TORONTO REGION BOARD OF TRADE

On our radar: The One Big Beautiful Bill Act

JUNE 26, 2025

What is the One Big Beautiful Bill Act (OBBBA)?

The One Big Beautiful Bill Act (OBBBA) is a comprehensive tax reform package now advancing through the United States (U.S.) Congress, building directly on the 2017 Trump-era Tax Cuts and Jobs Act (TCJA), while introducing new measures aligned with the current administration's economic and social agenda. While Washington frames the Act as a mechanism for strengthening U.S. competitiveness, some its measures are a direct economic threat to Canada's capital, manufacturing footprint, and innovation capacity. If passed, it will leave Canadian investors, businesses, and individuals exposed on multiple fronts.

WHAT'S AT STAKE?

Billions of dollars in new U.S. taxes on Canadian investment, leading to lower net returns, higher costs, and reduced income invested in U.S. assets.
Section 899 or the so-called "Revenge Tax" of OBBBA increases annual withholding taxes on cross-border income earned by individuals, corporations, investment funds, sovereign entities, and governments based on whether their home country imposes certain taxes deemed "unfair" on U.S. firms. The targeted measures—the Digital Services Tax (DST) and the Undertaxed Profits Rules (UTPRs)—have both been enacted by Canada, resulting in its classification by the U.S. administration as a jurisdiction engaging in "discriminatory" tax practices toward U.S. companies. Section 899 explicitly overrides existing treaty protections that cap withholding taxes to between 0% and 15% depending on the income type and recipient. That would apply to dividends, interests, royalties, and even business profits paid to Canadians.

If enacted, Canadian investors could lose a substantial portion of their U.S.-source income to U.S. taxes. The Revenge Tax would increase rates by five percentage points per year up to a maximum of 50% above the current reduced rate, in scenarios where no treaty benefit is recognized. Even where the Canada-U.S. treaty applies, the surtax still accrues on the treaty-based rate, potentially raising a current 15% dividend withholding tax, for example, to 30% for companies or 35% for individuals.[1]

OBBBA UPDATES TO DATE

- The House of Representatives passed the Act's text (H.R.1) on May 22, 2025. It then moved to the Senate for further review and consideration.
- The Senate Finance Committee released its revised version of the Act's text on June 16, 2026.
- If the Senate passes the Act, it goes back to the House. The House can pass it as is or amend it and send it back to the Senate for further review.
- Only once both the House and Senate have passed an identical version of the text, OBBBA can be sent to the President for signature or veto.
- Some Republican Senators and the White House are 'optimistic' about passing this Act before the Congress's July 4 recess. However, it is unknown if the self-imposed deadline will be met.

[1] Note: Applicable percentages depend on the final version of the Act that is passed.

IS THE DIGITAL SERVICES TAX (DST) BENEFICIAL IN THE LONG RUN?

- While Canada's DST is expected to raise $1.2 billion this year, the financial exposure of OBBBA's Section 899 far exceeds this revenue generation mechanism.
- Our analysis of the House's version of the Act concluded that if enacted, CPP Investments could be subject to up to $3.36 billion in annual U.S. withholding taxes—nearly three times the fiscal yield of the DST.
- When extended to the broader investment ecosystem, the potential cost to Canadian capital could reach $81 billion over the next seven years.

The federal government must ask: is raising $1.2 billion worth exposing Canadian capital to billions more in risk?

Canada risks losing investment and innovation to the U.S.

In addition to higher taxes for Canadian investors, this Act advances a coordinated suite of incentives designed to anchor capital, intellectual property (IP), and high-value economic activity within the U.S. In effect, the U.S. administration is significantly reducing the after-tax-cost of investing in domestic production by reinstating 100% bonus depreciation for most manufacturing asset classes, a new 100% bonus depreciation for qualified new U.S. factories and renovations and restoring full expensing for domestic Research and Development (R&D).

These measures would make expansion in the U.S. more financially attractive for manufacturers, while making Canada a less attractive destination for new investment. Firms are drawn to jurisdictions with competitive tax policies, and the longer Canada delays offering similar incentives, the greater the risk that its innovation-driven activities will shift south of the border.

