Meet Canada's New Productivity Super-Deduction

NEW TAX MEASURES APPLICABLE TO REAL ESTATE ACQUISITION CONSIDERATIONS FOR MANUFACTURING AND PROCESSING OPERATIONS

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NEWMARK

PRODUCTIVITY SUPER-DEDUCTION

The Canadian federal government's 2025 budget introduced what it calls a **"Productivity Super-Deduction"** - in effect, a suite of accelerated write-off/tax-deduction incentives for capital investment that **applies to real estate acquisitions** used for manufacturing/processing under certain conditions.

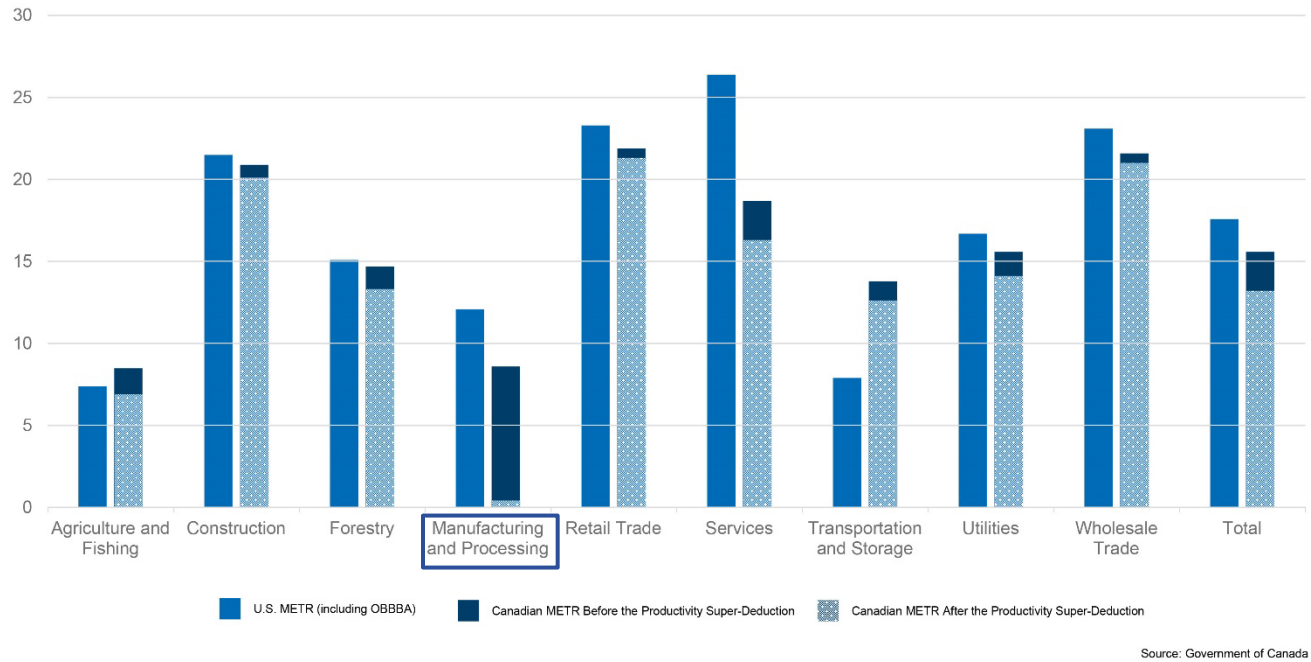
Here's a breakdown of how it works and how it could apply to a manufacturer purchasing real estate, and what to watch out for.

What The Super-Deduction Includes:

The Super-Deduction is not a single new tax credit, but an umbrella term for a number of tax/CCA (capital cost allowance) measures that allow faster write-off of investment. Some key components:

- Immediate expensing (100% first-year write-off) of **machinery and equipment** used for manufacturing or processing.
- Immediate expensing of certain "productivity-enhancing assets" such as patents, data-network infrastructure, computers.
- Immediate expensing of clean energy generation and energy conservation equipment, and zero-emission vehicles.
- **Crucially for real estate**: Immediate expensing (100% first-year write-off) proposed for **manufacturing or processing buildings** acquired on or after Budget Day and first used for manufacturing/processing before 2030.

Canada's sectoral marginal effective tax rates versus the U.S., 2025



Source: Government of Canada

How This Works for a Manufacturer Buying Real Estate:

If you are a manufacturing enterprise - or plan to be - that is acquiring real estate in Canada and will be using said real estate for manufacturing / processing purposes, here is how you could benefit and what conditions apply.

