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Tax Alert – Canada

Draft legislative proposals released for Budget 2025 and other previously announced measures

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 29 January 2026, the Department of Finance released two packages of draft legislative proposals for public comment. The draft legislative proposals implement certain measures announced in the 2025 federal budget (Budget 2025), as well as other previously announced measures and new technical amendments. This release follows the announcement of two other tax-related measures earlier in the week on 26 January 2026 (as briefly described below).

The release of the draft legislative proposals includes:

- ▶ A general package of draft income tax legislative proposals, which includes certain remaining Budget 2025 measures (most notably, the immediate expensing of manufacturing or processing (M&P) buildings under the capital cost allowance (CCA) rules); 2024 Fall Economic Statement (FES) updated measures relating to additional information reporting for non-profit organizations (NPOs) and expansion of the clean hydrogen investment tax credit; updated August 2024 technical amendments (as well as new technical amendments) relating to the clean hydrogen investment tax credit and the carbon capture, utilization and storage (CCUS) investment tax credit; and the long-awaited second package of hybrid mismatch arrangement rules first announced in 2021. These measures are described in further detail below (see *General Package*).



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- ▶ A small package of draft legislative proposals relating to the *Global Minimum Tax Act* (GMTA), which includes updated amendments to implement a “de-consolidation” rule to address private investment entities located in Canada. As stated in the [accompanying news release](#), the de-consolidation rule is intended “to allow a private corporation that controls a publicly listed corporate group to calculate the top-up tax of the controlling private entity (and any other private corporations that it controls) separately from the controlled public group.” These amendments were originally released in August 2025 (see EY Tax Alert 2025 Issue No. 44, [Canada proposes amendments to the Global Minimum Tax Act and the Income Tax Act](#)) and have been modified to take into account comments received since their initial release as well as to broaden the anti-avoidance provision. These new amendments will apply for fiscal years of a qualifying multinational enterprise group that begin on or after 31 December 2023.

Interested parties are invited to provide comments on the proposed amendments contained in the above packages of draft legislation by 27 February 2026.

As noted above, the federal government made two tax-related announcements in a [news release](#) on 26 January 2026. The first measure provides some affordability relief to eligible individuals through the GST credit, by providing an additional January 2026 top-up payment (scheduled to be paid as early as possible in the spring of 2026 but no later than June) and a 25% increase in the GST credit for a five-year period, beginning with the 2026-27 benefit year and ending with the 2030-31 benefit year. As well, the GST credit is being renamed the “Canada Groceries and Essentials Benefit.” These changes are included in Bill C-19, *Canada Groceries and Essentials Benefit Act*, which received first reading in the House of Commons on 28 January 2026 and will be administered by the CRA when the bill receives Royal Assent.

The second measure announced on 26 January 2026 extends immediate expensing (under the CCA rules) to greenhouse buildings acquired on or after 4 November 2025 and that become available for use before 2030. This measure is not included in the 29 January 2026 draft legislative proposals, and no additional details were available as of the time of writing.

General Package

The following is a summary of the income tax measures contained in the General Package of draft legislative proposals.

Business income tax measures

- ▶ **Immediate expensing for M&P buildings** – As announced in Budget 2025, temporary immediate expensing of the cost of eligible M&P buildings located in Canada, including the cost of eligible additions or alterations made to such buildings, for eligible properties acquired on or after 4 November 2025, that are first used for manufacturing or processing before 2030. Under this measure, a 100% deduction will be allowed in the first taxation year that an eligible building is used for manufacturing or processing, provided at least 90% of the floor space of the building is used for eligible purposes (i.e., to manufacture or process goods for sale or lease).

A building that has been used, or acquired for use, for any purpose before being acquired by a taxpayer will be eligible for immediate expensing if neither the taxpayer nor a non-arm's length person previously owned the property, and the property has not been transferred to the taxpayer on a tax-deferred basis. If a taxpayer has claimed immediate expensing of an eligible building, a change in use of the building to a non-eligible use within 10 calendar years of the taxation year for which the claim was made may give rise to recapture (with special rules in subsection 13(7) of the *Income Tax Act* (the Act) providing for a deemed disposition and reacquisition of the building at the change-in-use time). This temporary immediate expensing will be phased out by reducing the 100% deduction rate to 75% for property first used for manufacturing or processing in 2030 or 2031, to 55% for property first used in 2032 or 2033, and eliminating the enhanced rate for property that is first used after 2033.