Lastly, the Act adopts a "carrot and stick" approach to protect the U.S. tax base and retain economic value. By making the Foreign-Derived Intangible Income (FDII) and Global Intangible Low-Taxed Income (GILTI) regimes permanent, it rewards firms that keep IP, patents, and export-generating activity in the U.S., while discouraging shifting those assets abroad.

This places Canada at a disadvantage for two reasons. First, we offer no comparable incentive: there is no patent box regime, and existing tax incentives like the Scientific Research and Experimental Development (SR&ED) do little to encourage commercialization or IP retention. Second, U.S. firms could face structural penalties for placing intangible assets in Canada, even if the country remains attractive on other fronts (e.g. talent). The result is a growing risk of innovation-stage activity migrating south, weakening Canada's industrial base and hindering long-term growth. Without meaningful policy intervention, Canada will remain, as it has for decades, a source of early-stage research while the economic returns flow beyond its borders.

TRBOT calls for an immediate, targeted federal response

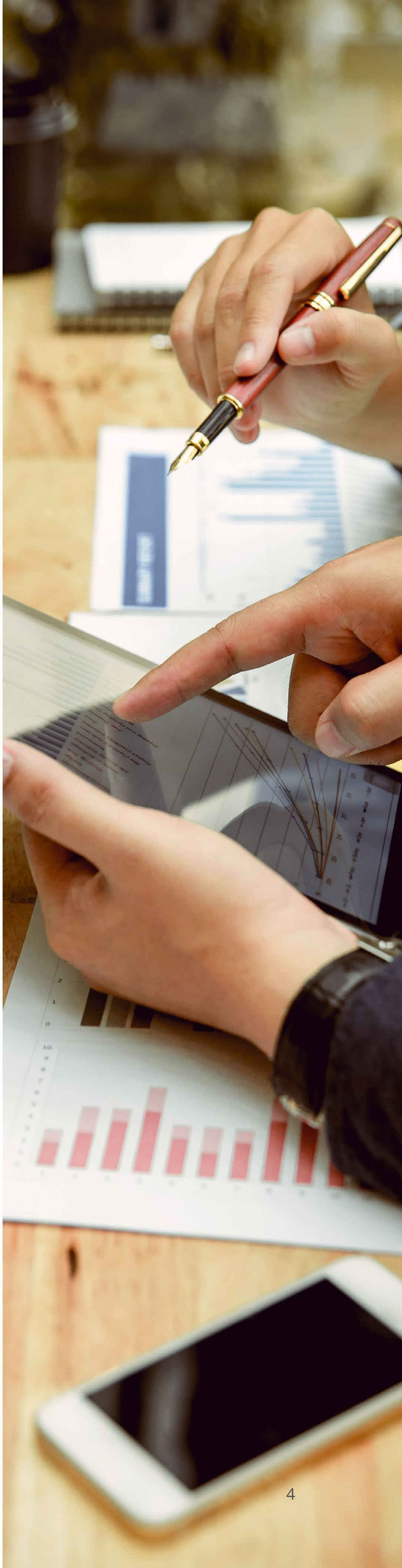
We cannot afford complacency in the face of OBBBA. If the federal government is determined to make Canada the most competitive economy in the G7, policy actions must move beyond discussion to implementation. A robust, well-calibrated response, not just defensive but forward-leaning is critical: one that recognizes that certain policy levers are the building blocks to domestic resilience against external pressures. If Canada acts with strategic intent, this moment can serve not as a setback but as a catalyst that signals to investors and businesses that Canada is the place to build, scale, and innovate.

In response to growing cross-border tax and investment pressures, the Toronto Region Board of Trade (TRBOT) calls for federal government action through the following targeted measures:

- Reconsider its position on both the Digital Services Tax (DST) and the Undertaxed Profits Rule (UTPR) to avoid potential designation as a “discriminatory foreign country” under Section 899 of OBBBA. It is imperative that Canada secures a fair and mutually beneficial resolution that upholds our national interests, provides regulatory certainty, and mitigates the risk of retaliatory trade or tax actions by the U.S.

- Introduce accelerated capital cost allowance measures to match U.S. incentives and reduce the tax cost of investing in manufacturing and R&D within Canada.

