



100% Immediate CCA Deduction of Capital Investments

Three-Scenario Analysis: Economy-Wide, Rail Sector,
and Freight Transport & Warehousing

Prepared for the **Railway Association of Canada**

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Executive Summary

This report models three policy scenarios for 100% immediate capital cost allowance (CCA) deduction, each assessed against the Productivity Super Deduction (including the Accelerated Investment Incentive (AII) and immediate deductibility for certain assets) baseline, at a 5.5% real discount rate and 2% inflation. Scenario 1 covers all private-sector investment economy-wide; Scenario 2 targets the rail sector; Scenario 3 covers freight transport and warehousing.

Each of these scenarios would be consistent with the Government's Capital Budgeting Framework, introduced in Budget 2025, which distinguishes day-to-day operational spending from capital investment—classifying the proposed tax policy changes as investments that support capital formation and generate long-term economic returns, rather than operating expenditures. The November 2025 Budget applied this treatment to the Productivity Super Deduction and the AII.

Key Results – Steady State Annual Cost, Increase in Investment and GDP, and Benefit Cost Ratio (2024 dollars)

Key Finding	S1 — Economy-Wide	S2 — Rail Only	S3 — Freight T&W (ex-Pipeline)
Investment base (2024)	\$226B (all private) ¹	\$3.2B ²	\$21B ³
Annual net federal fiscal cost in steady state (including dynamic effect) ⁴	\$4.4B	\$108M	\$331M
<i>As a share of CIT revenues</i>	4.35%	0.11%	0.33%
<i>As a share of federal tax revenues</i>	0.97%	0.02%	0.07%
Annual provincial cost in steady state (with dynamic effect) ⁵	\$3.3B	\$83M	\$254M
Annual increase in investment (steady state)	\$4.8B / yr (+2.1%)	\$167M / yr (+5.2%)	\$591M / yr (+2.9%)
GDP impact (steady state)	\$7.2B / yr	\$268M / yr	\$887M / yr
Benefit Cost Ratio (federal only / combined federal and provincial) ⁶	1.4 / 0.8	1.6 / 0.9	1.8 / 1.0
Annual GDP/Fiscal Cost ratio in steady state (federal only / combined federal and provincial)	1.6 / 0.9	2.5 / 1.4	2.7 / 1.5

¹ S1 capex baseline of \$226B: StatsCan Table 34-10-0035-01.

² RAC Rail Trends Database. Data available upon request to RAC.

³ S3 capex of \$21B is estimated from corporate filings. Pipeline (NAICS 486) and Crown corporations excluded.

⁴ Scenario 1 approaches its steady state 15 years after the introduction of the policy, while Scenarios 2 and 3 approach their steady state in year 20.

⁵ For scenario 2 (rail sector) the cost is concentrated in Ontario, Quebec, Manitoba, Saskatchewan, Alberta and British Columbia.

⁶ The Benefit Cost Ratio represents the ratio of net present value of the increase in GDP over the next 20 years to the net present value of the fiscal cost over the same period. It does not include unquantified qualitative benefits of Scenario 2 such as reductions in greenhouse gas emissions, improvement in supply-chain resilience and trade corridors, enhanced road safety resulting from the diversion of road traffic. **The ratios presented are therefore a lower bound on the true welfare return rather than a central estimate.**

Note on GDP lines: all GDP figures use take-up rates to take into account that not all corporations are profitable in all years. S1: 60% take-up, S2: 95% take-up, S3: 70% take-up.

Background

Canada's Capital Cost Allowance (CCA) system governs the rate at which businesses may deduct capital investments against taxable income. Rather than allowing a full deduction in the year of purchase, the CCA system typically requires firms to depreciate assets over several years at prescribed declining-balance rates — rates that vary substantially by asset class, from 4% for long-lived rail structures to 40% for heavy trucks. In 2018, the federal government introduced the Accelerated Investment Incentive (AII), which enhanced first-year CCA deductions by applying a 1.5× multiplier to the standard rate, partially offsetting the time-value cost of deferred deductions. The government extended this incentive in its November 2025 budget. Against this backdrop, the Railway Association of Canada (RAC) has identified full immediate expensing — the ability to deduct 100% of capital investment in the year it is incurred — as a priority policy change, on the grounds that it would reduce the after-tax cost of capital for rail and related freight infrastructure, stimulate private investment, and support Canada's broader trade competitiveness and supply-chain resilience objectives.

