12.7, if a payment gives rise to a double deduction mismatch,

(a) the lesser of the following amounts is the deduction component of the double deduction mismatch:

(i) the total of all amounts, each of which is an amount referred to in paragraph (7.1)(a) in respect of the payment, and

(ii) the total of all amounts each of which is an amount referred to in paragraph (7.1)(b) in respect of the payment; and

(b) the amount of the double deduction mismatch arising from the payment is equal to the deduction component of the double deduction mismatch.

Double deduction mismatch — valuation differences

(7.3) For the purposes of subsection (7.2), if the amount (referred to in this subsection as the "aggregate foreign deduction") determined under subparagraph (7.2)(a)(ii) in respect of a payment would, in the absence of this subsection, be less than the amount (referred to in this subsection as the "aggregate Canadian deduction") determined under subparagraph (7.2)(a)(i) in respect of the payment – and the difference between the aggregate foreign deduction and the aggregate Canadian deduction is due in whole or in part to a difference in valuation – the aggregate foreign deduction is to be determined using the valuation that was used in determining the aggregate Canadian deduction.

No double counting

(8) In computing the foreign ordinary income, Canadian ordinary income, dual inclusion income and investor dual inclusion income of an entity, the following rules apply:

(a) any amount that has already been included, directly or indirectly, in computing foreign ordinary income or Canadian ordinary income of a particular entity in respect of a payment shall not be included, directly or indirectly, in computing foreign ordinary income or Canadian ordinary income of the particular entity or any other entity in respect of the payment;

(b) any amount that has already been included, directly or indirectly, in computing the dual inclusion income or investor dual inclusion income of a particular entity for a taxation year shall not be included, directly or indirectly, in computing the dual inclusion income or investor dual inclusion income of any other entity for a taxation year; and

(c) if an amount has been included, directly or indirectly, in computing the dual inclusion income or investor dual inclusion income of an entity for a taxation year and, because it was so included, it is taken into account as a reduction in computing a hybrid mismatch amount or an investor hybrid payer mismatch amount or in determining the amount of a deduction under paragraph 20(1)(zz) or (aaa),

(i) where the amount was included in dual inclusion income, it shall not be included, directly or indirectly, in computing the investor dual inclusion income of the entity for any taxation year, and

(ii) where the amount was included in investor dual inclusion income, it shall not be included, directly or indirectly, in computing the dual inclusion income of the entity for any taxation year.

(16) Paragraph 18.4(11)(a) of the Act is replaced by the following:

(a) the amount of the hybrid financial instrument mismatch for a taxation year, in respect of the payment, is the portion of the amount of the deduction/non-inclusion mismatch arising from the payment that

(i) meets the condition in subparagraph (10)(d)(i) or (ii), and

(ii) can reasonably be considered to be attributable to the year;

(17) Paragraph 18.4(13)(a) of the Act is replaced by the following:

(a) the amount of the hybrid transfer mismatch for a taxation year, in respect of the payment, is the portion of the amount of the deduction/non-inclusion mismatch arising from the payment that

(i) meets a condition in subparagraph (12)(d)(i) or (ii), and

(ii) can reasonably be considered to be attributable to the year;

(18) The portion of subparagraph 18.4(14)(f)(ii) of the Act before clause (A) is replaced by the following:

(ii) if the condition in subparagraph (i) is not met, would meet the condition in that subparagraph if any amount that, in the absence of this section, subsection 18.2(2) or any foreign expense restriction rule, would be — or would reasonably be expected to be — deductible by the transferee in respect of the underlying return were instead considered to be deductible in respect of the payment, to the extent that the amount

(19) Paragraph 18.4(15)(a) of the Act is replaced by the following:

(a) the amount of the substitute payment mismatch for a taxation year, in respect of the payment, is the lesser of

(i) the amount of the deduction/non-inclusion mismatch arising from the payment that can reasonably be considered to be attributable to the year and is