- Introduce a patent box regime with preferential tax rates on income from IP developed and commercialized in Canada. The previous federal government confirmed plans to introduce this measure in its 2025 budget, as outlined in the Fall 2024 Economic Statement. With a new federal government, it is imperative that this commitment stay in place to retain IP, support scale-up activity, and strengthen Canada’s competitiveness in end-to-end innovation.



OBBBA Policy Landscape: What We're Watching

With its wide-ranging reforms, OBBBA could significantly reshape the U.S and Canada's investment landscape if it becomes law on of July 4, 2025 or sooner. Based on expert commentary and insights, the following measures are among those most likely to influence and impact investment decisions and business activities in our region and across Canada[2]:

The U.S. administration is looking to impose elevated withholding tax rates on investment income received by individuals, companies, investment entities, and governments from countries that enact what are perceived to be "unfair taxes" on U.S. firms.

A notable provision in OBBBA is Section 899, titled "Enforcement of Remedies Against Unfair Foreign Taxes"—referred to in media circles as the "Revenge Tax." This measure empowers the U.S. government to impose elevated tax rates on non-U.S. individuals, corporations, and governments that are connected to countries which enact "unfair" foreign taxes targeting U.S. companies or their controlled foreign corporations (CFCs).

Under Section 899, an "unfair" foreign tax is broadly defined to include a range of measures that have opened debates about tax justice in the digitalized global economy. Specifically, the House provision targets the Undertaxed Profits Rules (UTPRs) and Digital Services Tax (DST), whereas the Senate version of the Act targets only the UTPRs.

Many countries, including France, the UK, and Canada have introduced these measures to tax digital revenues earned within their borders by large multinationals (most of which are U.S.-based). The U.S. argues that these could result in double taxation and uncoordinated international claims on the U.S. tax base, particularly given that they have not committed to implementing these rules.

What are the Undertaxed Profits Rules (UTPRs)?

The UTPRs is a core component of the OECD/G20's Pillar Two Global Minimum Tax Framework, aimed at ensuring large multinational enterprises (MNEs) pay a minimum effective tax rate of 15% in every jurisdiction they operate. It applies to MNEs with global revenues over €750 million and acts as a secondary rule when the Income Inclusion Rule (IIR) is not applied. If a group's income is taxed below 15% in one country, the UTPR allows other countries in the group's footprint to reallocate and tax those undertaxed profits. Canada has committed to implementing the IIR for fiscal years starting in 2024 and the UTPR no earlier than 2025, through legislation in Bill C-59. The UTPR started to apply to most taxpayers in Canada on January 1, 2025.[3]

What is the Digital Services Tax (DST)?

The DST is a targeted tax on revenues earned from digital services provided to Canadian users, such as online marketplaces, social media platforms, and digital advertising. It was designed to ensure that large multinational tech companies pay their fair share of taxes in Canada, regardless of their physical presence, and as a revenue generation tool. The 3% tax applies to businesses with global revenues of €750 million+ and Canadian digital services revenues over CAD $20 million annually. The tax applies retroactively to revenues from January 1, 2022, with returns and payments for 2022–2024 due by June 30, 2025.[4]

[2] The Toronto Region Board of Trade gratefully acknowledges the advisory support of Winston Woo, CPA, CA, Executive Director, Tax & Pensions, whose guidance, insights and feedback were critical in the development of this note.
[3] PwC. June 21, 2024. Tax Insights: Canada releases Global Minimum Tax Act.
[4] KPMG. July 7, 2024. Canada: Digital services tax now in effect.

HOW COULD THE REVENGE TAX APPLY TO CANADA?

If OBBBA is signed into law, it will authorize U.S. Treasury to apply increased withholding on payments made to entities of countries that have an "unfair foreign tax" imposed on U.S. firms. Section 899 includes the following measures:

- Annual increases in the withholding rate on U.S. source payments (e.g., interest).
- Exemption override of Section 892 for foreign governments and affiliated funds in countries imposing "unfair" taxes, subjecting them to withholding regime.[5]
- Override of U.S.-Canada tax treaty exemptions which currently caps dividends withholding at 15%.[6] Depending on which rates is approved by Congress, rates can increase up to 30% or even 50%. The rates that would ultimately apply to Canadian individuals and entities as a result of this measure are still somewhat unknown depending on whether the proposed increases use the favorable treaty rates or the domestic rates (30%) as a starting point.

