TaxNewsFlash
Canada

Your Business May Qualify for New Funding and Incentives

April 10, 2023
No. 2023-20

Businesses may be eligible for government funding and incentive programs following recent announcements in the 2023 federal budget. As part of the budget, the government proposed new funding for programs to support Canada's economy, including the Strategic Innovation Fund, the Dairy Innovation and Investment Fund and Canada Media Fund, among others. The budget also announced new targeted measures to support Canada's transition to a clean economy and for the agri-food sector.

KPMG's Tax Incentives Practice can help you understand eligibility requirements and timelines for government funding and incentives available through these programs. In some cases, businesses may need to act quickly to access available funding due to fast-approaching deadlines.

Background
The 2023 federal budget announced several new funding and incentive programs for Canadian businesses, as well as a suite of tax credits to promote Canada's clean economy. In particular, the budget proposed a "Made-in-Canada" plan that identifies three tiers of federal financial incentives that will promote new investment, create employment opportunities, and build a greener economy. This plan will be administered through a range of investment tax credits, low-cost strategic financing, and targeted programming and investments.

For more details on the budget, see *TaxNewsFlash-Canada* 2023-17, "2023 Federal Budget Highlights".

Strategic Innovation Fund

Businesses in Canada may qualify for significant funding through the Strategic Innovation Fund for their large-scale initiatives. The budget allocated $500 million to the fund over 10 years, for certain clean technology projects. The program will also direct up to $1.5 billion of its existing resources towards projects involving clean technologies, critical minerals and industrial transformation.

Dairy Innovation and Investment Fund

Businesses in the dairy industry may benefit from the introduction of the Dairy Innovation and Investment Fund. The budget provided $333 million over 10 years for Agriculture and Agri-Food Canada, with the goal of reducing the volume of solids non-fat (SNF) that is sold for animal feed or disposed. In particular, the new funding supports research and development of new products based on SNF and related market development, as well as processing capacity for SNF-based products.

Canada Media Fund

Businesses in the Canadian Screen Sector may qualify for funding through the Canada Media Fund. The budget has earmarked $40 million over the next two years for the Canada Media Fund to increase availability of funding for traditionally underrepresented voices and French-language screen content.

On-Farm Climate Action Fund

Farmers in Eastern Canada may be able to access the On-Farm Climate Action Fund. The budget allocated $34.1 million in funding over three years to this fund, which supports the adoption of nitrogen management practices that will help optimize the use and reduce the need for fertilizer.

Student Work Placement Program

Employers providing high quality on-the-job learning opportunities for students may also benefit from the proposal to provide $197.7 million in 2024-2025 to the Student Work Placement Program.

Environmental sustainability programs and tax credits

The budget included several announcements that may be of interest to companies that are working to transition to the green economy. In particular, the budget introduced new tax investment tax credits related to clean technology manufacturing and clean electricity, provided additional details on certain previously announced green measures, most of which also include certain labour conditions that must be met to qualify for the full amount of the credit. The budget also included targeted new funding for certain clean infrastructure programs.

Clean Technology Manufacturing Investment Tax Credit

Canadian companies that are manufacturing or processing clean technologies may benefit from a new refundable tax credit of 30% of the cost of investments in new machinery and equipment used to manufacture or process key clean technologies, and extract, process, or recycle key critical minerals. The Clean Technology Manufacturing Investment Tax Credit is expected to cost $4.5 billion over the next five years, and an additional $6.6 billion from 2028-29 to 2034-35. The credit applies to property that is acquired and becomes available for use on or after January 1, 2024, subject to a gradual phase-out beginning in 2032 and is no longer available after 2034.

Clean Technology Investment Tax Credit

The budget provided additional details on the Clean Technology Investment Tax Credit. This credit, which was previously announced in the 2022 Fall Economic Statement, offers support to clean technology adoption by Canadian companies through a 30% refundable credit. The budget announced that eligibility for the credit will be expanded to include geothermal energy systems that are eligible for capital cost allowance Classes 43.1 and 43.2. This change will bring the total expected cost of the Investment Tax Credit to approximately $6.9 billion from 2023-24 to 2027-28. This credit applies to property that is acquired and becomes available for use on or after March 28, 2023, subject to a phase-out beginning in 2034 and is no longer available after 2034.

Clean Hydrogen Investment Tax Credit

The budget also offered additional clarity on the Clean Hydrogen Investment Tax Credit that was announced in the 2022 Fall Economic Statement. Specifically, the budget clarified the credit will provide variable support from 15 to 40% of eligible project costs, with the higher levels of support available to initiatives that produce the cleanest hydrogen. This incentive also provides a 15% tax credit for equipment required for the conversion of hydrogen into ammonia for transportation, where the ammonia production is associated with the clean hydrogen production. The tax credit is expected to cost $5.6 billion over the next five years. This credit applies to property that is acquired and becomes available for use on or after March 28, 2023, subject to a phase-out beginning in 2034 and is no longer available after 2034.

Clean Electricity Investment Tax Credit

The budget also introduced the Clean Electricity Investment Tax Credit, a 15% refundable tax credit for certain eligible investments. Specifically, the credit is available for investments in non-emitting electricity generation systems, abated natural gas-fired electricity generation, stationary electricity storage systems that do not use fossil fuels in operation, and equipment for electricity transmission between provinces and territories. The tax credit is expected to cost $6.3 billion over four years, beginning in 2024-25, and an additional $19.4 billion from 2028-29 to 2034-35. This credit would be available as of the day of the

2024 federal budget for projects that did not begin construction before March 28, 2023, and would not be available after 2034.

Carbon Capture, Utilization and Storage Investment Tax Credit

The budget announced changes to the proposed Carbon Capture, Utilization and Storage (CCUS) Investment Tax Credit program, which are estimated to cost approximately $520 million over the next five years. The budget amends the credit to:

- Include dual use heat and/or power equipment and water use equipment, with tax support prorated in proportion to the use of energy or material in the carbon capture, utilization, and storage process, subject to certain conditions
- Also be available to projects that would store CO_2 using dedicated geological storage in British Columbia, in addition to Saskatchewan and Alberta
- Require projects storing CO_2 in concrete to have the concrete storage process validated by a third-party based on an ISO standard before claiming the credit, and
- Include a recovery calculation for the investment tax credit regarding refurbishment property.

Legislative proposals will be released for consultation, and once enacted, the tax credit will be retroactively available to businesses that have incurred eligible CCUS expenses, starting in 2022.

Other green funding

In the budget, the government announced that it will provide $3 billion over 13 years to Natural Resources Canada, to recapitalize funding to the Smart Renewables and Electrification Pathways program, renew the Smart Grid Program and create new investments in science-based activities that help take advantage of Canada's offshore wind potential.

The budget also advised that the Canada Infrastructure Bank will invest at least $20 billion to support clean growth and clean electricity-based infrastructure projects, sourced from existing resources.

Other government programs and incentives

Forestry sector programs

The budget allocated $368.4 million over three years to Natural Resources Canada for the renewal and update of forestry sector programs, supporting job growth in rural and remote communities, research and development, and Indigenous and international leadership and data.

Atlantic Growth Strategy

The budget reiterated the federal and provincial governments' commitment to offer improved benefits to Atlantic Canadians through the Atlantic Growth Strategy. Renewed areas of focus will include infrastructure, trade and investment, broadband, innovation, labour and skills, and clean technology.

We can help

Your KPMG adviser can help you assess whether your business can access these strategic funding programs and provide details on additional funding that you may be eligible to receive. For more information, contact your KPMG Tax Incentives adviser or one of the following tax professionals:

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