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# Tax Measures: Supplementary Information

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## Overview

This annex provides detailed information on tax measures proposed in the *2024 Fall Economic Statement*.

Table 1 lists these measures and provides estimates of their fiscal impact.

Table 1

**Revenue Impacts of Proposed Tax Measures<sup>1, 2</sup>**

(millions of dollars)

	<b>2024- 2025</b>	<b>2025- 2026</b>	<b>2026- 2027</b>	<b>2027- 2028</b>	<b>2028- 2029</b>	<b>2029- 2030</b>	<b>Total</b>
<b>Personal Income Tax</b>							
Exempting the Canada Disability Benefit from Tax	-	-	-	-	-	-	-
Canada Carbon Rebate Rural Supplement	-	-	-	-	-	-	-
Northern Residents Deductions	-	1	1	1	1	1	5
Capital Gains Rollover on Investments	-	1	1	1	1	1	5
Non-profit Organizations	-	-	-	-	-	-	-
<b>Business Income Tax</b>							
Canada Carbon Rebate for Small Businesses	-	-	-	-	-	-	-

Clean Electricity Investment Tax Credit for Provincial and Territorial Crown Corporations	-	-	-	-	-	-	-
Clean Electricity Investment Tax Credit and the Canada Infrastructure Bank	-	-	-	-	-	-	-
EV Supply Chain Investment Tax Credit	-	-	-	-	-	-	-
Clean Hydrogen Investment Tax Credit - Methane Pyrolysis	-	3	6	9	11	14	43
Scientific Research and Experimental Development Tax Incentive Program	44	335	405	345	365	370	1,864
<i>Less: Funds Previously Provisioned in the Fiscal Framework</i>	-	-150	-150	-150	-150	-150	-750

Extension of the Accelerated Investment Incentive and Immediate Expensing Measures	35	2,290	2,500	2,290	5,510	4,725	17,350
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<sup>1</sup> A positive amount represents a decrease in revenue; a negative amount represents an increase in revenue.

<sup>2</sup> A "-" indicates a nil amount, a small amount (less than \$500,000) or an amount that cannot be determined in respect of a measure that is intended to protect the tax base.

## Personal Income Tax Measures

### Exempting the Canada Disability Benefit from Tax

The Canada Disability Benefit is a new program under which the Government of Canada intends to provide up to \$2,400 annually to support low-income, working-age Canadians, who are eligible for the Disability Tax Credit, beginning in July 2025.

Under current rules, payments received under the Canada Disability Benefit would be included in income for tax purposes. While an offsetting deduction would be provided to ensure these payments are effectively non-taxable, amounts received could affect income-tested benefits delivered through the federal tax system, such as the Canada Child Benefit. Other federal programs and provincial/territorial benefits, such as child benefits, which may rely on income as computed under the federal *Income Tax Act* to calculate entitlements, would also be affected.

The *2024 Fall Economic Statement* proposes to exempt amounts received under the Canada Disability Benefit from income under the *Income Tax Act*. This would help ensure that income-tested benefits and programs are not reduced as a result of payments under the Canada Disability Benefit.

This measure would apply to the 2025 and subsequent taxation years.

## **Canada Carbon Rebate Rural Supplement**

The Canada Carbon Rebate returns more than 90 per cent of fuel charge proceeds to Canadians residing in provinces where the fuel charge applies. In addition to the base rebate amount, a 20-per-cent rural supplement is available to individuals living outside a Census Metropolitan Area (CMA), as designated by Statistics Canada, in a province that contains a CMA.

- Eligibility for the rural supplement was initially based on CMA designations for the most recent census published before the relevant taxation year. This was temporarily paused for the 2023 and 2024 taxation years (i.e., the 2024-25 and 2025-26 fuel charge years respectively), where eligibility is based on CMA designations as per the 2016 Census. Budget 2024 committed to proposing changes to the rural supplement to better target individuals residing in rural and small communities.

The *2024 Fall Economic Statement* proposes to amend the *Income Tax Act* to expand eligibility for the rural supplement to individuals who, within a CMA, reside in a census rural area (less than 1,000 individuals) or a small population centre (less than 30,000 individuals) as designated by Statistics Canada. This measure also proposes to base eligibility for the supplement on these geographical designations as per the most recent Census published before the taxation year.