The table below summarizes examples of the potential increased U.S. tax exposure that Canadian entities could face if the Revenge Tax is enacted, and treaty protections are disregarded:

CONTEXT	CANADA-US TREATY RATE (BASELINE)	REVENGE TAX WITH TREATY PROTECTION*		REVENGE TAX WITHOUT TREATY PROTECTION
		HOUSE PROPOSAL	SENATE PROPOSAL	
Dividends from U.S. Subsidiary to Canadian Parent Company	5%	Up to 25%	Up to 20%	Rate would rise by 5% annually, reaching a maximum of 50%
Dividends received by Canadian individuals	15%	Up to 35%	Up to 30%	Up to 50%
Interests received by Canadian company	0%	Up to 20%	Up to 15%	Up to 50%
Interest received by Canadian individuals	Exempt	Unknown	Exempt	Unknown
Branch profits tax on Canadian corporations with U.S. branches	30%	Up to 50%	No change after review	Rate would rise by 5% annually, reaching a maximum of 50%
Effectively Connected Income (ECI)	21%	Up to 41%	No change after review	Rate would rise by 5% annually, reaching a maximum of 41%
Canadian-organized Private Foundations	4%	Up to 24%	No change after review	Rate would rise by 5% annually, reaching a maximum of 24%

*Note: Under Section 899, even with "partial respect" for treaty provisions, additional percentage points may be layered on top of the treaty rate, but not to the full 50% cap seen when treaties are entirely disregarded. Also, the House of Representatives proposes that these changes take effect on the 1st day of the 1st calendar year following 90 days after its date of enactment (January 1, 2027), while the Senate proposes for it to take effect on the 1st day of the 2nd calendar year (January 1, 2027).

[5] According to the U.S. Law Firm Aking, Section 892 of the U.S. Internal Revenue Code "exempts from U.S. income taxation certain investment income from stocks, bonds and other securities derived by a foreign government, where a "foreign government" is defined as an integral part of a foreign sovereign, or a Controlled Entity. Sovereign wealth funds often constitute Controlled Entities, or they make investments through special purpose vehicles that constitute Controlled Entities. However, the Section 892 exemption does not apply to income derived from the conduct of commercial activity or derived from or by a controlled commercial entity ("Controlled Commercial Entity")."

[6] The U.S.-Canada Tax Treaty is an agreement between both countries to prevent double taxation and encourage cross-border investment by reducing the standard U.S. withholding rates (normally 30%).

IMPLICATIONS OF THE REVENGE TAX FOR CANADIAN BUSINESSES

The Canada-U.S. Tax Treaty has historically protected Canadian investors, corporations and pension funds from excessive U.S. taxation. If treaty protections are overridden or partially suspended, Canadians would face complex and unpredictable tax exposure across a wide range of income streams that is effectively connected with U.S. trade or business. The heightened exposure is not simply a matter of higher taxes: it creates operational risks and disincentives for Canadian firms to expand, invest, or retain earnings in the U.S. **At this point, no matter which version of the Act is approved, both versions of section 899 could impact investment returns and consequently, Canadians' retirement savings.**

Uncertainty over treaty overrides and differing House–Senate tax positions also create significant legal and operational risks for firms reliant on cross-border structuring. For example:

- Canadian financial institutions and insurers operating U.S. branches could find their business models undermined by steep increases in branch-level taxation.
- University endowment funds could be subject to punitive withholding taxes, eroding net returns on their investments, disrupting financial planning and cash flow stability, and imposing a non-trivial penalty on institutions that play a foundational role in Canada's education and innovation ecosystem.
- Tax-exempt investors such as pension plans, sovereign wealth funds and charitable foundations would be drawn into the retaliation framework, harming long-term returns.

AT WHAT COST:
WEIGHING DST BENEFITS AGAINST POTENTIAL FALLOUT FROM OBBBA

The DST has remained a persistent point of tension in Canada-US relations since its implementation. Business associations have called on the federal government to reconsider the policy, many citing strong opposition from U.S. officials and corporate leaders who argue that it contravenes Canada's obligations under the Canada-United States-Mexico Agreement (CUSMA). In the context of growing trade fictions and the scaling risks by the proposed OBBBA, it is critical to assess whether the fiscal gains from the DST outweigh the potential economic consequences for Canada.