(A) if the condition in subparagraph (14)(f)(i) applies, determined based on the assumption in that subparagraph, or

(B) if the condition in subparagraph (14)(f)(ii) applies, determined based on the assumption in that subparagraph, and

(ii) the amount of the payment, or the portion of the payment, as the case may be, described in paragraph (14)(d) that can reasonably be considered to be attributable to the year;

(20) Paragraph 18.4(15)(d) of the Act is replaced by the following:

(d) if the condition in subparagraph (14)(f)(ii) is met in respect of the payment, any amount that, in the absence of this section, subsection 18.2(2) or any foreign expense restriction rule, would be — or would reasonably be expected to be — deductible by the transferee in respect of the underlying return that meets the conditions in clauses 14(f)(ii)(A) and (B) is deemed to be deductible by the transferee in respect of the payment for the purposes of applying subsections (3) and (4) and section 12.7.

(21) Section 18.4 of the Act is amended by adding the following after subsection (15):

Reverse hybrid arrangement — conditions

(15.1) For the purposes of this section, a payment (referred to in this subsection as the "actual payment") arises under a reverse hybrid arrangement if

(a) the actual payment is to a reverse hybrid entity in respect of the actual payment;

(b) any of the following conditions is satisfied:

(i) the following entities do not deal at arm's length with one another:

(A) a payer of the actual payment,

(B) the reverse hybrid entity, and

(C) an entity that holds, directly or indirectly, an equity interest in the reverse hybrid entity and is described in paragraph (c) of the definition *reverse hybrid entity* in subsection (1), or

(ii) the actual payment arises under, or in connection with, a structured arrangement;

(c) the actual payment gives rise to a deduction/non-inclusion mismatch; and

(d) the following condition is met:

$$A > B$$

where

A is the amount of the deduction/non-inclusion mismatch arising from the actual payment, and

B is the total of all amounts each of which is a portion of an amount of a deduction/non-inclusion mismatch that — if each entity that held a direct equity interest in the reverse hybrid entity at the time of the actual payment were to receive a payment (referred to in this paragraph as a "hypothetical payment") equal to the amount that can reasonably be considered to be the entity's share of the actual payment — would

(i) arise from a hypothetical payment, and

(ii) not be the amount of a hybrid financial instrument mismatch, hybrid transfer mismatch or substitute payment mismatch, in respect of the hypothetical payment, for which a deduction would be denied under subsection (4).

Reverse hybrid arrangement — amount

(15.2) For the purposes of this section, if a payment arises under a reverse hybrid arrangement,

(a) the amount of the reverse hybrid mismatch for a taxation year, in respect of the payment, is the amount by which the amount determined for A in paragraph (15.1)(d), in respect of the payment, exceeds the amount determined for B in that paragraph, to the extent that the excess amount can reasonably be considered to be attributable to the year; and

(b) the deduction component, if any, of the deduction/non-inclusion mismatch is the deduction component of the reverse hybrid arrangement in respect of the payment.

Disregarded payment arrangement — conditions

(15.3) For the purposes of this section and section 12.7, a payment arises under a disregarded payment arrangement if

(a) a payer of the payment is a hybrid entity;

(b) any of the following conditions is satisfied:

(i) a payer of the payment does not deal at arm's length with a recipient of the payment, or

(ii) the payment arises under, or in connection with, a structured arrangement;

(c) the payment gives rise to a deduction/non-inclusion mismatch; and

(d) it can reasonably be considered that the deduction/non-inclusion mismatch

(i) arises in whole or in part because the payment is disregarded under the laws of the country in which a recipient of the payment is resident, or

(ii) would arise in whole or in part because the condition in subparagraph (i) would be satisfied if any other reason for the deduction/non-inclusion mismatch were disregarded.