A partial list of areas that would be newly eligible for the rural supplement in 2025-26 is presented in Table 2. In addition to small population centres, rural areas within the CMAs presented in the table would also become eligible for the supplement. Although these rural areas are not specifically listed, one example is provided for each CMA for illustrative purposes. The Canada Revenue Agency will be developing guidance and tools to help Canadians determine their eligibility.

The proposed changes would apply as of the 2024 taxation year, meaning that the first payments under the proposed rules would occur in April 2025.

## **Table 2**

### **List of Areas Newly Eligible for the Canada Carbon Rebate Rural Supplement in 2025-26**

#### **Based on the 2021 Census, Eligible Small Population Centres\***

##### **Nova Scotia**

*In the CMA of Halifax:*

- Brookside
- Lake Echo
- Enfield - Lantz
- Rural areas, e.g. Seaforth
- Indian Brook 14

##### **Newfoundland and Labrador**

*In the CMA of St. John's:*

- Rural areas, e.g. Windsor Heights

##### **New Brunswick**

*In the CMA of Fredericton:*

- New Maryland
- Rural areas, e.g. Kingsclear
- Starlight Village

*In the CMA of Moncton:*

- MacEwen
- Rural areas, e.g. Weldon
- Salisbury

*In the CMA of Saint John:*

- Hampton
- Wells
- Quispamsis - Rothesay
- Rural areas, e.g. Willow Grove

**Manitoba**

*In the CMA of Winnipeg:*

- Ile des Chenes
- Oak Bluff
- La Salle
- Oakbank
- Landmark
- St. Adolphe
- Lorette

- Rural areas, e.g. Dugald
- Niverville

## **Saskatchewan**

*In the CMA of Regina:*

- Balgonie
- Regina Beach
- Lumsden
- White City
- Pilot Butte
- Rural areas, e.g. Richardson

*In the CMA of Saskatoon:*

- Dalmeny
- Martensville
- Delisle
- Osler
- Langham
- Rural areas, e.g. Beaver Creek

## **Alberta**

*In the CMA of Calgary:*

- Chestermere
- Langdon
- Crossfield

- Rural areas, e.g. Dalroy
- Irricana

*In the CMA of Edmonton:*

- Beaumont
- Lancaster Park
- Bon Accord
- Legal
- Calmar
- Morinville
- Cardiff
- Redwater
- Devon
- Stony Plain
- Fort Saskatchewan
- Rural areas, e.g. Duffield
- Gibbons

*In the CMA of Lethbridge:*

- Coaldale
- Picture Butte
- Coalhurst
- Rural areas, e.g. Diamond City
- Nobleford

*In the CMA of Red Deer*

- Rural areas, p. ex. Township Road 391

**Ontario**

*In the CMA of Barrie:*

- Big Bay Point
- Innisfil
- Cookstown
- Rural areas, e.g. Churchill
- Elmvale

*In the CMA of Brantford:*

- Burford
- St. George
- Paris
- Rural areas, e.g. Cathcart

*In the CMA of Belleville:*

- Frankford
- Rural areas, e.g. Wallbridge
- Stirling

*In the CMA of Greater Sudbury:*

- Azilda
- Dowling
- Capreol

- Lively
- Chelmsford
- Valley East
- Coniston
- Rural areas, e.g. Whitefish

*In the CMA of Guelph:*

- Rockwood
- Rural areas, e.g. Morriston

*In the CMA of Hamilton:*

- Binbrook
- Rural areas, e.g. Copetown
- Carlisle

*In the CMA of Kingston:*

- Bath
- Rural areas, e.g. Brewers Mills

*In the CMA of Kitchener-Cambridge-Waterloo:*

- Ayr
- New Hamburg
- Elmira
- St. Jacobs
- New Dundee
- Rural areas, e.g. Shingletown

*In the CMA of London:*

- Belmont
- Port Stanley
- Dorchester
- Strathroy
- Ilderton
- Rural areas, e.g. Melrose
- Mount Brydges