This report was commissioned to provide a rigorous quantitative foundation for that advocacy. Three distinct policy scenarios are modelled: Scenario 1 applies full deduction economy-wide to all eligible private-sector capital investment; Scenario 2 restricts the measure to the rail sector (NAICS 4821); and Scenario 3 extends coverage to the broader freight transport and warehousing cluster (NAICS 481, 482, 483, 484, 488, and 493), excluding pipeline transportation on the grounds that regulated toll recovery reduces the relevance of the user cost of capital framework for that sub-sector. Each scenario is assessed against the AII baseline — not a no-policy counterfactual — meaning that all results represent the incremental effect of moving from the current accelerated depreciation regime to full immediate deductibility.

Current CCA Taxation Regime

Rail companies (Scenario 2) and freight transport & warehousing companies (Scenario 3) are subject to declining-balance CCA at prescribed rates, subject to the AII half-year rule (1.5× first-year, being phased out). Model parameters include combined federal-provincial tax rate of 26.5%, inflation of 2% and a real rate of return of 5.5%.

Asset / Sub-sector	NAICS	Class	CCA Rate	Capex Share
Track & Roadway ¹	4821	Class 1	10%	43.7%
Buildings & Facilities (rail)	4821	Class 1	4%	17.9%
Railcars / Locomotives (Class 7 & 10)	4821	7 / 10	15% / 30%	20.4%
Rail Sector Weighted Average² (S2)	482	Various	~13%	100%
Aircraft & Flight Equipment	481	Class 9	25%	11.9%
Ships & Marine Vessels	483	Class 7	15%	7.1%
Heavy Trucks & Trailers	484	Class 16	40%	26.2%

¹ Track and signals benefit from an additional 6% CCA allowance for common carriers above the standard Class 1 rate (CRC c.945, s.1100). VIA Rail (Crown corporation; no federal CIT) is excluded from the Scenario 2 fiscal cost baseline.

² Around 20% of investments in the rail sector are in other categories not listed in the table.

Asset / Sub-sector	NAICS	Class	CCA Rate	Capex Share
Support Activities (terminals, etc.)	488	Various	~15.6%	11.0%
Warehousing Facilities & Equipment	493	1/8/10/50	~15.7%	28.6%
FREIGHT, Transportation and Warehousing Weighted Average (S3)	481–488/493	Various	~16.6%	100%
ECONOMY Weighted Average (S1)	All	Various	~21%	100%

Methodological Approach

The analysis is grounded in the User Cost of Capital (UCC) framework, the standard approach in the public finance literature for evaluating the investment effects of capital taxation. The UCC measures the minimum pre-tax rate of return a firm must earn to justify a marginal investment, accounting for the corporate tax rate, the discount rate, and the present value of the CCA tax shield (denoted z). Under full immediate deductibility the firm recovers the full capital cost in present-value terms — whereas under the All baseline, this recovery rate (in present value terms) ranges from approximately 44% (Class 1 buildings at 4%) to 89% (Class 10 rolling stock at 30%). The difference, Δz , captures the incremental improvement in tax treatment per dollar of investment, and the annual gross fiscal cost is derived as the product of the combined corporate tax rate ($\tau = 26.5\%$), Δz , and the investment base (I_0). For policy purposes, this report adjusts for the take-up rate — the share of firms expected to increase investment in response — yielding a more conservative and financially accurate estimate of the federal government's net revenue exposure. A 25% dynamic revenue feedback is applied to reflect the partial restoration of tax revenues through the broader economic activity the policy induces, a standard federal fiscal analysis assumption.