Disregarded payment arrangement — amount

(15.4) For the purposes of this section and section 12.7, if a payment arises under a disregarded payment arrangement,

(a) the amount of the disregarded payment mismatch for a taxation year, in respect of the payment, is the amount determined by the formula

$$A - B - C$$

where

A is the portion of the amount of the deduction/non-inclusion mismatch arising from the payment that

(i) meets the condition in subparagraph (15.3)(d)(i) or (ii), and

(ii) can reasonably be considered to be attributable to the year,

B is the portion of the amount determined for A that

(i) is included in the amount of a hybrid financial instrument mismatch, hybrid transfer mismatch, substitute payment mismatch or reverse hybrid mismatch, in respect of the payment, for the year or any preceding taxation year, and

(ii) is not deductible because of the application of subsection (4) or is included in computing a taxpayer's income because of the application of subsection 12.7(3), and

C is

(i) if there is a deduction component of the deduction/non-inclusion mismatch, the total of all amounts each of which is the dual inclusion income of the hybrid entity referred to in paragraph (15.3)(a) for the year or any preceding taxation year, other than any portion of that dual inclusion income that was taken into account as a reduction in computing

(A) the amount of another disregarded payment mismatch for the year, or

(B) a hybrid mismatch amount for a preceding taxation year, or

(ii) if there is a foreign deduction component of the deduction/non-inclusion mismatch, the total of all amounts each of which is the investor dual inclusion income, in respect of the hybrid entity referred to in paragraph (15.3)(a), of an investor in the hybrid entity for the year or any preceding taxation year, other than any portion of that investor dual inclusion income that was taken into account as a reduction in computing

(A) the amount of another disregarded payment mismatch for the year, or

(B) the amount of a disregarded payment mismatch or an investor hybrid payer mismatch amount for a preceding taxation year; and

(b) the deduction component, if any, of the deduction/non-inclusion mismatch is the deduction component of the disregarded payment arrangement in respect of the payment; and

(c) the foreign deduction component, if any, of the deduction/non-inclusion mismatch is the foreign deduction component of the disregarded payment arrangement in respect of the payment.

Hybrid payer arrangement — conditions

(15.5) For the purposes of this section and section 12.7, a payment arises under a hybrid payer arrangement if

(a) a payer of the payment is a hybrid payer;

(b) in the case of a hybrid payer that is a hybrid entity resident in Canada,

(i) any of the following conditions is met:

(A) the hybrid entity does not deal at arm's length with an investor in the hybrid entity, or

(B) the payment arises under, or in connection with, a structured arrangement, and

(ii) no foreign hybrid payer mismatch rule applies, in respect of the payment, in computing the relevant foreign income or profits, for a foreign taxation year, of at least one investor in the hybrid entity;

(c) in the case of a hybrid payer that is a multinational entity resident in a country other than Canada, no foreign hybrid payer mismatch rule of that country applies, in respect of the payment, in computing the relevant foreign income or profits, for a foreign taxation year, of the multinational entity; and

(d) the payment gives rise to a double deduction mismatch.

Hybrid payer arrangement — amount

(15.6) For the purposes of this section, if a particular payment arises under a hybrid payer arrangement,

(a) the amount of the hybrid payer mismatch, in respect of the particular payment, for a taxation year is

(i) if the hybrid payer referred to in paragraph (15.5)(a) of the particular payment is a hybrid entity that is a partnership, nil, and

(ii) in any other case, the amount determined by the formula

$$A - (B \times A \div C)$$

where

A is the portion of the amount of the double deduction mismatch arising from the particular payment that can reasonably be considered to be attributable to the year and to the hybrid payer,

B is the amount determined by the formula

$$D + E$$

where

D is the dual inclusion income of the hybrid payer for the year, other than any portion of that dual inclusion income that is taken into account as a reduction in computing the amount of a disregarded payment mismatch for the year, and

E is the total of all amounts, each of which is the dual inclusion income of the hybrid payer for a preceding taxation year, other than any portion of that dual inclusion income that was taken into account as a reduction in computing

(A) the amount of a disregarded payment mismatch for the year, or

(B) a hybrid mismatch amount for a preceding taxation year, and

C is the total of all amounts, each of which is an amount determined for A for the year in respect of a payment of which the hybrid payer is a payer; and

(b) the deduction component of the double deduction mismatch is the deduction component of the hybrid payer mismatch in respect of the particular payment.

