Memorandum

To: Sussex Clients

From: Federal Team, Sussex Strategy Group

Date: September 15, 2026

Subject: Federal Government Introduces Productivity Mega Deduction

---

This memo provides an overview of the Government of Canada's newly announced Productivity Mega Deduction and assesses what it could mean for businesses considering major capital investments in Canada.

Overview

On September 15, 2026, Prime Minister Mark Carney and Finance Minister François-Philippe Champagne announced the new Productivity Mega Deduction, a permanent tax measure that significantly expands immediate expensing for business investments. The announcement was made at the inaugural Canada Investment Summit and forms a central component of the federal government's broader strategy to catalyse more than $1 trillion in public, private, and institutional investment over the coming years.

The Productivity Mega Deduction substantially expands and effectively replaces the earlier Super Productivity Incentive announced in Budget 2025. The earlier measure provided immediate expensing for roughly 15% of capital investment, focused on assets such as machinery, equipment, manufacturing and processing buildings, clean energy equipment, zero-emission vehicles, patents, data network infrastructure, and computers. The new measure broadens that treatment to more than 65% of capital assets and makes immediate expensing a permanent feature of Canada's business tax system.

In practical terms, the measures grants more business equipment the ability to deduct the full cost of eligible investments in the year they are placed into service rather than depreciating those costs over many years. The measure will be applied to eligible depreciable property that is acquired on or after September 15, 2026.

Eligible assets include a broad range of infrastructure, industrial, technology, transportation, and resource-sector investments, including fibre-optic networks, software, mining property, oil and gas pipelines, energy generation equipment, rail assets, roads, bridges, aircraft, vehicles, patents, computer equipment, and Canadian development expenses.

Why This Matters

According to Finance Canada, the measure will reduce Canada's Marginal Effective Tax Rate (METR) on new business investment from 13.0% to 6.4%, down from 15.4% before Budget 2025. The government argues this will make Canada the most tax-advantaged destination among major advanced economies and significantly more attractive than the United States, which currently has an estimated METR of 16.9%.

The policy reflects the Carney government's broader economic narrative that Canada should leverage its advantages, including abundant energy resources, critical minerals, fiscal strength, skilled labour, and extensive trade access, to attract a new wave of domestic and foreign investment.

Key Implications for Business

The Productivity Mega Deduction is primarily a cash-flow measure. By allowing businesses to deduct the full cost of eligible investments immediately, it accelerates the recovery of capital expenditures, improves project economics, and shortens payback periods. For capital-intensive sectors such as infrastructure, mining, manufacturing, transportation, energy, telecommunications, and data centres, the measure could materially improve investment returns and support larger investment decisions.

Just as importantly, the government is positioning the deduction as a permanent feature of the tax system, providing greater certainty for long-term planning. Combined with existing investment tax credits, clean economy incentives, critical minerals supports, and SR&ED enhancements, the policy is intended to strengthen Canada's competitiveness for major industrial, infrastructure, resource, and technology projects.

Eligibility and Covered Assets

To qualify, investments must generally consist of new capital property acquired after the measure comes into force and used in Canada for business purposes. The deduction is intended to support productive, income-generating assets rather than land, residential property, or purely financial investments.

Eligible asset categories include:

- Electricity generation, grid and transmission infrastructure
- Manufacturing and processing machinery and equipment
- Industrial production equipment
- Mining equipment and mining property
- Pipeline infrastructure
- Transportation equipment and infrastructure assets
- Telecommunications and broadband infrastructure
- Data centre equipment and supporting infrastructure
- Computer hardware and certain digital technology assets
- Canadian development expenses
- LNG liquefaction equipment and related facilities
- Other prescribed capital assets used in productive business activities

The measure applies to eligible assets acquired on or after **September 15, 2026**, with full benefits generally available for property placed into service before 2030, after which the incentive is scheduled to phase down.

Bottom Line

The Productivity Mega Deduction has been positioned as one of the most consequential business tax competitiveness measures introduced in Canada in decades. By permanently expanding immediate expensing to approximately two-thirds of capital investments and reducing Canada's marginal effective tax rate on investment to 6.4%, the federal government is attempting to create a decisive advantage for businesses choosing where to invest.

For companies with significant capital investment plans, the measure warrants immediate review to determine whether upcoming projects, expansion plans, infrastructure investments, technology deployments, or resource developments can benefit from the new regime and whether investment timelines should be accelerated to take advantage of Canada's evolving investment landscape.