Spring Economic Update 2026

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The Spring Economic Update 2026 (the SEU) was released on April 28, 2026. It is the first economic statement released by Prime Minister Carney, and the first to be released in the spring after Prime Minister Carney changed the timing of the federal budget's release to the fall, beginning with Budget 2025.

The SEU provides general economic and fiscal information and projections. It notably projects a deficit of $67 billion for the 2025–2026 fiscal year, a reduction of $11 billion compared to Budget 2025. The revised deficit reflects an upward revision to income tax revenues of $8.6 billion on average for the next five fiscal years.

The SEU also provides updates on some previously announced or existing tax measures, including extending the Carbon Capture, Utilization and Storage Investment Tax Credit (CCUS ITC) to enhanced oil recovery, providing more details on accelerated capital cost allowance (CCA) for low-carbon liquefied natural gas (LNG) facilities and extending the employee ownership trust (EOT) capital gains exemption.

The following includes a brief summary of the tax measures addressed in the SEU.

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Extension of CCUS ITC to enhanced oil recovery projects

On November 27, 2025, the federal government signed a Memorandum of Understanding with Alberta (MOU). The MOU included a commitment by Canada to extend the CCUS ITC to projects that involve the use of captured carbon for enhanced oil recovery (EOR). The SEU confirms that commitment, effective as of April 28, 2026, and provides further details of the CCUS ITC that will be available for eligible EOR expenditures.

The CCUS ITC is a refundable tax credit for eligible CCUS capital expenditures. Depending on the purpose of the eligible equipment, there are three different credit rates:

- 60% for eligible capture equipment used in a direct air capture project
- 50% for all other eligible capture equipment
- 37.5% for eligible transportation, storage and use equipment

The credit is available for expenditures incurred to the end of 2040. The rates above apply to eligible expenditures incurred through the end of 2035 and are reduced by half (i.e., to 30%, 25% and 18.75%, as applicable) for expenditures incurred from the start of 2036 to the end of 2040.

The CCUS ITC will be available for eligible expenditures incurred by taxpayers with a qualified CCUS project that stores CO_2 through EOR; however, the credit available for these expenditures will be at half the rate for other eligible expenditures (i.e., 30%/25%/18.75% before 2036, and 15%/12.5%/9.375% from 2036 to the end of 2040).

Capture and transportation equipment of a qualified CCUS project that stores CO_2 through EOR would be eligible. Equipment used in EOR projects to inject and store CO_2 would also be eligible unless all or substantially all of the equipment use is to produce oil. Further technical guidance regarding equipment eligibility will be published by Natural Resources Canada.

The process for designating EOR-eligible jurisdictions — meaning jurisdictions considered to have sufficient regulations that ensure the CO_2 is permanently stored — will be similar to the existing process for designating jurisdictions for dedicated geological storage.

Recovery of the CCUS ITC for EOR projects may occur if the projected eligible use exceeds the actual eligible use of captured carbon by more than a permitted amount, similar to the recovery that may occur for credits from other qualified CCUS projects. For these purposes, amounts of CO_2 from EOR operations that are released into the air in excess of a 5% allowance would be considered an ineligible use.

EOR will be recognized as a type of CO_2 storage for purposes of the Clean Hydrogen ITC — specifically, the calculation of a project's carbon intensity. For purposes of the Clean Electricity ITC — specifically, storage methods recognized for qualified natural gas energy systems — CO_2 used for EOR will be treated as having been permanently stored underground (as long as there are sufficient safeguards).

Accelerated CCA for low-carbon LNG equipment and buildings

The SEU provides additional details for the Budget 2025 proposal to reinstate accelerated capital cost allowance for eligible liquefied natural gas equipment and related buildings on the condition that they are low-carbon facilities.

To qualify for accelerated CCA, the expected emissions intensity of an LNG facility's on-site liquefaction activities must be no more than 0.20 $tCO_2e/tLNG$ (tonnes of carbon dioxide equivalent per tonne of LNG produced annually).

An LNG facility must be certified by the Minister of Energy and Natural Resources before the facility's owners can claim the accelerated CCA. Certification is based on a one-time report prepared by a qualified third-party Canadian engineering firm that includes the expected emissions intensity of the LNG facility, as well as any other information required by the Minister of Energy and Natural Resources.

The accelerated CCA rates would be

- 50% for eligible Class 47 properties (specified liquefaction equipment, including controls, cooling equipment, compressors, pumps, storage tanks, ancillary equipment, pipelines used exclusively to transport liquefied natural gas from the facility and related structures)
- 10% for eligible Class 1 properties (non-residential buildings used in LNG facilities)

The additional CCA can only be claimed against income of the taxpayer attributable to the liquefaction of natural gas at that facility (including income from selling byproducts of the liquefaction process). Where a taxpayer is engaged in activities other than the operation of a liquefaction facility, the income attributable to liquefaction of natural gas is determined as though the liquefaction facility were a separate business and the taxpayer's cost of natural gas owned by the taxpayer before it enters the facility is equal to its fair market value.