Investment responses are modelled using an investment demand elasticity with respect to the user cost of capital, with a prudent, central estimate of $\varepsilon = -0.60$ drawn from studies³ where elasticities span roughly -0.4 to -1.3 for machinery and equipment. GDP impacts are derived by applying Statistics Canada input-output multipliers to the take-up-adjusted investment increment, capturing upstream and downstream supply-chain effects. The GDP benefit stream grows over the 20-year horizon as successive years of additional capital accumulate, and is discounted at a real discount rate of 5.5% (nominal equivalent approximately 7.5%, assuming 2% inflation) to produce a net present value. Benefit-cost ratios are computed as the ratio of the 20-year discounted GDP benefit to the net present value of the effective federal fiscal cost, providing a summary welfare metric that is directly comparable across the three scenarios and robust to the choice of elasticity assumption at the central range. The unquantified qualitative benefits of Scenario 2 (GHG, improvement in supply-chain resilience and trade corridors, enhanced road safety resulting from the diversion of road traffic) are excluded from this analysis and would, if incorporated, increase the BCR.

³ Parsons (2008, Finance Canada WP 2008-01) and Wen, Yilmaz and Trejo (IMF WP 2020/077)

Scenario 1 — Economy-Wide 100% Immediate Deduction

Scenario 1 applies full deductibility to all eligible private-sector capital investment (\$226 billion, based on Statistics Canada data). While this measure incurs the highest budgetary cost, it increases overall investment by about 2.1%, the lowest ratio of the three scenarios considered. This is due to the fact that faster-depreciated assets (such as computers, machinery and processing equipment) already represent a higher share in the broader economy than in the freight transport sectors. Full deductibility therefore represents a comparatively smaller gain for these types of fast-depreciating assets.

In that scenario, the direct annual federal fiscal cost, in the steady state and in 2024 dollars, amounts to \$5.8 billion, and a net cost of \$4.35 billion once the dynamic revenue feedback from increased economic activity is considered. The transitional fiscal cost of Scenario 1 dissipates over approximately 15 years, after which annual costs stabilize at their steady-state level, with only a residual drag from long-lived structures.

Fiscal Cost¹

Form	Amount
Direct annual federal cost	\$5.8B
Dynamic revenue feedback	\$1.45B
Net annual federal cost	\$4.35B
Combined federal and provincial fiscal cost	\$7.7B

¹Amounts shown are the steady-state annualized impact once the additional capital is fully deployed and the supply-chain multiplier effects have fully propagated, starting in year 15. Amounts are in 2024 dollars.

Investment Response and GDP Impact¹

Elasticity	Increases in Investment (\$B/yr)	Increase in investment	Increase in GDP (\$B/yr)
Central ($\epsilon = -0.60$)	\$4.8B	3.5%	\$7.2B

¹ GDP impact shown is the steady-state annualized impact, or the GDP impact that would occur in a given year once the additional capital is fully deployed and the supply-chain multiplier effects have fully propagated, starting in year 15. Amounts are in 2024 dollars.

