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

Immediate Expensing

1 (1) Subsection 13(2) of the Act is replaced by the following:

Recapture — Class 10.1 Passenger Vehicle

(2) Notwithstanding subsection 13(1), where an excess amount is determined under that subsection at the end of a taxation year in respect of a passenger vehicle having a cost to a taxpayer in excess of $20,000 or such other amount as may be prescribed, unless it was, at any time, *immediate expensing property* as defined in subsection 1104(3.1) of the *Income Tax Regulations*, that excess amount shall not be included in computing the taxpayer's income for the year but shall be deemed, for the purposes of B in the definition *undepreciated capital cost* in subsection 13(21), to be an amount included in the taxpayer's income for the year by reason of this section.

(2) The portion of paragraph 13(7)(i) of the Act before subparagraph (i) is replaced by the following:

(i) if the cost to a taxpayer of a *zero-emission passenger vehicle* exceeds the prescribed amount in subsection 7307(1.1) of the *Income Tax Regulations*, or if the cost of a passenger vehicle that was, at any time, *immediate expensing property* as defined in subsection 1104(3.1) of the *Income Tax Regulations* exceeds the prescribed amount in subsection 7307(1) of the *Income Tax Regulations*,

(3) Subsections (1) and (2) apply in respect of property acquired on or after Announcement Day.

2 (1) Clause 66.2(2)(a)(i)(A) of the Act is replaced by the following:

(A) the amount determined by the formula

$$A - B$$

where

A is the taxpayer's cumulative Canadian development expense at the end of the year, and

B is the amount determined under paragraph (f) for the year; and

(2) The description of A in paragraph 66.2(2)(e) of the Act is replaced by the following:

A is 15%,

(3) Subsection 66.2(2) of the Act is amended by striking out "and" at the end of paragraph (d), by adding "and" at the end of paragraph (e) and by adding the following after paragraph (e):

(f) the amount determined by the formula

$$A - B$$

where

A is the total of all immediate Canadian development expenses incurred by the taxpayer in the taxation year, and

B is the amount determined by the formula

$$(C - D) - (E - F - G)$$

where

C is the total of the amounts determined for E to O in the definition *cumulative Canadian development expense* in subsection (5) at the end of the taxation year,

D is the total of the amounts determined for E to O in the definition *cumulative Canadian development expense* in subsection (5) at the beginning of the taxation year,

E is the total of the amounts determined for A to D.1 in the definition *cumulative Canadian development expense* in subsection (5) at the end of the taxation year,

F is the total of the amounts determined for A to D.1 in the definition *cumulative Canadian development expense* in subsection (5) at the end of the preceding taxation year, and

G is the amount determined for A.

(4) Paragraph (b) of the definition *reaccelerated Canadian development expense* in subsection 66.2(5) of the Act is replaced by the following:

(b) is incurred after 2024 and before Announcement Day, other than expenses deemed to have been incurred before Announcement Day because of subsection 66(12.66),

(5) Subsection 66.2(5) of the Act is amended by adding the following in alphabetical order:

immediate Canadian development expense of a taxpayer, means any cost or expense incurred by the taxpayer during a taxation year if the cost or expense

(a) qualifies as a Canadian development expense at the time it is incurred, other than

(i) an expense in respect of which the taxpayer is a successor, within the meaning of subsection 66.7(4), and

(ii) a cost in respect of a Canadian resource property acquired by the taxpayer, or a partnership in which the taxpayer is a member, from a person or partnership with which the taxpayer does not deal at arm's length,

(b) is incurred on or after Announcement Day, and

(c) if the Canadian development expense is deemed to be a Canadian development expense incurred by the taxpayer because of paragraph 66(12.63)(a), is an amount renounced under an agreement entered into on or after Announcement Day. (*frais d'aménagement au Canada immédiats*)

(6) Subsections (1) to (5) are deemed to have come into force on Announcement Day.

3 (1) Subsections 1100(0.1) to (0.3) of the *Income Tax Regulations* are replaced by the following:

Immediate expensing

1100 (0.1) For the purpose of paragraph 20(1)(a) of the Act, a deduction is allowed in computing a taxpayer's income for a taxation year not exceeding the lesser of

(a) the undepreciated capital cost to the taxpayer as of the end of the year (before making any deduction under this Part for the year) of property that is immediate expensing property and that became available for use by the taxpayer in the year; and

(b) if the taxpayer is neither a corporation nor an eligible partnership for the year, the amount of income, if any, earned from the source of income that is a business or property (computed without regard to paragraph 20(1)(a) of the Act) in which the relevant immediate expensing property is used for the taxpayer's taxation year.

