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Ottawa Must Factor OBBB Into Its Industrial Strategy

By Angelo Katsoras

Introduction

While President Trump's tariff policy and the fiscal implications of the recently passed One Big Beautiful Bill (OBBB) Act have dominated most of the media attention, relatively little has been said about other provisions of the bill that will have a deep impact on Canada.

Immediate Expensing of Capital and R&D Investments

Instead of cutting the corporate tax rate for U.S. manufacturers, as was proposed during the 2024 campaign, President Trump's signature legislation for 2025 focuses on incentivizing domestic investment.

The law permanently allows businesses to immediately deduct the full cost of equipment and domestic research and development (R&D).[1] It also temporarily permits the full expensing of construction and improvement costs for factories and other facilities if construction begins after January 19, 2025, and before January 1, 2029.[2] If history is any guide, there is a strong chance that this temporary measure could eventually be made permanent.

Previously, businesses had to depreciate the cost of a new building or equipment over many years—typically 39 years for non-residential buildings,[3] five to seven years[4] for most equipment, and five years for R&D. In contrast, the 2025 law allows companies to fully expense these costs in the year they are incurred, accelerating tax deductions and improving liquidity.

In addition to relocating operations owing to tariff uncertainty, companies might consider shifting new investments to the United States to take advantage of immediate expensing of capital investments. Canada may have to follow suit with comparable tax incentives of its own to remain competitive.

A significant reduction in clean energy support

On the environmental front, the OBBB significantly rolls back several green energy initiatives. For example:

- It eliminates the mandate to have 50% of U.S. vehicle sales be EVs by 2030 and ends the $7,500 EV tax credit on September 30, 2025, rather than in 2032 as stipulated under the previous law.
- It nullifies the federal Corporate Average Fuel Economy standards by setting the non-compliance penalty at zero. This effectively dismantles the market for clean air credits that gas-powered automakers relied on to meet emissions targets. Tesla, on the other hand, has an all-electric fleet that generated surplus regulatory credits. In 2024, Tesla earned $2.76 billion by selling these credits to other carmakers.[5]
- As of July 5, 2026, new solar and wind power projects will no longer qualify for federal tax credits—six years earlier than the expiration date of 2032 set previously.

This could pressure Canada to revise its green targets. These include the federal mandate that requires 20% of all new light-duty vehicles sold in 2026 to be zero emission, with the percentage rising gradually until it reaches 100% in 2035. In the face of recent U.S. policy shifts and sluggish EV sales, automakers operating in Canada have urged the Liberal government to repeal the mandate.

The European Union walks back some environmental policies

Even the EU looks to be backing away from certain environmental commitments owing to concerns about economic competitiveness and national security. The European Commission is expected to propose exempting sectors such as steel, cement, and aluminum from paying the carbon emissions tax on exported goods. The aim is to create a level playing field with foreign competitors that are not subject to this tax.[6]

Recent American and potential EU policy shifts could pressure Canada to scale back its carbon tax and/or emissions cap for key industrial sectors.

[1] "When key provisions in Trump's 'big, beautiful bill' take effect," CNN, July 12, 2025
[2] One Big Tax Break: The Top 5 Business Cuts In The Big Beautiful Bill," Forbes, July 17, 2025
[3] "Economic and Budgetary Impact of Extending Full Expensing to Structures," Tax Foundation, January 7, 2020
[4] "Modified Accelerated Cost Recovery System (MACRS): Explanation and Types," Investopedia, February 2025
[5] "'Elon has finally woken up': Musk battles to save Tesla from Trump," Financial Times, July 4, 2025
[6] "EU to exempt heavy industry from carbon tax on exports," Financial Times, July 2, 2025

Conclusion

Just as the Trump administration's tariff policies prompted Canada to reconsider internal trade barriers, defence spending, and major energy projects, the country may now feel the heat to implement measures such as immediate and full expensing of capital and R&D investments in order to remain competitive with its largest trade partner.

Ongoing trade tensions and the broader need to boost economic competitiveness could also render the Liberal government more open to striking a deal with the Western energy-producing provinces. This could entail maintaining a carbon pricing system in return for quicker project approval, postponing or eliminating the oil and gas emissions cap, and increasing subsidies for carbon capture initiatives.

While these reforms could enhance long-term competitiveness, they would also require the government to borrow more to offset the short-term loss in tax revenue. Ottawa must factor these evolving pressures—and the broader implications of the OBBB—into its upcoming fall budget.

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