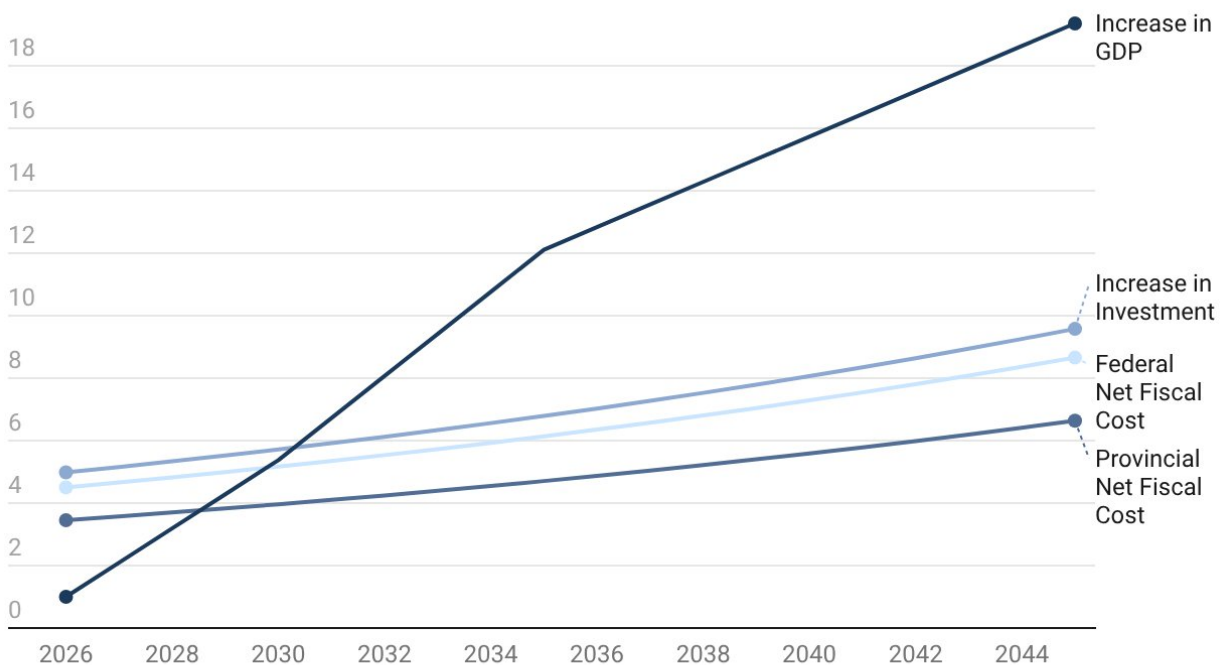
The GDP path in the model measures the cumulative output effect from the growing stock of additional capital, not just the spending effect of the current year's investment. As the capital stock increases, so does the productive capacity of the economy, with a compounding effect.

The following chart summarizes the annual impacts on GDP, investment, and federal and provincial fiscal costs once dynamic effects are taken into account. It shows that, in this scenario, full deductibility has a limited impact on private sector investments, with a leverage of around \$1.11 in private investment per dollar of net federal cost. The positive GDP impact becomes larger than the combined governments' fiscal costs 9 years after implementation.

Scenario 1 reaches its fiscal break even point within nine years of implementation, at which point the annual GDP gains outpace the combined federal and provincial fiscal cost and continue to widen thereafter.

Scenario 1 - Fiscal Cost and Impact on Investment and GDP

Fiscal cost to governments and impact on GDP and investment of 100% depreciation for all sectors, \$ billions (2024 dollars)



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Scenario 2 — Rail Sector

Scenario 2 restricts full deductibility to investment in the rail industry. The 2024 capital expenditure baseline (as provided by RAC) amounted to \$3.2 billion. In a sector where long-lived track infrastructure represents 43.7% of capital expenditures, full deductibility in the rail sector increases investment, in percentage terms, the most.

The transitional fiscal cost of Scenario 2 dissipates over approximately 20 years, after which annual costs stabilize at their steady-state level, reflecting the sector's concentration in long-lived track and roadway infrastructure.

Fiscal Cost¹

	Amount
Direct annual federal cost	\$143M
Dynamic revenue feedback	\$36M
Net federal cost	\$108M
Combined federal and provincial fiscal cost	\$191M

¹Amounts shown are the steady-state annualized impact once the additional capital is fully deployed and the supply-chain multiplier effects have fully propagated, starting in year 20. Amounts are in 2024 dollars.

Investment Response and GDP Impact¹

Elasticity	Increase in investment	%	Increase in GDP
Central ($\epsilon = -0.60$)	\$167M	5.2%	\$268M

¹ GDP impact shown is the steady-state annualized impact, or the GDP impact that would occur in a given year once the additional capital is fully deployed and the supply-chain multiplier effects have fully propagated, starting in year 20. Amounts are in 2024 dollars.