Application Scenario

- Purchase a building (or a significant addition/improvement) **on or after Budget Day (November 4, 2025)**.
- At least **90% of the building's floor space is used** for manufacturing or processing goods. (The budget text stipulates this 90% usage requirement.)
- The building is **first used for manufacturing/processing before 2030** to qualify for the full 100% deduction.
- If the building is used after that date, or acquired later, there are phase-out provisions. For example: for acquisitions in 2030-31, the first-year deduction would be 75%. In 2032-33 it would be 55%, and after that the full benefit disappears.
- The property must **not** have been previously owned by the taxpayer or a non-arm's-length person (i.e., the reported measure requires an "arm's length acquisition").
- The building must *not* be acquired via a tax-deferred rollover transaction.

What Benefit This Gives

- Normally, under the Canadian Income Tax Act, the cost of a manufacturing/processing building would be depreciated using CCA classes (for example, Class 1 plus an additional component) over a number of years (e.g. 10% combined CCA).
- Under this incentive you instead can write off **100% of the cost in year 1**, thereby greatly accelerating tax deductions, reducing taxable income earlier, improving cash flow and boosting return on investment.
- The government says this will **reduce Canada's marginal effective tax rate (METR)** for business investment by more than two percentage points.

Key Caveats and Things to Watch:

The super-deduction is not automatic and there are important restrictions and considerations:

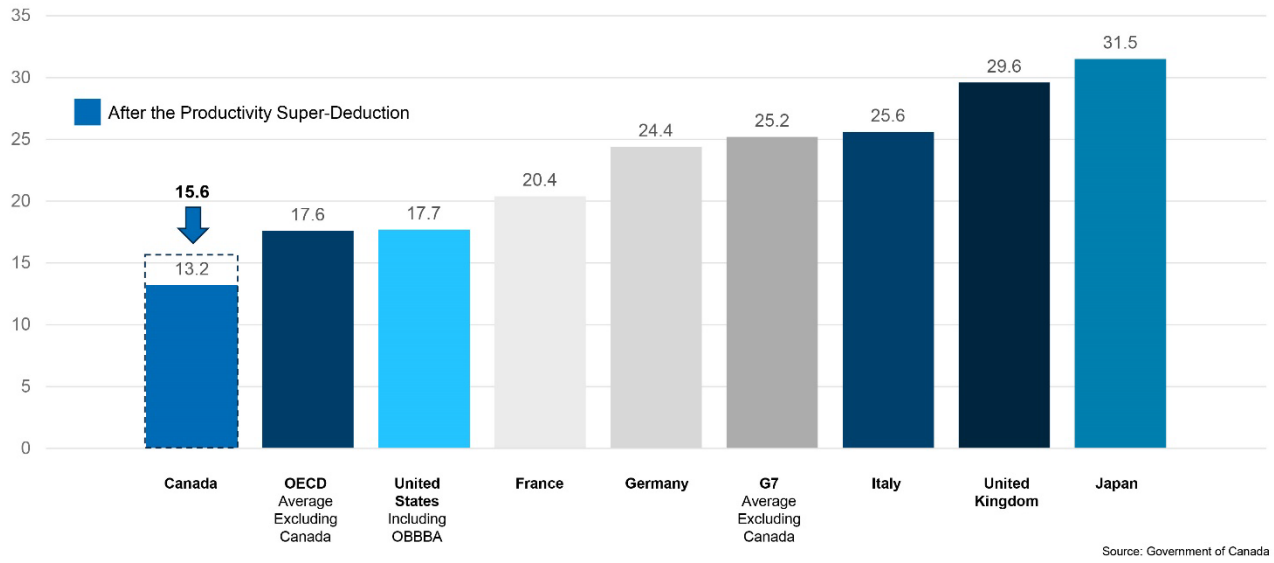
- **Usage requirement**: The 90% manufacturing/processing floor-space test is strict. If you use too much of the building for non-manufacturing/processing purposes (e.g., administrative offices, retail, warehousing that is purely storage), you may fail the test.
- **Acquisition date / use date**: The building must be acquired on or after November 4, 2025, and first used for manufacturing/processing before 2030 to get the full 100%. If you miss that "use before 2030" you'll get a reduced deduction or none. (Phase-out 75% / 55% then gone by 2033.)
- **Previously owned / rollover:** If you acquire the building from a related party (non-arm's-length) or via certain tax-deferred transfers, you may be ineligible. The rules require "not previously owned by the taxpayer or a non-arm's-length person" and exclude roll-over acquisitions.
- **Change of use / recapture risk**: If after claiming the deduction you change the use of the building (say you convert part of it to non-manufacturing/processing), there might be recapture or additional taxable amounts in the future. (Full details are not part of this summary, but this is typical for such measures.)
- **Provincial alignment**: The federal measure provides the deduction, but in some cases provincial taxes and allowances may differ; check for provincial tax alignment and any provincial incentives.
- **Pending regulations / details**: The Budget announces the intention; some technical legislation or regulations may follow to

clarify details (timing, definitions, “manufacturing or processing”, what qualifies, etc.)