*In the CMA of Oshawa:*

- Orono
- Rural areas, e.g. Solina

*In the CMA of Ottawa-Gatineau:*

- Almonte
- Manotick Station
- Arnprior
- Metcalfe
- Bourget
- Munster
- Carleton Place
- Osgoode
- Carp
- Richmond

- Constance Bay
- Rockland
- Embrun
- Russell
- Kemptville
- Rural areas, e.g. Kinburn

*In the CMA of Peterborough:*

- Bridgenorth - Chemong Park Area
- Millbrook
- Lakefield
- Rural areas, e.g. Springville

*In the CMA of St. Catharines-Niagara:*

- Beamsville
- Port Colborne
- Chippawa
- Stevensville
- Crystal Beach
- Vineland
- Fort Erie
- Virgil
- Mississauga Beach
- Rural areas, e.g. Cooks Mills

*In the CMA of Toronto:*

- Acton
- King
- Alliston
- Mount Albert
- Ballantrae
- Nobleton
- Beeton
- Palgrave
- Bolton
- Schomberg
- Caledon
- Sutton
- Caledon East
- Tottenham
- Claremont
- Uxbridge
- Keswick - Elmhurst Beach
- Rural areas, e.g. Linton

*In the CMA of Thunder Bay:*

- Rural areas, e.g. Murillo

*In the CMA of Windsor:*

- Amherstburg
- Harrow
- Colchester
- Rural areas, e.g. Maidstone
- Essex

## **Northern Residents Deductions**

Individuals who live in prescribed northern areas of Canada for at least six consecutive months beginning or ending in a taxation year may claim the Northern Residents Deductions in computing their taxable income for that year.

Residents of the Northern Zone are eligible for the full amount of the deductions, while residents of the Intermediate Zone are eligible for half the amount of the deductions. The islands of Haida Gwaii are currently included in the Intermediate Zone.

The *2024 Fall Economic Statement* proposes to re-classify the islands of Haida Gwaii from the Intermediate Zone to the Northern Zone, which would allow residents to claim up to the maximum value of the deductions.

This change would apply to the 2025 and subsequent taxation years.

## **Capital Gains Rollover on Investments**

Under the *Income Tax Act*, individuals are allowed to defer taxation on capital gains realized on the qualifying disposition of Eligible Small Business Corporation (ESBC) shares to the extent that proceeds from the disposition are used to acquire replacement ESBC shares within the year of disposition, or up to 120 days following that year. To qualify as an ESBC share, a share must be a common share issued by an ESBC to the individual and the total

carrying value of the assets of the ESBC and related corporations must not exceed \$50 million immediately before and immediately after the share was issued.

The *2024 Fall Economic Statement* proposes to increase the period to acquire replacement shares and to expand what qualifies as an ESBC share. First, the period to acquire replacement shares would be expanded to encompass the year of disposition and the entire calendar year after the year of disposition. Second, an ESBC share would include both common and preferred shares. Finally, the limit to the carrying value of the assets of the ESBC and related corporations would be increased to \$100 million.

These changes would be effective for qualifying dispositions that occur on or after January 1, 2025.

## **Reporting by Non-profit Organizations**

The *Income Tax Act* provides an exemption from income tax for organizations that meet the definition of a non-profit organization (NPO). Generally, an NPO is any club, society or association that is organized for social welfare, civic improvement, pleasure or recreation or any other purpose except profit. Charities are exempt from income tax under separate rules.

The *2024 Fall Economic Statement* proposes several changes to the reporting requirements for NPOs in order to improve transparency in this sector.

## **Changes to the Annual Return**

Currently, there is limited reporting required by NPOs that claim an income tax exemption. An NPO is required to file an annual information return if:

- the total of all passive income in the fiscal period exceeds \$10,000;

- the organization's total assets at the end of the preceding fiscal period exceeded \$200,000; or,
- an information return was required to be filed by the organization for a preceding fiscal period.

The *2024 Fall Economic Statement* proposes to amend the *Income Tax Act* to require NPOs with total gross revenues over \$50,000 to also file the annual NPO information return.

