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Tax Alert – Canada

Canada removing tariffs on certain US goods; Canadian business support measures announced

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

On 22 August 2025, Prime Minister Mark Carney [announced](#) that Canada would remove retaliatory tariffs on United States (US) goods specifically covered under the Canada-US-Mexico free trade agreement (CUSMA). This announcement followed US confirmation that Canadian exports to the US that are CUSMA compliant will not be subject to US tariffs imposed under the *International Emergency Economic Powers Act*. However, Canada will continue to impose tariffs on steel products, aluminum products and motor vehicles originating in the US, in accordance with the *United States Surtax Order (Steel and Aluminum 2025)*, SOR/2025-95 (the Steel and Aluminum Order) and the *United States Surtax Order (Motor Vehicles 2025)*, SOR/2025-118 (the Motor Vehicles Order).

To that end, the *Order Amending and Repealing Certain Orders Made Under the Customs Tariff (United States Surtax)* (the Amending Order) was issued on 29 August 2025. The Amending Order repeals the *United States Surtax Order (2025-1)*, SOR/2025-66 (the US Surtax Order) effective 1 September 2025, thereby removing tariffs on the full set of goods listed under that Order. It also removes tariffs on all non-steel and non-aluminum goods listed under the Steel and Aluminum Order.

In addition, the Amending Order makes changes to the Steel and Aluminum Order and the Motor Vehicles Order so that surtaxes do not apply to certain goods. Finally, the Amending Order makes changes in an effort to clarify how surtaxes apply to goods that are classified under a tariff item of Chapter 98 or 99 of the List of Tariff Provisions under the *Customs Tariff*. These changes apply retroactively to the dates these orders came into force.

On 5 September 2025, the prime minister [announced](#) a series of measures to support Canadian workers and businesses affected by US tariffs and trade disruptions. These measures are briefly summarized in this Tax Alert.



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The US Surtax Order

Effective 4 March 2025, goods imported into Canada and originating in the US are subject to a surtax in the amount of 25% of the value for duty as determined under the *Customs Act*, if they are listed under the Schedule to the US Surtax Order. This Order was introduced as a countermeasure to US tariffs on Canadian-origin imports into the US. The surtax applied to a broad range of goods including wine, spirits, beer, coffee, appliances, apparel, footwear, motorcycles, cosmetics, and certain pulp and paper products.

The Amending Order repeals the US Surtax Order effective 1 September 2025, thereby removing tariffs on the goods (\$30.3 billion in annual imports from the US) listed under that Order. The Department of Finance has updated its [online list](#) of US products that remain subject to counter tariffs accordingly.

In a clarifying measure, the Amending Order also retroactively revises the existing Schedule by renumbering it as Schedule 1 and by removing certain tariff items listed in Chapters 98 and 99 of the List of Tariff Provisions and incorporating them into newly added Schedule 2. As a result, the US Surtax Order applies to

- ▶ Goods classified under any tariff item in Schedule 1; and
- ▶ Goods classified under any tariff item in Schedule 2 (i.e., that are otherwise classifiable under a tariff item in Schedule 1).

The surtax does not apply to goods classified under a tariff item listed in Chapters 98 and 99 unless it is set out in Schedule 2, even if the goods are otherwise classifiable under a tariff item in Schedule 1.

The clarifying amendments are retroactive to 4 March 2025. Chapter 98 generally includes temporary importations under specific conditions, traveller exemptions and other such tariff items, while Chapter 99 includes tariff items that would allow commercial goods to receive a duty-free rate or reduced duty rate.

For more information about this Order and the changes made by the Amending Order, see [Customs Notice 25-10, United States Surtax Order \(2025-1\)](#), which has been revised accordingly.

The Steel and Aluminum Order

Effective 13 March 2025, steel, aluminum and certain other goods – for example, tools, display monitors, sports equipment and cast-iron products – imported into Canada and originating in the US are subject to a surtax in the amount of 25% of the value for duty, as determined under the *Customs Act*. The surtax applies to goods classified under tariff items listed in Schedule 1, 2 or 3 of the Steel and Aluminum Order.