- **Applicability to real estate: not all real estate counts**: Note that this is for buildings used for manufacturing or processing goods. So if you’re acquiring a real estate asset that is used only for warehousing, distribution, office, or retail, then this building might *not* qualify unless it meets the “manufacturing or processing” threshold. The definition of “processing” as used by the Act will matter. The budget text uses “manufacturing or processing buildings”.
- **Subject to Royal Assent**: The Carney Budget has not yet received Royal Assent and remains subject to further consideration and modification by Parliament. Final approval is required before any measures become law. Please treat all details or projections as provisional pending passage and consult official sources for updates on the legislative process.

Budget 2025 reinforces Canada as the most tax competitive jurisdiction for new business investment in the G7

Canada is one of the best places in the world to invest



Practical Steps for a Manufacturer Interested in Real Estate Acquisition:

If you’re a manufacturer (or plan to become one) and you’re evaluating a real estate purchase in Canada (or structuring one) and you want to take advantage of the Super-Deduction, consider the following steps:

- **Confirm usage**: Ensure that at least 90% (by floor area) of the building will be used for manufacturing or processing goods. Review your layout, operations plan, tenant zones.
- **Timing matters**: Plan acquisition officially for after November 4, 2025, and ensure the building will be first used for manufacturing/processing before 2030 (for full benefit). If you wait longer, you will incur reduced write-off percentages.
- **Arm’s-length transaction**: If you’re acquiring from a related party, or via a contract that effectively transfers from non-arm’s-length, the eligibility may be jeopardized. Ensure legal structure is suitable.
- **Structure improvements/additions**: If you are purchasing a building and will make substantial renovations or additions to convert it into manufacturing/processing use, check how those additions/improvements qualify for the deduction. The bulletin

says, “provision will be made for significant additions or renovations.”

- **Define “manufacturing or processing”**: Obtain legal/tax advice to confirm what “manufacturing or processing” means in the context of the Income Tax Act and for the purposes of this measure; especially if your activity is borderline (e.g., high value-added assembly, repacking, finishing, etc.)
- **Monitor change of use**: After claiming the deduction, monitor whether the building’s use remains manufacturing/processing. If use changes significantly, you may face a recapture or loss of benefit.
- **Integration with other tax planning**: Because this deduction accelerates the write-off, consider how this interacts with your overall tax position (other CCA classes, ability to use the deduction in year 1 given taxable income, etc.)
- **Provincial tax and depreciation**: Check whether the province where the building is located allows an equivalent deduction/expensing or how it treats depreciable property for provincial tax; while the federal deduction gives the initial benefit, provincial tax matters too.

How This Might Affect Your Decision Making:

- The ability to write off the building cost in year one improves cash flow, reduces after-tax cost of investment, increases return on investment. If comparing alternatives (e.g., leasing vs. buying, or buying vs. investing in equipment only), this tilts favourably to buying/owning the building for manufacturing/processing purposes.
- Because the incentive is time-limited (full benefit only for acquisitions used before 2030, and phased out after), it may accelerate decision-making. If you were planning to wait, you might move up your timeline.
- The tax incentive may influence your choice of location, facility size and plan: to ensure you hit the 90% floor-space requirement and actual manufacturing/processing usage.
- The measure may affect how you finance the building (e.g., financing structure, timing of payments) so that the “acquired on or after Budget Day and first use before 2030” condition is safely met.

Productivity Super-Deduction Schedule

First Use for Manufacturing	Immediate Deduction (Year 1)	Ex: Deduction Based on $10M Investment	Notes
Before 2030	**100%**	$10,000,000	Full Productivity Super-Deduction
2030 - 2031	**75%**	$7,500,000	Phase-out begins
2032 - 2033	**55%**	$4,125,000	Phase-out continues
After 2033	0%	-	Returns to normal CCA rates

Example:

A manufacturer purchasing a $10M facility in 2026 and beginning production in 2027 can deduct the entire $10M in Year 1 rather than depreciating over decades.

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