Hybrid payer arrangement — investor amount

(15.7) For the purposes of this section and section 12.7, if a particular payment arises under a hybrid payer arrangement, and the hybrid payer is a hybrid entity that is a partnership, the investor hybrid payer mismatch amount, in respect of the particular payment, of an investor in the hybrid payer, for a taxation year, is the amount determined by the formula

$$A - (B \times A \div C)$$

where

A is the portion of the amount of the double deduction mismatch in respect of the particular payment that

(a) both

(i) is deductible and is claimed in computing the income of the hybrid payer from a business or property under this Part, and

(ii) can reasonably be considered to be the investor's share of that amount for the year, determined in a manner consistent with the determination of the investor's share of the income of the hybrid payer under subsection 96(1), or

(b) is deductible and is claimed in computing the investor's income from a business or property under this Part for the year;

B is the amount determined by the formula

$$D + E$$

where

D is the investor dual inclusion income of the investor, in respect of the hybrid payer, for the year, other than any portion of that investor dual inclusion income that is taken into account as a reduction in computing the amount of a disregarded payment mismatch for the year, and

E is the total of all amounts, each of which is the investor dual inclusion income of the investor, in respect of the hybrid payer, for a preceding taxation year, other than any portion of that investor dual inclusion income that was taken into account as a reduction in computing

(i) the amount of a disregarded payment mismatch for the year, or

(ii) the amount of a disregarded payment mismatch or an investor hybrid payer mismatch amount for any preceding taxation year; and

C is the total of all amounts, each of which is an amount determined for A for the year, in respect of the investor, in respect of a payment by the hybrid payer.

Offshore mismatch — conditions

(15.8) For the purposes of this section, a payment gives rise to an offshore mismatch if

(a) the following conditions are met:

(i) the payment would give rise to a deduction/non-inclusion mismatch if subsection (6) were read without reference to its paragraph (a), and

(ii) it is not the case that all or substantially all of the amount of the deduction/non-inclusion mismatch is included, or can reasonably be expected to be included, in respect of the payment, in computing

(A) a taxpayer's income from a business or property under this Part for a taxation year because of subsection 12.7(3), or

(B) the relevant foreign income or profits of an entity for a foreign taxation year because of a foreign hybrid mismatch rule; or

(b) the payment would give rise to a double deduction mismatch if paragraphs (7.1)(a) and (b) were read as follows:

(a) an amount is — or can reasonably be expected to be — deductible, in respect of the payment, in computing the relevant foreign income or profits of an entity in respect of a country other than Canada for a foreign taxation year; and

(b) an amount is — or can reasonably be expected to be — deductible, in respect of the payment, in computing the relevant foreign income or profits of an entity in respect of a country other than Canada (other than the country referred to in paragraph (a)) for a foreign taxation year.

Offshore mismatch — amount

(15.9) For the purposes of this section, if a payment gives rise to an offshore mismatch, the amount of the offshore mismatch arising from the payment is

(a) if paragraph (15.8)(a) applies, the amount by which the amount determined for C in paragraph (6)(b) in respect of the payment exceeds the amount determined for D in paragraph (6)(b) in respect of the payment; and

(b) if paragraph (15.8)(b) applies, the lesser of the total of all amounts each of which is an amount described in paragraph (7.1)(a) and the total of all amounts each of which is an amount described in paragraph (7.1)(b) if those paragraphs were read in accordance with paragraph (15.8)(b).