### **New Filing Requirement for Small NPOs**

The *2024 Fall Economic Statement* also proposes to amend the *Income Tax Act* to require NPOs that do not meet the thresholds for filing the annual NPO information return to file a new, short-form return that contains basic information about the organization, including:

- its business number or trust number;
- the name of the organization and its mailing address;
- the names and addresses of the directors, officers, trustees or similar officials;
- a description of the organization's activities, including whether it conducts activities outside Canada;
- the organization's total assets and liabilities and annual revenues; and,
- other prescribed information.

### **Coming into Force**

These measures would apply to the 2026 and subsequent taxation years.

# Business Income Tax Measures

## Canada Carbon Rebate for Small Businesses

In provinces where the fuel charge applies, a portion of fuel charge proceeds from the price on pollution will be returned to eligible small- and medium-sized businesses via the Canada Carbon Rebate for Small Businesses, an automatic, refundable tax credit provided directly to eligible businesses.

Corporations do not have to apply for the tax credit; the payment amounts will be automatically determined by the Canada Revenue Agency.

The Canada Carbon Rebate for Small Businesses will generally be available to Canadian-controlled private corporations (CCPCs) that had 499 or fewer employees in Canada throughout the calendar year in which the applicable fuel charge year began.

The tax credit amount in respect of an eligible corporation for an applicable fuel charge year is determined for each applicable province in which the corporation had employees in the calendar year in which the fuel charge year begins. The tax credit amount is equal to the number of persons employed by the eligible corporation in the province in that calendar year multiplied by a payment rate specified by the Minister of Finance for the province for the corresponding fuel charge year.

Corporations that filed their tax returns for 2023 by July 15, 2024, have already received their payments via direct deposit, or have cheques in the mail.

On October 1, 2024, the government announced that corporations that file their 2023 tax return after July 15, 2024, and on or before December 31, 2024, would also be eligible for a payment. Businesses filing after the initial

July 15 deadline would receive their payment at a later date, subject to Royal Assent of legislation implementing this change. The government has also announced that this rebate would not be included in the taxable income of eligible businesses.

The *2024 Fall Economic Statement* proposes to modify certain elements of the design of the tax credit for the 2024-25 and later fuel charge years. The 2024-25 fuel charge year corresponds to the 2024 calendar year for the purpose of testing the number of employees.

### **Eligible Businesses**

In respect of an applicable fuel charge year (i.e., 2024-25 and later fuel charge years), the tax credit would be available to a CCPC that files their tax return for the calendar year in which the fuel charge year begins by July 15 of the following calendar year.

It is proposed to extend the tax credit to cooperative corporations and credit unions, starting in the 2024-25 fuel charge year.

### **Minimum Payment**

An eligible corporation with 1 to 20 employees across Canada would receive a payment(s) corresponding to it having 20 employees.

If an eligible corporation qualifies for a minimum payment and has employees located in multiple provinces (including provinces where the fuel charge is not in place), the employees in each province would be increased proportionally for the purposes of calculating the credit so that the total number of employees in all provinces would be deemed to be 20.

### **Phase Out**

Eligible corporations would have their payment amounts reduced on a straight-line basis when the number of employees across Canada is between 300 and 500. The payment amount would be zero once the number of employees across Canada reaches 500.

## **Clean Electricity Investment Tax Credit for Provincial and Territorial Crown Corporations**

Budget 2024 announced that the Clean Electricity investment tax credit would be available to provincial and territorial Crown corporations for investments made in eligible property situated in eligible jurisdictions. The federal Minister of Finance would designate a province or a territory as an eligible jurisdiction, provided that the Minister was satisfied that the provincial or territorial government had satisfied certain conditions. Following Budget 2024, the government undertook consultations with provinces and territories on the details of these conditions.

Based on these consultations, the *2024 Fall Economic Statement* is announcing the final conditions that provincial and territorial governments would need to satisfy to be considered for designation by the federal Minister of Finance, along with the annual reporting requirements that would apply to any designated provincial and territorial Crown corporations claiming the Clean Electricity investment tax credit.

### **Conditions for Provincial and Territorial Governments**

The federal Minister of Finance would designate a province or a territory as an eligible jurisdiction, if the Minister is satisfied that the provincial or territorial government had:

- publicly committed to publish an energy roadmap to achieve net-zero emissions by 2050, inclusive of all energy sources, by the end of 2026 ("Condition 1"); and,

- publicly requested that provincial and territorial Crown corporations pass on the benefits of the Clean Electricity investment tax credit to electricity ratepayers in their province/territory ("Condition 2").

