TAX INCENTIVES FOR BUSINESSES

Businesses can take advantage of two important tax incentives under the *Income Tax Act*, that encourage investments in clean energy generation and energy conservation projects.

Clean technologies are a key component of the Government's approach to promoting sustainable economic growth and can contribute to a reduction in emissions of greenhouse gases and air pollutants.

Classes 43.1 and 43.2 Accelerated Capital Cost Allowances

Accelerated capital cost allowance (CCA) provides a financial benefit by deferring taxation. Providing accelerated CCA is an exception to the general practice of setting CCA rates based on the useful life of assets and allows businesses to reduce their taxable income in the early years of an asset's operation by claiming a larger than usual depreciation.

Under the CCA regime, classes 43.1 and 43.2 of Schedule II to the *Income Tax Regulations* provide accelerated CCA rates (30 percent and 50 percent, respectively, on a declining-balance basis) for investments in specified clean energy generation and energy conservation equipment. Most systems that are described in Class 43.1 qualify for Class 43.2 when the property is acquired before 2025.

In addition, property included in Class 43.1 or 43.2 is eligible for an enhanced first-year allowance if it is acquired after November 20, 2018 and becomes available for use before 2028. The enhanced allowance provides a 100 percent deduction, with a phase out for property that becomes available for use after 2023 as described in the following table:

	Current First-year Allowance (half-year rule)		First-year Enhanced Allowance
	Class 43.1	Class 43.2	
Implementation -2023	15	25	100
2024	15	25	75
2025	15	-	75
2026	15	-	55
2027	15	-	55
2028 onward	15	-	-

Both classes include eligible equipment that generates or conserves energy by:

- using a renewable energy source (e.g. wind, solar or small hydro);
- using a fuel from waste (e.g. landfill gas, wood waste or manure); or
- making efficient use of fossil fuels (e.g. high efficiency cogeneration systems, which simultaneously produce electricity and useful heat).

Canada

WHAT TYPES OF SYSTEMS QUALIFY?

Classes 43.1 and 43.2 of Schedule II to the *Income Tax Regulations* describe the following categories of systems or equipment, the capital costs of which may be eligible for accelerated CCA:

- Cogeneration and Specified-Waste Fuelled Electrical Generation Systems
- Thermal Waste Electrical Generation Equipment
- Active Solar Heating Equipment and Ground-Source Heat Pump Systems
- Small-Scale Hydro-Electric Installations
- Heat Recovery Equipment
- Wind Energy Conversion Systems
- Photovoltaic Electrical Generation Equipment
- Geothermal Energy Equipment
- Landfill Gas and Digester Gas Collection Equipment
- Specified-Waste Fuelled Heat Production Equipment
- Expansion Engine Systems
- Systems to Convert Biomass into Bio-Oil
- Fixed Location Fuel Cell Equipment
- Systems to Produce Biogas by Anaerobic Digestion
- Wave, Tidal or Water Current Energy Equipment
- District Energy Systems/Equipment
- Producer Gas Generating Equipment
- Electrical Energy Storage Equipment
- Electric Vehicle Charging Stations

Canadian Renewable and Conservation Expenses

If the majority of the tangible property in a project is eligible for inclusion in Class 43.1 or 43.2, certain intangible project start-up expenses (e.g. engineering and design work and feasibility studies) may also be eligible as Canadian Renewable and Conservation Expenses (CRCE). These expenses may be deducted in full in the year incurred, carried forward indefinitely for use in future years, or transferred to investors using flow-through shares.

WHAT TYPES OF COSTS QUALIFY?

Projects must be assessed on an individual basis to determine whether particular costs qualify under Class 43.1 or 43.2 or as CRCE. The Canada Revenue Agency (CRA) is the final authority on income tax matters and can provide, upon request, advance rulings on eligibility prior to incurring project costs. In general, principal assets used in energy generation or conservation and ancillary equipment such as power transformers and control systems are typically eligible, while assets such as buildings and backup power supply equipment are not.

FOR MORE INFORMATION

Natural Resources Canada's *Technical Guide to Class 43.1 and 43.2* contains technical information on the components of systems and schematics of typical systems, the capital costs of which may be included in Class 43.1 or 43.2.

Similarly, information on project development costs that may qualify as CRCE may be found in the *Technical Guide to Canadian Renewable and Conservation Expenses (CRCE)*. Both publications can be accessed at the following link: nrcan.gc.ca/energy/efficiency/industry/financial-assistance/5147

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Cat. No. M4-141/2019E-PDF (Online)
ISBN 978-0-660-31169-2

Aussi disponible en français sous le titre : Incitatifs fiscales pour les entreprises

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