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

Qualified investments for registered plans

1 (1) Paragraph 108(2)(c) of the *Income Tax Act* is replaced by the following:

(c) the fair market value of the property of the trust at the end of 1993 was primarily attributable to real property or an interest in real property — or to immovables or a real right in immovables — and the trust was a unit trust throughout any calendar year that ended before 1994 and the fair market value of the property of the trust at the particular time is primarily attributable to property described in paragraph (a) or subparagraph (c)(i) of the definition *qualified investment* in subsection 207.01(1), real property or an interest in real property — or immovables or a real right in immovables — or any combination of those properties.

(2) Subsection (1) comes into force on January 1, 2027.

2 (1) Paragraph (a) of the definition *qualified REIT property* in subsection 122.1(1) of the Act is replaced by the following:

(a) a real or immovable property that is capital property, an eligible resale property, an indebtedness of a Canadian corporation represented by a bankers' acceptance, a property described in paragraph (a) or subparagraph (c)(i) of the definition *qualified investment* in subsection 207.01(1) or a deposit with a credit union;

(2) Paragraph (d) of the definition *real estate investment trust* in subsection 122.1(1) of the Act is replaced by the following:

(d) at each time in the taxation year an amount, that is equal to 75% or more of the equity value of the trust at that time, is the amount that is the total fair market value of all properties held by the trust each of which is a real or immovable property that is capital property, an eligible resale property, an indebtedness of a Canadian corporation represented by a bankers' acceptance, a property described in paragraph (a) or subparagraph (c)(i) of the definition *qualified investment* in subsection 207.01(1) or a deposit with a credit union; and

(3) Subsections (1) and (2) come into force on January 1, 2027.

3 (1) Paragraph 132.2(3)(h) of the Act is replaced by the following:

(h) where a share to which paragraph (g) applies would, if this Act were read without reference to this paragraph, cease to be a *qualified investment* (as defined in section 204 or subsection 207.01(1)) as a consequence of the qualifying exchange, the share is deemed to be a qualified investment until the earlier of the day that is 60 days after the day that includes the transfer time and the time at which it is disposed of in accordance with paragraph (g);

(2) Subsections (1) comes into force on January 1, 2027.

4 (1) Subparagraph (g)(iii) of the definition *eligible trust* in subsection 135.2(1) of the Act is replaced by the following:

(iii) property described in paragraph (a) or subparagraph (c)(i) of the definition *qualified investment* in subsection 207.01(1) or a deposit with a credit union;

(2) Subsection (1) comes into force on January 1, 2027.

5 (1) The definition *qualified investment* in subsection 146(1) of the Act is repealed.

(2) Subparagraph 146(4)(b)(ii) of the Act is replaced by the following:

(ii) such portion of the amount determined under subparagraph (i) in respect of the trust for the year as can reasonably be considered to be income from, or from the disposition of, a *qualified investment* (as defined in subsection 207.01(1)) for the trust; and

(3) Subsections (1) and (2) come into force on January 1, 2027.

6 (1) The definition *qualified investment* in subsection 146.1(1) of the Act is repealed.

(2) The portion of subsection 146.1(5) of the Act before paragraph (a) is replaced by the following:

Trust not taxable

(5) No tax is payable under this Part by a trust that is governed by a RESP on its taxable income for a taxation year, except that, if at any time in the taxation year, it holds a property that is a *non-qualified investment* (as defined in subsection 207.01(1)) for the trust, tax is payable under this Part by the trust on the amount that would be its taxable income for the taxation year if it had no income or losses from sources other than non-qualified investments, and no capital gains or capital losses other than from dispositions of non-qualified investments, and for that purpose,

(3) Subsections (1) and (2) come into force on January 1, 2027.

7 (1) The definition *qualified investment* in subsection 146.3(1) of the Act is repealed.

(2) The description of A in the definition *minimum amount* in subsection 146.3(1) of the Act is replaced by the following:

A is the total fair market value of all properties held in connection with the fund at the beginning of the year (other than annuity contracts held by the plan trust that, at the beginning of the calendar year, are described in paragraph (j) of the definition *qualified investment* in subsection 207.01(1));

(3) Paragraph (a) of the description of C in the definition *minimum amount* in subsection 146.3(1) of the Act is replaced by the following:

(a) a periodic payment under an annuity contract described in paragraph (j) of the definition *qualified investment* in subsection 207.01(1) that is held by the trust at the beginning of the year and is paid to the trust in the year, or

(4) The portion of paragraph 146.3(2)(e.1) of the Act before subparagraph (i) is replaced by the following:

(e.1) if the fund does not govern a trust or the fund governs a trust created before 1998 that does not hold an annuity contract as a *qualified investment* (as defined in subsection 207.01(1)) for the trust, the fund provides that if an annuitant, at any time, directs that the carrier transfer all or part of the property held in connection with the fund, or an amount equal to its value at that time, to another registered retirement income fund of the annuitant or in accordance with subsection (14.1), the transferor shall retain an amount equal to the lesser of

(5) Clause 146.3(2)(e.2)(i)(B) of the Act is replaced by the following:

(B) an annuity contract described, immediately after the transfer, in paragraph (g) of the definition *qualified investment* in subsection 207.01(1), and

(6) Subparagraph 146.3(3)(e)(ii) of the Act is replaced by the following:

(ii) such portion of the amount determined under subparagraph (i) in respect of the trust for the year as can reasonably be considered to be income from, or from the disposition of, a *qualified investment* (as defined in subsection 207.01(1)) for the trust.

(7) Paragraph 146.3(6.4)(a) of the Act is replaced by the following:

(a) at any time after the death of the annuitant, a trust governed by the fund held an investment that is a *non-qualified investment* (as defined in subsection 207.01(1)); or

(8) The portion of subsection 146.3(9) of the Act before paragraph (b) is replaced by the following:

Tax payable on income from non-qualified investment

(9) If a trust that is governed by a RRIF holds, at any time in a taxation year, a property that is a *non-qualified investment* (as defined in subsection 207.01(1)),

(a) tax is payable under this Part by the trust on the amount that its taxable income for the year would be if it had no incomes or losses from sources other than non-qualified investments or no capital gains or capital losses other than from dispositions of non-qualified investments, as the case may be; and

(9) Subsections (1) to (8) come into force on January 1, 2027.

8 (1) The definition *qualified investment* in subsection 146.4(1) of the Act is repealed.

(2) The descriptions of A and B in paragraph (b) of the definition *specified maximum amount* in subsection 146.4(1) of the Act are replaced by the following:

A is 10% of the fair market value of the property held by the plan trust at the beginning of the calendar year (other than annuity contracts held by the plan trust that, at the beginning of the calendar year, are described in paragraph (i) of the definition *qualified investment* in subsection 207.01(1)), and

B is the total of all amounts each of which is

(i) a periodic payment under an annuity contract described in paragraph (i) of the definition *qualified investment* in subsection 207.01(1) that is held by the plan trust at the beginning of the calendar year and paid to the plan trust in the calendar year, or

(ii) if the periodic payment under the contract is not made to the plan trust because the plan trust disposed of the right to that payment in the calendar year, a reasonable estimate of that payment on the assumption that the contract had been held throughout the calendar year and no rights under the contract were disposed of in the calendar year. (*plafond*)

(3) The description of A in paragraph 146.4(4)(l) of the Act is replaced by the following:

A is the fair market value of the property held by the plan trust at the beginning of the calendar year (other than annuity contracts held by the plan trust that, at the beginning of the calendar year, are described in paragraph (i) of the definition *qualified investment* in subsection 207.01(1)),

(4) Subparagraph (i) of the description of D in paragraph 146.4(4)(l) of the Act is replaced by the following:

(i) a periodic payment under an annuity contract described in paragraph (i) of the definition *qualified investment* in subsection 207.01(1) that is held by the plan trust at the beginning of the calendar year and paid to the plan trust in the calendar year, or

(5) The portion of paragraph 146.4(5)(b) of the Act before subparagraph (i) is replaced by the following:

(b) if the trust is not otherwise taxable under paragraph (a) on its taxable income for the year and, at any time in the year, it carries on one or more businesses or holds a property that is a *non-qualified investment* (as defined in subsection 207.01(1)) for the trust, tax is payable under this Part by the trust on the amount that its taxable income for the year would be if it had no incomes or losses from sources other than those businesses and non-qualified investments, and no capital gains or losses other than from dispositions of non-qualified investments, and for this purpose,

(6) Subsections (1) to (5) come into force on January 1, 2027.

9 (1) The definition *debt obligation* in section 204 of the Act is repealed.

(2) The definition *qualified investment* in section 204 of the Act is replaced by the following:

qualified investment for a trust governed by a deferred profit sharing plan or revoked plan means, with the exception of excluded property in relation to the trust,

(a) an investment described in any of paragraphs (a) to (g) of the definition *qualified investment* in subsection 207.01(1),

(b) an investment described under section 5001, paragraph 5002(a) to (c) or section 5003 or 5004 of the *Income Tax Regulations*, other than an investment described in any of paragraphs 5006(a) to (e) if the references in those paragraphs to "a connected person under the registered plan" were read as references to "a beneficiary or an employer under the deferred profit sharing plan or revoked plan and any person who does not deal at arm's length with that person",

(c) equity shares of a corporation by which, before the date of acquisition by the trust of the shares, payments have been made in trust to a trustee under the plan for the benefit of beneficiaries thereunder, if the shares are of a class in respect of which

(i) there is no restriction on their transferability, and

(ii) in each of four taxation years of the corporation in the period of the corporation's five consecutive taxation years that ended less than 12 months before the date of acquisition of the shares by the trust, and in the corporation's last taxation year in that period, the corporation

(A) paid a dividend on each share of the class of an amount not less than 4% of the cost per share of the shares to the trust, or

(B) had earnings attributable to the shares of the class of an amount not less than the amount obtained when 4% of the cost per share to the trust of the shares is multiplied by the total number of shares of the class that were outstanding immediately after the acquisition, and

(d) a contract with a licensed annuities provider for an annuity payable to an employee who is a beneficiary under the plan beginning not later than the end of the year in which the employee attains 71 years of age, the guaranteed term of which, if any, does not exceed 15 years; (*placement admissible*)

(3) Subsections (1) and (2) come into force on January 1, 2027.

10 (1) Part X.2 of the Act is repealed.

(2) The portion of subsection 204.6(1) of the Act before the formula is replaced by the following:

Tax payable

204.6 (1) If at the end of any month a taxpayer that is a registered investment described in paragraph 204.4(2)(b), (d) or (f) (other than a taxpayer that is a trust described in paragraph 4900(1)(d.21) or (d.22) of the *Income Tax Regulations*) holds property that is not a prescribed investment for that taxpayer, it shall, in respect of that month, pay a tax under this Part equal to the total of all amounts each of which is an amount determined in respect of such a property by the formula

(3) The portion of subsection 204.6(2) of the Act before paragraph (a) is replaced by the following:

Tax payable

(2) Where at the end of any month a taxpayer that is a registered investment described in paragraph 204.4(2)(a) or (b) (other than a taxpayer that is a trust described in paragraph 4900(1)(d.21) or (d.22) of the *Income Tax Regulations*) holds property that is a share, bond, mortgage, hypothecary claim or other security of a corporation or debtor (other than bonds, mortgages, hypothecary claims and other securities of or guaranteed by Her Majesty in right of Canada or a province or Canadian municipality), it shall, in respect of that month, pay a tax under this Part equal to 1% of the amount, if any, by which

(4) The portion of subsection 204.6(3) of the Act before paragraph (a) is replaced by the following:

Tax payable — real property or immovables

(3) If at the end of any month a taxpayer that is a registered investment described in paragraph 204.4(2)(a) (other than a taxpayer that is a trust described in paragraph 4900(1)(d.21) or (d.22) of the *Income Tax Regulations*) holds real or immovable property, it shall, in respect of that month, pay a tax under this Part equal to 1% of the total of all amounts each of which is the amount by which the excess of

(5) Subsection (1) comes into force on January 1, 2027.

(6) Subsections (2) to (4) are deemed to have come into force on November 4, 2025.

11 (1) Paragraph (a) of the definition *reserve* in subsection 204.8(1) of the Act is replaced by the following:

(a) property described in paragraph (a), (b) or (f) or subparagraphs (c)(i) to (iv) of the definition *qualified investment* in subsection 207.01(1), and

(2) Subsection (1) comes into force on January 1, 2027.

12 (1) The description of C in the definition *excess ALDA transfer* in subsection 205(1) of the Act is amended by adding "and" at the end of paragraph (b) and by replacing paragraphs (c) and (d) by the following:

(c) if the transferor plan is a registered retirement savings plan or a registered retirement income fund, contracts for annuities held in connection with the plan or fund other than annuities described in paragraph (g) of the definition *qualified investment* in subsection 207.01(1),

(2) Subsection (1) comes into force on January 1, 2027.

13 (1) The preamble of subsection 207.01(1) of the Act is replaced by the following:

Definitions

207.01 (1) The following definitions and the definitions in subsections 146(1) (other than the definition *benefit*), 146.1(1), 146.2(1), 146.3(1), 146.4(1) and 146.6(1) apply in this Part and Part L of the *Income Tax Regulations*.

(2) The definition *qualified investment* in subsection 207.01(1) of the Act is replaced by the following:

qualified investment for a trust governed by a registered plan means

(a) money (other than money the fair market value of which exceeds its stated value as legal tender in the country of issuance or money that is held for its numismatic value) and deposits (within the meaning assigned by the *Canada Deposit Insurance Corporation Act* or with a branch in Canada of a bank) of such money standing to the credit of the trust;

(b) a guaranteed investment certificate issued by a trust company incorporated under the laws of Canada or of a province;

(c) a bond, debenture, note or similar obligation

(i) described in paragraph (a) of the definition *fully exempt interest* in subsection 212(3),

(ii) issued by a corporation, mutual fund trust or limited partnership the shares or units of which are listed on a designated stock exchange in Canada,

(iii) issued by a corporation the shares of which are listed on a designated stock exchange outside Canada,

(iv) issued by an authorized foreign bank and payable at a branch in Canada of the bank,

(v) that was issued as part of a single issue of debt of at least $25 million and has an investment grade rating from a prescribed credit rating agency (or had such a rating at the time it was acquired by the trust),

(vi) that was issued on a continuous basis under a debt issuance program, provided that at least $25 million of debt under the program had been issued and is outstanding and it has an investment grade rating from a prescribed credit rating agency (or had such a rating at the time it was acquired by the trust),

(vii) that was acquired by the trust in exchange for a bond, debenture, note or similar obligation that satisfied the condition in subparagraph (v) or (vi) as part of a proposal or an arrangement that has been approved by a court under the *Bankruptcy and Insolvency Act* or the *Companies' Creditors Arrangement Act*, or

(viii) issued by a public corporation (other than a mortgage investment corporation);

(d) a security (other than a future contract or other derivative instrument in respect of which the holder's risk of loss may exceed the holder's cost) that is listed on a designated stock exchange;

(e) a share of the capital stock of a public corporation (other than a mortgage investment corporation);

(f) an investment contract described in subparagraph (b)(ii) of the definition *retirement savings plan* in subsection 146(1) and issued by a corporation approved by the Governor in Council for the purposes of that subparagraph;

(g) a contract for an annuity issued by a licensed annuities provider if

(i) the trust is the only person that, disregarding a subsequent transfer of the contract by the trust, is or may become entitled to an annuity payment under the contract, and

(ii) the holder of the contract has a right to surrender the contract at any time for an amount that would, if reasonable sales and administration charges were ignored, approximate the value of funds that could otherwise be applied to fund future periodic payments under the contract;

(h) if the registered plan is a RESP, an investment that was acquired by the trust before October 28, 1998;

(i) if the registered plan is a RDSP, a contract for an annuity issued by a licensed annuities provider if

(i) annual or more frequent periodic payments are or may be made under the contract to the holder of the contract,

(ii) the trust is the only person who, disregarding any subsequent transfer of the contract by the trust, is or may become entitled to any annuity payments under the contract,

(iii) neither the time nor the amount of any payment under the contract may vary because of the length of any life, other than the life of the beneficiary under the RDSP (in this paragraph referred to as the "RDSP beneficiary"),

(iv) the day on which the periodic payments began or are to begin is not later than the end of the later of

(A) the year in which the RDSP beneficiary attains the age of 60 years, and

(B) the year following the year in which the contract was acquired by the trust,

(v) the periodic payments are payable for the life of the RDSP beneficiary and either there is no guaranteed period under the contract or there is a guaranteed period that does not exceed 15 years,

(vi) the periodic payments

(A) are equal, or

(B) are not equal solely because of one or more adjustments that would, if the contract were an annuity under a retirement savings plan, be in accordance with subparagraphs 146(3)(b)(iii) to (v) or that arise because of a

uniform reduction in the entitlement to the periodic payments as a consequence of a partial surrender of rights to the periodic payments, and

(vii) the contract requires that, in the event the plan must be terminated in accordance with paragraph 146.4(4)(p), any amounts that would otherwise be payable after the termination be commuted into a single payment;

(j) if the registered plan is a RRIF, a contract for an annuity issued by a licensed annuities provider if

(i) annual or more frequent periodic payments are or may be made under the contract to the holder of the contract,