Offshore hybrid mismatch amount — meaning

(15.91) For the purposes of this section, an offshore hybrid mismatch amount for a foreign taxation year, in respect of a payment, is the amount that would be

(a) if paragraph (15.8)(a) applies in respect of the payment, the amount of a hybrid financial instrument mismatch, hybrid transfer mismatch, substitute payment mismatch, reverse hybrid mismatch or disregarded payment mismatch for the foreign taxation year, in respect of the payment, if

(i) the references to "deduction/non-inclusion mismatch", "a taxation year" and "preceding taxation year" in subsections (10) to (15.4) were read, with such modifications as the circumstances require, as references to "offshore mismatch", "a foreign taxation year" and "preceding foreign taxation year", respectively, and

(ii) the references to “resident in Canada”, “in respect of Canada”, “in respect of a country other than Canada”, “a taxation year” and “the taxation year” in the definitions *dual inclusion income* and *investor dual inclusion income* in subsection (1) were read as references to “resident in a country”, “in respect of a country”, “in respect of another country”, “a foreign taxation year” and “the foreign taxation year”, respectively; or

(b) if paragraph (15.8)(b) applies in respect of the payment, the amount of a hybrid payer mismatch for the foreign taxation year, in respect of the payment, if

(i) subsection (15.5) were read without reference to the conditions in its paragraphs (b) and (c),

(ii) subsection (15.6) were read, with such modifications as the circumstances require, without reference to the condition in its subparagraph (a)(i),

(iii) the references to “double deduction mismatch”, “a taxation year” and “preceding taxation year” in subsections (15.5) and (15.6) were read, with such modifications as the circumstances require, as references to “offshore mismatch”, “a foreign taxation year” and “preceding foreign taxation year”, respectively,

(iv) the references to “resident in Canada”, “in respect of Canada”, “in respect of a country other than Canada”, “a taxation year” and “the taxation year” in the definition *dual inclusion income* in subsection (1) were read as references to “resident in a country”, “in respect of a country”, “in respect of another country”, “a foreign taxation year” and “the foreign taxation year”, respectively, and

(v) the definition *dual inclusion income* in subsection (1) were read without reference to the expression “that begins on or before the day that is 12 months after the end of the taxation year”.

Imported hybrid arrangement — conditions

(15.92) For the purposes of this section, a payment (referred to in this subsection and subsections (15.94) and (15.95) as the “importing payment”) arises under an imported hybrid arrangement, in respect of an offshore hybrid mismatch amount for a foreign taxation year in respect of a payment (referred to in this subsection and subsection (15.94) as the “mismatch payment”), if

(a) an amount would be deductible, in the absence of subsection (15.95), in respect of the importing payment, in computing a taxpayer’s income from a business or property under this Part for a taxation year;

(b) the recipient of the importing payment is not resident in Canada; and

(c) the following conditions are met:

(i) the payer of the mismatch payment is either

(A) the recipient of the importing payment, or

(B) the recipient of another payment included in a series of payments that is composed of the importing payment and any payments interposed between the importing payment and the mismatch payment, and

(ii) the mismatch payment and the importing payment, where the condition in clause (i)(A) is met — or the mismatch payment and the payments of which the series of payments is composed, where the condition in clause (i)(B) is met — are payments

(A) the payers of which do not deal with each other at arm’s length, or

(B) that arise under, or in connection with, a foreign structured arrangement.

Series of payments — interpretation

(15.93) For the purposes of subsections (15.92) and (15.94), a payment that would, in the absence of this subsection, be included in the series of payments referred to in clause (15.92)(c)(i)(B) is not included in that series of payments if

(a) no amount is, or is reasonably expected to be, deductible in respect of the payment in computing an entity's

(i) relevant foreign income or profits for a foreign taxation year, or

(ii) income from a business or property under this Part for a taxation year; or

(b) there is an offshore hybrid mismatch amount, for a foreign taxation year, in respect of the payment.

