
Explanatory Notes Relating to the Income Tax Act and Regulations

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Preface

These explanatory notes describe proposed amendments to the *Income Tax Act* and the *Income Tax Regulations*. These explanatory notes describe these proposed amendments, clause by clause, for the assistance of Members of Parliament, taxpayers and their professional advisors.

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These notes are intended for information purposes only and should not be construed as an official interpretation of the provisions they describe.

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Part 1 – Amendments to the Income Tax Act and Regulations

Clause 2

Labour mobility deduction

Income Tax Act (the Act or ITA)
8(1)(t)

Paragraph 8(1)(t) provides an eligible tradesperson with a deduction (the Labour Mobility Deduction), for certain transportation, meals and temporary lodging expenses incurred for travelling significant distances to earn income from temporary employment in construction activities in Canada. Subject to additional rules in subsection 8(14), the total amount deductible under the Labour Mobility Deduction, considering all temporary relocations in the year, is limited to \$4,000 per year.

Subparagraph 8(1)(t)(i) is amended to increase the \$4,000 per-year limit to \$10,000. Additionally, after 2026, the \$10,000 per-year limit is indexed to inflation under new paragraph 117.1(2)(b.1).

This amendment applies to the 2026 and subsequent taxation years.

Labour mobility deduction – interpretation

ITA
8(14)(c)

Paragraph 8(14)(c) provides a number of conditions that are required for a temporary relocation of a taxpayer to qualify as an “eligible temporary relocation” for purposes of the Labour Mobility Deduction.

Subparagraph 8(14)(c)(v) currently provides the distance between the ordinary residence and each of the taxpayer’s temporary work locations must be at least 150 kilometres greater than the distance between each temporary lodging and each temporary work location.

Subparagraph 8(14)(c)(v) is amended to reduce the distance requirement from 150 kilometres to 120 kilometres.

This amendment applies to the 2026 and subsequent taxation years.

Clause 3

Capital gains deduction for qualifying business transfer – conditions

ITA
110.61(1)

Subsection 110.61(1) provides the conditions for the application of the capital gains deduction under subsection (2) available upon a disposition of shares to an employee ownership trust that occurs after 2023 and before 2027.

This subsection is amended to extend the deduction to dispositions of shares that occur after 2026.

Clause 4

Deduction for qualifying cooperative conversion – conditions

ITA
110.62(1)

Subsection 110.62(1) provides the conditions for the application of the capital gains deduction under subsection (2) available upon a disposition of shares to a worker cooperative that occurs after 2023 and before 2027.

This subsection is amended to extend the deduction to dispositions of shares that occur after 2026.

Clause 5

Annual adjustment — amounts

ITA
117.1(2)

Subsection 117.1(1) provides for the indexing of various amounts in the Act, based on annual increases to the Consumer Price Index. The amounts that are subject to indexing are set out in subsection 117.1(2).

Subsection 117.1(2) is amended by adding new paragraph (b.1) which indexes to inflation the \$10,000 per-year limit of the Labour Mobility Deduction in subparagraph 8(1)(t)(i) for taxation years beginning after 2026.

Clause 6

Temporary repayment relief — application

ITA
146.01(4.1)

Subsection 146.01(4) generally requires that Home Buyers' Plan (HBP) repayments to an RRSP commence in the second taxation year after the year in which the individual received an eligible amount under the HBP program. Any portion of the required annual repayment not contributed to an RRSP and designated as an HBP repayment is included in the HBP participant's income for that taxation year. Subsection 146.01(4.1) temporarily defers the start of the 15-year HBP repayment period by an additional three years for participants who made a first withdrawal between January 1, 2022 and December 31, 2025.

Subsection (4.1) is amended to extend this temporary repayment relief to participants who make a first HBP withdrawal between January 1, 2026 and December 31, 2028. In particular, subsection (4.1) now applies to completion dates (generally, the date before which a qualifying home must be acquired in order for an RRSP withdrawal to be an eligible amount under the HBP) occurring before 2030.

For more information, see the commentary to subsection 146.01(4.2).

