



# Businesses Going Green

## Overview of Tax Measures

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Curbing pollution and protecting the environment are now concerns we all share, including businesses. What tax relief is available to businesses seeking to contribute to sustainable clean technologies?

The following is an overview of some of the green measures currently available from the federal and Québec governments.



### 2022 Federal budget tax measures

#### Investment Tax Credit for Carbon Capture, Utilization, and Storage ("CCUS")

Carbon capture, utilization, and storage (CCUS) is a suite of technologies that capture carbon dioxide (CO<sub>2</sub>) emissions.

The new CCUS investment tax credit would be refundable and would support purchasing or installing equipment to capture, transport, store or use CO<sub>2</sub>. The credit rate is attractive, as it can be up to **60%** of eligible expenses (depending on the type of equipment and the time of purchase). The credit would be available as of **January 1, 2022** and would continue until the end of **2040**.

Essentially, this incentive would be available for CO<sub>2</sub> captured in Canada, or CO<sub>2</sub> stored or used in industry (in Canada or beyond).

It is governed by numerous restrictions and conditions with respect to: equipment and project eligibility, CO<sub>2</sub> use eligibility, storage requirements, knowledge sharing, project validation and climate risk disclosure. When these requirements are not met, the credit may need to be repaid.

For capital cost allowance (CCA) purposes, two new classes would be created specifically for CCUS equipment. These classes would allow **8%** and **20%** CCA rates on a declining balance basis depending on the type of equipment and would qualify for the Accelerated Investment Incentive.

Lastly, two new CCA classes would be created for intangible exploration expenses and development expenses are that associated with storing CO<sub>2</sub>. These classes would allow for CCA rates on a declining-balance basis of **100%** for intangible exploration expenses and **30%** for development expenses.



### Accelerated CCA deductions: expanded to include air-source heat pumps

It is proposed that air-source heat pumps used primarily for space or water heating be eligible for inclusion in CCA classes 43.1 and 43.2 (clean energy generation and energy conservation equipment), thereby providing accelerated rates for capital cost allowance purposes.

Equipment that is part of an air-source heat pump system that transfers heat from the outside air and certain other equipment is also eligible property. However, certain property is excluded.

### Tax rate reduction for zero emission technology manufacturers

For taxation years beginning after 2021, certain businesses can benefit from reduced tax rates on their eligible zero emission technology manufacturing and processing income.

It is proposed that the manufacture of air source heat pumps used for space or water heating become an eligible manufacturing or processing activity for zero-emission technologies.

Eligible activities would also include the manufacturing of components or sub assemblies only if such equipment is purpose-built or designed exclusively to form an integral part of an air-source heat pump.

### Critical Minerals Exploration Tax Credit

A new tax credit is proposed in Budget 2022, the Critical Minerals Exploration Tax Credit (CMETC). The credit rate would be **30%** for eligible expenditures associated with specified minerals. The specified minerals that would be eligible are:

- Copper
- Nickel
- Lithium
- Cobalt
- Graphite
- Scandium
- Rare earth elements
- Titanium
- Gallium
- Vanadium
- Tellurium
- Magnesium
- Zinc
- Platinum group metals
- Uranium

The specified minerals are used, in particular, in the production of batteries and permanent magnets, both of which are used in zero emission vehicles or are necessary in the production and processing of advanced materials, clean technology, or semi conductors.



For expenses to be eligible, a qualified person needs to certify that the expenditures, that are intended to be renounced to flow through share investors, will be incurred as part of an exploration project that targets these specified minerals. These expenses cannot be deducted under both the CMETC and the existing mineral exploration credit ("METC").

The CMETC applies to expenditures renounced under eligible flow through share agreements entered into after **April 7, 2022** and on or before **March 31, 2027**.



## Measure announced in the 2021 Federal Fall Economic and Fiscal Update

### Air Quality Improvement Tax Credit

To encourage businesses to invest in better air filtration to improve indoor air quality at their facilities, a refundable credit is available in respect of qualifying expenditures attributable to air quality improvements incurred between **September 1, 2021** and **December 31, 2022**.

In short, entities eligible for this credit include unincorporated sole proprietors and Canadian controlled private corporations with taxable capital employed in Canada of less than \$15 million in the taxation year immediately preceding the taxation year in which the qualifying expenditure is incurred.

Qualifying expenditures would be limited to **\$10,000** per qualifying location and **\$50,000** across all qualifying locations. The credit rate is **25%**.



## Measure announced in the 2022 Québec budget

### Refundable tax credit for the production of biofuel in Québec

Québec proposes to offer the refundable tax credit for the production of biofuels in Québec as of **April 1, 2023** until **March 31, 2033**.

This credit is intended to provide financial assistance to companies that produce biofuels in Québec for sale and use in Québec. In general, eligible biofuel will have to be produced from either organic material, residual materials, carbon monoxide (CO) or carbon dioxide (CO<sub>2</sub>). The amount of the credit will depend on the carbon intensity reduction of that biofuel relative to the gasoline or diesel fuel it replaces.

## Harmonization measures announced in Information Bulletin 2022-4

On June 9, 2022, the **Ministère des Finances du Québec** announced its intention to harmonize with the following federal measures:

- The addition of capital cost allowance classes for carbon capture, utilization, and storage equipment, the eligibility of such classes for the Accelerated Investment Incentive and the addition of classes of intangible exploration expenses and development expenses associated with storing CO<sub>2</sub>; and
- The eligibility of air-source heat pumps for the clean energy equipment CCA classes (Classes 43.1 and 43.2).

However, it announced that it would not harmonize with the following measures:

- The introduction of the Investment Tax Credit for Carbon Capture, Utilization and Storage ("CCUS");
- The tax rate reduction for zero emission technology manufacturers;
- The introduction of a Critical Mineral Exploration Tax Credit.





## Zero emissions vehicles

The federal and Québec governments offer various programs to encourage the acquisition of electric vehicles (including iZEV and Roulez vert). Individuals and businesses can benefit from discounts on the purchase or rental of new or used zero emission vehicles (or amortize the purchase price). Various types of vehicles are covered by these programs, including motorcycles. Financial assistance is also available for the installation of charging stations.

# Conclusion

For assistance in overcoming significant climate transition challenges, businesses can count on these measures to begin their transition now.

It is foreseeable that a green shift will require, over the next few years, considerable and sustained effort from all stakeholders.

# Contact us



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