According to the Parliamentary Budget Officer (PBO), the DST is projected to generate **$1.2 billion in 2025-26.** However, if Section 899 of OBBBA is enacted, the resulting financial impact on Canadian investors could far exceed the revenue gains from the DST. To illustrate, the Canada Pension Plan Investment Board (CPP Investments) could face U.S. tax liabilities of up to **$3.36 billion annually** under a 50% withholding rate.[7]

CPP Investments holds approximately $335.8 billion in U.S. assets (47% of its $714.4 billion portfolio). With Section 899 in place, assets could be subject to about $335.8 million in annual U.S. withholding tax at a 5% rate, on dividends received from U.S. investments. Should that rate increase to 20%, CPP's annual tax burden would rise to an estimated $1.34 billion. In a scenario where treaty protections, the Section 892 exemptions are disregarded,and consequently, a 50% withholding rate is applied, the tax liability could escalate to $3.36 billion every year, equivalent to a 40-basis point reduction in CPP's total portfolio returns.

While the DST contributes to fiscal revenue, the risk of retaliatory action, particularly under OBBBA, poses a material threat to Canadian investors and the stability of cross-border capital flows. In sum, the annual revenue generated by the DST may be outweighed by broader economic costs for Canadian investors, as well as additional diplomatic repercussions given the U.S. administration's opposition to the tax.

Canada's substantial investment exposure in the U.S. market underscores the vulnerability of domestic institutions to shifting conditions in the U.S. This analysis of the House's version of the Act reflects only the potential impact on a single institutional investor. The cumulative effect of Section 899, if enacted and based on which withholding rates are approved, would extend far beyond one pension fund, potentially affecting a broad range of Canadian asset managers and exerting a far-reaching economic impact across the country.

[7] TRBOT analysis. Figures are based on simplifying assumptions and are intended solely for illustrative purposes. Actual financial impacts would depend on the final legislative text, interpretation of treaty provisions, and the specific composition of investment portfolios. Estimates assume an average annual return of 2%, under which a 5% withholding rate results in a 0.04% annual tax drag. If the rate increases to 20%, the drag would rise to 0.16%, and at 50%, it would reach 0.4%. All figures should be validated against authoritative financial disclosures and legal analysis.

POLICY LEVERS TO ADDRESS THE REVENGE TAX THREAT

1

Reconsider the federal government's position on both the Digital Services Tax (DST) and the Undertaxed Profits Rule (UTPR) to avoid potential designation as a "discriminatory foreign country" under Section 899 of OBBBA. It is imperative that Canada secures a fair and mutually beneficial resolution that upholds our national interests, provides regulatory certainty, and mitigates the risk of retaliatory trade or tax actions by the U.S.

2

Enhance the foreign tax credit regime by allowing Canadian individuals, corporations and entities that are impacted by Section 899 to fully recover the applicable U.S. withholding.

3

Implement favorable tax incentives and regime to incentivize onshoring, investment attraction and repatriation of earning back to Canada.

Note: Should OBBBA become law, a more detailed analysis on these policy levers will follow this document.

The U.S. administration is aggressively incentivizing domestic manufacturing footprint, which would have wide ranging impacts for Canada.

OBBBA would restore two significant incentives aimed at boosting domestic manufacturing and innovation in the United States:

- A 100% bonus depreciation for new manufacturing facilities and renovations of existing production property, allowing for full expensing of investments in and transformation of manufacturing facilities in service after January 19, 2025, and before January 1, 2029.
- A deduction of full expensing for U.S.-based research and development (R&D) activities, allowing businesses to immediately deduct qualified R&D expenditures incurred after 2024 and before 2030.

IMPLICATIONS OF U.S. MANUFACTURING ONSHORING INITIATIVES

While Canada's Capital Cost Allowance (CCA) framework allows the gradual depreciation of certain long-term assets, it lacks the scope and immediacy of the proposed 100% bonus depreciation available in the U.S. This disparity in tax treatment creates a structural incentive for firms to reallocate manufacturing and R&D investments to the U.S., where they can benefit from immediate expensing and improved after-tax returns.