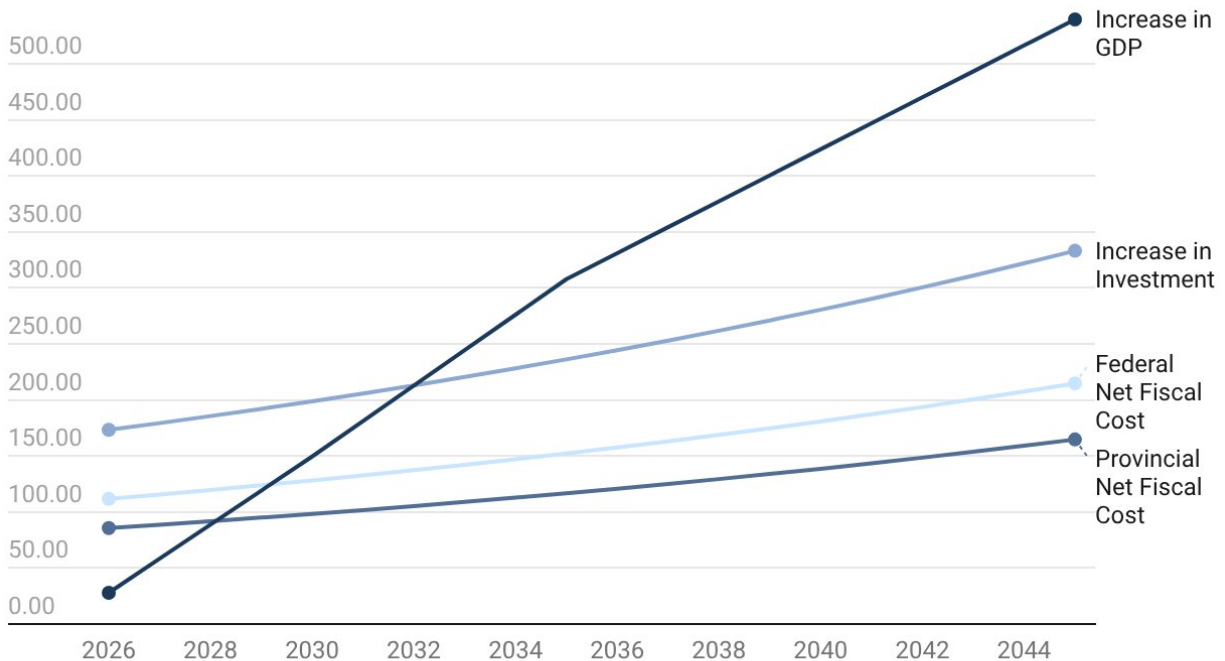
By Year 20, the annual increase in GDP of \$426 million exceeds the annual net fiscal cost (around \$300 million), confirming the long-run growth dividend outpaces the cost of the policy.

The following chart summarizes the annual impacts on GDP, investment, and federal and provincial fiscal costs once dynamic effects are taken into account. In this scenario, full deductibility generates a significant increase in private sector investments, with a leverage of around \$1.55 in additional investment per dollar of net federal cost.

Scenario 2 reaches its fiscal breakeven point within nine years of implementation, at which point the annual GDP gains outpace the combined federal and provincial fiscal cost and continue to widen thereafter.

Scenario 2 - Fiscal Cost and Impact on Investment and GDP

Fiscal cost to governments and impact on GDP and investment of 100% depreciation for the rail sector, \$ millions (2024 dollars)



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Scenario 3 — Freight Transport & Warehousing

Scenario 3 extends full deductibility to the commercial freight transport and warehousing cluster (excluding pipeline, urban transit, and sightseeing). The pipeline sector is excluded: regulated operators recover capital costs through tolls approved by the Canada Energy Regulator, so a reduction in the cost of capital does not translate into additional investment in the same way as for other sectors. The transitional fiscal cost of Scenario 3 dissipates over approximately 20 years, after which annual costs stabilize at their steady-state level.