Temporary repayment relief — conditions

ITA

146.01(4.2)

Subsection 146.01(4.2) identifies the combinations of particular taxation years (in respect of which an income inclusion would ordinarily arise) and completion dates (in respect of which HBP withdrawals are made) for which the formula in subsection 146.01(4) is modified by the application of the "read as" rules in subsection (4.1). In particular, subsection 146.01(4.2) provides temporary repayment relief to HBP participants who made a first withdrawal between January 1, 2022 and December 31, 2025.

Subsection 146.01(4.2) is amended to extend temporary repayment relief to HBP participants who make a first withdrawal between January 1, 2026 and December 31, 2028. Overall, the measure extends temporary repayment relief according to the following table:

First Withdrawal	Completion Date	Original Repayment Period	Revised Repayment Period
2026	2027	2028 to 2042	2031 to 2045
2027	2028	2029 to 2043	2032 to 2046
2028	2029	2030 to 2044	2033 to 2047

Three additional paragraphs (g) through (i) are added to subsection (4.2), and existing paragraphs (e) and (f) are amended to include additional possible completion dates. These amendments ensure that participation with a 2027, 2028, or 2029 completion date (i.e., a first withdrawal in 2026, 2027, or 2028, respectively) results in a first required repayment in 2031, 2032, or 2033, respectively.

Income Tax Regulations

Clause 7

Special Allowance – Eligible Greenhouses

ITR

1100(1)(ze)

Subsection 1100(1) of the Regulations sets out the capital cost allowance (CCA) rates that taxpayers may claim with respect to specified classes of depreciable property.

Paragraph (ze) is added to provide immediate expensing (as a special enhanced first-year allowance at an effective rate of up to 100%) for property that is an “eligible greenhouse”, which is now defined in subsection 1104(2).

Full immediate expensing is available in respect of eligible greenhouses that become available for use before 2030. If an eligible greenhouse becomes available for use in 2030 or 2031, the applicable rate becomes 75%, while the applicable rate would be 55% for 2032 or 2033. The enhanced rate under this paragraph would not be available after 2033.

This amendment is deemed to have come into force on November 4, 2025.

Eligible greenhouses — first-year deductions

ITR

1100(1.02)

New subsection 1100(1.02) provides that, if a deduction is available in respect of an eligible greenhouse of a taxpayer under paragraph 1100(1)(ze) for a taxation year, then the taxpayer may not deduct any other capital cost allowance (CCA) amount in respect of that greenhouse for the year.

This provision seeks to prevent a taxpayer from claiming the accelerated deduction under paragraph 1100(1)(ze) as well as CCA otherwise provided in respect of the same greenhouse in the same taxation year.

For example, if a greenhouse is eligible for a 75% or 55% rate under paragraph 1100(1)(ze) in the year it becomes available for use, the taxpayer would not be eligible for any other CCA deductions in respect of the greenhouse for that year.

This amendment is deemed to have come into force on November 4, 2025.

Property Acquired in the Year

ITR
1100(2)

Subsection 1100(2) provides rules for computing the CCA deduction in respect of a property for the year in which the property first becomes available for use.

Subsection 1100(2) has two main parts. Generally, the first part (as expressed by elements A, B, A.1, and B.1) relates to the enhanced first-year CCA in respect of “accelerated investment incentive property” (AIIP) and “reaccelerated investment incentive property” (RIIP) of a taxpayer, as defined in subsections 1104(4) and (4.01), respectively. The second part (as expressed by element C) is the “half-year rule”, which generally applies to any other depreciable property and limits a taxpayer's CCA claim to one-half of the otherwise applicable amount, for the year in which the property first becomes available for use.

Subsection 1100(2) is amended to add a reference to paragraph 1100(1)(ze) in paragraph (a) of element A.1 of the formula. This amendment excludes property eligible for the accelerated deduction under that paragraph from being eligible for the enhanced first-year CCA as RIIP.

This amendment is deemed to have come into force on November 4, 2025.

Taxation Years Less Than 12 Months

ITR
1100(3)

Subsection 1100(3) of the Regulations provides for the proration of capital cost allowance deductions for taxation years that are less than 12 months.

Subsection 1100(3) is amended to provide that no proration is required in respect of the immediate expensing deduction in paragraph 1100(1)(ze).

This amendment is deemed to have come into force on November 4, 2025.