The Amending Order replaces Schedule 1 of the Steel and Aluminum Order with a new Schedule 1 that effectively removes tariffs on all non-steel and non-aluminum goods listed under the Steel and Aluminum Order, effective 1 September 2025. The Amending Order also adds Schedule 4, which expands the list of tariff items in Chapters 98 and 99 of the Schedule to the *Customs Tariff* that are subject to the surtax. As a result, the surtax imposed under the Steel and Aluminum Order applies to:

- ▶ Goods classified under any tariff item in Schedule 1 or 2;
- ▶ Goods classified under any tariff item in Schedule 3 that are otherwise classifiable under a tariff item in Schedule 1; and
- ▶ Goods classified under any tariff item in Schedule 4 that are otherwise classifiable under a tariff item in Schedule 2.

As well, the Amending Order clarifies that the surtax does not apply to goods classified under a tariff item in Chapter 98 or 99 that is not:

- ▶ Set out in Schedule 3, even if the goods are otherwise classifiable under a tariff item set out in Schedule 1; and
- ▶ Set out in Schedule 4, even if the goods are otherwise classifiable under a tariff item set out in Schedule 2.

The Steel and Aluminum Order is also amended to remove tariff item No. 9966.00.00 from Schedule 3. Therefore, the surtax does not apply to certain motor vehicles manufactured more than 25 years prior to the importation date (see **Motor Vehicles Order**, below).

The amendments contained in the Amending Order are retroactive to 13 March 2025, the day on which the Steel and Aluminum Order came into force.

Importers may submit a correction or adjustment to the original declaration and receive a refund if applicable. For more information about the Steel and Aluminum Order and the changes made by the Amending Order, see [Customs Notice 25-11, United States Surtax Order \(Steel and Aluminum 2025\)](#), which has been revised accordingly.

The Motor Vehicles Order

Effective 9 April 2025, motor vehicles originating in the US and imported into Canada are subject to a surtax of 25% of the value for duty, as determined under the *Customs Act*. If a motor vehicle qualifies for preferential tariff treatment under CUSMA, the value of all goods originating in Canada or Mexico that are used in the motor vehicle's production are excluded from the value for duty, which is then generally calculated at 85% of the total value for duty.

The surtax applies to motor vehicles that are listed under Schedule 1 of the Motor Vehicles Order. It does not apply to goods classified under Chapter 98 or Chapter 99 of the Schedule to the *Customs Tariff*, unless that tariff item is listed in Schedule 2 and the good is also otherwise classifiable under a tariff item listed in Schedule 1.

The Motor Vehicles Order is amended to provide that the surtax does not apply to motor vehicles classified under tariff item No. 8704.60.00. As a result, the surtax does not apply to an electric truck with a gross vehicle weight exceeding five tonnes and that is designed for the transport of goods.

The Motor Vehicles Order is also amended to remove tariff item No. 9966.00.00 from Schedule 2. As a result, the surtax does not apply to specified motor vehicles manufactured more than 25 years prior to the importation date, as well as articles for use solely or principally with these vehicles. Motor vehicles classified under this tariff item include road tractors for semi-trailers, vehicles principally designed to transport persons or goods, fire fighting vehicles and motorcycles.

These amendments are retroactive to 9 April 2025, the day on which the Motor Vehicles Order came into force.

Importers may submit a correction or adjustment to the original declaration and receive a refund if applicable. For more information about this Order and the changes made by the Amending Order, see [Customs Notice 25-15, United States Surtax Order \(Motor Vehicles 2025\)](#), which has been revised accordingly.

Update regarding process for requesting remission on tariffs

In exceptional circumstances, Canada may grant remission of the surtax on US-origin products imported into Canada. In accordance with a framework announced this March, the federal government will consider remission requests if:

- ▶ Goods used as inputs cannot be sourced domestically, on a national or regional basis, or reasonably from non-US sources; or
- ▶ There are other exceptional circumstances that could have significant adverse effects on the Canadian economy.