(ii) the trust is the only person who, disregarding any subsequent transfer of the contract by the trust, is or may become entitled to any annuity payments under the contract,

(iii) neither the time nor the amount of any payment under the contract may vary because of the length of any life, other than

(A) if the annuitant under the RRIF (in this paragraph referred to as the "RRIF annuitant") has made the election referred to in the definition *retirement income fund* in subsection 146.3(1) in respect of the fund and a spouse or common-law partner, the life of the RRIF annuitant or the life of the spouse or common-law partner, and

(B) in any other case, the life of the RRIF annuitant,

(iv) the day on which the periodic payments began or are to begin (in this paragraph referred to as the "start date") is not later than the end of the year following the year in which the contract was acquired by the trust,

(v) either

(A) the periodic payments are payable for the life of the RRIF annuitant or the joint lives of the RRIF annuitant and the RRIF annuitant's spouse or common-law partner and either there is no guaranteed period under the contract or there is a guaranteed period that begins at the start date and does not exceed a term equal to 90 years minus the lesser of

(I) the age in whole years at the start date of the RRIF annuitant (determined on the assumption that the RRIF annuitant is alive at the start date), and

(II) the age in whole years at the start date of a spouse or common-law partner of the RRIF annuitant (determined on the assumption that a spouse or common-law partner of the RRIF annuitant at the time the contract was acquired is a spouse or common-law partner of the RRIF annuitant at the start date), or

(B) the periodic payments are payable for a term equal to

(I) 90 years minus the age described in subclause (A)(I), or

(II) 90 years minus the age described in subclause (A)(II), and

(vi) the periodic payments

(A) are equal, or

(B) are not equal solely because of one or more adjustments that would, if the contract were an annuity under a retirement savings plan, be in accordance with subparagraphs 146(3)(b)(iii) to 146(3)(b)(v) or that arise because of a uniform reduction in the entitlement to the periodic payments as a consequence of a partial surrender of rights to the periodic payments;

(k) if the registered plan is a RRSP, a contract for an annuity issued by a licensed annuities provider if it

(i) is described in the definition *retirement income* in subsection 146(1) in respect of the annuitant under the RRSP (in this paragraph referred to as the "RRSP annuitant"), or

(ii) meets the following conditions:

(A) annual or more frequent periodic payments are or may be made under the contract to the holder of the contract,

(B) the trust is the only person who, disregarding any subsequent transfer of the contract by the trust, is or may become entitled to any annuity payments under the contract,

(C) neither the time nor the amount of any payment under the contract may vary because of the length of any life, other than the life of the RRSP annuitant,

(D) the day on which the periodic payments began or are to begin (in this subparagraph referred to as the "start date") is not later than the end of the year in which the RRSP annuitant attains 72 years of age,

(E) either

(I) the periodic payments are payable for the life of the RRSP annuitant and either there is no guaranteed period under the contract or there is a guaranteed period that begins at the start date and does not exceed a term equal to 90 years minus the lesser of

1 the age in whole years at the start date of the RRSP annuitant (determined on the assumption that the RRSP annuitant is alive at the start date), and

2 the age in whole years at the start date of a spouse or common-law partner of the RRSP annuitant (determined on the assumption that a spouse or common-law partner of the RRSP annuitant at the time the contract was acquired is a spouse or common-law partner of the RRSP annuitant at the start date), or

(II) the periodic payments are payable for a term equal to

1 90 years minus the age described in sub-subclause (I)1, or

2 90 years minus the age described in sub-subclause (I)2, and

(F) the periodic payments

(I) are equal, or

(II) are not equal solely because of one or more adjustments that would, if the contract were an annuity under a retirement savings plan, be in accordance with subparagraphs 146(3)(b)(iii) to (v) or that arise because of a uniform reduction in the entitlement to the periodic payments as a consequence of a partial surrender of rights to the periodic payments; and

(l) a prescribed investment. (*placement admissible*)

(3) Paragraphs (a) and (b) of the definition *excluded property* in subsection 207.01(1) of the Act are replaced by the following:

(a) property described in subparagraph 5001(h)(ii) of the *Income Tax Regulations*;

(b) an equity of a mutual fund corporation or mutual fund trust if

(i) either

(A) the equity is equity of a mutual fund corporation or mutual fund trust that derives all or substantially all its value from one or more mutual funds that are subject to, and substantially comply with, the requirements of

National Instrument 81–102 Investment Funds, as amended from time to time, of the Canadian Securities Administrators, or

(B) the corporation or trust follows a reasonable policy of investment diversification,

(ii) the time is

(A) during the 24-month period that begins on the day on which the first taxation year of the corporation or trust begins,

(B) during the 24-month period that ends on the day on which the last taxation year of the corporation or trust ends, or

(C) where the equity is a share of the capital stock of a mutual fund corporation and the share derives all or substantially all its value from a particular mutual fund,

(I) during the 24-month period that begins on the day on which the particular mutual fund is established, or

(II) during the 24-month period that ends on the day on which the particular mutual fund is terminated,

(iii) it is reasonable to conclude that none of the main purposes of the structure of the corporation or trust, or of the terms and conditions of the equity, is to accommodate transactions or events that could affect the fair market value of the property held by the trust governed by the registered plan in a manner that would not occur in a normal commercial or investment context in which parties deal with each other at arm's length and act prudently, knowledgeably and willingly, and

(iv) it is reasonable to conclude that none of the main purposes of the incorporation, establishment or operation of the corporation or trust, or of the particular mutual fund, is to benefit from this paragraph; or

(4) Paragraph 207.01(12)(c) of the Act is replaced by the following:

(c) the property is, or would be if it were not a prohibited investment at the time it was acquired by the exchanging trust, a qualified investment for the exchanging trust immediately after the exchange time; and

(5) Subsections (1) to (4) come into force on January 1, 2027.

14 (1) If subsection 84(2) of Bill C-15, introduced in the 1st session of the 45th Parliament and entitled the *Budget 2025 Implementation Act, No. 1*, receives royal assent, then paragraph 207.04(7)(a) of the *Income Tax Act* is replaced by the following:

(a) the security lent or transferred under the arrangement is described in paragraph (d) of the definition *qualified investment* in subsection 207.01(1);

(2) If subsection 84(2) of Bill C-15, introduced in the 1st session of the 45th Parliament and entitled the *Budget 2025 Implementation Act, No. 1*, receives royal assent, then paragraph 207.04(7)(f) of the *Income Tax Act* is replaced by the following:

(f) property that is described in paragraph (a) or subparagraph (c)(i) of the definition *qualified investment* in subsection 207.01(1) that is of equivalent value to the security lent under the arrangement is held in trust for the benefit of the lender and is to be distributed to the lender in the event that an identical security (within the meaning assigned by paragraph (b) of the definition *securities lending arrangement* in subsection 260(1)) is not transferred or returned to the lender under the arrangement; and

(3) Subsections (1) and (2) come into force on January 1, 2027.

15 (1) Paragraph (d) of the definition *excluded trust* in subsection 211.6(1) of the Act is replaced by the following:

(d) if the trust is not a trust to which paragraph (e) applies, acquires at that time any property that is not described in any of paragraphs (a) and (b) and subparagraph (c)(i) of the definition *qualified investment* in subsection 207.01(1);

(2) Subparagraph (e)(i) of the definition *excluded trust* in subsection 211.6(1) of the Act is replaced by the following:

(i) acquires at that time any property that is not described in any of paragraphs (a), (b), (c) and (d) of the definition *qualified investment* in subsection 207.01(1), or

(3) Paragraph (a) of the definition *prohibited investment* in subsection 211.6(1) of the Act is replaced by the following:

(a) at the time it was acquired by the trust, was described in any of subparagraphs (c)(ii) to (vii) or paragraph (d) of the definition *qualified investment* in subsection 207.01(1); and

(4) Subsections (1) to (3) come into force on January 1, 2027.

16 (1) Clauses 233.2(4)(c)(ii)(E) and (F) of the Act are replaced by the following:

(F) a trust in which all persons beneficially interested are persons described in clauses (A) to (D), or

(2) Subsection (1) comes into force on January 1, 2027.

17 (1) Paragraph (a) of the definition *specified Canadian entity* in subsection 233.3(1) of the Act is amended by adding "or" at the end of subparagraph (vi) and by repealing subparagraph (vii).

(2) Subparagraph (a)(viii) of the definition *specified Canadian entity* in subsection 233.3(1) of the Act is replaced by the following:

(viii) a trust in which all persons beneficially interested are persons described in subparagraphs (i) to (vi); and

(3) Subsections (1) and (2) come into force on January 1, 2027.

18 (1) The definition *registered investment* in subsection 248(1) of the Act is repealed.

(2) Subsection (1) comes into force on January 1, 2027.

19 (1) The definition *designated provisions* in subsection 259(5) of the Act is replaced by the following:

designated provisions means sections 146, 146.1 to 146.4 and 146.6 and Parts X, XI.01 and XI.1, as they apply in respect of investments that are not qualified investments for a trust, and Part X.2; (*dispositions désignées*)

(2) The definition *designated provisions* in subsection 259(5) of the Act is replaced by the following:

designated provisions means sections 146, 146.1 to 146.4 and 146.6 and Parts X, XI.01 and XI.1, as they apply in respect of investments that are not qualified investments for a trust; (*dispositions désignées*)

(3) The definition *specified taxpayer* in subsection 259(5) of the Act is replaced by the following:

specified taxpayer means a taxpayer that is a registered investment or that is described in any of paragraphs 149(1)(r), (s), (u) to (u.2), (u.4) and (x). (*contribuable déterminé*)

(4) The definition *specified taxpayer* in subsection 259(5) of the Act is replaced by the following:

specified taxpayer means a taxpayer that is described in any of paragraphs 149(1)(r), (s), (u) to (u.2), (u.4) and (x). (*contribuable déterminé*)

(5) The portion of the definition *qualified trust* in subsection 259(5) of the Act before paragraph (a) is replaced by the following:

qualified trust at any time means a trust (other than a trust that is prescribed to be a small business investment trust) where

(6) Subsections (1) and (3) are deemed to have come into force on April 1, 2023.

(7) Subsections (2), (4) and (5) come into force on January 1, 2027.

Income Tax Regulations

20 (1) Subsection 221(1) of the *Income Tax Regulations* is replaced by the following:

221 (1) In this section, ***reporting person*** means

(a) a mutual fund corporation;

(b) an investment corporation;

(c) a mutual fund trust;

(d) a trust described in paragraph 4900(1)(d.21);

(e) a trust described in paragraph 4900(1)(d.22); or

(f) a small business investment trust (within the meaning assigned by subsection 5103(1)).

(2) Paragraphs 221(1)(d) and (e) of the Regulations are replaced by the following:

(d) a trust described in paragraph 5003(a);

(e) a trust described in paragraph 5003(b); or

(3) Subsection 221(2) of the Regulations is replaced by the following:

(2) If in any taxation year a reporting person claims that a share of its capital stock issued by it, or an interest as a beneficiary under it, is a qualified investment under section 204 or 207.01 of the Act, the reporting person shall, in respect of the year and within 90 days after the end of the year, make an information return in prescribed form.

(4) Subsection (1) applies to the 2026 taxation year.

(5) Subsections (2) and (3) come into force on January 1, 2027.

21 (1) Subsection 4900(1) of the Regulations is amended by adding the following after paragraph (d.2):

(d.21) a unit of a trust that is subject to, and substantially complies with, the requirements of *National Instrument 81–102 Investment Funds*, as amended from time to time, of the Canadian Securities Administrators;

(d.22) a unit of a trust if

(i) the trust has a class of units outstanding that

(A) has been lawfully distributed in a province to the public and a prospectus, registration statement or similar document was not, under the laws of the province, required to be filed in respect of the distribution, or

(B) is qualified for distribution to the public,

(ii) the trust satisfies the conditions in subparagraphs (b)(i) to (vi) of the definition *investment fund* in subsection 251.2(1) of the Act, and

(iii) the investments of the trust are managed by a person that is registered as an investment fund manager as described in *National Instrument 31–103 Registration Requirements, Exemptions and Ongoing Registrant Obligations*, as amended from time to time, of the Canadian Securities Administrators;

(2) Subsection (1) is deemed to have come into force on November 4, 2025.

22 (1) Part XLIX of the Regulations is replaced by the following:

PART L

Qualified and Prohibited Investments for Registered Plans

Interpretation

5000 The following definitions apply in this Part.

connected person, under a *registered plan* (as defined in subsection 207.01(1) of the Act) governing a trust, means a person that is a *controlling individual* (as defined in subsection 207.01(1) of the Act) of the plan or a beneficiary of the trust and any other person or partnership that does not deal at arm's length with that person. (*personne rattachée*)

specified cooperative corporation means

(a) a *cooperative corporation* as defined in subsection 136(2) of the Act; or

(b) a corporation that would be a *cooperative corporation* as defined in subsection 136(2) of the Act if the purpose described in that subsection were the purpose of providing employment to the corporation's members or customers. (*coopérative déterminée*)

specified small business corporation, at any time, means a corporation (other than a cooperative corporation) that would, at that time or at the end of the last taxation year of the corporation that ended before that time, be a small business corporation if the reference to "Canadian-controlled private corporation" in the definition *small business corporation* in subsection 248(1) of the Act were read as a reference to "Canadian corporation (other than a corporation controlled at that time, directly or indirectly in any manner whatever, by one or more non-resident persons)". (*société déterminée exploitant une petite entreprise*)

Debt Instruments

5001 For the purposes of paragraph (l) of the definition *qualified investment* in subsection 207.01(1) of the Act, each of the following investments is prescribed as a qualified investment for a trust governed by a registered plan at a particular time if at that time it is

(a) an indebtedness of a Canadian corporation represented by a bankers' acceptance;

(b) a bond, debenture, note or similar obligation of a Canadian corporation if

(i) payment of the principal amount of the obligation and the interest on the principal amount is guaranteed by a corporation or a mutual fund trust whose shares or units, as the case may be, are listed on a designated stock exchange in Canada,

(ii) the corporation is controlled directly or indirectly by one or more corporations or mutual fund trusts described in subparagraph (i), or

(iii) payment of the principal amount of which is guaranteed by His Majesty in right of a province under the *Community Development Bonds Act*, C.C.S.M., c. C160;

(c) a bond, debenture, note or similar obligation issued by, or a deposit with, a credit union;

(d) a bond, debenture, note or similar obligation issued by a *cooperative corporation* (as defined in 136(2) of the Act) if

(i) throughout the taxation year of the corporation immediately preceding the year in which the obligation was acquired by the plan trust, the corporation had at least 100 shareholders, or if all its shareholders were corporations, 50 shareholders, and

(ii) no more than 5% of the fair market value of all obligations of the corporation are held by one or more plan trusts that share the same *controlling individual* (as defined in subsection 207.01(1) of the Act) or beneficiary;

(e) a bond, debenture, note or similar obligation of a Canadian corporation if, at the time the obligation is acquired by the plan trust, the corporation that issued the obligation is a corporation that

(i) is, or is controlled by, a corporation that has issued and outstanding share capital carried in its books at not less than $25 million, and

(ii) has issued and outstanding bonds, debentures, notes or similar obligations having in the aggregate a principal amount of at least $10 million

(A) that are held by at least 300 different persons,

(B) for which one or more prospectus, registration statement or similar document was filed with and, where required by law, accepted for filing by a public authority in Canada in accordance with the laws of Canada or a province, and

(C) for which there was a lawful distribution to the public in accordance with the document described in clause (B);

(f) a debt issued by a Canadian corporation (other than a corporation with share capital) if the taxable income of the corporation is exempt from tax under Part I of the Act because of paragraph 149(1)(l) of the Act and

(i) before the particular time and after 1995, the corporation

(A) acquired, for a total consideration of not less than $25 million, property from His Majesty in right of Canada or a province, and

(B) put that property to a use that is the same as or similar to the use to which the property was put before the acquisition described in clause (A), or

(ii) at the time of the acquisition of the debt by the plan trust, it was reasonable to expect that subparagraph (i) would apply in respect of the debt no later than one year after the time of the acquisition;

(g) a debt issued by a Canadian corporation (other than a corporation with share capital) if the taxable income of the corporation is exempt from tax under Part I of the Act because of paragraph 149(1)(l) of the Act and

(i) the debt is issued by the corporation as part of an issue of debt by the corporation for an amount of at least $25 million, or

(ii) at the time of the acquisition of the debt by the plan trust, the corporation had issued debt as part of a single issue for an amount of at least $25 million;

(h) a debt obligation of a debtor, or an interest (or for civil law a right) in that debt obligation, if it is

(i) fully secured by a mortgage, charge, hypothec or similar instrument in respect of real or immovable property situated in Canada, or would be fully secured were it not for a decline in the fair market value of the property after the debt obligation was issued, or

(ii) secured by a mortgage, charge, hypothec or similar instrument in respect of real or immovable property situated in Canada and is

(A) administered by an approved lender under the *National Housing Act* or a qualified mortgage lender under the *Protection of Residential Mortgage or Hypothecary Insurance Act*, and

(B) insured under the *National Housing Act* or the *Protection of Residential Mortgage or Hypothecary Insurance Act*; or

(i) a certificate evidencing an undivided interest, or for civil law an undivided right, in one or more properties if

(i) all or substantially all of the fair market value of the certificate is attributable to property that is, or is incidental to, a debt obligation secured by

(A) a mortgage, charge, hypothec, or similar instrument in respect of real or immovable property situated in Canada, or

(B) property described in paragraph (a) or subparagraph (c)(i) of the definition *qualified investment* in subsection 207.01(1) of the Act that was substituted for the security referred to in clause (A) under the terms of the debt obligation,

(ii) the certificate, at the time of its acquisition by the plan trust, has an investment-grade rating with a credit rating agency referred to in section 5005, and

(iii) the certificate is issued as part of an issue of certificates by the issuer for a total amount of at least $25 million.