The estimated \$21 billion private capital expenditure baseline is dominated by warehousing (28.6%) and trucking (26.2%).

Sub-sector Capital Expenditure Baseline

Sub-sector	NAICS	Est. Private Capex (2024)	Share of Capex
Warehousing & Storage	493	~\$6.0B	28.6%
Truck Transportation	484	~\$5.5B	26.2%
Rail Transportation	482	~\$3.2B	15.2%
Air Transportation	481	~\$2.5B	11.9%
Support Activities for Transport	488	~\$2.3B	11.0%
Water Transportation	483	~\$1.5B	7.1%
TOTAL	481–488/493	~\$21.0B	100%

Fiscal Cost¹

Form	Amount
Direct annual federal cost	\$442M
Dynamic revenue feedback	\$111M
Net federal cost	\$331M
Combined federal and provincial fiscal cost	\$585M

¹Amounts shown are the steady-state annualized impact once the additional capital is fully deployed and the supply-chain multiplier effects have fully propagated starting in year 20. Amounts are in 2024 dollars.

Investment Response and GDP Impact¹

Elasticity	Increase in investment	%	Increase in GDP
Central ($\epsilon = -0.60$)	\$591M	2.9%	\$887M

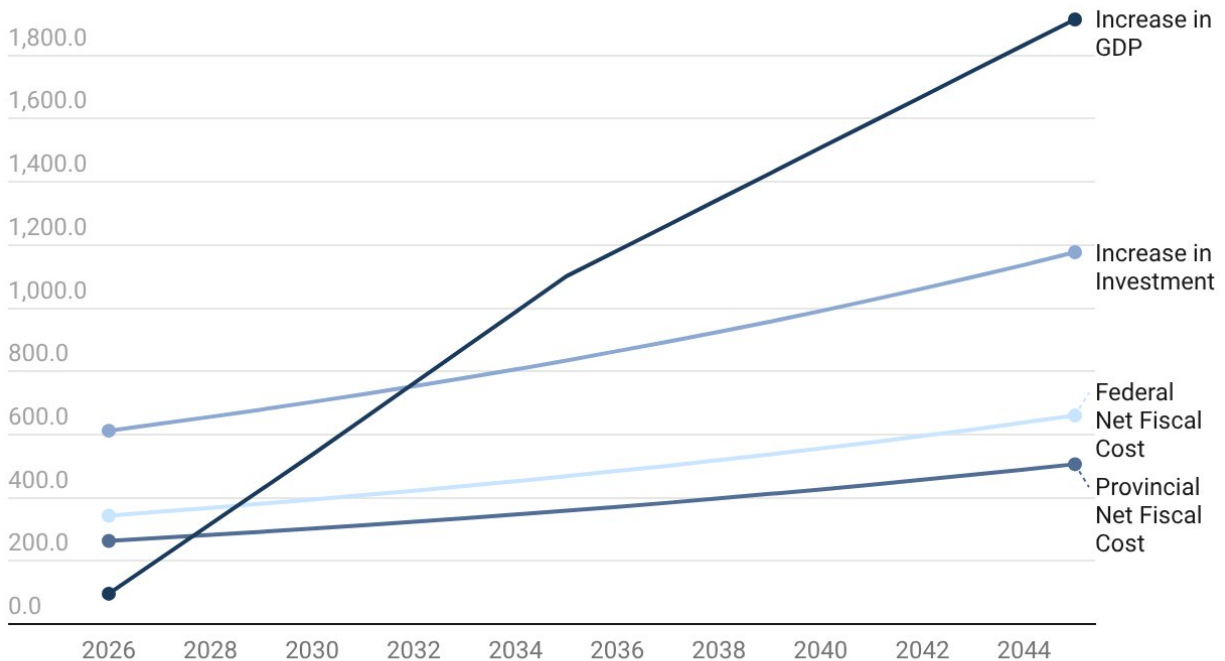
¹ GDP impact shown is the steady-state annualized impact, or the GDP impact that would occur in a given year once the additional capital is fully deployed and the supply-chain multiplier effects have fully propagated, starting in year 20. Amounts are in 2024 dollars.