Clause 8

Eligible Greenhouses

ITR
1101(5w)

New subsection 1101(5w) provides that taxpayers may elect to include a greenhouse in a separate prescribed class if the greenhouse is an “eligible greenhouse”, as defined in subsection 1104(2). A taxpayer who acquires such a greenhouse may be eligible to claim an accelerated CCA under paragraph 1100(1)(ze) in respect of the greenhouse if it makes the election in its return of income for the taxation year in which the greenhouse is acquired.

This amendment is deemed to have come into force on November 4, 2025.

Clause 9

Non-arm's Length Exception

ITR
1102(20.1)

Subsection 1102(20.1) deems a taxpayer not to be dealing at arm's length with another person or partnership in certain circumstances and is intended to prevent taxpayers from contriving arm's length relationships in order to obtain the more favourable treatment that is available for various accelerated CCA provisions in respect of arm's length transfers.

Subsection 1102(20.1) is amended to include a reference to the new "eligible greenhouse" definition in subsection 1104(2), to ensure that the anti-avoidance rule also applies in respect of the determination of whether a greenhouse is an eligible greenhouse.

This amendment is deemed to have come into force on November 4, 2025.

Prescribed programs for zero-emission vehicles

ITR
1102(26)

Subsection 1102(26) applies for the purpose of the definition "zero-emission vehicle" in subsection 248(1) of the Act. Paragraph (b) designates prescribed programs for purposes of subparagraph (c)(ii) of the definition. A vehicle for which assistance has been paid by the Government of Canada under a prescribed program will not qualify as a zero-emission vehicle and consequently will not qualify for the temporary enhanced first-year capital cost allowance (CCA) rate of 100%, which is subject to a phase-out starting in 2030.

The federal purchase incentive announced on March 19, 2019 as part of the Government's 2019 Budget is currently the only prescribed program under subsection 1102(26).

Paragraph 1102(26)(b) is amended to add the Electric Vehicle Affordability Program announced on February 5, 2026 to the list of prescribed programs.

This amendment is deemed to come into force on February 16, 2026.

Rules for Additions to and Alterations of Certain Greenhouses

ITR
1102(27)

New subsection 1102(27) provides a special rule that applies to additions to, or alterations of, a taxpayer's greenhouse. Under the rule, the capital cost of an addition to, or alteration of, a greenhouse is deemed to be the capital cost of a separate greenhouse for the purpose of applying the additional allowance available under paragraph 1100(1)(ze), regardless of whether the existing structure is an eligible greenhouse, as defined in subsection 1104(2).

This amendment is deemed to have come into force on November 4, 2025.

Acquisition Costs of Eligible Greenhouses

ITR
1102(28)

New subsection 1102(28) ensures that the capital cost of an “eligible greenhouse” includes the capital cost incurred before November 4, 2025 of a greenhouse that was under construction on November 4, 2025, excluding any CCA amounts that have been deducted (for example, if certain parts of the greenhouse became available for use under the “rolling-start” rule).

If the taxpayer makes the election under subsection 1101(5w) in respect of the greenhouse, the taxpayer may be eligible for an accelerated CCA deduction (up to 100%) in respect of those costs under paragraph 1100(1)(ze).

Similar to subsection 1102(25), this subsection also provides for an election that allows a taxpayer to not include capital costs incurred before November 4, 2025 for the construction of an eligible greenhouse in the cost of the greenhouse.

This subsection is deemed to have come into force on November 4, 2025.

Clause 10

Definitions

ITR
1104(2)

Subsection 1104(2) sets out definitions that apply for the purposes of Part XI of the Regulations and in Schedule II to the Regulations.

“eligible greenhouse”

The definition “eligible greenhouse” is added to describe a greenhouse that is eligible for the accelerated CCA deduction under new paragraph 1100(1)(ze).

An “eligible greenhouse” means a taxpayer’s greenhouse that:

- is located in Canada;

- is acquired by the taxpayer after November 3, 2025;
- is included in either Class 6 (because of paragraph (d) of that Class) or Class 8 (because of paragraph (m) of that Class); and
- meets either of the conditions identified in paragraph (d), which are similar to those described in paragraph 1104(4.01)(b) in respect of reaccelerated investment incentive property.

This definition is deemed to have come into force on November 4, 2025.