Equity Instruments

5002 For the purposes of paragraph (l) of the definition *qualified investment* in subsection 207.01(1) of the Act, each of the following investments is prescribed as a qualified investment for a trust governed by a registered plan at a particular time if at that time it is

(a) a share of the capital stock of a mortgage investment corporation;

(b) a share of, or similar interest in, a credit union;

(c) an American Depositary Receipt where the property represented by the receipt is listed on a designated stock exchange;

(d) a share of the capital stock of a specified small business corporation;

(e) a share of the capital stock of a venture capital corporation described in any of sections 6700 to 6700.2; or

(f) a share of the capital or capital stock of a specified cooperative corporation.

Trusts

5003 For the purposes of paragraph (l) of the definition *qualified investment* in subsection 207.01(1) of the Act, each of the following investments is prescribed as a qualified investment for a trust governed by a registered plan at a particular time if at that time it is a unit of a trust that

(a) is subject to, and substantially complies with, the requirements of *National Instrument 81–102 Investment Funds*, as amended from time to time, of the Canadian Securities Administrators;

(b) meets the following conditions:

(i) the trust has a class of units outstanding that

(A) has been lawfully distributed in a province to the public and a prospectus, registration statement or similar document was not, under the laws of the province, required to be filed in respect of the distribution, or

(B) is qualified for distribution to the public,

(ii) the trust satisfies the conditions in subparagraphs (b)(i) to (vi) of the definition *investment fund* in subsection 251.2(1) of the Act, and

(iii) the investments of the trust are managed by a person that is registered as an investment fund manager as described in *National Instrument 31–103 Registration Requirements, Exemptions and Ongoing Registrant Obligations*, as amended from time to time, of the Canadian Securities Administrators;

(c) is a mutual fund trust (or would be a mutual fund trust if it had been created after 1999); or

(d) is a small business investment trust (within the meaning assigned by subsection 5103(1)) that

(i) was acquired by the trust before January 1, 2027,

(ii) was a qualified investment for the trust at the time it was acquired, and

(iii) would, at the particular time, be a qualified investment for the trust under the Regulations as they read on December 31, 2026.

Other Prescribed Investments

5004 For the purposes of paragraph (l) of the definition *qualified investment* in subsection 207.01(1) of the Act, each of the following investments is prescribed as a qualified investment for a trust governed by a registered plan at a particular time if at that time it is

(a) an option, a warrant or a similar right (each of which is, in this paragraph, referred to as the "security") issued by a person or partnership (in this paragraph referred to as the "issuer") that gives the holder the right to acquire, either immediately or in the future, property all of which is a qualified investment for the plan trust or to receive a cash settlement in lieu of delivery of that property, where the property is

(i) a share of the capital stock of, a unit of, or a debt issued by, the issuer or another person or partnership that does not, when the security is issued, deal at arm's length with the issuer; or

(ii) a warrant issued by the issuer or another person or partnership that does not, when the security is issued, deal at arm's length with the issuer, and that gives the holder the right to acquire a share or unit described in subparagraph (i);

(b) gold (with a minimum fineness of 995 parts per 1000) or silver (with a minimum fineness of 999 parts per 1000), in the form of or represented by

(i) a legal tender bullion coin produced by the Royal Canadian Mint that

(A) has a fair market value at the particular time not exceeding 110 per cent of the fair market value of the coin's gold or silver content and

(B) is acquired by the trust directly from the Royal Canadian Mint or from a bank, a trust company, a credit union, an insurance corporation or a registered securities dealer that is resident in Canada and subject by law to the supervision of a regulating authority that is the Superintendent of Financial Institutions or a similar authority of a province,

(ii) a bullion bar, ingot or wafer produced by a refiner on the London Bullion Market Association's good delivery list for gold or silver, as the case may be, that is

(A) stamped with the fineness, weight and the refiner's hallmark, and

(B) acquired directly from the refiner or a person described in clause (i)(B), or

(iii) a certificate issued by a person described in clause (i)(B) representing a claim of the holder of the certificate to property held by the issuer of the certificate, if

(A) the property would be property described in subparagraph (i) or (ii) if those subparagraphs were read without reference to clauses (i)(B) and (ii)(B), respectively, and

(B) the certificate is acquired by the trust directly from the issuer of the certificate or a person described in clause (i)(B); or

(c) an interest of a limited partner in a small business investment limited partnership (within the meaning assigned by subsection 5102(1)) that

(i) was acquired by the trust before January 1, 2027,

(ii) was a qualified investment for the trust at the time it was acquired, and

(iii) would, at the particular time, be a qualified investment for the trust under the Regulations as they read on December 31, 2026.

Prescribed Credit Rating Agency

5005 For the purposes of subparagraphs (c)(v) and (vi) of the definition *qualified investment* in subsection 207.01(1) of the Act, each of the following is a prescribed credit rating agency:

(a) A.M. Best Company, Inc.;

(b) DBRS Limited;

(c) Fitch Ratings, Inc.;

(d) Moody's Investors Service, Inc.;

(e) Standard & Poor's Financial Services LLC; and

(f) a subsidiary or affiliate of a company listed in any of paragraphs (a) to (e), to the extent that it provides credit rating services outside of Canada on behalf of the company in respect of which it is the subsidiary or affiliate.

Prescribed Prohibited Property

5006 For the purposes of paragraph (d) of the definition *prohibited investment* in subsection 207.01(1) of the Act, each of the following is a prescribed property for a trust at a particular time if at that time it is

(a) a share of the capital stock of a mortgage investment corporation that holds any indebtedness, whether by way of mortgage or otherwise, of a person who is a connected person under the registered plan governing the trust;

(b) an option, a warrant or a similar right that is issued by a connected person under the registered plan governing the trust;

(c) a bond, debenture, note or similar obligation issued by, or a deposit with, a credit union that granted any benefit or privilege as a result of the ownership by the trust of a share or obligation of, or a deposit with, the credit union to a

person who is a connected person under the registered plan governing the trust, if the benefit was granted during the calendar year in which the particular time occurs, or, where the person continues to enjoy the benefit or privilege, in a prior year;

(d) a bond, debenture, note or similar obligation issued by a *cooperative corporation* (as defined in subsection 136(2) of the Act) that granted any benefit or privilege as a result of the ownership by the trust of a share or obligation of the corporation to a person who is a connected person under the registered plan governing the trust, if the benefit was granted during the calendar year in which the particular time occurs, or, where the person continues to enjoy the benefit or privilege, in a prior year;

(e) a bankers' acceptance that represents an indebtedness of a Canadian corporation that is a connected person under the registered plan governing the trust; and

(f) a share of the capital or capital stock of a specified cooperative corporation if

(i) ownership of the share or a share identical to the share is a condition of membership in the corporation, and

(ii) a connected person under the registered plan governing the trust

(A) has received a payment from the corporation pursuant to an *allocation in proportion to patronage* (as defined in subsection 135(4) of the Act) in respect of *consumer goods or services* (as defined in subsection 135(4) of the Act), or

(B) can reasonably be expected to receive a payment described in clause (A), after the acquisition of the share by the plan trust.

(2) Subsection (1) comes into force on January 1, 2027.

23 (1) The heading "Deferred Income Plans, Investments in Small Business" before section 5100 of the Regulations is replaced by the following:

PART LI

Small Business Investments

(2) Subsection (1) comes into force on January 1, 2027.

24 (1) The definition *specified property* in subsection 5100(1) of the Regulations is replaced by the following:

specified property means property described in paragraph (a), (b) or (f) or subparagraphs (c)(i) to (iv) of the definition *qualified investment* in subsection 207.01(1) of the Act. (*bien déterminé*)

(2) Subsection (1) comes into force on January 1, 2027.

Reporting by Non-profit Organizations

1 (1) The portion of subsection 149(12) of the Act before paragraph (a) is replaced by the following:

Information returns

(12) Every person who, because of paragraph 149(1)(e) or 149(1)(l), is exempt from tax under this Part on all or part of the person's taxable income shall, within 6 months after the end of each fiscal period of the person and without notice or demand therefor, file with the Minister an information return for the period in prescribed form and manner and containing prescribed information, if

(2) Subsection 149(12) of the Act is amended by striking out "or" at the end of paragraph (b), by adding "or" at the end of paragraph (c) and by adding the following after paragraph (c):

(d) the total of all amounts each of which is an amount received by the person in the period exceeds $100,000.

(3) Section 149 of the Act is amended by adding the following after subsection (12):

Short-form information returns

(13) Subject to subsection (14), every person who, because of paragraph 149(1)(e) or (l), is exempt from tax under this Part on all or part of the person's taxable income must, within 6 months after the end of each fiscal period of the person and without notice or demand therefor, file with the Minister an information return for the period in prescribed form and manner and containing prescribed information, including

(a) a description of the person's activities, including whether it conducts activities outside Canada;

(b) the total assets, total liabilities and total amounts received by the person for the period; and

(c) the name of each director, officer or trustee of the person.

Exception

(14) Subsection (13) does not apply to a person for a fiscal period if

(a) the total of all amounts each of which is an amount received by the person in the period does not exceed $10,000;

(b) the person is not an organization, whether or not incorporated; or

(c) the person is required to file a return under subsection (12) for the same period.

(4) Subsections (1) to (3) apply to fiscal periods that begin on or after January 1, 2027.

21–Year Rule

1 (1) The portion of subsection 104(5.8) of the Act before paragraph (a) is replaced by the following:

Trust transfers

(5.8) Where capital property, land included in inventory, Canadian resource property or foreign resource property is transferred, directly or indirectly in any manner whatever, at a particular time by a trust (in this subsection referred to as the "transferor trust") to another trust (in this subsection referred to as the "transferee trust") in circumstances in which subsection 107(2) or 107.4(3) or paragraph (f) of the definition *disposition* in subsection 248(1) applies,

(2) Subsection (1) applies in respect of transfers of property that occur on or after November 4, 2025.

Canada Carbon Rebate

1 (1) The portion of subsection 122.8(4) of the Act before the formula is replaced by the following:

Deemed payment on account of tax

(4) An eligible individual in relation to a month specified for a taxation year who files, on or before October 30, 2026, a return of income for the taxation year is deemed to have paid, during the specified month, on account of their tax payable under this Part for the taxation year, an amount equal to the amount, if any, determined by the formula

(2) Section 122.8 of the Act is amended by adding the following after subsection (4.2):

End of deemed payment

(4.3) Despite any other provision of this Act, the Minister must not determine an amount of a deemed payment under subsection (4) on account of an eligible individual's tax payable under this Part for a taxation year if the eligible individual makes an application for a determination in respect of the year after October 30, 2026.

(3) Subsections (1) and (2) are deemed to have come into force on November 4, 2025.

Immediate Expensing for Manufacturing and Processing Buildings

1 (1) Subsection 13(7) of the Act is amended by adding the following after paragraph (d):

(d.1) if a taxpayer is subject to a manufacturing building recapture event in respect of a building in a taxation year, the taxpayer is deemed to have disposed of the building at the time of the event for proceeds of disposition, and to have reacquired it as property of a separate prescribed class immediately thereafter at a cost, equal to the amount that would have been the undepreciated capital cost of the building if

(i) the building had never qualified for the deduction pursuant to subparagraph 1100(1)(a.1)(i) of the *Income Tax Regulations*,

(ii) the building were the only property of the prescribed class to which it would have belonged, and

(iii) the taxpayer had deducted the maximum amount allowed under paragraph 20(1)(a) in respect of that class for all prior taxation years;

(2) Subsection 13(21) of the Act is amended by adding the following in alphabetical order:

manufacturing building recapture event means an event in respect of a building of a taxpayer if

(a) in a prior taxation year, the taxpayer deducted an amount in respect of the building under paragraph 20(1)(a) pursuant to subparagraph 1100(1)(a.1)(i) of the *Income Tax Regulations*, and

(b) in a taxation year that begins within 10 calendar years of the end of the prior taxation year, the taxpayer, or a lessee of the taxpayer, began to use more than 10% of the floor space of the building for one or more income-earning purposes other than the *manufacturing or processing* (as defined in subsection 1104(9) of the Regulations) in Canada of goods for sale or lease; (*événement de récupération relatif à un bâtiment de fabrication*)

(3) Subsections (1) and (2) are deemed to have come into force on November 4, 2025.

2 (1) Paragraph 1100(1)(a.1) of the Regulations is replaced by the following:

(a.1) where a separate class is prescribed by subsection 1101(5b.1) for a property of a taxpayer that is a building that meets the manufacturing floor space requirement at the end of the taxation year,

(i) if the property is an eligible manufacturing building and the year is the first year in which the manufacturing floor space requirement is met in respect of the building, such amount as the taxpayer may claim for that year not exceeding the amount determined by the formula

A × B

where

A is the undepreciated capital cost to the taxpayer of the property of that class as of the end of the year (before making any deduction under this subsection for the year), and

B is, if the year ends

(A) before 2030, 100%,

(B) in 2030 or 2031, 75%,

(C) in 2032 or 2033, 55%, and

(D) after 2033, 0%, and

(ii) in any other case, such amount as the taxpayer may claim not exceeding 6% of the undepreciated capital cost to the taxpayer of the property of that class as of the end of the year (before making any deduction under this subsection for the year);

(2) Section 1100 of the Regulations is amended by adding the following after subsection (1):

Manufacturing buildings — first-year deductions

(1.01) If a deduction is available in respect of an eligible manufacturing building of a taxpayer under subparagraph (1)(a.1)(i) 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 building for the year.

(3) The portion of paragraph (a) of the description of A.1 in subsection 1100(2) of the Regulations before subparagraph (i) is replaced by the following:

(a) if the property is not included in subparagraph (1)(a.1)(i), paragraph (1)(v) or in any of Classes 12, 13, 14, 15, 43.1, 43.2, 53, 54, 55, 56, 59 or in Class 43 in the circumstances described in paragraph (d),

(4) Subsection 1100(3) of the Regulations is replaced by the following:

(3) Where a taxation year is less than 12 months, the amount allowed as a deduction under this section, other than under subsection (0.1) and any of subparagraph (1)(a.1)(i) and paragraphs (1)(c), (e), (f), (g), (m), (w), (x), (y) and (ya), shall not exceed that proportion of the maximum amount otherwise allowable that the number of days in the taxation year is of 365.

(5) Subsections (1) to (4) are deemed to have come into force on November 4, 2025.

3 (1) Subsection 1101(5b.1) of the Regulations is replaced by the following:

(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) of a taxpayer in respect of which the taxpayer has (by letter attached to the return of income of the taxpayer filed with the Minister in accordance with section 150 of the Act for the taxation year in which the building is acquired) elected that this subsection apply.

(2) Subsection (1) is deemed to have come into force on November 4, 2025.

4 (1) The portion of subsection 1102(20.1) of the Regulations before paragraph (b) is replaced by the following:

(20.1) For the purposes of subsections 1100(0.3), (2.02) and (2.021) and 1104(2), (3.1), (4) and (4.01), a particular person or partnership and another person or partnership shall be considered not to be dealing at arm's length with each other in respect of the acquisition or ownership of a property if, in the absence of this subsection, they would be considered to be dealing at arm's length with each other and it may reasonably be considered that the principal purpose of any transaction or event, or a series of transactions or events, is to cause

(a) the property to qualify as accelerated investment incentive property, reaccelerated investment incentive property, immediate expensing property or an eligible manufacturing building; or

(2) Subsections 1102(23) and (24) of the Regulations are replaced by the following:

(23) For the purposes of applying

(a) subparagraph 1100(1)(a.1)(ii), paragraph 1100(1)(a.2) and subsection 1101(5b.1), the capital cost of an addition to or an alteration of a taxpayer's building is deemed to be the capital cost to the taxpayer of a separate building if the

building to which the addition or alteration was made is not included in a separate class under subsection 1101(5b.1); and

(b) subparagraph 1100(1)(a.1)(i), the capital cost to a taxpayer of an addition to or an alteration of the taxpayer's building is deemed to be the capital cost of a separate building.

(24) If an addition or an alteration is deemed to be a separate building under subsection (23), the references in paragraph 1100(1)(a.2) and the definition *manufacturing floor space requirement* in subsection 1104(2) to "the floor space of the building" are to be read as references to "the total floor space of the separate building and the building to which the addition or alteration was made".

(3) Section 1102 of the Regulations is amended by adding the following after subsection (25):

Acquisition cost of eligible manufacturing buildings

(25.1) For the purposes of this Part and Schedule II, if an *eligible manufacturing building*, read without reference to paragraph (b) of that definition, of a taxpayer was under construction on November 4, 2025, the portion, if any, of the capital cost of the building that was incurred by the taxpayer before November 4, 2025 and has not been deducted under paragraph 20(1)(a) of the Act is deemed to have been incurred by the taxpayer on November 4, 2025 unless the taxpayer elects (by letter attached to the taxpayer's return of income filed with the Minister in accordance with section 150 of the Act for the taxation year in which the building was acquired) that this subsection not apply to that cost.