As discussed above, the Amending Order has removed the counter tariffs on most US imports effective 1 September 2025. The Department of Finance has indicated that effective that date, the Government of Canada is no longer accepting remission requests under this framework for goods on which it has repealed tariffs.

For more information about the remission framework, see [EY Tax Alert 2025 Issue No. 15, Canada imposes new tariff on US-origin products in response to US tariffs on Canadian steel and aluminum products](#).

New measures regarding Canadian strategic industries

On 5 September 2025, the prime minister announced a series of new initiatives designed to help workers and businesses in the sectors most affected by recent US tariffs and trade disruptions. The business measures included in this announcement are summarized below.

Strategic Response Fund (SRF)

Canada will support businesses in key sectors by investing \$5 billion through a new SRF. A project will be prioritized on the basis of whether it:

- ▶ Relates to a highly trade-exposed sector or company facing significant revenue decline and job losses;
- ▶ Is intended to pivot to alternative markets or enhance competitiveness, but faces substantial front-end development costs and capital costs;
- ▶ Is critical for maintaining domestic industrial or skills capacity and capabilities for economic and crisis management;
- ▶ Helps companies develop their capacity to serve the domestic market and increase trade exports; and
- ▶ Receives matching fund commitments from the provinces and territories.

In addition to offsetting market access costs and enabling retooling, the SRF will be available for pre-development activities, such as engineering design studies.

Buy Canadian Policy

In an effort to prioritize Canadian suppliers and their products, Canada will introduce a “Buy Canadian Policy” consisting of several components, including:

- ▶ A requirement for the federal government to source key materials from Canadian companies in defence and construction procurements exceeding a certain threshold;
- ▶ A requirement to use Canadian content where strategic procurements cannot be completed by Canadian suppliers;
- ▶ An expansion of the policy to infrastructure spending, grants, contributions, loans and other federal funding streams; and
- ▶ A separate program for specific procurement opportunities for small and medium-sized enterprises (SMEs).

Liquidity relief

Canada will provide additional capital to SMEs through the Business Development Bank of Canada by increasing its maximum loans from \$2 million to \$5 million. As well, Canada will enhance access to the Large Enterprise Tariff Loan (LETL) facility by reducing interest rates and extending loan maturity periods.

For more information about the LETL facility, see [EY Tax Alert 2025 Issue No. 26, *Latest relief measures for Canadian businesses impacted by US tariffs*](#) and [EY Tax Alert 2025 Issue No. 37, *Canada announces additional support for the Canadian steel sector*](#).

Assisting Canadian canola and agricultural producers

The federal government intends to introduce various measures to assist Canada's canola and agriculture producers, including the creation of a new biofuel production incentive to support the domestic biofuels industry, increasing funding for the AgriMarketing Program to support diversification into new markets of agricultural products, and enhancing the Advance Payments Program by increasing the interest-free portion for canola advances from \$250,000 to \$500,000 for a two-year period.

Regional Tariff Response Initiative (RTRI)

The RTRI is a \$450 million fund created by the Government of Canada that provides financial assistance to SMEs impacted by tariffs to enable them to invest in product and market diversification, as well as innovative technologies. Canada will increase the fund from \$450 million to \$1 billion over the next three years and may provide non-repayable contributions of up to \$1 million to affected businesses.

Electric Vehicle Availability Standard (EVAS)

Currently, under the federal EVAS, at least 20% of new light-duty vehicle sales in Canada must be zero-emission vehicles by 2026. This target will gradually increase to 100% of new light-duty vehicle sales by 2035.

To reduce economic pressure on the automotive sector, Canada is removing the target for 2026 model year vehicles. Canada also announced that it will review the EVAS to determine its impact on automakers and whether it reflects current market realities. This review will consider amendments to the annual sales targets, including the requirement that all sales of light-duty vehicle sales be zero-emission vehicles by 2035.

Learn more

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