Imported hybrid mismatch — amount

(15.94) If an importing payment arises under an imported hybrid arrangement, in respect of an offshore hybrid mismatch amount for a foreign taxation year in respect of a mismatch payment, the amount of the imported hybrid mismatch in respect of the importing payment is the lesser of

(a) the amount determined by the formula

$$A - B$$

where

A is the offshore hybrid mismatch amount, and

B is the total of all amounts each of which is an amount that is not deductible in respect of

(i) another importing payment, in computing a taxpayer's income from a business or property under this Part for a taxation year, because of the application of subsection (15.95) in respect of the offshore hybrid mismatch amount, or

(ii) a payment, in computing the relevant foreign income or profits of an entity for a foreign taxation year, because of the application of a foreign hybrid mismatch rule, that has an effect that is substantially similar to that of subsection (15.95), in respect of the offshore hybrid mismatch amount, and

(b) the amount that is

(i) if the condition in clause (15.92)(c)(i)(A) is met, the offshore hybrid mismatch amount, or

(ii) if the condition in clause (15.92)(c)(i)(B) is met, the total of all amounts each of which is, in respect of a series of payments that meets the condition in clause (15.92)(c)(ii)(A) or (B), the least of the amounts each of which is the total amount that is deductible by any entity in respect of payments that are included in the series of payments.

Imported hybrid mismatch — application

(15.95) If there is an amount of an imported hybrid mismatch in respect of an importing payment,

(a) subsection (4) is deemed to apply in respect of the importing payment; and

(b) in applying subsection (4), the hybrid mismatch amount for a taxation year in respect of the importing payment is deemed to be the amount by which the amount of the imported hybrid mismatch exceeds the total of all amounts each of which is an amount that is not deductible in computing a taxpayer's income from a business or property under this Part for a preceding taxation year because of the application of this subsection in respect of the importing payment.

(22) Section 18.4 of the Act is amended by adding the following after subsection (16):

Deemed ordinary income — inclusion/non-deduction

(16.1) A particular amount in respect of a payment is deemed to be ordinary income of a particular entity, in respect of a particular country, for a particular taxation year or a particular foreign taxation year if

(a) the particular entity is an investor in a hybrid entity;

(b) the hybrid entity is a recipient of the payment;

(c) the particular amount is ordinary income of the hybrid entity, in respect of a country where it is resident, for a foreign taxation year or taxation year;

(d) no amount in respect of the payment is deductible in computing any entity's income from a business or property under this Part for a taxation year or relevant foreign income or profits for a foreign taxation year; and

(e) an amount in respect of the payment would have been deductible in computing the income of the particular entity from a business or property under this Part for the particular taxation year, or the relevant foreign income or profits of the particular entity for the particular foreign taxation year, if the payment were not disregarded under the laws of the particular country.

Deemed ordinary income — hybrid-to-hybrid payments

(16.2) A particular amount in respect of a payment is deemed to be ordinary income of a particular entity, in respect of a particular country, for a particular taxation year or a particular foreign taxation year if

(a) a payer (referred to in this subsection and subsection (16.4) as the "payer hybrid") of the payment is a hybrid entity resident in a country (other than the particular country);

(b) the recipient (referred to in this subsection as the "recipient hybrid") of the payment is a hybrid entity resident in the same country as the payer hybrid;

(c) the particular entity is an investor in the payer hybrid and the recipient hybrid;

(d) the particular amount is ordinary income of the recipient hybrid, in respect of a country where it is resident, for a foreign taxation year or taxation year;

(e) in the absence of this subsection, the particular amount would not be ordinary income of the particular entity in respect of any country for a taxation year or a foreign taxation year;

(f) the particular amount would be ordinary income of the particular entity, in respect of the particular country, for the particular taxation year or the particular foreign taxation year if the payment were not disregarded under the laws of the particular country; and

(g) it can reasonably be considered that the payment was funded by an amount that would, in the absence of subsection (16.4), be ordinary income of the payer hybrid, in respect of a country where it is resident, for a taxation year or foreign taxation year.