(4) Subsections (1) to (3) are deemed to have come into force on November 4, 2025.

5 (1) Subsection 1104(2) of the Regulations is amended by adding the following in alphabetical order:

eligible manufacturing building means a building (other than a building used as part of an eligible liquefaction facility) of a taxpayer that

(a) is located in Canada,

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

(c) meets either of the following conditions:

(i) the property 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, and

(d) is reasonably expected to meet the manufacturing floor space requirement once it is used; (*bâtiment de fabrication admissible*)

manufacturing floor space requirement in respect of a building of a taxpayer, means the requirement that at least 90% of the floor space of the building is used by the taxpayer, or a lessee of the taxpayer, for the manufacturing or processing in Canada of goods for sale or lease; (*exigence relative à la superficie utilisée pour la fabrication*)

(2) The portion of subsection 1104(9) of the Regulations before paragraph (a) is replaced by the following:

(9) For the purposes of paragraph 1100(1)(a.1), subsections 1100(26) and 1104(2) and Class 29 in Schedule II, ***manufacturing or processing*** does not include

(3) Subsections (1) and (2) are deemed to have come into force on November 4, 2025.

Clean Hydrogen Investment Tax Credit

1 (1) The definitions *dual-use hydrogen and ammonia equipment* and *ineligible use* in subsection 127.48(1) of the Act are repealed.

(2) The definitions *Fuel LCA Model* and *operating year* in subsection 127.48(1) of the Act are replaced by the following:

Fuel LCA Model means the Government of Canada's Fuel Life Cycle Assessment Model that is published by the Minister of the Environment and referenced in the latest *Clean Hydrogen Investment Tax Credit – Carbon Intensity Modelling Guidance Document*. (*modèle ACV des combustibles*)

operating year means each cumulative 365-day period, the first of which begins on the first day of the compliance period of a taxpayer's clean hydrogen project, disregarding any time during which the project is not producing hydrogen. (*année d'exploitation*)

(3) The definition *clean hydrogen project plan* in subsection 127.48(1) of the Act is amended by adding the following after paragraph (c):

(c.1) if the project is intended to produce hydrogen from the pyrolysis of eligible hydrocarbons,

(i) sets out the project's expected hydrogen production, and

(ii) includes an end-use plan;

(4) Paragraph (a) of the definition *dual-use electricity and heat equipment* in subsection 127.48(1) of the Act is replaced by the following:

(a) generates electrical energy, heat energy or a combination of electrical and heat energy and

(i) more than 50% of either the electrical energy or heat energy that is expected to be produced over the first 20 years of the project's operations, based on the most recent clean hydrogen project plan, is expected to support one or a combination of

(A) a qualified CCUS project, and

(B) a qualified clean hydrogen project, and

(ii) if the equipment uses or is expected to use fossil fuels,

(A) the associated emissions are subject to capture by a CCUS process, or

(B) the fossil fuels are used

(I) solely to start up the equipment, and

(II) for no more than 72 hours per calendar year; or

(5) Subparagraphs (c)(i) and (ii) of the definition *eligible clean hydrogen property* in subsection 127.48(1) of the Act is replaced by the following:

(i) that is used to produce all or substantially all hydrogen through electrolysis of water, including electrolysers, rectifiers, purification equipment, water treatment and conditioning equipment and equipment used for compression and storage of hydrogen,

(ii) that is used to produce all or substantially all hydrogen from eligible hydrocarbons (determined without reference to captured carbon), including pre-reformers, auto-thermal reformers, steam methane reformers, partial oxidation reactors, preheating equipment, syngas coolers, shift reactors, purification equipment, fired heaters, water treatment and conditioning equipment, equipment used for compression and storage of hydrogen, oxygen production equipment and methanators,

(6) Subparagraph (c)(ii) of the definition *eligible clean hydrogen property* in subsection 127.48(1) of the Act, as enacted by subsection (5), is replaced by the following:

(ii) that is used to produce all or substantially all hydrogen from eligible hydrocarbons (determined without reference to captured carbon), other than from a pyrolysis process, including pre-reformers, auto-thermal reformers, steam methane reformers, partial oxidation reactors, preheating equipment, syngas coolers, shift reactors, purification equipment, fired heaters, water treatment and conditioning equipment, equipment used for compression and storage of hydrogen, oxygen production equipment and methanators,

(ii.1) that is used to produce all or substantially all hydrogen from the pyrolysis of eligible hydrocarbons (determined without reference to any captured carbon or solid carbon that is produced), including pre-heating equipment, purification equipment, fired heaters, equipment used for compression and storage of hydrogen, oxygen production equipment, solid carbon separation equipment and property that is part of a pyrolysis reactor system,

(7) Clause (c)(iii)(C) of the definition *eligible clean hydrogen property* in subsection 127.48(1) of the Act is replaced by the following:

(C) oxygen and nitrogen production equipment, or

(8) The definition *eligible pathway* in subsection 127.48(1) of the Act is amended by striking out the "or" at the end of paragraph (a), by adding "or" to the end of paragraph (b) and by adding the following after paragraph (b):

(c) from the pyrolysis of eligible hydrocarbons. (*méthode admissible*)

(9) Clauses (a)(ii)(A) and (B) of the definition *eligible power purchase agreement* in subsection 127.48(1) of the Act are replaced by the following:

(A) the same province as the taxpayer's clean hydrogen project and is directly connected to the project or to the electricity grid of that province,

(B) the exclusive economic zone of Canada and is directly connected to the taxpayer's clean hydrogen project or to the grid of the province in which the project is located, or

(10) Paragraph (b) of the definition *eligible power purchase agreement* in subsection 127.48(1) of the Act is replaced by the following:

(b) grants, or will grant, the taxpayer the sole and exclusive right to the environmental attributes associated with the electricity, as may be evidenced by one or more environmental attribute certificates issued through a provincially designated authority; and

(11) Paragraph (e) of the definition *eligible renewable hydrocarbon* in subsection 127.48(1) of the Act is replaced by the following:

(e) that, if acquired by the taxpayer under an agreement, the agreement grants, or will grant, the taxpayer the sole and exclusive right to the environmental attributes associated with the substance, as may be evidenced by one or more environmental attribute certificates issued through a provincially designated authority; and

(12) The definition *excluded property* in subsection 127.48(1) of the Act is amended by adding the following after paragraph (a):

(a.1) equipment used to generate electrical energy, heat energy or a combination of electrical and heat energy to support the production of hydrogen through electrolysis of water;

(13) The definition *excluded property* in subsection 127.48(1) of the Act is amended by adding the following after paragraph (a.1):

(a.2) used to produce hydrogen from the pyrolysis of eligible hydrocarbons and is

(i) acquired before December 16, 2024, determined without reference to subsection (5),

(ii) equipment used for the collection, processing or storage of solid carbon, including dryers, pulverizers, bag collectors, densifiers and pin mixers, or

(iii) equipment used for the off-site transmission, transportation or distribution of solid carbon;

(14) Subparagraph (b)(i) of the definition *qualified clean hydrogen project* in subsection 127.48(1) of the Act is replaced by the following:

(i) is less than four and is determined in accordance with subsection (6), and

(15) The definition *qualified clean hydrogen project* in subsection 127.48(1) of the Act is amended by striking out "and" at the end of paragraph (b), by adding "and" at the end of paragraph (c) and by adding the following after paragraph (c):

(d) if the project is intended to produce hydrogen from the pyrolysis of eligible hydrocarbons, the taxpayer has demonstrated that

(i) the expected hydrogen production contained in the taxpayer's most recent clean hydrogen project plan can reasonably be expected to be achieved based on the project design,

(ii) the expected hydrogen use percentage set out in the end-use plan is 90% or greater,

(iii) the project is expected to consume less than 50% of the hydrogen produced during the compliance period, and

(iv) the expectations set out in the end-use plan can reasonably be expected to be achieved. (*projet admissible pour l'hydrogène propre*)

(16) Subsection 127.48(1) of the Act is amended by adding the following in alphabetical order:

oxygen and nitrogen production equipment means equipment that is

(a) part of a clean hydrogen project; and

(b) used for the generation of oxygen or nitrogen to be used all or substantially all in at least two of

(i) hydrogen production,

(ii) ammonia production,

(iii) electricity or heat production in support of the project, and

(iv) a CCUS process in support of the project. (*matériel pour la production d'oxygène et d'azote*)

(17) Subsection 127.48(1) of the Act is amended by adding the following in alphabetical order:

actual hydrogen use percentage of a taxpayer's clean hydrogen project that produces hydrogen from the pyrolysis of eligible hydrocarbons means the percentage determined by the formula

A ÷ B

where

A is the quantity of hydrogen (other than excluded hydrogen), in kilograms, produced by the project and used for a qualifying economic purpose during the project's compliance period; and

B is the quantity of hydrogen (other than excluded hydrogen), in kilograms, produced by the project during the compliance period. (*pourcentage réel d'utilisation d'hydrogène*)

combustion includes, in relation to solid carbon, any reaction that results in a specified greenhouse gas being produced. (*combustion*)

end-use plan means, in respect of a clean hydrogen project of a taxpayer that is intended to produce hydrogen from the pyrolysis of eligible hydrocarbons, a plan that

(a) sets out the expected uses of any solid carbon to be produced by the project during the first seven years of hydrogen production (referred to in this definition as the "end-use period"), including the quantity, in kilograms, and percentage share of solid carbon expected to be

(i) treated as a waste product and disposed of in a manner that would not lead to any of the carbon being released into the atmosphere,

(ii) used for combustion or incorporated into a product intended for combustion,

(iii) used in or incorporated into a product that is not intended for combustion, and

(iv) used for any other purpose;

(b) if any solid carbon to be produced by the project is expected to be sold during the end-use period, includes copies of any purchase agreements or other arrangements in writing

(i) supporting the sale of the solid carbon,

(ii) setting out the expected uses of the solid carbon as described in paragraph (a), and

(iii) requiring the provision of information to the taxpayer in relation to the actual use of the solid carbon;

(c) sets out the project's expected hydrogen use percentage;

(d) includes copies of agreements or other arrangements in writing supporting the sale of hydrogen expected to be produced by the project during the compliance period; and

(e) contains any information required in guidelines published by the Minister of Natural Resources, including the *Clean Hydrogen Investment Tax Credit – Validation and Verification Guidance Document*. (*plan d'utilisation finale*)

excluded hydrogen means, in respect of a taxpayer's clean hydrogen project that produces hydrogen from the pyrolysis of eligible hydrocarbons, hydrogen that is or is expected to be vented or flared

(a) for the purpose of safety or system integrity; or

(b) due to the *bona fide* termination of an agreement supporting the sale of the hydrogen or an unplanned change to the intended use of the hydrogen by the project, where such venting or flaring occurs for a cumulative maximum period of 180 days during the project's compliance period. (*hydrogène exclu*)

expected hydrogen production means a clean hydrogen project's expected gross average annual hydrogen production, in tonnes, over the first 20 years of the project's operations. (*production d'hydrogène attendue*)

expected hydrogen use percentage means, in respect of a taxpayer's clean hydrogen project that produces hydrogen from the pyrolysis of eligible hydrocarbons, the percentage determined by the formula

A ÷ B

where

A is the quantity of hydrogen (other than excluded hydrogen), in kilograms, expected to be produced by the project and used for a qualifying economic purpose during the project's compliance period, as evidenced in the project's clean hydrogen project plan; and

B is the quantity of hydrogen (other than excluded hydrogen), in kilograms, expected to be produced by the project during the compliance period. (*pourcentage attendu d'utilisation d'hydrogène*)

pyrolysis reactor system means, in respect of a clean hydrogen project, all property consisting of

(a) one or more pyrolysis reactors;

(b) any equipment that performs the function of a pyrolysis reactor; and

(c) any equipment that is physically and functionally integrated with property described in paragraph (a) or (b). (*système de réacteur de pyrolyse*)

qualifying economic purpose in relation to hydrogen produced by a taxpayer's clean hydrogen project, means

(a) the use by the taxpayer of the hydrogen for a *bona fide* economic purpose; or

(b) the sale of the hydrogen by the taxpayer to a third party in circumstances where it is reasonable to conclude that the hydrogen is or will be used for a *bona fide* economic purpose. (*fins économiques admissibles*)

solid carbon means a product that

(a) is in a solid state;

(b) contains the chemical element carbon; and

(c) is derived from the pyrolysis of eligible hydrocarbons. (*carbone solide*)

(18) Subsection 127.48(4) of the Act is replaced by the following:

Time limit for application

(4) A payment on account of tax payable under subsection (2)

(a) is deemed not to have been paid if the taxpayer does not file with the Minister the prescribed form containing prescribed information referred to in subsection (2) in respect of the amount on or before the later of

(i) the day that is one year after the taxpayer's filing-due date for the year, and

(ii) either

(A) December 31, 2027, if the amount under subsection (2) is in respect of a clean hydrogen project that is intended to produce hydrogen from the pyrolysis of eligible hydrocarbons, or

(B) December 31, 2026, in any other case; and

(b) if the prescribed form is filed after the taxpayer's filing-due date for the year, is deemed not to arise until the prescribed form containing prescribed information has been filed with the Minister.

(19) Paragraph 127.48(6)(a) of the Act is replaced by the following:

(a) the most recent version of the Fuel LCA Model at the time of filing by the taxpayer of the most recent related clean hydrogen project plan with the Minister of Natural Resources shall be used, unless, at the time of filing any compliance report under subsection (16), the taxpayer elects to use a subsequent version of the Fuel LCA Model in calculating the actual carbon intensity of the project;

(20) Subparagraph 127.48(6)(d)(i) of the Act is replaced by the following:

(i) any captured carbon that is subject to an *ineligible use* (as defined in subsection 127.44(1)) is deemed not to be captured, and

(21) Paragraph 127.48(6)(d) of the Act, as amended by subsection (20), is amended by striking out "and" at the end of subparagraph (i) and by adding the following after subparagraph (ii):

(iii) any solid carbon produced by the project is deemed to be permanently stored if the carbon is

(A) treated as a waste product and disposed of in a manner that would not lead to any of the carbon being released into the atmosphere, or

(B) used in or incorporated into a product that is not intended for combustion,

(iv) any solid carbon produced by the project that is not used in a manner described in clause (iii)(A) or (B) is deemed to be converted into carbon dioxide that is released into the atmosphere by the project, and

(v) the contribution to expected carbon intensity of any solid carbon to be produced by the project is to be weighted based on the aggregate quantity of solid carbon, in kilograms, in each expected use, as described in accordance with paragraph (a) of the definition *end-use plan*;

(22) Clause 127.48(6)(e)(i)(B) of the Act is replaced by the following:

(B) on-site generation equipment that is used solely to convert any one or a combination of hydrogen, heat described in subparagraph (i)(i) or (ii) or eligible hydrocarbons into electricity that supports the production of hydrogen from eligible hydrocarbons, the contribution of the electricity to carbon intensity is to be modelled as part of the project,

(23) Clause 127.48(6)(e)(i)(D) of the Act is replaced by the following:

(D) a generation source other than as described in any of clauses (A) to (C),

(I) if the project's compliance period has not yet commenced, the expected carbon intensity of the project is deemed to be greater than 4.5, and

(II) if the project's compliance period has commenced, the average actual carbon intensity of the project is deemed to be greater than 4.5 and subsection (18) applies as if the compliance period of the project had ended;

(24) Paragraph 127.48(6)(e) of the Act is amended by striking out "and" after subparagraph (ii) and by adding the following after subparagraph (ii):

(ii.1) generated, or to be generated, from an eligible electricity generation source and purchased, or to be purchased, by the taxpayer pursuant to an agreement that is not an eligible power purchase agreement,

(A) the contribution of the electricity to carbon intensity is to be calculated as the higher of the input carbon intensity of the technology-specific electricity and the provincial grid in the Fuel LCA Model, and

(B) the contribution of the electricity to expected carbon intensity is to be calculated in proportion to the number of years for which the agreement will be in place during the first 20 years of the project's operations,

(25) Paragraph 127.48(6)(e) of the Act is amended by adding "and" at the end of subparagraph (iii) and by adding the following after subparagraph (iii):

(iv) from a source that is not described in any of subparagraphs (i) to (iii),

(A) if the project's compliance period has not yet commenced, the expected carbon intensity of the project is deemed to be greater than 4.5, and

(B) if the project's compliance period has commenced, the average actual carbon intensity of the project is deemed to be greater than 4.5 and subsection (18) applies as if the compliance period of the project had ended;

(26) Paragraphs 127.48(6)(h) and (i) of the Act are replaced by the following:

(h) if the taxpayer disposes of any environmental attributes associated with any electricity described in subparagraph (e)(i) or (ii) or any eligible renewable hydrocarbon described in subparagraph (g)(i),

(i) if the project's compliance period has not yet commenced, the expected carbon intensity of the project is deemed to be greater than 4.5, and

(ii) if the project's compliance period has commenced, the average actual carbon intensity of the project is deemed to be greater than 4.5 and subsection (18) applies as if the compliance period of the project had ended;

(i) if, in connection with hydrogen production or electricity production in support of hydrogen production, the taxpayer uses, or proposes to use, heat energy

(i) recovered from hydrogen production by the taxpayer, recovered from electricity production by the taxpayer in support of hydrogen production or produced by the taxpayer from the combustion of hydrogen or eligible hydrocarbons (with carbon dioxide captured using a CCUS process), the contribution of the heat to carbon intensity is to be modelled as part of the project,

(ii) recovered from a non-hydrogen production process of the taxpayer, or purchased from a vendor that produced the heat from eligible hydrocarbons or recovered the waste heat from a production process, the contribution of the heat to carbon intensity is to correspond with the input carbon intensity of purchased steam in the Fuel LCA Model, and

(iii) from a source other than as described in subparagraph (i) or (ii),

(A) if the project's compliance period has not yet commenced, the expected carbon intensity of the project is deemed to be greater than 4.5, and

(B) if the project's compliance period has commenced, the average actual carbon intensity of the project is deemed to be greater than 4.5 and subsection (18) applies as if the compliance period of the project had ended;

(27) Paragraph 127.48(6)(k) of the Act is amended by striking out "and" after subparagraph (iii), by adding "and" to the end of subparagraph (iv) and by adding the following after subparagraph (iv):

(v) solid carbon, unless the solid carbon is used in or incorporated into a product that is not intended for combustion;

(28) Section 127.48 of the Act is amended by adding the following after subsection (6):

Environmental attribute certificates

(6.1) For the purposes of subsections (6) and (7), where a taxpayer has acquired an environmental attribute certificate in connection with the purchase of electricity or eligible renewable hydrocarbons,

(a) the disposition of environmental attributes by the taxpayer does not include the retirement of the certificate to claim the use of the attributes with the appropriate provincially designated authority in relation to the taxpayer's clean hydrogen project; and

(b) for the purpose of calculating the project's actual carbon intensity, if the taxpayer has not retired any certificate associated with the electricity or eligible renewable hydrocarbons used by the taxpayer in relation to the project during the project's compliance period, the environmental attributes associated with the certificate are deemed to have been disposed of by the taxpayer immediately before the end of the compliance period.

