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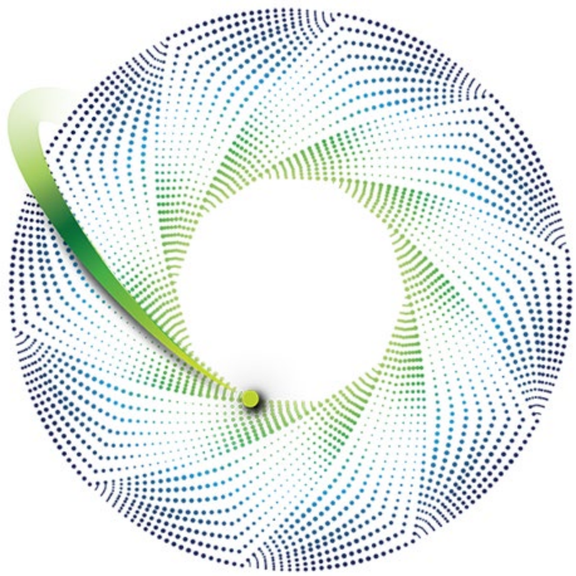

Canadian Tax & Legal Alert

Federal Budget 2022:

Incentives for economic growth in key sectors

May 19, 2022

Introduction

Budget 2022, released on April 7, 2022, proposes many measures intended to stimulate the Canadian economy and to help Canada achieve its climate and environmental goals, including a net-zero emissions target by 2050. These measures promise valuable incentives in the form of direct cash contributions, as well as reductions of taxes where businesses undertake certain activities or incur certain expenditures. To spur private sector investment, the federal government announced a myriad of proposed investments to encourage innovation, most notably, the launch of a new **Canada Growth Fund** designed to support national economic policy goals, such as reducing emissions, improving growth in low carbon initiatives, and restructuring critical supply chains.

In addition, to continue to encourage Canadian businesses to conduct research and development (R&D), the federal government announced its intention to undertake a review of tax support for R&D and intellectual property through the potential adoption of a patent box regime.

Budget 2022 Highlights

The Budget 2022 proposals are summarized below for investments and innovation in the following key sectors:

- Decarbonization and climate change
- Clean energy
- Critical minerals
- Zero-emission vehicles
- Canada's innovation clusters
- Supply chain
- Agriculture and agri-food

For an overview of Budget 2022, including broader tax measures affecting individuals, entities and businesses outside of these focus areas, please see Deloitte's summary here.

Decarbonization and climate change

Budget 2022 announced several measures intended to accelerate the adoption of clean technology across the Canadian economy. Budget 2022 proposes:

- To introduce a refundable **investment tax credit for carbon capture, utilization, and storage** (**CCUS**) to incentivize the adoption of these technologies in industry.
    - The CCUS tax credit will be available to eligible CCUS projects and will provide for the following tax credit rates for eligible expenditures incurred between 2022 and 2030:
        - 60% for investment in equipment to capture CO_2 in direct air capture projects;
        - 50% for investment in equipment to capture CO_2 in all other CCUS projects; and
        - 37.5% for investment in equipment for transportation, storage and use of CO_2.
    - To accelerate the adoption of these technologies, the CCUS tax credit rates will be reduced by 50% from 2031 through 2040.
- To introduce **two new capital cost allowance (CCA) classes** for CCUS equipment. The new CCA classes with accelerated deductibility will be available for equipment used in the capture, transportation, and storage of CO_2 at a rate of 8% on a declining-balance basis, and for equipment required for using CO_2 in an eligible use at a rate of 20% on a declining-balance basis. These classes would be eligible for enhanced first year depreciation under the Accelerated Investment Incentive.
- To provide $9.1 billion over five years to support a wide array of climate change initiatives as announced in March 2022 in the 2030 Emissions Reduction Plan. Note that several budgetary proposals outlined throughout this alert were included in the 2030 Emissions Reduction Plan.
- To broaden the existing **clean power and green infrastructure investment areas** within the Canada Infrastructure Bank (CIB), to include: (i) small modular reactors, (ii) clean fuel production, (iii) hydrogen production, transportation, and distribution, and (iv)

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carbon capture, utilization and storage. The CIB is an impact investor focused on five sectors: green infrastructure, clean power, public transit, trade and transportation, and broadband infrastructure.

Clean energy

To help Canada achieve net-zero electricity generation by 2035, Budget 2022 proposes:

- To provide $250 million to National Resources Canada (NRCan) over four years to support **pre-development activities of clean electricity projects of national significance**.
- To supply $600 million to NRCan over seven years for the **Smart Renewables and Electrification Pathways Program**. This program targets, *inter alia*, the modernization of Canada's electrical grid by encouraging the replacement of fossil-fuel generated electricity with renewables.
- To open consultations for a **tax credit for investments in clean technology** of up to 30% specifically for investments in net-zero technologies, battery storage solutions, and clean hydrogen. Details to follow in the 2022 fall economic and fiscal update.