Immediate expensing property — first-year deductions

(0.2) Despite any other provision in this Part, if a deduction is available in respect of an immediate expensing property of a taxpayer under subsection (0.1) for a taxation year, the taxpayer may not deduct any other amount otherwise permitted under this Part and Schedules II to VI in respect of the property for the year.

Expenditures excluded from subsection (0.1)

(0.3) For the purposes of subsection (0.1), in respect of property of a class in Schedule II that is immediate expensing property of a taxpayer solely because of subparagraph (b)(i) of the definition *immediate expensing property* in subsection 1104(3.1), amounts incurred by any person or partnership in respect of the property are not to be included in determining the undepreciated capital cost to the taxpayer as of the end of the taxation year (before making any deduction under this Part for the year) of the property for the year if the amounts are incurred before Announcement Day unless

(a) the property was acquired by a person or partnership from another person or partnership (referred to in this paragraph as the “transferee” and the “transferor”, respectively) on or after Announcement Day;

(b) the transferee was either

(i) the taxpayer, or

(ii) a person or partnership that does not deal at arm’s length with the taxpayer; and

(c) the transferor

(i) dealt at arm’s length with the transferee, and

(ii) held the property as inventory.

(2) Subparagraph 1100(20.1)(a)(i) of the Regulations is replaced by the following:

(i) the taxpayer’s income for the year from a business in which computer tax shelter property owned by the taxpayer is used, computed without reference to any deduction under subsection (0.1) or (1) in respect of such property, or

(3) Subparagraph 1100(20.1)(b)(i) of the Regulations is replaced by the following:

(i) a loss of the taxpayer from a business in which computer tax shelter property owned by the taxpayer is used, computed without reference to any deduction under subsection (0.1) or (1) in respect of such property, or

(4) Subsections (1) to (3) apply in respect of property acquired on or after Announcement Day.

4 (1) Section 1103 of the Regulations is amended by adding the following after subsection (2j):

Election out of immediate expensing property — Class 10.1

(2k) A taxpayer may, in its return of income filed with the Minister on or before its filing-due date for the taxation year in which a property included in Class 10.1 in Schedule II is acquired, elect for the property to be *excluded property* as defined in subsection 1104(3.1).

(2) Subsection (1) applies in respect of property acquired on or after Announcement Day.

5 (1) The definition *eligible greenhouse* in subsection 1104(2) of the Regulations is amended by adding the following after paragraph (b):

(b.1) is not immediate expensing property,

(2) The definitions *designated immediate expensing property* and *eligible person or partnership* in subsection 1104(3.1) of the Regulations are repealed.

(3) The definition *immediate expensing property* in subsection 1104(3.1) of the Regulations is replaced by the following:

immediate expensing property for a taxation year, means property of a prescribed class (other than excluded property) of a taxpayer that

(a) is acquired by the taxpayer on or after Announcement Day; and

(b) meets either of the following conditions:

(i) the property

(A) has not been used for any purpose before it was acquired by the taxpayer, and

(B) is not a property in respect of which an amount has been deducted under paragraph 20(1)(a) or subsection 20(16) of the Act by any person or partnership for a taxation year ending before the time the property was acquired by the taxpayer, or

(ii) the property was not

(A) acquired in circumstances where

(I) the taxpayer was deemed to have been allowed or deducted an amount under paragraph 20(1)(a) of the Act in respect of the property in computing income for previous taxation years, or

(II) the undepreciated capital cost of depreciable property of a prescribed class of the taxpayer was reduced by an amount determined by reference to the amount by which the capital cost of the property to the taxpayer exceeds its cost amount, or

(B) previously owned or acquired by the taxpayer or by a person or partnership with which the taxpayer did not deal at arm's length at any time when the property was owned or acquired by the person or partnership. (*bien relatif à la passation en charges immédiate*)

(4) The definition *taxpayer* in subsection 1104(3.1) of the Regulations is replaced by the following:

taxpayer unless the context otherwise requires, includes a partnership. (*contribuable*)

(5) Subsection 1104(3.1) of the Regulations is amended by adding the following in alphabetical order:

eligible partnership for a taxation year, means a partnership all of the members of which were, throughout the period,

(a) corporations;

(b) eligible partnerships; or

(c) any combination of entities described in paragraph (a) or (b). (*société de personnes admissible*)

excluded property means property that is

(a) included in Class 1 in Schedule II because of paragraph (q) of that Class;

(b) included in Class 3 in Schedule II because of paragraph (k) of that Class;