(29) Subsection 127.48(7) of the Act is amended by striking out "or" at the end of paragraph (c) and by replacing paragraph (d) with the following:

(d) any environmental attributes associated with an eligible power purchase agreement referenced in the most recent clean hydrogen project plan of the taxpayer or an agreement for the acquisition of eligible renewable hydrocarbons have been disposed of by the taxpayer; or

(e) the taxpayer notifies the Minister and the Minister of Natural Resources in writing that it intends to file a revised clean hydrogen project plan for the project.

(30) Subsection 127.48(7) of the Act, as amended by subsection (29), is amended by striking out "or" at the end of paragraph (d) and by adding the following after that paragraph:

(d.1) the project is intended to produce hydrogen from the pyrolysis of eligible hydrocarbons and

(i) the taxpayer reasonably expects that there will be a decrease (as compared to the most recent project plan for the project) to the project's expected hydrogen production, or

(ii) any agreement supporting the sale of any hydrogen, or sale and use of any solid carbon, referenced in the most recent end-use plan of the taxpayer

(A) has not been finalized and executed so as to become legally binding, or

(B) has been materially modified or terminated; or

(31) Subparagraphs 127.48(8)(b)(ii) and (iii) of the Act are replaced by the following:

(ii) if the taxpayer previously deducted a clean hydrogen tax credit in respect of the project,

(A) the amount of the clean hydrogen tax credit previously deducted shall not be increased, and

(B) subsection (18) applies as if the compliance period ended on the date of the filing of the revised plan and the average actual carbon intensity of the project was equal to the expected carbon intensity set out in the revised plan, and

(iii) any new clean hydrogen tax credit of the taxpayer determined on or after the date of the confirmation of the revised plan shall be based on the expected carbon intensity set out in the revised plan;

(32) Paragraph 127.48(8)(b) of the Act, as amended by subsection (31), is replaced by the following:

(b) if the Minister of Natural Resources is satisfied that the project will meet the requirements in paragraphs (a) to (d) of the definition *qualified clean hydrogen project*,

(i) the Minister of Natural Resources shall confirm, with all due dispatch, the revised plan,

(ii) if the taxpayer previously deducted a clean hydrogen tax credit in respect of the project,

(A) the amount of the clean hydrogen tax credit previously deducted shall not be increased,

(B) subsection (18) applies as if the compliance period ended on the date of the filing of the revised plan and the average actual carbon intensity of the project was equal to the expected carbon intensity set out in the revised plan, and

(C) subsection (10.3) applies for the taxation year in which the revised plan is filed, and

(iii) any new clean hydrogen tax credit of the taxpayer determined on or after the date of the confirmation of the revised plan shall be based on the expected carbon intensity and, if applicable, the expected hydrogen production, set out in the revised plan;

(33) Subsection 127.48(9) of the Act is amended by striking out "and" at the end of paragraph (d) and by replacing paragraph (e) with the following:

(e) the Minister of Natural Resources may request from the taxpayer all documentation and information necessary for the Minister of Natural Resources to fulfill a responsibility under this section and the taxpayer shall provide such documentation or information on or before the later of the day that is

(i) 180 days after the documentation or information was requested, and

(ii) 60 days after the documentation or information becomes available; and

(f) if the taxpayer fails to provide the documentation or information as required under paragraph (e), in addition to any penalties applicable under this Act, the Minister of Natural Resources may refuse to confirm the taxpayer's clean hydrogen project plan or revised clean hydrogen project plan.

(34) The portion of paragraph 127.48(10)(g) of the Act before subparagraph (i) is replaced by the following:

(g) after applying paragraph (f), if the property is oxygen and nitrogen production equipment, dual-use electricity and heat equipment, project support equipment or equipment described in any of subparagraphs (c)(iv) to (vi) of the definition *eligible clean hydrogen property* in subsection (1) and that property is used in the production of hydrogen and ammonia, be allocated between two separate capital cost amounts, with each amount determined based on the percentage of the expected use of the equipment that is attributable to hydrogen production and ammonia production over the first 20 years of the project's operations, based on the project's most recent clean hydrogen project plan, and

(35) Section 127.48 of the Act is amended by adding the following after subsection (10):

Maximum capital cost of pyrolysis reactor system

(10.1) For the purposes of this section, if a clean hydrogen project produces or is intended to produce hydrogen from the pyrolysis of eligible hydrocarbons,

(a) the aggregate capital cost to a taxpayer of all eligible clean hydrogen property forming part of the pyrolysis reactor system of the project is deemed to be the lesser of

(i) the amount determined by the formula

$$A \times B$$

where

A is $3,000, and

B the project's expected hydrogen production as set out in the most recent clean hydrogen project plan in respect of the project, and

(ii) the aggregate capital cost of all eligible clean hydrogen property forming part of the system, determined without reference to this subsection;

(b) if the taxpayer acquires a particular property forming part of the system and the acquisition causes the aggregate capital cost of the system to exceed the amount determined by the formula in subparagraph (a)(i), the capital cost of the particular property is deemed to be the amount determined by the formula

C – D

where

C is the amount determined by the formula in subparagraph (a)(i), and

D is the aggregate capital cost of all other property forming part of the system; and

(c) subject to subsection (10.2), if paragraph (b) has applied, the capital cost of each new property that the taxpayer acquires and that forms part of the system is deemed to be nil.

Increase to capital cost limit

(10.2) If the amount determined by the formula in paragraph (10.1)(a) in respect of a pyrolysis reactor system (in this subsection referred to as the "system capital cost limit") increases because of an increase to the expected hydrogen production of a taxpayer's clean hydrogen project, as indicated in a revised clean hydrogen project plan that is filed with the Minister of Natural Resources, the increased system capital cost limit shall apply only to property acquired after the date of the confirmation by the Minister of Natural Resources of the revised plan in accordance with paragraph (8)(b).

Pyrolysis system recapture — decrease in expected production

(10.3) If, before the first day of the compliance period of a taxpayer's clean hydrogen project that is intended to produce hydrogen from the pyrolysis of eligible hydrocarbons, the expected hydrogen production included in a revised clean hydrogen project plan in respect of the project filed with the Minister of Natural Resources is less than the expected hydrogen production used to determine the most recent clean hydrogen tax credit in respect of the project, there shall be added to the taxpayer's tax otherwise payable under this Part the amount determined by the formula

[1 – (A ÷ B)] × C

where

A is the aggregate capital cost amount determined under paragraph (10.1)(a) using the expected hydrogen production included in the revised plan;

B is the aggregate capital cost amount determined under paragraph (10.1)(a) used to determine the most recent clean hydrogen tax credit in respect of all property forming part of the system; and

C is the clean hydrogen tax credit amount deducted in respect of all property forming part of the system.

(36) Paragraph 127.48(16)(c) of the Act is replaced by the following:

(c) any shutdown time of the project in respect of the year during which the project does not produce hydrogen;

(37) Paragraph 127.48(16)(d) of the Act is replaced by the following:

(c.1) if the project produces hydrogen from the pyrolysis of eligible hydrocarbons, the end use of the solid carbon produced by the project during the year;

(d) for the compliance report in respect of the fifth operating year, a report prepared by a qualified verification firm in respect of the project that verifies

(i) the actual carbon intensity of the hydrogen produced during each operating year of the compliance period, and

(ii) if the project produces hydrogen from the pyrolysis of eligible hydrocarbons,

(A) the project's actual hydrogen use percentage, and

(B) the end use of the solid carbon produced by the project during each operating year of the compliance period; and

(38) Section 127.48 of the Act is amended by adding the following after subsection (17):

Pyrolysis recapture — end of compliance period

(17.1) If a qualified clean hydrogen project produces hydrogen from the pyrolysis of eligible hydrocarbons and, at the end of the project's compliance period, the project's actual hydrogen use percentage is less than 90%, or the project has consumed 50% or more of the hydrogen produced during the compliance period, the average actual carbon intensity of the project is deemed to be greater than 4.5.

(39) Subsection 127.48(18) of the Act is replaced by the following:

Recovery — change in carbon intensity

(18) In the taxation year of a taxpayer in which the compliance period of the taxpayer's qualified clean hydrogen project ends, if the average actual carbon intensity of the hydrogen produced is greater than the most recent expected carbon intensity that was used to determine a clean hydrogen tax credit in respect of the project, there shall be added to the taxpayer's tax otherwise payable under this Part for the taxation year an amount equal to the total of all amounts, each of which is determined by the formula

$$(A - B) \times C - D$$

where

A is the specified percentage that was applied to the capital cost of the eligible clean hydrogen property forming part of the project in determining a clean hydrogen tax credit of the taxpayer;

B is the specified percentage that would have applied to the capital cost of the property if the expected carbon intensity were equal to the average actual carbon intensity of the project;

C is

(a) if the property is part of a pyrolysis reactor system and subsection (10.1) has applied to limit the capital cost of any property forming part of the system, the capital cost amount in respect of the property determined under paragraph (22.1)(a), and

(b) in any other case, the capital cost of the property on which the clean hydrogen tax credit was deducted; and

D is the total of all amounts, each of which can reasonably be considered to be the portion of any amount payable by the taxpayer because of subsection (22) in respect of the property.

(40) The description of B in subsection 127.48(22) of the Act is replaced by the following:

B is the total of all amounts, each of which can reasonably be considered to be the portion of any amount payable by the taxpayer because of subsection (18) in respect of the property;

(41) Section 127.48 of the Act is amended by adding the following after subsection (22):

Recapture — pyrolysis reactor system

(22.1) For the purposes of subsections (10.3), (18), (21) and (22), if subsection (10.1) has applied to limit the capital cost of any property forming part of a pyrolysis reactor system,

(a) the capital cost of each property that is part of the system is deemed to be the amount determined by the formula

$$A \times (B \div C)$$

where

A is the amount determined in respect of the system under paragraph (10.1)(a),

B is the capital cost of the property determined without reference to subsection (10.1) and this subsection, and

C is the aggregate capital cost of all property forming part of the system, determined without reference to subsection (10.1) and this subsection; and

(b) the clean hydrogen tax credit in respect of the property referred to in paragraph (a) is deemed to be the amount determined by the formula

D × E

where

D is the deemed capital cost amount determined under paragraph (a), and

E is the specified percentage in respect of the property.

(42) Subsection 127.48(25) of the Act is replaced by the following:

Recovery and recapture — partnerships

(25) Subject to section 127.47, if subsection (12) has at any time applied to add an amount in computing the clean hydrogen tax credit of a current or former member of a partnership, subsections (10.3) and (17.1) to (23) apply to determine amounts in respect of the partnership as if the partnership was a taxable Canadian corporation, its fiscal period were its taxation year and it had deducted all of the clean hydrogen tax credits that were previously added in computing the clean hydrogen tax credit of any member of the partnership because of the application of subsection (12) in respect of its partnership interest.

(43) Subsection 127.48(30) of the Act is replaced by the following:

Credit after compliance period

(30) For the purpose of applying subsection (2) in respect of a property acquired after the compliance period of a qualified clean hydrogen project of the taxpayer,

(a) the expected carbon intensity of the project is deemed to be the greater of the expected carbon intensity otherwise determined and the average actual carbon intensity for the compliance period of the project; and

(b) if the project produces hydrogen from the pyrolysis of eligible hydrocarbons, the expected hydrogen use percentage of the project is deemed to be equal to the actual hydrogen use percentage of the project.

(44) Subsection 127.48(32) of the Act is replaced by the following:

Authority of the Minister of Natural Resources

(32) For the purposes of determining whether a property is an eligible clean hydrogen property and whether a property is part of a pyrolysis reactor system, the *Clean Hydrogen Investment Tax Credit – Technical and Equipment Guidance Document* published by the Department of Natural Resources is to apply conclusively with respect to engineering and scientific matters.

(45) Subsections (1), (2), (4), (5), (7), (9) to (12), (14), (16), (20), (22) to (26), (28), (29), (31), (33), (34) and (36) are deemed to have come into force on March 28, 2023.

(46) Subsections (3), (6), (8), (13), (15), (17), (18), (21), (27), (30), (32), (35) and (37) to (44) are deemed to have come into force on December 16, 2024.

Investment Tax Credit for Carbon Capture, Utilization and Storage

1 (1) Paragraph (b) of the definition *designated jurisdiction* in subsection 127.44(1) of the Act is replaced by the following:

(b) any other jurisdiction or portion of a jurisdiction within Canada (including the exclusive economic zone of Canada) or the United States for which a designation by the Minister of the Environment under subsection (13) or (13.1) is in effect. (*juridiction désignée*)

(2) Subparagraph (a)(i) of the definition *dual-use equipment* in subsection 127.44(1) of the Act is replaced by the following:

(i) generates electrical energy, heat energy or a combination of electrical and heat energy (excluding equipment that supports the CCUS project indirectly by way of an electrical utility grid), and

(A) more than 50% of either the electrical energy or heat energy that is expected to be produced over the total CCUS project review period, based on the most recent project plan, is expected to directly support one or a combination of

(I) a qualified CCUS project, and

(II) a *qualified clean hydrogen project* as defined in subsection 127.48(1), and

(B) if the equipment uses or is expected to use fossil fuels,

(I) the associated emissions are subject to capture by a CCUS process, or

(II) the fossil fuels are used

1 solely to start up the equipment, and

2 for no more than 72 hours per calendar year,

(3) Subparagraph (b)(i) of the description of A in the definition *qualified carbon capture expenditure* in subsection 127.44(1) of the Act is replaced by the following:

(i) if the equipment is described in subparagraph (a)(i) of the definition *dual-use equipment* in this subsection, or is acquired in relation to such equipment, the amount of energy expected to be produced for use directly in a qualified CCUS project (excluding any energy transmitted by way of an electrical utility grid) over the project's total CCUS project review period is of the total amount of energy expected to be produced by the equipment in that period (determined without regard to energy produced and consumed by the equipment in the process of producing energy), based on the project's most recent project plan,

(4) The portion of the definition *qualified concrete storage process* in subsection 127.44(1) of the Act before paragraph (a) is replaced by the following:

qualified concrete storage process means a process evaluated against the ISO 14034:2016 standard *Environmental management — Environmental technology verification* for which a validation statement confirming that at least 60% of the captured carbon that is incorporated into concrete is expected to be mineralized and permanently stored in the concrete has been issued by a professional or organization that

(5) Subsection 127.44(9) of the Act is amended by striking out "and" at the end of paragraph (h), by adding "and" at the end of paragraph (i) and by adding the following after paragraph (i):

(j) 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, it is deemed to be used in an eligible use at the time of the release and all subsequent times.

(6) Section 127.44 of the Act is amended by adding the following after subsection (13):

Designation of specific formations

(13.1) If the Minister of the Environment determines that a jurisdiction within Canada or the United States 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 has not determined that those laws and enforcement are sufficient in relation to the permanent storage of captured carbon for other geological formations or geographic areas in the jurisdiction, then, instead of designating or declining to designate the entire jurisdiction, the Minister of the

Environment may designate only the relevant specific geological formation in the jurisdiction or geographic area of the jurisdiction in accordance with subsection (13), with any modifications that the circumstances require.

Specific formations

(13.2) Subsections (14) and (14.1) apply, with any modifications that the circumstances require, in respect of a designation in accordance with subsection (13.1) of a specific geological formation in a jurisdiction or geographic area of a jurisdiction.