Excluded equipment includes equipment used exclusively for regasification, property acquired to produce oxygen or nitrogen, electrical generating equipment and breakwaters, docks, jetties, wharfs and similar structures. Property cannot have been previously used or acquired for use before it was acquired by the taxpayer.

The enhanced first-year Accelerated Investment Incentive deduction will also be available for certain capital property of LNG facilities.

The accelerated CCA rates are proposed to be available for eligible assets acquired from November 4, 2025 (Budget 2025) to the end of 2034.

Employee ownership trusts: capital gains exemption

An employee ownership trust is an arrangement where a trust holds shares of a corporation for the benefit of the corporation's employees. EOTs are intended to provide an alternative business succession method for retiring business owners. Budget 2023 introduced new rules to facilitate their creation, and the Fall Economic Statement 2023 introduced an exemption from taxation for the first $10 million in capital gains realized on the sale of a business to an EOT between 2024 and 2026.

The SEU proposes to make the $10-million capital gains exemption permanent, meaning it would no longer expire after 2026.

Advance income tax rulings: priority for certain requests

Taxpayers can request that the Canada Revenue Agency (CRA) provide an advance income tax ruling that sets out the CRA's view of how specific provisions of the *Income Tax Act* (Canada) apply to a proposed transaction. Once issued, advance income tax rulings are binding on the CRA for the particular taxpayer (subject to stated requirements or caveats). The process for obtaining an advance income tax ruling can be lengthy.

The SEU announces that the CRA will give priority to advance income tax ruling requests that relate to

- large-scale, nation-building projects (e.g., housing and infrastructure)
- projects of national importance
- "investments that enhance productivity and strengthen critical sectors of Canada's economy" — specifically, clean economy initiatives and projects that may qualify for a clean economy ITC

No further details are available about which requests qualify under these categories or the process for identifying a request as potentially qualifying for priority treatment.

Confirmation of intention to proceed

The SEU reaffirms the federal government's intention to proceed with numerous previously announced tax measures, including

- legislative and regulatory proposals released on January 29, 2026, including with respect to the following measures:
    - reporting by non-profit organizations
    - qualified investments for registered plans
    - the 21-year rule
    - immediate expensing for manufacturing and processing buildings
    - expanding eligibility under the clean hydrogen investment tax credit to methane pyrolysis
    - tax deferral through tiered corporate structures
    - eligible activities under the Canadian exploration expense
    - hybrid mismatch arrangements
    - investment income derived from assets supporting Canadian insurance risks
    - technical amendments to the *Income Tax Act* and the *Income Tax Regulations*
    - technical amendments to the *Global Minimum Tax Act*
- new GST/HST rules announced in Budget 2025 to introduce a reverse charge mechanism beginning with certain supplies in the telecommunications sector, and for which legislative proposals have not yet been released
- legislative and regulatory proposals released on August 15, 2025, including with respect to the following measures:
    - cryptoasset reporting framework and the Common Reporting Standard (subject to a deferred application date of January 1, 2027, as previously announced in Budget 2025)
    - CRA information requests
    - excessive interest and financing expenses limitation (EIFEL) rules
    - technical tax amendments to the *Income Tax Act* and the *Income Tax Regulations*
    - technical amendments to the *Global Minimum Tax Act*
    - technical amendments relating to the GST/HST and excise levies
- legislative amendments to give effect to the suspension of the Canada-Russia Tax Treaty, as announced by the government on November 18, 2024
- legislative and regulatory proposals released on August 12, 2024, including with respect to the following measures:
    - the *Global Minimum Tax Act* and the *Income Tax Conventions Interpretation Act*
    - avoidance of tax debts
    - manipulation of bankrupt status
    - technical tax amendments to the *Income Tax Act* and the *Income Tax Regulations*
    - technical amendments relating to the GST/HST, excise levies and other taxes
- legislative proposals released on August 4, 2023, including with respect to the following measures:
    - technical amendments to GST/HST rules for financial institutions

- legislative amendments to implement the Hybrid Mismatch Arrangements rules announced in Budget 2021 (though it is unclear why this item was included when the first package of hybrid mismatch rules proposed in Budget 2021 was enacted on June 20, 2024, and the second package of draft legislation was released on January 29, 2026, as noted above)

If you have any questions or require additional analysis on the Spring Economic Update 2026, please contact any member of our National Tax Department.