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Canada's Productivity Mega Deduction: A Welcome Measure for Alberta

Canada's oil and gas sector is among the most capital-intensive in the economy. Developing wells, gathering systems, processing facilities and related infrastructure requires large upfront expenditures years before meaningful cash flow arrives. The current rules allow businesses to write-off the cost of capital assets against income for tax purposes at a set period over time. After more than a decade of the federal governments tightening resource tax rules—phasing out accelerated allowances for oil sands and mining assets, ending flow-through share treatment for fossil-fuel activities after 2023, and narrowing the definition of Canadian exploration expenses—investors had reason for caution.

The Productivity Mega Deduction announced by Prime Minister Mark Carney on Tuesday changes that calculus. Canadian development expenses incurred on or after September 15, 2026, become immediately deductible in full (rather than 30% per year on a declining-balance basis). That category covers a wide range of practical costs: drilling and completing oil and gas wells (to the extent they are not exploration expenses), building temporary access roads and preparing well sites, drilling injection or monitoring wells, and post-production work to maintain, increase or restore output from existing wells. These are the everyday expenditures that turn resources into production.

In addition, most classes of depreciable property acquired by companies in E&P and oilfield services will qualify for immediate expensing. Machinery, well equipment, non-regulated pipelines, vehicles used in operations, computers, software and similar assets can be written off in the year they become available for use. Buildings in Classes 1 and 3 and regulated natural-gas distribution pipelines remain excluded, but the core productive assets of the industry are covered.

The Productivity Mega Deduction generally allows the tax benefits of eligible development costs or capital investment to be realized immediately rather than over several years.

For investors, these measures are a clear welcome sign. Immediate recovery of development spending and most capital equipment improves cash flow, shortens payback periods and lowers the risk of committing hundreds of millions to Canadian projects. In an industry defined by long-cycle, capital-heavy decisions, these deductions will provide much-needed certainty. It signals to investors that Canada wants the next generation of wells, facilities and supporting services built here. The government has framed the Mega Deduction as a permanent, priority measure. With strong business-group support and the announcement coming from the Prime Minister himself, the proposals are expected to pass Parliament and take effect as outlined. After years of incremental restriction, the sector now has a concrete reason to invest in developing Canada's resources.

To learn more about how these measures apply please contact **Heather DiGregorio**, **Kirk Lamb**, **Rami Pandher** or **Michael Chernos** from BD&P's **Tax** group.