(7) Subsections (1) to (6) are deemed to have come into force on January 1, 2022.

2 (1) Subparagraph (a)(iii) of Class 57 in Schedule II to the Regulations is replaced by the following:

(iii) generates or distributes electrical energy, heat energy or a combination of electrical and heat energy, that directly and solely supports a qualified CCUS project, excluding equipment that

(A) supports the qualified CCUS project indirectly by way of an electrical utility grid,

(B) expands the capacity of existing equipment that supports the qualified CCUS project and that distributes electrical energy, heat energy or a combination of electrical and heat energy, or

(C) uses fossil fuels and emits carbon dioxide that is not subject to capture by a qualified CCUS project, unless the fossil fuels are used

(I) solely to start up the equipment, and

(II) for no more than 72 hours per calendar year,

(2) Subsection (1) is deemed to have come into force on January 1, 2022.

Tax Deferral Through Tiered Corporate Structures

1 (1) Paragraph 87(2)(j.6) of the Act is replaced by the following:

Continuing corporation

(j.6) for the purposes of paragraphs 12(1)(t) and (x), subsections 12(2.2) and 13(7.1), (7.4) and (24), paragraphs 13(27)(b) and (28)(c), subsections 13(29) and 18(9.1), paragraphs 20(1)(e), (e.1), (v) and (hh), sections 20.1 and 32, paragraph 37(1)(c), subsection 39(13), subparagraphs 53(2)(c)(vi) and (h)(ii), paragraph 53(2)(s), subsections 53(2.1), 66(11.4), 66.7(11) and 84.1(2.31) and (2.32), section 110.61, subsections 127(10.2) and 129(1.3) to (1.32), section 139.1, subsection 152(4.3), the determination of D in the definition *undepreciated capital cost* in subsection 13(21), the determination of L in the definition *cumulative Canadian exploration expense* in subsection 66.1(6) and the definition *qualifying business transfer* in subsection 248(1), the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

(2) Subsection (1) applies to taxation years that begin on or after November 4, 2025.

2 (1) Subsection 129(1.2) of the Act is replaced by the following:

Dividends deemed not to be taxable dividends

(1.2) Where a dividend is paid on a share of the capital stock of a corporation and the share (or another share for which the share was substituted) was acquired by its holder in a transaction or as part of a series of transactions one of the main purposes of which was to enable the corporation (or another corporation affiliated with the corporation) to obtain a dividend refund, the dividend shall, for the purposes of subsections (1) and (1.3) to (1.32), be deemed not to be a taxable dividend.

Staggered year ends — dividend refund suspension

(1.3) For the purpose of subsection (1) and subject to subsection (1.31), the amount of a dividend paid by a corporation (in this subsection and subsections (1.31) and (1.32) referred to as the "payer corporation") — other than a dividend to which paragraph 55(3)(a) or (b) applies in the course of a reorganization — is deemed not to be a taxable dividend to the extent that the dividend is received, directly or indirectly through one or more trusts or partnerships, by another corporation (in subsections (1.31) and (1.32) referred to as a "payee corporation") that:

(a) is affiliated with the payer corporation immediately before the time the dividend is paid;

(b) is a private corporation or a subject corporation (within the meaning assigned by subsection 186(3)); and

(c) has a balance-due day for the taxation year in which it received the dividend that is after the balance-due day for the taxation year of the payer corporation (in subsection (1.31) referred to as the "payer-due day") in which it paid the dividend.

Exclusion

(1.31) Subsection (1.3) does not apply to a dividend if:

(a) the following conditions are satisfied:

(i) in the taxation year of the payee corporation in which the dividend was received, the payee corporation paid, on or before the payer-due day, one or more taxable dividends (in this subsection referred to as the "payee dividend") that have the same character as the dividend, the total amount of which equals or exceeds the amount of the dividend received by the payee corporation,

(ii) if applicable, in the taxation year of each corporation (in this subsection referred to as a "grandparent corporation") that is affiliated with the payer corporation immediately before the time the dividend is paid and that received, directly or indirectly through one or more trusts, partnerships or grandparent corporations, all or a portion of the payee dividend, the grandparent corporation paid, on or before the payer-due day, one or more taxable dividends (in this subsection referred to as the "grandparent dividend") that have the same character as the dividend, the total amount of which equals or exceeds the amount of the payee dividend received, directly or indirectly, by the grandparent corporation, and

(iii) no portion of the payee dividend or the grandparent dividend is otherwise relied on by any taxpayer to avoid the application of subsection (1.3); or

(b) the payer corporation was subject to a loss restriction event within 30 days after the payer corporation paid the dividend that, but for this paragraph, would be subject to subsection (1.3).

Release of suspended dividend refund

(1.32) For the purpose of subsection (1), a payer corporation is deemed to have paid at the end of a particular taxation year a taxable dividend equal to the amount of, and of the same character as, a dividend that was subject to subsection (1.3) in a taxation year of the payer corporation preceding the particular taxation year (in this subsection referred to as the "suspended dividend") if the following conditions are met:

(a) between the time the suspended dividend was paid and the end of the particular taxation year

(i) the payer corporation was not subject to a loss restriction event, and

(ii) the payee corporation, and if applicable each grandparent corporation (described in subparagraph (1.31)(a)(ii) at the time subsection (1.3) applied to the payer corporation in respect of the suspended dividend), paid one or more taxable dividends that have the same character as the suspended dividend, the total amount of which equals or exceeds the amount of the suspended dividend (with the total amount of any excess being referred to in this subsection as the "surplus dividends"), and the dividends were received, directly or indirectly through one or more trusts, partnerships or grandparent corporations, by a taxpayer that was not

(A) a corporation that was affiliated with the payer corporation immediately before the time the suspended dividend was paid, or

(B) a private corporation or a subject corporation, within the meaning assigned by subsection 186(3), (in this subsection referred to as the "connected corporation") that was connected, within the meaning assigned by subsection 186(4), with the payee corporation or a grandparent corporation at the time that the payee corporation or the grandparent corporation paid the taxable dividend, unless:

(I) in the taxation year of the connected corporation in which the dividend was received, the connected corporation paid, by the end of the particular taxation year, one or more taxable dividends (in this subsection referred to as the "connected dividend") that have the same character as the suspended dividend, the total amount of which equals or exceeds the amount of the dividend received, and

(II) if applicable, in the taxation year of each corporation (in this subsection referred to as a "connected parent or grandparent corporation") that is connected (within the meaning assigned by subsection 186(4)) with the connected corporation immediately before the time the connected dividend is paid and that received, directly or indirectly through one or more trusts, partnerships or connected parent or grandparent corporations, all or a portion of the connected dividend, the connected parent or grandparent corporation paid, by the end of the particular taxation year, one or more taxable dividends that have the same character as the suspended dividend, the total amount of which equals or exceeds their share of the connected dividend received;

(b) no portion of the taxable dividends described in subparagraph (a)(ii) in excess of the surplus dividends is relied on by any taxpayer (other than the payer corporation in respect of the suspended dividend) to

(i) obtain a dividend refund under subsection (1), or

(ii) avoid the application of subsection (1.3); and

(c) this subsection has not previously applied in respect of the suspended dividend.

Assessments

(1.33) Despite subsections 152(4) to (5), such assessments, reassessments, determinations and redeterminations may be made as are necessary to give effect to subsections (1.3) to (1.32).

(2) Subsection (1) applies to dividends paid in taxation years that begin on or after November 4, 2025.

3 (1) The portion of paragraph 186(1)(b) of the Act before subparagraph (i) is replaced by the following:

(b) all amounts, each of which is an amount in respect of an assessable dividend received by the particular corporation in the year from a private corporation or a subject corporation that was a payer corporation connected with the particular corporation, equal to that proportion of the payer corporation's dividend refund (within the meaning assigned by paragraph 129(1)(a), if this Act were read without reference to subsection 129(1.32)) for its taxation year in which it paid the dividend that

(2) Subparagraph 186(1)(b)(i) of the Act is replaced by the following:

(i) the amount of the dividend received by the particular corporation (excluding any amount subject to subsection 129(1.3))

(3) Subparagraph 186(1)(b)(ii) of the Act is replaced by the following:

(ii) the total of all taxable dividends paid by the payer corporation in its taxation year in which it paid the dividend and at a time when it was a private corporation or a subject corporation (excluding any amount subject to subsection 129(1.3))

(4) Subsections (1) to (3) are deemed to come into force on November 4, 2025.

Eligible activities under the Canadian Exploration Expense

1 (1) The portion of paragraph (a) of the definition *Canadian exploration expense* in subsection 66.1(6) of the Act before subparagraph (i) is replaced by the following:

(a) any expense incurred by the taxpayer (other than an expense incurred in drilling or completing an oil or gas well or in building a temporary access road to, or preparing a site in respect of, any such well) for the purpose of determining the existence, location, extent or inherent natural qualities of an accumulation of petroleum or natural gas (other than a mineral resource) in Canada, including such an expense that is

(2) The portion of paragraph (f) of the definition *Canadian exploration expense* in subsection 66.1(6) of the Act before subparagraph (i) is replaced by the following:

(f) any expense incurred by the taxpayer (other than an expense incurred in drilling or completing an oil or gas well or in building a temporary access road to, or preparing a site in respect of, any such well) for the purpose of determining the existence, location, extent or inherent natural qualities of a mineral resource in Canada including such an expense for environmental studies or community consultations (including, notwithstanding subparagraph (v), studies or consultations that are undertaken to obtain a right, licence or privilege for the purpose of determining the existence, location, extent or inherent natural qualities of a mineral resource in Canada) and any expense incurred in the course of

(3) Subsections (1) and (2) are deemed to have come into force on November 4, 2025.

2 (1) Paragraph (a) of the definition *flow-through mining expenditure* in subsection 127(9) of the Act is replaced by the following:

(a) that is a Canadian exploration expense incurred by a corporation after March 2025 and before 2028 (including, for greater certainty, an expense that is deemed by subsection 66(12.66) to be incurred before 2028) in conducting mining exploration activity from or above the surface of the earth for the purpose of determining the existence, location, extent or inherent natural qualities of a mineral resource described in paragraph (a) or (d) of the definition *mineral resource* in subsection 248(1),

(2) Subsection (1) applies in respect of expenses renounced under a flow-through share agreement entered into on or after November 4, 2025.

Hybrid Mismatch Rules

1 (1) Subsection 12.7(3) of the Act is replaced by the following:

Secondary rule — consequences

(3) Subject to subsection 18.4(5), if this subsection applies in respect of a payment of which a taxpayer is a recipient, an amount equal to the hybrid mismatch amount for a taxation year in respect of the payment shall be included in computing the taxpayer's income for the year and is deemed to be from the same source and particular place as the payment.

Investor hybrid payer mismatch amount

(4) If a taxpayer has an investor hybrid payer mismatch amount, in respect of a payment, for a taxation year

(a) an amount equal to that investor hybrid payer mismatch amount shall be included in computing the taxpayer's income for the year; and

(b) the amount so included is deemed to be from the same source, or sources, in a particular place as the income or loss, as the case may be, of the hybrid payer that is computed taking into account an amount deductible in respect of the payment.

(2) Subsection (1) applies in respect of payments arising on or after July 1, 2026.

2 (1) The portion of subsection 18.4(1) of the Act before the definition *Canadian ordinary income* is replaced by the following:

Hybrid mismatch arrangements — definitions

18.4 (1) The following definitions apply in this section, paragraphs 20(1)(yy) to (aaa) and subsection 20(31).

(2) The definitions *hybrid mismatch amount* and *structured arrangement* in subsection 18.4(1) of the Act are replaced by the following:

hybrid mismatch amount, for a taxation year, in respect of a payment, means

(a) if the payment arises under a hybrid financial instrument arrangement, the amount of the hybrid financial instrument mismatch for the year in respect of the payment;

(b) if the payment arises under a hybrid transfer arrangement, the amount of the hybrid transfer mismatch for the year in respect of the payment;

(c) if the payment arises under a substitute payment arrangement, the amount of the substitute payment mismatch for the year in respect of the payment;

(d) if the payment arises under a reverse hybrid arrangement, the amount of the reverse hybrid mismatch for the year in respect of the payment;

(e) if the payment arises under a disregarded payment arrangement, the amount of the disregarded payment mismatch for the year in respect of the payment; or

(f) if the payment arises under a hybrid payer arrangement, the amount of the hybrid payer mismatch for the year in respect of the payment. (*montant de l'asymétrie hybride*)

structured arrangement means any transaction, or series of transactions, if

(a) the transaction or series includes a payment that gives rise to a mismatch that is a deduction/non-inclusion mismatch or a double deduction mismatch; and

(b) it can reasonably be considered, having regard to all the facts and circumstances, including the terms or conditions of the transaction or series, that

(i) a portion of any economic benefit arising from the mismatch is reflected in the pricing of the transaction or series, or

(ii) the transaction or series was otherwise designed to, directly or indirectly, give rise to the mismatch. (*dispositif structuré*)

(3) The description of A in the definition *foreign ordinary income* in subsection 18.4(1) of the Act is replaced by the following:

A is an amount (referred to in this definition as the "relevant amount") that is included in respect of the payment in computing relevant foreign income or profits of the entity for the year because the entity is a recipient of the payment or has a direct or indirect equity interest in a recipient of the payment;

(4) The definition *hybrid mismatch arrangement* in subsection 18.4(1) of the Act is amended by striking out "or" at the end of paragraph (b) and by adding the following after paragraph (c):

(d) a reverse hybrid arrangement under which the payment arises;

(e) a disregarded payment arrangement under which the payment arises; or

(f) a hybrid payer arrangement under which the payment arises. (*dispositif hybride*)

(5) Paragraph (a) of the definition *specified minimum tax regime* in subsection 18.4(1) of the Act is replaced by the following:

(a) any provisions in respect of *global intangible low-taxed income* or *net CFC tested income* (as defined in section 951A of the *Internal Revenue Code of 1986* of the United States, as amended from time to time);

(6) Subsection 18.4(1) of the Act is amended by adding the following in alphabetical order:

dual inclusion income, of an entity for a taxation year, means

(a) if the entity is a hybrid entity that is resident in Canada, the total of all amounts each of which is an amount that is both

(i) ordinary income of the entity, in respect of Canada, for the taxation year, and

(ii) ordinary income of an investor in the entity, in respect of a country other than Canada, for a foreign taxation year that begins on or before the day that is 12 months after the end of the taxation year; or

(b) if the entity is a dual resident or a multinational entity, the total of all amounts each of which is an amount that is both

(i) ordinary income of the entity, in respect of Canada, for the taxation year, and

(ii) ordinary income of the entity, in respect of a country other than Canada, for a foreign taxation year that begins on or before the day that is 12 months after the end of the taxation year. (*revenu soumis à double inclusion*)

dual resident means an entity that is

(a) resident in a country; and

(b) resident in another country. (*double résident*)

foreign hybrid payer mismatch rule means a foreign hybrid mismatch rule that can reasonably be considered to

(a) have been enacted or otherwise brought into effect by a country with the intention of implementing, in whole or in part, Chapter 6 or 7 of *Neutralising the Effects of Hybrid Mismatch Arrangements, Action 2 — 2015 Final Report* published by the Organisation for Economic Co-operation and Development, as amended from time to time; or

(b) have an effect that is substantially similar to that of a provision under this section or section 12.7 that is intended to implement, in whole or in part, a chapter referred to in paragraph (a). (*foreign hybrid payer mismatch rule*)

foreign structured arrangement means a transaction, or series of transactions, that would be a structured arrangement if paragraph (a) of the definition *structured arrangement* read as follows:

(a) the transaction or series includes a payment that gives rise to an offshore mismatch; (*dispositif structuré étranger*)

hybrid entity means an entity

(a) that is resident in a country; and

(b) any portion of the income, profits, expenses or losses of which is treated, for income tax purposes under the laws of another country, as income, profits, expenses or losses of another entity that is resident in the other country (or would be so treated if there were any such income, profits, expenses or losses). (*entité hybride*)

hybrid payer means a payer that is

(a) a dual resident;

(b) a hybrid entity; or

(c) a multinational entity. (*payeur hybride*)

income or profits tax does not include a tax under

(a) Part XIII or a tax substantially similar to tax under Part XIII;

(b) a controlled foreign company tax regime; or

(c) a specified minimum tax regime. (*impôt sur le revenu ou les bénéfices*)

investor, in a hybrid entity, means a particular entity

(a) that holds, directly or indirectly, an equity interest in the hybrid entity; and

(b) any portion of whose income, profits, expenses or losses is treated, for income tax purposes under the laws of a country in which the particular entity is resident, as the income, profits, expenses or losses of the particular entity (or would be so treated if there were any such income, profits, expenses or losses). (*investisseur*)

investor dual inclusion income, of an investor, in respect of a hybrid entity, for a taxation year, means the total of all amounts each of which is an amount that is both

(a) ordinary income of the investor, in respect of Canada, for the taxation year; and

(b) ordinary income of the hybrid entity, in respect of a country other than Canada, for a foreign taxation year that begins on or before the day that is 12 months after the end of the taxation year. (*revenu soumis à double inclusion d'un investisseur*)

multinational entity, means an entity that is

(a) resident in a particular country; and

(b) subject to income or profits tax under the laws of another country, in which it is not resident, because it carries on a business in that other country,

(i) if the particular country and the other country have concluded a tax treaty in which the expression "permanent establishment" is given a meaning, through a permanent establishment, within that meaning, in the other country, and

(ii) in any other case, through a permanent establishment, within the meaning of section 8201 of the *Income Tax Regulations*, in the other country. (*entité multinationale*)

ordinary income, of an entity, in respect of a country, for a taxation year or a foreign taxation year, means an amount that is included in computing the entity's income or profits for the year that are subject to an income or profits tax (other than a tax that is charged at a nil rate) under the laws of the country except to the extent that

(a) the amount can reasonably be considered to be excluded, reduced, offset or otherwise effectively sheltered from the income or profits tax under the laws of that country by reason of any exemption, exclusion, deduction, credit (other than a credit for tax payable under Part XIII or for a tax that is substantially similar to tax under Part XIII) or other form of relief that applies specifically in respect of all or a portion of the amount and not in computing the entity's income or profits in general; or

(b) the income or profits tax in respect of the income or profits for the year is repaid or repayable (unless it is repaid or repayable because a loss is used to reduce or offset the income or profits). (*revenu ordinaire*)

reverse hybrid entity, in respect of a payment, means a particular entity

(a) that is a recipient of the payment;

(b) that is not subject to an income or profits tax under the laws of a country on income or profits in respect of the payment because the income or profits are treated, for income tax purposes under the laws of the country, as those of one or more other entities (or would be so treated if there were any such income or profits); and

(c) in which an equity interest is held, directly or indirectly, by an entity that is not subject to an income or profits tax (other than a tax in respect of foreign accrual property income), under the laws of a country in which that entity is resident, on the income or profits in respect of the payment because under those laws the income or profits are treated as those of the particular entity (or would be so treated if there were any such income or profits). (*entité hybride inversée*)

(7) Subsection 18.4(2) of the Act is replaced by the following:

Interpretation

(2) This section, section 12.7 and subsection 113(5), as well as related provisions of the Act and the *Income Tax Regulations*, relate to the implementation of *Neutralising the Effects of Hybrid Mismatch Arrangements, Action 2 — 2015 Final Report* and *Neutralising the Effects of Branch Mismatch Arrangements, Action 2 — Inclusive Framework on BEPS*, both as published by the Organisation for Economic Co-operation and Development and, unless the context otherwise requires, are to be interpreted consistently with those reports, as amended from time to time.

