



A Breakdown of the Productivity Super & Mega Deductions

To: CREDA

Date: 2026/10/19

Re: Productivity Super & Mega Deductions: Manufacturing Eligibility and Implications for Commercial Real Estate

Executive Summary

Budget 2025 introduced the Productivity Super-Deduction (PSD), a package of enhanced tax incentives designed to accelerate capital investment and lift Canada's lagging productivity. The PSD applies to most new capital investment and allows businesses to write off a larger share of the cost of these investments right away, including immediate expensing (i.e., a 100% first-year write-off) for select asset classes.

For the commercial real estate sector, the most significant measure is the proposed immediate [expensing of manufacturing and processing buildings](#). This would allow eligible property owners to deduct up to 100% of a qualifying building's capital cost in the first year it meets the manufacturing-use requirements, including where the building is leased to a manufacturing tenant. The deduction could support investment in new industrial facilities, manufacturing-focused developments and qualifying improvements to existing properties.

The federal government has now established detailed eligibility criteria through [Bill C-31](#), introduced on May 6, 2026. These include a requirement that at least 90% of the building's floor space be used for manufacturing or processing, qualifying acquisition dates and restrictions on previously owned property. The manufacturing-building measure remains proposed legislation, with Bill C-31 currently before the [House of Commons](#) Standing Committee on Finance.

On September 15, 2026, the government also announced the [Productivity Mega Deduction](#), proposing to permanently extend immediate expensing to a much wider range of capital assets. Manufacturing and processing buildings remain subject to the separate, temporary Budget 2025 measure.

Productivity Super-Deduction Incentives (as proposed):

1. Reinstatement of the Accelerated Investment Incentive (AII), which provides an enhanced first-year write-off for most capital assets.
2. Immediate expensing of manufacturing or processing machinery and equipment.
3. Immediate expensing of manufacturing or processing buildings.
4. Immediate expensing of clean energy generation and energy conservation equipment, and zero-emission vehicles.
5. Immediate expensing of productivity-enhancing assets including patents, data network infrastructure, and computers.
6. Immediate expensing of capital expenditures for scientific research and experimental development.

Background

Accelerated Investment Incentive (AII)

The [AII](#) was introduced in the 2018 Fall Economic Statement in response to U.S. tax reform. It allows businesses to deduct a larger share of eligible capital investment costs in the first year rather than spreading deductions over several years.

Under the original legislation, the incentive was scheduled to phase out between 2024 and 2027 and expire in 2028. The [2024 Fall Economic Statement](#) proposed reinstating the enhanced incentive for property acquired on or after January 1, 2025, with a phase-out beginning in 2030.

[Budget 2025](#) confirmed the reinstatement, and the relevant provisions received Royal Assent through Bill C-15 on March 26, 2026.

Immediate Expensing (100% first-year write-off) for priority assets:

Assets qualifying for immediate expensing include manufacturing or processing buildings and machinery, clean energy generation and energy conservation equipment, zero-emission vehicles, productivity-enhancing assets (such as patents, data network infrastructure, and computers), and capital expenditures for scientific research and experimental development (SR&ED). Immediate expensing for manufacturing or processing buildings was new in Budget 2025. It applies to buildings acquired on or after November 4, 2025 (Budget Day) and first used for manufacturing or processing before 2030, and phases down to 75% for buildings first used in 2030 or 2031 and 55% in 2032 or 2033.

For manufacturing and processing buildings, the PSD builds on existing tax rules, such as the requirement that at least 90% of a building's floor space be used to manufacture or process goods for sale or lease, which already applies to claim the additional 6% capital cost allowance for Class 1 buildings. Because this framework already exists, the Budget sets out the eligibility criteria for buildings clearly. For other qualifying assets, such as data network infrastructure, the details are less explicitly defined in the initial Budget documentation, as tax policy considerations and the diverse nature of qualifying assets across sectors make it more difficult to establish precise criteria at this stage.

The [proposed deduction](#) would phase out as follows:

First qualifying taxation year	Maximum deduction
Before 2030	100%
2030–2031	75%
2032–2033	55%
After 2033	No enhanced first-year rate under this measure

Implications for Commercial Real Estate Owners and Tenants

The explicit inclusion of tenant-operated manufacturing facilities is particularly relevant to commercial real estate owners. Under the proposed rules, a landlord may qualify for the building deduction even where it does not directly undertake manufacturing activities, provided the tenant's operations satisfy the applicable requirements.

This creates potential opportunities for:

- Industrial landlords and developers: New or recently acquired manufacturing facilities leased to qualifying manufacturers may benefit from accelerated capital cost recovery.
- Property improvements and expansions: Eligible additions and alterations to manufacturing properties could qualify for immediate expensing, including certain investments in older buildings.
- Manufacturing tenants: Tenants acquiring qualifying machinery, equipment or technology may benefit from other PSD incentives, independently of any building-related deductions available to landlords.

Timeline and Political Analysis

Since the original November 2025 announcement, several legislative developments have occurred:

- **March 26, 2026:** [Bill C-15 received Royal Assent](#), implementing the reinstated All and certain immediate-expensing measures.
- **May 6, 2026:** [Bill C-31](#) was introduced in the House of Commons, containing the proposed manufacturing-building immediate-expensing provisions.
- **June 3, 2026:** Bill C-31 passed second reading and was referred to the Standing Committee on Finance, where it remains as of October 9, 2026.
- **September 15, 2026:** Finance Canada released the proposed [Productivity Mega Deduction](#) and supporting draft legislative provisions.

The manufacturing-building provisions in Bill C-31 have therefore progressed beyond the initial announcement and consultation stages but have not yet become law. The legislation must complete committee consideration, remaining House stages and Senate consideration before receiving Royal Assent. No confirmed date for final passage has been identified.

The proposed manufacturing-building rules would apply retroactively to eligible acquisitions dating from November 4, 2025, once enacted.

Looking ahead, the anticipated Budget 2026 presents a potential opportunity to build on existing investment incentives. With U.S. trade tensions continuing to affect Canadian manufacturing competitiveness, the federal government faces growing pressure to encourage domestic capital investment, strengthen supply chains and protect industrial capacity. Finance Canada has explicitly identified [U.S. tariff pressures](#), investment and competitiveness as priorities for Budget 2026.

This environment could create opportunities for further refinements or complementary incentives supporting manufacturing investment, including measures that improve certainty for long-term capital projects. However, no specific expansion of the manufacturing-building incentive has been confirmed.