- ▶ **Canadian exploration expenses** - Amendments (announced in Budget 2025) to clarify that expenses incurred for the purpose of determining the quality of a mineral resource in Canada do not include expenses related to determining the economic viability or engineering feasibility of the mineral resource, effective 4 November 2025 (or, in the case of flow-through mining expenditures, effective in respect of expenses renounced under a flow-through share agreement entered into on or after 4 November 2025).
- ▶ **CCUS investment tax credit** - Various technical amendments, including updated technical amendments (previously released in August 2024) and new technical amendments. The previously announced technical amendments clarify the definition of "dual-use equipment" for purposes of the CCUS investment tax credit, effective 1 January 2022 (rather than 28 March 2023, as originally proposed). New technical amendments allow for the designation of a portion of a jurisdiction (e.g., a specific geological formation) within Canada or the United States (rather than only an entire jurisdiction) if Environment and Climate Change Canada determines that a jurisdiction has sufficient environmental laws and enforcement governing the permanent storage of captured carbon for a specific geological formation in the jurisdiction or geographic area of the jurisdiction, but not for other geological formations or geographic areas in the jurisdiction. As well, a new technical amendment provides that once captured carbon has been stored in dedicated geological storage, if the carbon dioxide is released into the atmosphere for bona fide reasons outside the control of the taxpayer, the captured carbon will be deemed to continue to be used in an eligible use. Other amendments clarify the definitions of "qualified carbon capture expenditure" and "qualified concrete storage process," as well as the definition of Class 57 property in Schedule II of the *Income Tax Regulations*. These amendments are also effective as of 1 January 2022.
- ▶ **Clean hydrogen investment tax credit** - Updated amendments (previously announced in the 2024 FES) to expand the credit to include methane pyrolysis as an eligible production pathway, effective for property that is acquired and becomes available for use in an eligible project after 15 December 2024. In addition, updated technical amendments (previously released in August 2024) clarify and expand the credit, effective 28 March 2023. Notably, the reference to dual-use hydrogen and ammonia equipment under the definition of "eligible clean hydrogen property" is replaced with a reference to oxygen and nitrogen production equipment, and the period in which documentation and information requested by the Minister of Natural Resources must be provided by a taxpayer is extended.

Finally, new clarifying technical amendments further align the legislation with policy intent, effective 28 March 2023. For example, the definition of “operating year” is amended so that any period during which a taxpayer’s clean hydrogen project is not producing hydrogen (rather than is not operating) is disregarded. This amendment appears to be in response to a CRA technical interpretation on the meaning of “operating year” (see CRA document 2025-1063501E5). As well, new amendments require that a taxpayer’s sole and exclusive right to the environmental attributes associated with the electricity under an eligible power purchase agreement or the substance in respect of an eligible renewable hydrocarbon be evidenced by one or more environmental attribute certificates issued through a provincially designated authority, and is subject to additional conditions outlined in new subsection 127.48(6.1) (effective 28 March 2023).

- ▶ **Hybrid mismatch arrangements** - Introduction of the second package of new rules intended to neutralize hybrid mismatch arrangements (as originally announced in the 2021 federal budget). Hybrid mismatch arrangements are cross-border tax avoidance structures that exploit differences in the income tax treatment of business entities or financial instruments under the laws of two or more countries to produce mismatched tax results (e.g., deduction/non-inclusion mismatches and double deduction mismatches). The first set of rules, which was enacted in 2024, generally applies to neutralize a deduction/non-inclusion mismatch arising from a payment in respect of a financial instrument (applicable in respect of payments arising on or after 1 July 2022); the first set also restricts the deduction of dividends received from a foreign affiliate generally to the extent that the dividend is deductible for foreign income tax purposes (generally applicable in respect of dividends received on or after 1 July 2022). This second package deals with other forms of hybrid mismatches and makes certain consequential and technical amendments to the existing hybrid mismatch arrangement rules. In general, this second package extends the hybrid mismatch arrangement rules to payments arising under three new hybrid mismatch arrangements: (1) a reverse hybrid arrangement, (2) a disregarded payment arrangement, and (3) a hybrid payer arrangement. As well, for purposes of the rules, the definition of “structured arrangement” is amended to include a transaction (or series of transactions) that includes a payment that gives rise to a mismatch that is a double deduction mismatch (in addition to a deduction/non-inclusion mismatch under the existing rules); references to double deduction mismatches are also added to several other provisions. In addition, various new rules and conditions related to the expanded rules (such as the addition of the concepts of offshore mismatches, imported hybrid arrangements and foreign structured arrangements) are included. The draft legislative proposals, which generally apply to payments arising on or after 1 July 2026, are generally consistent with recommendations in the OECD/G20 Base Erosion and Profit Shifting (BEPS) Action 2 Report, with adaptations to the Canadian income tax context.
- ▶ **Insurance or reinsurance of specified Canadian risks** - Amendments (announced in Budget 2025) to clarify that income from the holding of any property by a foreign affiliate in connection with the insurance or reinsurance of specified Canadian risks by any person or partnership is included in foreign accrual property income (FAPI), applicable to taxation years of a foreign affiliate of a taxpayer beginning after 4 November 2025. In particular, investment income earned by a foreign affiliate of a Canadian insurer from property held to back specified Canadian risks of the insurer will now generally be FAPI.