(8) Paragraph 18.4(3)(b) of the Act is replaced by the following:

(b) there is a deduction component of a hybrid mismatch arrangement under which the payment arises.

(9) Subsection 18.4(4) of the Act is replaced by the following:

Primary rule — consequences

(4) If this subsection applies in respect of a payment, notwithstanding any other provision of this Act, in computing a taxpayer's income from a business or property for a taxation year, no deduction shall be made in respect of the payment to the extent of the hybrid mismatch amount for the year in respect of the payment.

(10) Paragraphs 18.4(5)(b) and (c) of the Act are replaced by the following:

(b) at the time that the taxpayer entered into, or acquired an interest in any part of a transaction that is, or is part of, the structured arrangement, it was not reasonable to expect that any of the following entities were aware of the deduction/non-inclusion mismatch or double deduction mismatch arising from the payment:

(i) the taxpayer,

(ii) an entity with which the taxpayer does not deal at arm's length, or

(iii) a specified entity in respect of the taxpayer; and

(c) none of the entities described in subparagraphs (b)(i) to (iii) shared in the value of any economic benefit resulting from the deduction/non-inclusion mismatch or double deduction mismatch, as the case may be.

(11) Paragraphs 18.4(6)(a) and (b) of the Act are replaced by the following:

(a) the following condition is met:

$$A > B$$

where

A is the total of all amounts, each of which is an amount (referred to in this paragraph as a "deductible amount") that would, in the absence of this section and subsections 18(4) and 18.2(2), be deductible in respect of the payment, in computing the income of a taxpayer from a business or property under this Part for a taxation year, and

B is the total of all amounts each of which, in respect of a deductible amount for a taxation year,

(i) can reasonably be expected to be — and actually is — foreign ordinary income of an entity, in respect of the payment, for a foreign taxation year that begins on or before the day that is 12 months after the end of the taxation year, or

(ii) is Canadian ordinary income of a taxpayer, in respect of the payment, for a taxation year that begins on or before the day that is 12 months after the end of the taxation year; or

(b) the following condition is met:

C > D

where

C is the total of all amounts, each of which is an amount (referred to in this paragraph as a "foreign deductible amount") that, in the absence of any foreign expense restriction rule, would be — or would reasonably be expected to be — deductible, in respect of the payment, in computing relevant foreign income or profits of an entity for a foreign taxation year, and

D is the total of all amounts, each of which, in respect of a foreign deductible amount for a foreign taxation year,

(i) would, in the absence of section 12.7, be Canadian ordinary income of a taxpayer, in respect of the payment, for a taxation year that begins on or before the day that is 12 months after the end of the foreign taxation year, or

(ii) can reasonably be expected to be — and actually is — foreign ordinary income of another entity, in respect of the payment, for a foreign taxation year that begins on or before the day that is 12 months after the end of the foreign taxation year.

(12) Section 18.4 of the Act is amended by adding the following after subsection (6):

Special rule — purchase price of property

(6.1) For the purposes of applying subsections (15.1) to (15.4) in respect of a payment that is for the purchase price of a property, the amounts determined for A in paragraph (6)(a) and C in paragraph (6)(b) do not include any amount deductible as an allowance in respect of depreciation, obsolescence or depletion.

(13) Subsection 18.4(8) of the Act is replaced by the following:

Double deduction mismatch — conditions

(7.1) For the purposes of this section and section 12.7, a payment gives rise to a double deduction mismatch if

(a) in the absence of paragraph (f) of the definition *hybrid mismatch amount*, an amount would be deductible, in respect of the payment, in computing the income of an entity from a business or property under this Part for a taxation year; and

(b) in the absence of any foreign hybrid payer mismatch rule, an amount would be – or would reasonably be expected to be – deductible, in respect of the payment, in computing the relevant foreign income or profits of an entity for a foreign taxation year.

Double deduction mismatch — application

(7.2) For the purposes of this section and section 12.7, if a payment gives rise to a double deduction mismatch,

(a) the total of all amounts, each of which is an amount referred to in paragraph (7.1)(a) in respect of the payment, is the deduction component of the double deduction mismatch; and

(b) the amount of the double deduction mismatch arising from the payment is equal to the deduction component of the double deduction mismatch.

No double counting

(8) In computing the foreign ordinary income, Canadian ordinary income, dual inclusion income and investor dual inclusion income of an entity, the following rules apply:

(a) any amount that has already been included, directly or indirectly, in computing foreign ordinary income or Canadian ordinary income of a particular entity in respect of a payment shall not be included, directly or indirectly, in computing foreign ordinary income or Canadian ordinary income of the particular entity or any other entity in respect of the payment;

(b) any amount that has already been included, directly or indirectly, in computing the dual inclusion income or investor dual inclusion income of a particular entity for a taxation year shall not be included, directly or indirectly, in computing the dual inclusion income or investor dual inclusion income of any other entity for a taxation year; and

(c) if an amount has been included, directly or indirectly, in computing the dual inclusion income or investor dual inclusion income of an entity for a taxation year and, because it was so included, it has already been taken into account as a reduction in computing a hybrid mismatch amount or an investor hybrid payer mismatch amount or in determining the amount of a deduction under paragraph 20(1)(zz) or (aaa),

(i) where the amount was included in dual inclusion income, it shall not be included, directly or indirectly, in computing the investor dual inclusion income of the entity for any taxation year, and

(ii) where the amount was included in investor dual inclusion income, it shall not be included, directly or indirectly, in computing the dual inclusion income of the entity for any taxation year.

(14) Paragraph 18.4(11)(a) of the Act is replaced by the following:

(a) the amount of the hybrid financial instrument mismatch for a taxation year, in respect of the payment, is the portion of the amount of the deduction/non-inclusion mismatch arising from the payment that

(i) meets the condition in subparagraph (10)(d)(i) or (ii), and

(ii) can reasonably be considered to be attributable to the year;

(15) Paragraph 18.4(13)(a) of the Act is replaced by the following:

(a) the amount of the hybrid transfer mismatch for a taxation year, in respect of the payment, is the portion of the amount of the deduction/non-inclusion mismatch arising from the payment that

(i) meets a condition in subparagraph (12)(d)(i) or (ii), and

(ii) can reasonably be considered to be attributable to the year;

(16) Paragraph 18.4(15)(a) of the Act is replaced by the following:

(a) the amount of the substitute payment mismatch for a taxation year, in respect of the payment, is the lesser of

(i) the amount of the deduction/non-inclusion mismatch arising from the payment that can reasonably be considered to be attributable to the year and is

(A) if the condition in subparagraph (14)(f)(i) applies, determined based on the assumption in that subparagraph, or

(B) if the condition in subparagraph (14)(f)(ii) applies, determined based on the assumption in that subparagraph, and

(ii) the amount of the payment, or the portion of the payment, as the case may be, described in paragraph (14)(d) that can reasonably be considered to be attributable to the year;

(17) Section 18.4 of the Act is amended by adding the following after subsection (15):

Reverse hybrid arrangement — conditions

(15.1) For the purposes of this section, a payment (referred to in this subsection as the "actual payment") arises under a reverse hybrid arrangement if

(a) the actual payment is to a reverse hybrid entity in respect of the actual payment;

(b) any of the following conditions is satisfied:

(i) a payer of the actual payment does not deal at arm's length with the reverse hybrid entity, or

(ii) the actual payment arises under, or in connection with, a structured arrangement;

(c) the actual payment gives rise to a deduction/non-inclusion mismatch; and

(d) the following condition is met:

$$A > B$$

where

A is the amount of the deduction/non-inclusion mismatch arising from the actual payment, and

B is the total of all amounts each of which is a portion of an amount of a deduction/non-inclusion mismatch that — if each entity that held a direct equity interest in the reverse hybrid entity at the time of the actual payment were to receive a payment (referred to in this paragraph as a "hypothetical payment") equal to the amount that can reasonably be considered to be the entity's share of the actual payment — would

(i) arise from a hypothetical payment, and

(ii) not be the amount of a hybrid financial instrument mismatch, hybrid transfer mismatch or substitute payment mismatch, in respect of the hypothetical payment, for which a deduction would be denied under subsection (4).

Reverse hybrid arrangement — amount

(15.2) For the purposes of this section, if a payment arises under a reverse hybrid arrangement,

(a) the amount of the reverse hybrid mismatch for a taxation year, in respect of the payment, is the amount by which the amount determined for A in the formula in paragraph (15.1)(d), in respect of the payment, exceeds the amount determined for B in that formula, to the extent that the excess amount can reasonably be considered to be attributable to the year; and

(b) the deduction component, if any, of the deduction/non-inclusion mismatch is the deduction component of the reverse hybrid arrangement in respect of the payment.

Disregarded payment arrangement — conditions

(15.3) For the purposes of this section and section 12.7, a payment arises under a disregarded payment arrangement if

(a) a payer of the payment is a hybrid entity;

(b) any of the following conditions is satisfied:

(i) a payer of the payment does not deal at arm's length with a recipient of the payment, or

(ii) the payment arises under, or in connection with, a structured arrangement;

(c) the payment gives rise to a deduction/non-inclusion mismatch; and

(d) it can reasonably be considered that the deduction/non-inclusion mismatch

(i) arises in whole or in part because the payment is disregarded under the laws of the country in which a recipient of the payment is resident, or

(ii) would arise in whole or in part because the condition in subparagraph (i) would be satisfied, if any other reason for the deduction/non-inclusion mismatch were disregarded.

Disregarded payment arrangement — amount

(15.4) For the purposes of this section and section 12.7, if a payment arises under a disregarded payment arrangement,

(a) the amount of the disregarded payment mismatch for a taxation year, in respect of the payment, is the amount determined by the formula

A − B − C

where

A is the portion of the amount of the deduction/non-inclusion mismatch arising from the payment that

(i) meets the condition in subparagraph (15.3)(d)(i) or (ii), and

(ii) can reasonably be considered to be attributable to the year,

B is the portion of the amount determined for A that

(i) is included in the amount of a hybrid financial instrument mismatch, hybrid transfer mismatch, substitute payment mismatch or reverse hybrid mismatch, in respect of the payment, for the year or any preceding taxation year, and

(ii) is not deductible because of the application of subsection (4) or is included in computing a taxpayer's income because of the application of subsection 12.7(3), and

C is

(i) if there is a deduction component of the deduction/non-inclusion mismatch, the total of all amounts each of which is the dual inclusion income of the hybrid entity referred to in paragraph (15.3)(a) for the year or any preceding taxation year, other than any portion of that dual inclusion income that was taken into account as a reduction in computing

(A) the amount of another disregarded payment mismatch for the year, or

(B) a hybrid mismatch amount for a preceding taxation year, or

(ii) if there is a foreign deduction component of the deduction/non-inclusion mismatch, the total of all amounts each of which is the investor dual inclusion income, in respect of the hybrid entity referred to in paragraph (15.3)(a), of an investor in the hybrid entity for the year or any preceding taxation year, other than any portion of that investor dual inclusion income that was taken into account as a reduction in computing

(A) the amount of another disregarded payment mismatch for the year, or

(B) the amount of a disregarded payment mismatch or an investor hybrid payer mismatch amount for a preceding taxation year; and

(b) the deduction component, if any, of the deduction/non-inclusion mismatch is the deduction component of the disregarded payment arrangement in respect of the payment; and

(c) the foreign deduction component, if any, of the deduction/non-inclusion mismatch is the foreign deduction component of the disregarded payment arrangement in respect of the payment.

Hybrid payer arrangement — conditions

(15.5) For the purposes of this section and section 12.7, a payment arises under a hybrid payer arrangement if

(a) a payer of the payment is a hybrid payer;

(b) in the case of a hybrid payer that is a hybrid entity resident in Canada,

(i) any of the following conditions is met:

(A) the hybrid entity does not deal at arm's length with an investor in the hybrid entity, or

(B) the payment arises under, or in connection with, a structured arrangement, and

(ii) no foreign hybrid payer mismatch rule applies, in respect of the payment, in computing the relevant foreign income or profits, for a foreign taxation year, of at least one investor in the hybrid entity;

(c) in the case of a hybrid payer that is a multinational entity resident in a country other than Canada, no foreign hybrid payer mismatch rule of that country applies, in respect of the payment, in computing the relevant foreign income or profits, for a foreign taxation year, of the multinational entity; and

(d) the payment gives rise to a double deduction mismatch.

Hybrid payer arrangement — amount

(15.6) For the purposes of this section, if a particular payment arises under a hybrid payer arrangement,

(a) the amount of the hybrid payer mismatch, in respect of the particular payment, for a taxation year is

(i) if the hybrid payer referred to in paragraph (15.5)(a) of the particular payment is a hybrid entity that is a partnership, nil, and

(ii) in any other case, the amount determined by the formula

$$A - (B \times A \div C)$$

where

A is the portion of the amount of the double deduction mismatch arising from the particular payment that can reasonably be considered to be attributable to the year and to the hybrid payer,

B is the amount determined by the formula

$$D + E$$

where

D is the dual inclusion income of the hybrid payer for the year, other than any portion of that dual inclusion income that is taken into account as a reduction in computing the amount of a disregarded payment mismatch for the year, and

E is the total of all amounts, each of which is the dual inclusion income of the hybrid payer for a preceding taxation year, other than any portion of that dual inclusion income that was taken into account as a reduction in computing

(A) the amount of a disregarded payment mismatch for the year, or

(B) a hybrid mismatch amount for a preceding taxation year, and

C is the total of all amounts, each of which is an amount determined for A for the year in respect of a payment of which the hybrid payer is a payer; and

(b) the deduction component of the double deduction mismatch is the deduction component of the hybrid payer mismatch in respect of the particular payment.

Hybrid payer arrangement — investor amount

(15.7) For the purposes of this section and section 12.7, if a particular payment arises under a hybrid payer arrangement, and the hybrid payer is a hybrid entity that is a partnership, the investor hybrid payer mismatch amount, in respect of the particular payment, of an investor in the hybrid payer, for a taxation year, is the amount determined by the formula

$$A - (B \times A \div C)$$

where

A is the portion of the amount of the double deduction mismatch in respect of the particular payment that

(a) both

(i) is deductible and is claimed in computing the income of the hybrid payer from a business or property under this Part, and

(ii) can reasonably be considered to be the investor's share of that amount for the year, determined in a manner consistent with the determination of the investor's share of the income of the hybrid payer under subsection 96(1), or

(b) is deductible and is claimed in computing the investor's income from a business or property under this Part for the year;

B is the amount determined by the formula

$$D + E$$

where

D is the investor dual inclusion income of the investor, in respect of the hybrid payer, for the year, other than any portion of that investor dual inclusion income that is taken into account as a reduction in computing the amount of a disregarded payment mismatch for the year, and

E is the total of all amounts, each of which is the investor dual inclusion income of the investor, in respect of the hybrid payer, for a preceding taxation year, other than any portion of that investor dual inclusion income that was taken into account as a reduction in computing

(i) the amount of a disregarded payment mismatch for the year, or

(ii) the amount of a disregarded payment mismatch or an investor hybrid payer mismatch amount for any preceding taxation year; and

C is the total of all amounts, each of which is an amount determined for A for the year, in respect of the investor, in respect of a payment by the hybrid payer.