(c) included in any of Classes 14, 14.1 and 51 in Schedule II;

(d) an excluded vehicle;

(e) a property in respect of which an election under subsection 1103(2k) has been filed;

(f) qualified liquefaction equipment;

(g) an industrial mineral mine or a right to remove industrial minerals from an industrial mineral mine; or

(h) a timber limit or a right to cut timber from a limit, other than a timber resource property. (*bien exclu*)

excluded vehicle means property of a taxpayer that is included in Class 10 or 10.1 in Schedule II that

(a) is

(i) a passenger vehicle, or

(ii) a motor vehicle that is

(A) acquired primarily for use as a taxi, or

(B) described in paragraph (d) or (e) of the definition *automobile* in subsection 248(1) of the Act; and

(b) either

(i) has been used for any purpose before it was acquired by the taxpayer, or

(ii) was assembled in a country other than Canada. (*véhicule exclu*)

(6) Subsections 1104(3.2) to (3.6) of the Regulations are repealed.

(7) Paragraph 1104(4.01)(a) of the Regulations is amended by striking out "and" at the end of paragraph (a) and by adding the following after that paragraph:

(a.1) is not immediate expensing property; and

(8) Subsections (1) to (7) apply in respect of property acquired on or after Announcement Day.

6 (1) Paragraphs 1(a) and (b) of Schedule III to the Regulations are replaced by the following:

(a) the aggregate of each amount determined in accordance with section 2 of this Schedule that is a prorated portion of the part of the capital cost to the taxpayer, incurred in a particular taxation year, of a particular leasehold interest; and

(b) the undepreciated capital cost to the taxpayer as of the end of the taxation year (before making any deduction under section 1100, other than a deduction under subsection 1100(0.1), for the taxation year) of property of the class.

(2) Subsection (1) applies in respect of property acquired on or after Announcement Day.

7 (1) Subparagraph 1(a)(i.1) of Schedule IV to the Regulations is replaced by the following:

(i.1) if the property is a reaccelerated investment incentive property acquired in the year, 1.5 times an amount computed on the basis of a rate per cord, board foot or cubic metre cut in the taxation year, and

(2) Paragraph 1(b) of Schedule IV to the Regulations is replaced by the following:

(b) the undepreciated capital cost to the taxpayer as of the end of the taxation year (before making any deduction under section 1100, other than a deduction under subsection 1100(0.1), for the taxation year) of property of that class.

(3) Paragraph 2(a) of Schedule IV to the Regulations is replaced by the following:

(b) the undepreciated capital cost to the taxpayer as of the end of the taxation year (before making any deduction under section 1100, other than a deduction under subsection 1100(0.1), for the taxation year and computed as if subparagraph 1(a)(i) did not apply) of the property

(4) Subsections (1) to (3) apply in respect of property acquired on or after Announcement Day.

Accelerated Capital Cost Allowances for 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 an eligible 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 eligible 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 an eligible 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 eligible 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) 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) Section 1100 of the Regulations is amended by adding the following after subsection (1.02):

Qualified liquefaction equipment — first-year deductions

(1.03) If a deduction is available in respect of qualified liquefaction equipment of a taxpayer under paragraph (1)(yc) for a taxation year, then, despite any other provision in this section, the taxpayer may not deduct any other amount permitted under this Part in respect of the equipment for the year.

(6) Subparagraph (a)(i) of the description of F in subsection 1100(2) of the Regulations is replaced by the following:

(i) because of element A in the definition *undepreciated capital cost* in subsection 13(21) of the Act in respect of property (other than qualified liquefaction equipment, accelerated investment incentive property or reaccelerated investment incentive property) that was acquired, or became available for use, by the taxpayer in the taxation year, or

(7) Subsections (1) to (6) 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):

Qualified Liquefaction Equipment

(4j) If a taxpayer acquires property that is qualified liquefaction equipment to be primarily used to support the functioning of an eligible 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 qualified 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):

Qualified Liquefaction Buildings

(5b.3) If a taxpayer acquires property that is a qualified liquefaction building to be primarily used to support the functioning of an eligible 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:

qualified liquefaction building, in respect of an eligible 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 eligible liquefaction facility; (*bâtiment de liquéfaction qualifié*)

qualified liquefaction equipment, in respect of an eligible liquefaction facility of a taxpayer, means property of the taxpayer that

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

(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 eligible liquefaction facility; (*matériel de liquéfaction qualifié*)

(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) Subsections (1) and (2) apply in respect of property acquired on or after November 4, 2025.