No double counting — conditions

(16.3) Subsection (16.4) applies in respect of a payment if

(a) subsection (16.2) deems an amount in respect of the payment to be ordinary income of an entity, in respect of a country, for a taxation year or a foreign taxation year; and

(b) that ordinary income is included, directly or indirectly, in computing the dual inclusion income or investor dual inclusion income of any entity for a taxation year and, because it was so included, it is taken into account as a reduction in computing a hybrid mismatch amount or an investor hybrid payer mismatch amount or in determining the amount of a deduction under paragraph 20(1)(zz) or (aaa).

No double counting — consequences

(16.4) If this subsection applies in respect of a payment, the amount referred to in paragraph (16.2)(g) in respect of the payment is deemed not to be ordinary income of the payer hybrid referred to in subsection (16.2) to the extent that the ordinary income referred to in subsection (16.3) is taken into account in a manner described in paragraph (16.3)(b).

(23) Subsection 18.4(20) of the Act is replaced by the following:

Dual inclusion income — special cases

(19.1) Despite subparagraphs (a)(ii) and (b)(ii) of the definition *dual inclusion income* in subsection (1) and paragraph (b) of the definition *investor dual inclusion income* in subsection (1), if, in the opinion of the Minister, the circumstances of a case are such that it would be just and equitable to take into account, in determining the dual inclusion income or investor dual inclusion income, as the case may be, of a particular entity for a taxation year, an amount that is ordinary income of an entity, in respect of a country other than Canada, for a foreign taxation year that begins after the day that is 12 months after the end of the taxation year, the amount shall be taken into account.

Resident in a country

(19.2) For the purposes of this section and section 12.7, an entity is resident in a country if the entity is resident in that country for income tax purposes under the laws of that country.

Anti-avoidance

(20) The *tax consequences* (as defined in subsection 245(1)) to a person shall be determined in order to deny a *tax benefit* (as defined in subsection 245(1)) to the extent necessary to eliminate any deduction/non-inclusion mismatch, double deduction mismatch or other outcome that is substantially similar to a deduction/non-inclusion mismatch or a double deduction mismatch, arising from a payment if

(a) it can reasonably be considered that one of the main purposes of a transaction or series of transactions that includes the payment is to avoid or limit the application of subsection (4), 12.7(3) or (4) or 113(5) in respect of the payment; and

(b) any of the following conditions is met:

(i) the payment is a dividend and an amount would be — or would reasonably be expected to be — deductible in respect of the payment in computing relevant foreign income or profits of an entity for a foreign taxation year,

(ii) the deduction/non-inclusion mismatch or other outcome arises in whole or in part because of a difference in tax treatment of any transaction or series of transactions under the laws of more than one country that is attributable to the terms or conditions of the transaction or one or more transactions included in the series,

(iii) the deduction/non-inclusion mismatch or other outcome arises in whole or in part because a participant in the transaction or series of transactions that includes the payment is

(A) a hybrid entity, or

(B) a reverse hybrid entity,

(iv) the deduction/non-inclusion mismatch or other outcome would arise in whole or in part because of a reason described in subparagraph (ii) or clause (iii)(A), if any other reason for the mismatch or other outcome were disregarded, or

(v) the double deduction mismatch or other outcome arises in whole or in part because a hybrid payer is a participant in the transaction or series of transactions that includes the payment.

(24) Paragraph 18.4(21)(b) of the Act is replaced by the following:

(b) subsection 12.7(3) or (4) includes an amount in respect of a payment.

(25) Subsections (1) to (4), (6), (7), (9) to (11), (13) to (17), (19) and (21) to (24) apply in respect of payments arising on or after July 1, 2026.

(26) Subsection (5) applies in respect of foreign taxation years beginning after December 31, 2025.

(27) Subsections (8), (12), (18) and (20) apply in respect of payments arising on or after Announcement Date.