Offshore mismatch — conditions

(15.8) For the purposes of this section, a payment gives rise to an offshore mismatch if

(a) the following conditions are met:

(i) the payment would give rise to a deduction/non-inclusion mismatch if subsection (6) were read without reference to its paragraph (a), and

(ii) it is not the case that all or substantially all of the amount of the deduction/non-inclusion mismatch is included, or can reasonably be expected to be included, in respect of the payment, in computing

(A) a taxpayer's income from a business or property under this Part for a taxation year because of subsection 12.7(3), or

(B) the relevant foreign income or profits of an entity for a foreign taxation year because of a foreign hybrid mismatch rule; or

(b) the payment would give rise to a double deduction mismatch if paragraphs (7.1)(a) and (b) were read as follows:

(a) an amount is — or can reasonably be expected to be — deductible, in respect of the payment, in computing the relevant foreign income or profits of an entity in respect of a country other than Canada for a foreign taxation year; and

(b) an amount is — or can reasonably be expected to be — deductible, in respect of the payment, in computing the relevant foreign income or profits of an entity in respect of a country other than Canada (other than the country referenced in paragraph (a)) for a foreign taxation year.

Offshore mismatch — amount

(15.9) For the purposes of this section, if a payment gives rise to an offshore mismatch, the amount of the offshore mismatch arising from the payment is

(a) if paragraph (15.8)(a) applies, the amount by which the amount determined for C in paragraph (6)(b) in respect of the payment exceeds the amount determined for D in paragraph (6)(b) in respect of the payment; and

(b) if paragraph (15.8)(b) applies, the lesser of the amount described in paragraph (7.1)(a) and the amount described in paragraph (7.1)(b), if those paragraphs were read in accordance with paragraph (15.8)(b).

Offshore hybrid mismatch amount — meaning

(15.91) For the purposes of this section, an offshore hybrid mismatch amount for a foreign taxation year, in respect of a payment, is the amount that would be

(a) if paragraph (15.8)(a) applies in respect of the payment, the amount of a hybrid financial instrument mismatch, hybrid transfer mismatch, substitute payment mismatch, reverse hybrid mismatch or disregarded payment mismatch for the foreign taxation year, in respect of the payment, if

(i) the references to "deduction/non-inclusion mismatch", "a taxation year" and "preceding taxation year" in subsections (10) to (15.4) were read, with such modifications as the circumstances require, as references to "offshore mismatch", "a foreign taxation year" and "preceding foreign taxation year", respectively, and

(ii) the references to "resident in Canada", "in respect of Canada", "in respect of a country other than Canada", "a taxation year" and "the taxation year" in the definitions *dual inclusion income* and *investor dual inclusion income* were read as references to "resident in a country", "in respect of a country", "in respect of another country", "a foreign taxation year" and "the foreign taxation year", respectively; or

(b) if paragraph (15.8)(b) applies in respect of the payment, the amount of a hybrid payer mismatch for the foreign taxation year, in respect of the payment, if

(i) subsection (15.5) were read without reference to the conditions in its paragraphs (b) and (c),

(ii) subsection (15.6) were read, with such modifications as the circumstances require, without reference to the condition in its subparagraph (a)(i),

(iii) the references to "double deduction mismatch", "a taxation year" and "preceding taxation year" in subsections (15.5) and (15.6) were read, with such modifications as the circumstances require, as references to "offshore mismatch", "a foreign taxation year" and "preceding foreign taxation year", respectively,

(iv) the references to "resident in Canada", "in respect of Canada", "in respect of a country other than Canada", "a taxation year" and "the taxation year" in the definition *dual inclusion income* were read as references to "resident in a country", "in respect of a country", "in respect of another country", "a foreign taxation year" and "the foreign taxation year", respectively, and

(v) the definition *dual inclusion income* were read without reference to the expression "that begins on or before the day that is 12 months after the end of the taxation year".

Imported hybrid arrangement — conditions

(15.92) For the purposes of this section, a payment (referred to in this subsection and subsections (15.94) and (15.95) as the "importing payment") arises under an imported hybrid arrangement, in respect of an offshore hybrid mismatch amount for a foreign taxation year in respect of a payment (referred to in this subsection and subsection (15.94) as the "mismatch payment"), if

(a) an amount would be deductible, in the absence of subsection (15.95), in respect of the importing payment, in computing a taxpayer's income from a business or property under this Part for a taxation year;

(b) the recipient of the importing payment is not resident in Canada; and

(c) the following conditions are met:

(i) the payer of the mismatch payment is either

(A) the recipient of the importing payment, or

(B) the recipient of another payment included in a series of payments that is composed of the importing payment and any payments interposed between the importing payment and the mismatch payment, and

(ii) the mismatch payment and the importing payment, where the condition in clause (c)(i)(A) is met — or the mismatch payment and the payments of which the series of payments is composed, where the condition in clause (c)(i)(B) is met — are payments

(A) the payers of which do not deal with each other at arm's length, or

(B) that arise under, or in connection with, a foreign structured arrangement.

Series of payments — interpretation

(15.93) For the purposes of subsections (15.92) and (15.94), a payment that would, in the absence of this subsection, be included in the series of payments referred to in clause (15.92)(c)(i)(B) is not included in that series of payments if

(a) no amount is, or is reasonably expected to be, deductible in respect of the payment in computing an entity's

(i) relevant foreign income or profits for a foreign taxation year, or

(ii) income from a business or property under this Part for a taxation year; or

(b) there is an offshore hybrid mismatch amount, for a foreign taxation year, in respect of the payment.

Imported hybrid mismatch — amount

(15.94) If an importing payment arises under an imported hybrid arrangement, in respect of an offshore hybrid mismatch amount for a foreign taxation year in respect of a mismatch payment, the amount of the imported hybrid mismatch in respect of the importing payment is the lesser of

(a) the amount determined by the formula

$$A - B$$

where

A is the offshore hybrid mismatch amount, and

B is the total of all amounts each of which is an amount that is not deductible in respect of

(i) another importing payment, in computing a taxpayer's income from a business or property under this Part for a taxation year, because of the application of subsection (15.95) in respect of the offshore hybrid mismatch amount, or

(ii) a payment, in computing the relevant foreign income or profits of an entity for a foreign taxation year, because of the application of a foreign hybrid mismatch rule, that has an effect that is substantially similar to that of subsection (15.95), in respect of the offshore hybrid mismatch amount; and

(b) the amount that is

(i) if the condition in clause (15.92)(c)(i)(A) is met, the offshore hybrid mismatch amount, or

(ii) if the condition in clause (15.92)(c)(i)(B) is met, the total of all amounts each of which is, in respect of a series of payments that meets the condition in clause (15.92)(c)(ii)(A) or (B), the least of the amounts each of which is the total amount that is deductible by any entity in respect of payments that are included in the series of payments.

Imported hybrid mismatch — application

(15.95) If there is an amount of an imported hybrid mismatch in respect of an importing payment,

(a) subsection (4) is deemed to apply in respect of the importing payment; and

(b) in applying subsection (4), the hybrid mismatch amount for a taxation year in respect of the importing payment is deemed to be the amount by which the amount of the imported hybrid mismatch exceeds the total of all amounts each of which is an amount that is not deductible in computing a taxpayer's income from a business or property under this Part for a preceding taxation year because of the application of this subsection in respect of the importing payment.

(18) Section 18.4 of the Act is amended by adding the following after subsection (19):

Dual inclusion income — special cases

(19.1) Despite subparagraphs (a)(ii) and (b)(ii) of the definition *dual inclusion income* and paragraph (b) of the definition *investor dual inclusion income*, if, in the opinion of the Minister, the circumstances of a case are such that it would be just and equitable to take into account, in determining the dual inclusion income or investor dual inclusion income, as the case may be, of a particular entity for a taxation year, an amount that is ordinary income of an entity, in respect of a country other than Canada, for a foreign taxation year that begins after the day that is 12 months after the end of the taxation year, the amount shall be taken into account.

Resident in a country

(19.2) For the purposes of this section and section 12.7, an entity is resident in a country if the entity is resident in that country for income tax purposes under the laws of that country.

(19) Subsection 18.4(20) of the Act is replaced by the following:

Anti-avoidance

(20) The *tax consequences* (as defined in subsection 245(1)) to a person shall be determined in order to deny a *tax benefit* (as defined in subsection 245(1)) to the extent necessary to eliminate any deduction/non-inclusion mismatch, double deduction mismatch or other outcome that is substantially similar to a deduction/non-inclusion mismatch or a double deduction mismatch, arising from a payment if

(a) it can reasonably be considered that one of the main purposes of a transaction or series of transactions that includes the payment is to avoid or limit the application of subsection (4), 12.7(3), (4) or 113(5) in respect of the payment; and

(b) any of the following conditions is met:

(i) the payment is a dividend and an amount would be — or would reasonably be expected to be — deductible in respect of the payment in computing relevant foreign income or profits of an entity for a foreign taxation year,

(ii) the deduction/non-inclusion mismatch or other outcome arises in whole or in part because of a difference in tax treatment of any transaction or series of transactions under the laws of more than one country that is attributable to the terms or conditions of the transaction or one or more transactions included in the series,

(iii) the deduction/non-inclusion mismatch or other outcome arises in whole or in part because a participant in the transaction or series of transactions that includes the payment is

(A) a hybrid entity, or

(B) a reverse hybrid entity,

(iv) the deduction/non-inclusion mismatch or other outcome would arise in whole or in part because of a reason described in subparagraph (ii) or clause (iii)(A), if any other reason for the mismatch or other outcome were disregarded, or

(v) the double deduction mismatch or other outcome arises in whole or in part because a hybrid payer is a participant in the transaction or series of transactions that includes the payment.

(20) Paragraph 18.4(21)(b) of the Act is replaced by the following:

(b) subsection 12.7(3) or (4) includes an amount in respect of a payment.

(21) Subsections (1) to (4) and (6) to (20) apply in respect of payments arising on or after July 1, 2026.

(22) Subsection (5) applies in respect of foreign taxation years beginning after December 31, 2025.

4 (1) Subsection 20(1) of the Act is amended by striking out "and" at the end of paragraph (xx) and by replacing paragraph 20(1)(yy) with the following:

Adjustment for hybrid mismatch — foreign ordinary income

(yy) if subsection 18.4(4) has applied to deny a taxpayer a deduction, for the year or a preceding taxation year, for all or a portion of an amount in respect of a payment arising under a hybrid mismatch arrangement (other than an arrangement referred to in any of paragraphs (d) to (f) of the definition *hybrid mismatch arrangement*), and the taxpayer demonstrates that an amount is foreign ordinary income of an entity in respect of the payment (other than any amount of foreign ordinary income already taken into account in determining the amount of the deduction that was previously denied or a deduction under this paragraph) for a foreign taxation year that ends on or before the day that is 12 months after the end of the year, the lesser of

(i) the amount by which the deduction that was denied exceeds the total of all amounts already deducted under this paragraph in respect of the payment for the year or any previous year, and

(ii) the amount of the foreign ordinary income;

Adjustment for hybrid mismatch — dual inclusion income

(zz) if subsection 18.4(4) has applied to deny a taxpayer a deduction (referred to in this paragraph as the "denied amount"), for a taxation year preceding the year, for all or a portion of an amount in respect of a payment arising under an arrangement referred to in paragraph (e) or (f) of the definition *hybrid mismatch arrangement* in subsection 18.4(1) and the taxpayer demonstrates that an amount is dual inclusion income of the taxpayer for the year (other than any amount of dual inclusion income already taken into account in determining the amount of a deduction under this paragraph or as a reduction in computing a hybrid mismatch amount), the lesser of

(i) the amount by which the denied amount exceeds the total of all amounts, each of which is an amount equal to a portion of the denied amount already deducted under this paragraph or any other provision of this Act for the year or any previous year, and

(ii) the amount of the dual inclusion income; and

Adjustment for hybrid mismatch — investor dual inclusion income

(aaa) if subsection 12.7(4) has applied to include, in the taxpayer's income for a taxation year preceding the year, an amount (referred to in this paragraph as the "inclusion amount") equal to the investor hybrid payer mismatch amount (within the meaning of subsection 18.4(15.7)), in respect of a payment, for that preceding year, and the

taxpayer demonstrates that an amount is investor dual inclusion income of the taxpayer for the year (other than any amount of investor dual inclusion income already taken into account in determining the amount of a deduction under this paragraph or as a reduction in computing an investor hybrid payer mismatch amount or a hybrid mismatch amount), the lesser of

(i) the amount by which the inclusion amount exceeds the total of all amounts, each of which is an amount equal to a portion of the inclusion amount already deducted under this paragraph or any other provision of this Act for the year or any previous year, and

(ii) the amount of the investor dual inclusion income.

(2) Section 20 of the Act is amended by adding the following after subsection (30):

Character — adjustment for hybrid mismatch

(31) If paragraph 20(1)(yy), (zz) or (aaa) provides that an amount may be deducted in computing a taxpayer's income for a taxation year from a business or property, that amount is deemed to be deductible in respect of the payment referred to in that paragraph.

(3) Subsections (1) and (2) apply in respect of payments arising on or after July 1, 2026.

5 (1) Subsection 214(18) of the Act is replaced by the following:

Hybrid mismatch arrangements — deemed dividend

(18) For the purposes of this Part,

(a) an amount paid or credited as interest by a corporation resident in Canada, or by a partnership in respect of which a corporation resident in Canada is an *investor* (as defined in subsection 18.4(1)), in a taxation year of the corporation, to a non-resident person is deemed to have been paid by the corporation as a dividend, and not to have been paid or credited by the corporation or the partnership as interest, to the extent that an amount in respect of the interest

(i) is not deductible in computing the income of the corporation for the year because of subsection 18.4(4); or

(ii) is included in computing the income of the corporation for the year under subsection 12.7(4); and

(b) paragraph (a) does not apply in respect of an amount that

(i) arises under a hybrid payer arrangement (within the meaning of subsection 18.4(15.5)), and

(ii) is paid to a non-resident person that deals at arm's length with the corporation or partnership, as the case may be, and that is not a party to a *structured arrangement* (as defined in subsection 18.4(1)) in respect of the amount.

(2) Subsection (1) applies in respect of payments arising on or after July 1, 2026.

6 (1) Subsection 227(6.3) of the Act is replaced by the following:

Hybrid mismatch adjustment

(6.3) If, in respect of a *payment* (as defined in subsection 18.4(1)) arising under or in connection with a *hybrid mismatch arrangement* (as defined in that subsection), an amount was paid to the Receiver General under Part XIII on behalf of a person because an amount was deemed to have been paid by a corporation to the person as a dividend under subsection 214(18) and a deduction is allowed in respect of the payment or a portion of it, as the case may be, under paragraph 20(1)(yy), (zz) or (aaa),

(a) subject to paragraph (b), the Minister shall, on written application made no later than two years after the day on which the assessment is made in respect of the application of paragraph 20(1)(yy), (zz) or (aaa), as the case may be, pay to the person the amount determined by the formula

A – B

where

A is the lesser of

(i) the total of all amounts, if any, paid to the Receiver General on or prior to the day the written application was made on behalf of the person and in respect of the liability of the person to pay an amount under Part XIII in respect of the payment or the portion of it, as the case may be, and

(ii) the amount that would be payable to the Receiver General under Part XIII if an amount equal to the amount deductible under paragraph 20(1)(yy), (zz) or (aaa), as the case may be, were paid by the corporation to the person as a dividend described in paragraph 212(2)(a) at the end of the taxation year in which the amount is deductible under paragraph 20(1)(yy), (zz) or (aaa), as the case may be, and

B is the amount that would be payable to the Receiver General under Part XIII (if this Act were read without reference to subsection 214(18)) if an amount equal to the amount deductible under paragraph 20(1)(yy), (zz) or (aaa), as the case may be, had been paid or credited as interest by the corporation to the person at the end of the taxation year in which the amount is deductible under paragraph 20(1)(yy), (zz) or (aaa), as the case may be; and

(b) if the person is or is about to become liable to make a payment to His Majesty in right of Canada, the Minister may apply the amount otherwise payable under paragraph (a) to that liability and notify the person of that action.

(2) Subsection (1) applies in respect of payments arising on or after July 1, 2026.

Investment Income Derived from Assets Supporting Canadian Insurance Risks

1 (1) Subparagraph 95(2)(a.2)(i) of the Act is replaced by the following:

(i) there shall be included the income of the affiliate for the year from the insurance of specified Canadian risks (which, for the purposes of this paragraph, includes the reinsurance of specified Canadian risks and the holding of any property by the affiliate in connection with the insurance or reinsurance of specified Canadian risks by any person or partnership), unless more than 90% of the gross revenue of the affiliate for the year from the insurance of risks (net of reinsurance ceded) was in respect of the insurance of risks (other than specified Canadian risks) of persons with whom the affiliate deals at arm's length,

(2) Subsection (1) applies to taxation years of a foreign affiliate of a taxpayer that begin after November 4, 2025.