The following chart summarizes the annual impacts on GDP, investment, and federal and provincial fiscal costs once dynamic effects are taken into account. In this scenario, foregone federal revenues also have a significant impact in generating private sector investments, with a leverage of around \$1.79 in private investment per dollar of net federal cost.

Scenario 3 reaches its fiscal breakeven point within seven years of implementation, at which point the annual GDP gains outpace the combined federal and provincial fiscal cost and continue to widen thereafter.

Scenario 3 - Fiscal Cost and Impact on Investment and GDP

Fiscal cost to governments and impact on GDP and investment of 100% depreciation for the Transportation and Warehousing sector, \$ millions (2024 dollars)



Created with Datawrapper

Welfare Impact Analysis

The benefit-cost ratio (BCR), which is the net present value of the benefits divided by the net present value of the costs, measures net welfare. A BCR above 1.0 indicates net positive welfare. Two perspectives are presented: (A) Federal government perspective — using only the net federal fiscal cost (57% of combined CIT, after dynamic feedback of 25%); and (B) Combined government perspective (including provincial and federal cost, after dynamic feedback).

As the results of BCR analysis can vary depending on the assumptions used, the results below show how the ratio varies under different nominal discount rates. The unquantified qualitative benefits of Scenario 2 (GHG, improvement in supply-chain resilience and trade corridors, enhanced road safety resulting from the diversion of road traffic) are excluded from this analysis and would, if incorporated, increase the BCR. For additional information on the benefits associated with Scenario 2—including reduced pavement damage, traffic congestion, accident risk, and PM, NOx, and GHG emissions—see Table 1 in *Pricing Freight Transport to Account for External Costs*⁴.

⁴ Pricing Freight Transport to Account for External Costs: Working Paper 2015-03, Congressional Budget Office

Federal Government Perspective

	S1 — Economy-Wide				S2 — Rail Only				S3 — Freight T&W			
Discount Rate →	3.5%	5.5%	7.0%	10%	3.5%	5.5%	7.0%	10%	3.5%	5.5%	7.0%	10%
Central ($\epsilon = -0.60$)	1.2	1.4	1.5	1.6	1.3	1.6	1.7	1.7	1.5	1.8	1.9	2.0

Net Federal Cost = 57% of combined CIT, after dynamic feedback 25%

Combined Government Perspective

	S1 — Economy-Wide				S2 — Rail Only				S3 — Freight T&W			
Discount Rate →	3.5%	5.5%	7.0%	10%	3.5%	5.5%	7.0%	10%	3.5%	5.5%	7.0%	10%
Central ($\epsilon = -0.60$)	0.7	0.8	0.9	0.9	0.7	0.9	0.9	1.0	0.8	1.0	1.1	1.1

Comparative Assessment — All Three Scenarios

Metric	S1 — Economy-Wide	S2 — Rail Only	S3 — Freight T&W
Investment base	\$226B	\$3.2B	~\$21B
Direct federal annual cost (including dynamic effect)	\$4.4B	\$108M	\$331M
Annual increase in investment	\$4.8B	\$167M	\$591M
Leverage (increase in investment per dollar of federal cost)	\$1.11	\$1.55	\$1.79
Annual GDP impact	\$7.2B	\$268M	\$887M
20-yr cumulative increase in GDP (NPV)	\$110.7B	\$3.1B	\$11.0B
20-yr cumulative federal cost (NPV)	\$79.1B	\$2.0B	\$6.0B
20-yr combined federal and provincial cost (NPV)	\$140B	\$3.5B	\$10.7B
Benefit Cost Ratio (federal cost only/ combined federal and provincial costs.)	1.4 / 0.8	1.6 / 0.9	1.8 / 1.0