As a result, Canada's existing tax-based innovation incentives, including those aimed at stimulating domestic R&D and advanced manufacturing, risk being significantly weakened. Without competitive capital cost provisions, these incentives may be insufficient to offset the relative tax advantage offered by the U.S., diminishing Canada's ability to retain and scale high-value economic activities.

POLICY LEVERS TO LEVEL THE PLAYING FIELD

1

Introduce accelerated capital cost allowance measures to match U.S. bonus depreciation and reduce the tax cost of investing in manufacturing and R&D within Canada.

2

Introduce a domestic production deduction to lower the federal-provincial combined effective rate.

3

Streamline industrial site approvals to provide long-term certainty for new manufacturing plant projects.

Note: Should the OBBBA become law, a more detailed analysis on these policy levers will follow this document.

Republicans want to make permanent several core tax provisions that reward corporations for holding their high-return, foreign-income production assets and operations in the U.S.

In 2017, the Trump Administration introduced the Foreign-Derived Intangible Income (FDII) and Global Intangible Low-Taxes Income (GILTI) regimes as part of a broader tax reform strategy to realign international tax incentives and promote domestic investment by U.S. multinationals. These measures were designed to discourage the offshoring of intangible assets by providing preferential tax treatment for income earned from U.S.-based operations.

The underlying policy objective is to shift corporate tax planning behavior toward retaining intellectual property, export-generating activities, and related high-value functions within the U.S. rather than in low-tax foreign jurisdictions.[8] The table below summarizes the current rates, scheduled changes, and the proposed rate adjustments outlines in OBBBA:

PROVISION	OBJECTIVE	CURRENT	SCHEDULED CHANGE	PROPOSED UNDER OBBBA
FDII Tax Rate	Provides a reduce tax rate for U.S. corporations on income derived from exports of goods and services linked to U.S.-held intangible assets.	13.125%	16.4%	13.3%
GILTI Tax Rate	Impose a tax on foreign earnings exceeding a 10% on tangible assets held abroad by U.S. shareholders of controlled foreign corporations.	10.5%	13.12%	10.6%

Source: KPMG. May 24, 2025. International tax provisions in "One Big Beautiful Bill Act": KPMG analysis and observations.

[8] Bloomberg Tax. March 25, 2025. What's the Difference Between FDII and GILTI?

IMPLICATIONS OF FDII AND GILTI FOR CANADIAN BUSINESSES

Unlike the U.S., Canada does not offer targeted tax incentives to retain commercialization activities, leaving domestic firms at a structural disadvantage. FDII provides preferential tax rates that encourage companies to keep IP and export-oriented functions within the U.S. At the same time, the GILTI regime discourages U.S. multinationals from investing abroad by subjecting their foreign earning to a minimum U.S. tax. This limits the tax advantage of operating in Canada and reduces the appeal of cross-border investment. Together, FDII and GILTI create powerful incentives for U.S.-based firms to centralize high-value activities at home, increasing the risk of investment diversion, IP relocation, and long-term erosion of Canada's innovation and commercialization capacity.

POLICY LEVERS TO MITIGATE THE RISKS OF FAVORABLE TAX REGIMES IN THE U.S.

1. Introduce a patent box regime with preferential tax rates on income from IP developed and commercialized in Canada. The previous federal government confirmed plans to introduce this measure in its 2025 budget, as outlined in the Fall 2024 Economic Statement. With a new federal government, it is critical that this commitments stay in place to retain IP, support scale-up activity, and strengthen Canada's competitiveness in end-to-end innovation.

2. Re-evaluate the measures introduced in the 2024 Fall Economic Statement regarding proposed changes to the Scientific Research and Experimental Development (SR&ED) tax credit and identify updated policies that level the playing field in light of competitive threats from the Foreign-Derived Intangible Income (FDII) regime.

3. Reduce the corporate tax rate on export-derived manufacturing income.

Note: Should the OBBBA become law, a more detailed analysis on these policy levers will follow this document.

TORONTO REGION BOARD OF TRADE

The Toronto Region Board of Trade is one of the largest and most influential chambers of commerce in North America and is a catalyst for the region's economic growth agenda. Backed by more than 11,500 members, we pursue policy change to drive the growth and competitiveness of the Toronto region, and facilitate market opportunities with programs, partnerships and connections to help our members succeed – domestically and internationally.

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