Critical minerals

The measures announced in Budget 2022 highlight that critical minerals are crucial to global industries. As more economies prepare to transition to a low-carbon future, the global demand for critical minerals increases. With Canada's abundance of critical minerals, the federal government has recognized that Canada is in a unique position to capitalize on this demand. Therefore, Budget 2022 proposes:

- To commit $3.8 billion over eight years to implement Canada's first Critical Minerals Strategy, which includes the following funding commitments:
    - A total of $1.5 billion over six years to the **Strategic Innovation Fund** to attract global critical minerals investments, prioritizing manufacturing, processing, and recycling applications.
    - An additional $1.5 billion over seven years in **critical mineral infrastructure investments** to support[1] the development of critical minerals supply chains.
    - $79.2 million over five years to NRCan to enable public access to integrated data sets to inform **critical mineral exploration** and development
    - $10.6 million over three years to NRCan to renew the **Centre for Excellence on Critical Minerals** to support navigating regulatory processes and support programs.
- To introduce a new 30% **critical mineral exploration tax credit (CMETC)**, for specified mineral exploration expenses incurred and renounced to flow-through share investors. The CMETC rules are similar to the current mineral exploration tax credit rules (METC), doubling the tax credit rate from 15% to 30%. But the CMETC will apply only in respect of projects targeting copper, nickel, lithium, cobalt, graphite, rare earth elements, scandium, titanium, gallium, vanadium, tellurium, magnesium, zinc, platinum group metals, and uranium. The CMETC would apply to eligible expenses renounced to shareholders under eligible flow-through financing agreements entered into after April 7, 2022, and before March 31, 2027. Eligible expenditures could not benefit from both the METC and CMETC.

Zero-emission vehicles

Budget 2022 proposes incentives and additional funding to increase adoption of zero-emission vehicles (ZEVs) by Canadian businesses, including:

- $547.5 million over four years for Transport Canada to launch a **new purchase incentive program for medium- and heavy-duty ZEVs**.

[1] There are indeed two $1.5 billion budget allocations - one via the Strategic Innovation Fund, one for critical minerals infrastructure (no details yet on which entity will administer the funds).

- $400 million in new funds over five years to the **Zero-Emission Vehicle Infrastructure Program** to fund the deployment of ZEV charging infrastructure in suburban and remote communities.
- Incremental $199.6 million over five years to NRCan to expand the **Green Freight Assessment Program**, to decarbonize vehicles already on the road.

Canada's innovation clusters

In 2017, Canada launched five innovation clusters, which include: plant-based protein alternatives, ocean-based industries, advanced manufacturing, digital technologies, and artificial intelligence. Budget 2022 proposes to build on their success to date by providing $750 million over six years to further grow and develop Canada's Global Innovation Clusters. This funding will be allocated on a competitive basis between the five clusters, and will be focused on maximizing its impact and ensuring alignment with industry and government needs.

Supply chain

To strengthen Canada's supply chain, Budget 2022 proposes:

- To commit $603.2 million over five years to Transport Canada, including $450 million over this timeframe to the **National Trade Corridors Fund**, which will be renamed to reflect its focus on supply chains, to ease movement of goods across Canada's transportation networks.
- To leverage the newly established National Supply Chain Task Force to work with industry, associations and experts to examine key pressures and make recommendations regarding short- and long-term actions to strengthen the efficiency, fluidity, and resiliency of transportation infrastructure. The recommendations of the Task Force will help inform the development of a forthcoming National Supply Chain Strategy.

Agriculture and agri-food

Budget 2022 proposes several measures to ensure agriculture and related industries remain viable and competitive in Canada, while also reducing their environmental impacts by incentivizing the adoption of clean technologies. Budget 2022 proposes:

- To provide an additional $329.4 million over the next six years to the **Agricultural Clean Technology Program** to support research, development, and adoption of clean technologies.
- To renew the **Canadian Agricultural Partnership** programs, in conjunction with provincial and territorial governments, under the next agricultural policy framework launching in 2023.
- To support Canada's legal cannabis sector by launching a new **cannabis strategy table**, led by the Department of Innovation, Science and Economic Development, to identify ways to work together to grow the sector.

How can Deloitte help you?

At this stage, many details about these new proposals remain unknown. However, we anticipate the government of Canada will continue to develop and refine these proposals over the coming months, in some cases based on budget approval and further consultations with stakeholders. Deloitte will continue to monitor the consultation process and the release of draft legislation to implement the measures announced in Budget 2022.

Deloitte professionals can help you understand how these measures, or any previously announced measures, may impact your business. If you have any questions, please reach out to your Deloitte advisor or any of the individuals noted in this alert. More specifically, Deloitte's Gi^3 group is available to assist you in identifying potential incentives, current and/or forthcoming, to support your investments.

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