4 (1) Subsection 20(1) of the Act is amended by striking out "and" at the end of paragraph (xx) and by replacing paragraph 20(1)(yy) with the following:

Adjustment for hybrid mismatch — foreign ordinary income

(yy) if subsection 18.4(4) has applied to deny a taxpayer a deduction, for the year or a preceding taxation year, for all or a portion of an amount in respect of a payment arising under a hybrid mismatch arrangement (other than an arrangement referred to in any of paragraphs (d) to (f) of the definition *hybrid mismatch arrangement* in subsection 18.4(1)), and the taxpayer demonstrates that an amount is foreign ordinary income of an entity in respect of the payment (other than any amount of foreign ordinary income already taken into account in determining the amount of the deduction that was previously denied or a deduction under this paragraph) for a foreign taxation year that ends on or before the day that is 12 months after the end of the year, the lesser of

(i) the amount by which the deduction that was denied exceeds the total of all amounts already deducted under this paragraph in respect of the payment for the year or any previous year, and

(ii) the amount of the foreign ordinary income;

Adjustment for hybrid mismatch — dual inclusion income

(zz) if subsection 18.4(4) has applied to deny a taxpayer a deduction (referred to in this paragraph as the "denied amount"), for a taxation year preceding the year, for all or a portion of an amount in respect of a payment arising under an arrangement referred to in paragraph (e) or (f) of the definition *hybrid mismatch arrangement* in subsection 18.4(1) and the taxpayer demonstrates that an amount is dual inclusion income of the taxpayer for the year (other than any amount of dual inclusion income already taken into account in determining the amount of a deduction under this paragraph or as a reduction in computing a hybrid mismatch amount), the lesser of

(i) the amount by which the denied amount exceeds the total of all amounts, each of which is an amount equal to a portion of the denied amount already deducted under this paragraph or any other provision of this Act for the year or any previous year, and

(ii) the amount of the dual inclusion income; and

Adjustment for hybrid mismatch — investor dual inclusion income

(aaa) if subsection 12.7(4) has applied to include, in the taxpayer's income for a taxation year preceding the year, an amount (referred to in this paragraph as the "inclusion amount") equal to the investor hybrid payer mismatch amount (within the meaning of subsection 18.4(15.7)), in respect of a payment, for that preceding year, and the taxpayer demonstrates that an amount is investor dual inclusion income of the taxpayer for the year (other than any amount of investor dual inclusion income already taken into account in determining the amount of a deduction under this paragraph or as a reduction in computing an investor hybrid payer mismatch amount or a hybrid mismatch amount), the lesser of

(i) the amount by which the inclusion amount exceeds the total of all amounts, each of which is an amount equal to a portion of the inclusion amount already deducted under this paragraph or any other provision of this Act for the year or any previous year, and

(ii) the amount of the investor dual inclusion income.

(2) Section 20 of the Act is amended by adding the following after subsection (30):

Character — adjustment for hybrid mismatch

(31) If paragraph (1)(yy), (zz) or (aaa) provides that an amount may be deducted in computing a taxpayer's income for a taxation year from a business or property, that amount is deemed to be deductible in respect of the payment referred to in that paragraph.

(3) Subsections (1) and (2) apply in respect of payments arising on or after July 1, 2026.

5 (1) Subsection 214(18) of the Act is replaced by the following:

Hybrid mismatch arrangements — deemed dividend

(18) For the purposes of this Part, an amount paid or credited as interest by a corporation resident in Canada in a taxation year of the corporation to a non-resident person is deemed to have been paid by the corporation as a dividend, and not to have been paid or credited by the corporation as interest, to the extent that an amount in respect of the interest is not deductible in computing the income of the corporation for the year because of subsection 18.4(4), <u>unless that subsection applies in respect of a payment because the payment arises under a reverse hybrid arrangement (within the meaning of subsection 18.4(15.1)), a disregarded payment arrangement (within the meaning of subsection 18.4(15.3)), a hybrid payer arrangement (within the meaning of subsection 18.4(15.5)) or an imported hybrid arrangement (within the meaning of subsection 18.4(15.92))</u>.

(2) Subsection (1) applies in respect of payments arising on or after July 1, 2026.