- ▶ **Part IV tax deferral through tiered corporate structures** – As announced in Budget 2025, new updated rules to limit the deferral of Part IV tax on investment income that arises through the use of tiered affiliated corporation structures with mismatched year-ends, applicable to dividends paid in taxation years beginning on or after 4 November 2025. Specifically, the payer corporation's dividend refund will be suspended (subject to certain exceptions) until a subsequent taxation year when the recipient corporation pays a taxable dividend to a non-affiliated corporation or a shareholder who is an individual (subject to an anti-avoidance provision). The suspended dividend may also be released if it is paid to a connected corporation and certain conditions are met. This anti-deferral rule will not apply if each corporate dividend recipient in a chain of affiliated corporations pays a subsequent dividend (that has the same character) on or before the payer corporation's balance-due day, so that no deferral is achieved by the affiliated corporate group; it will also not apply to any dividend paid within 30 days prior to an acquisition of control of the payer corporation.

Other income tax measures

- ▶ **Qualified investment regime for registered plans** – As announced in Budget 2025, amendments intended to simplify, streamline and harmonize the qualified investment rules, which govern what seven types of registered plans can invest in. These seven types are deferred profit sharing plans (DPSPs), first home savings accounts, registered disability savings plans (RDSPs), registered education savings plans, registered retirement savings plans, registered retirement income funds and tax-free savings accounts. The amendments (updated since their original release) include:
 - ▶ **Small business investments** – Changes to the rules relating to registered plan investments in small businesses, while maintaining the ability of registered plans to make such investments. In particular, the set of rules that provides for investments in specified small business corporations, venture capital corporations and specified cooperative corporations is extended to RDSPs, while the set of rules that provides for investments in eligible corporations, small business investment limited partnerships and small business investment trusts will no longer apply to investments made after 31 December 2026. These amendments apply as of 1 January 2027.
 - ▶ **Registered investment regime** – Amendments that replace the registered investment regime with two new categories of qualified investments that do not involve registration: units of a trust that is subject to the requirements of National Instrument 81-102 published by the Canadian Securities Administrators, and units of a trust that is an investment fund managed by a registered investment fund manager as described in National Instrument 31-103. Units or shares of funds that were registered investments will generally continue to qualify under one or both of the new categories of qualified investment trusts. The registered investment regime is repealed as of 1 January 2027, and the new qualified investment trust rules apply as of 4 November 2025.
 - ▶ **Other changes** – Other amendments simplify the qualified investment rules. Notably, the qualified investment rules for six types of registered plans (i.e., all plans except DPSPs) are consolidated into one definition in subsection 207.01(1) of the Act, with consequential amendments being made to various provisions of the Act to reflect this change. In addition, the list of qualified investments prescribed in the *Income Tax Regulations* is updated and reorganized by asset class (in new Regulations 5001 to 5004).

- ▶ **Trust-to-trust transfers: anti-avoidance rule** - Amendments (announced in Budget 2025) to broaden the current anti-avoidance rule (aimed at preventing trusts from avoiding the 21-year deemed disposition rules for trust property) for direct trust-to-trust transfers to include indirect transfers of certain trust property to other trusts.
- ▶ **Additional reporting by NPOs** - Updated amendments (previously announced in the 2024 FES and included in the 15 August 2025 draft legislative proposals) to introduce new reporting rules that will require NPOs with total receipts exceeding \$100,000 in a fiscal period (rather than \$50,000 as initially proposed) to file an annual information return. As well, subject to certain exceptions, an NPO that does not meet the threshold for filing the annual information return will be required to file a new, short-form information return that provides basic information about the organization, such as the name of its directors, officers or trustees; its total assets and liabilities and total amounts received for the fiscal period; and a description of its activities. NPOs are excluded from the requirement to file a short-form information return if their total gross revenues for the fiscal period do not exceed \$10,000, or if the NPO was required to file the long-form annual information return for the same period. As well, NPOs that are not an organization (whether incorporated or not) are also excluded from the short-form information return requirement. As announced in Budget 2025, these new reporting rules apply to fiscal periods beginning on or after 1 January 2027 (rather than 1 January 2026, as originally proposed in the 2024 FES).
- ▶ **Canada Carbon Rebate** - Amendments (announced in Budget 2025) to provide that no rebate payments will be made in respect of tax returns filed after 30 October 2026.

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