Details in respect of these conditions are provided below.

### **Condition 1: Commit to Publish a 2050 Net-Zero Energy Roadmap**

A provincial or territorial government must release a written public statement committing to complete an ***Energy Roadmap*** to achieve ***Net-Zero Emissions by 2050, Inclusive of all Energy Sources***, by the end of 2026.

The written public statement must be:

- A stand-alone statement made at the ministerial level on behalf of the provincial or territorial government, either by the jurisdiction's minister responsible for energy policy or head of government. Alternatively, the statement could be included in a government publication (e.g., budget, fiscal update, etc.) that is approved by one or more of these same ministers.
- Available on the website of one or more of the: ministry responsible for energy or electricity policy, ministry responsible for finance, or the premier of the province or territory.

For the purposes of this condition:

- ***Energy Roadmap*** is a comprehensive energy strategy authored by a provincial or territorial government to achieve ***Net-Zero Emissions by 2050***, which articulates a vision, objectives, and associated near- and long-term actions.
- ***Net-Zero Emissions by 2050*** means that, by or before the year 2050, anthropogenic emissions of greenhouse gases into the atmosphere

are balanced by anthropogenic removals of greenhouse gases from the atmosphere.

- ***Inclusive of all Energy Sources*** means that all traditional and emerging sources of energy are considered, including different generation sources of electricity, fossil fuels, hydrogen, biofuels, and any other forms of energy. Energy exports to other countries can be considered out of scope for a roadmap.
- Provincial and territorial governments are encouraged to consider the best practices for preparing energy roadmaps outlined in the final report of the Canada Electricity Advisory Council (see [Appendix A: Energy planning](#)).

## **Condition 2: Request that Crown Corporations Pass on the Benefits of the Clean Electricity Investment Tax Credit**

A provincial or territorial government must issue a written public request to its Crown corporation(s) expected to be eligible to claim the Clean Electricity investment tax credit, for investments in their own province or territory, to pass on the ***Benefits*** of the investment tax credit to electricity ***Ratepayers*** in their jurisdiction.

The written public request must be:

- A stand-alone request made at the ministerial level on behalf of the provincial or territorial government, either by the jurisdiction's minister(s) responsible for electricity Crown corporations or head of government. Alternatively, the public request could be included in a government publication (e.g., budget, fiscal update, energy strategy, mandate letter, etc.) that is approved by one or more of these same ministers.

- Available on the website of one or more of the: ministry responsible for electricity Crown corporation(s), ministry responsible for energy policy or the premier of the province or territory.

For the purposes of this condition:

- **Ratepayers** include all customers who purchase the electricity for end use.
- **Benefits** of the investment tax credit to electricity **Ratepayers** may vary based on a Crown corporation's specific circumstances, including whether it provides electricity generation, transmission and/or distribution services. Benefits may include one or more of the following: lower electricity prices or lower electricity rates; improved system reliability; new system services; or other benefits. Benefits are relative to a scenario where the tax credit had not been claimed.

### **Designation by the Federal Minister of Finance**

Once a provincial or territorial government believes it has satisfied the two conditions, it must submit a letter to the federal Minister of Finance requesting designation, noting the date the conditions were satisfied, and including supporting evidence (e.g., documentation or website links).

The federal Minister of Finance will assess the request and communicate the outcome of the designation to the province or territory:

- If the assessment is positive, the province or territory will be designated by the federal Minister of Finance as an eligible jurisdiction for purposes of the Clean Electricity investment tax credit.
- If the assessment is negative, a letter to the provincial or territorial government will be provided identifying which condition(s) were not

met. The province or territory will have the option to re-submit to meet any outstanding condition(s).

If a provincial or territorial government satisfies all the conditions by June 30, 2025, and has subsequently been designated by the federal Minister of Finance, then provincial or territorial Crown corporations investing in that jurisdiction would be able to access the Clean Electricity investment tax credit for clean electricity property that is acquired and becomes available for use on or after April 16, 2024, for projects that did not begin construction before March 28, 2023.

If a provincial or territorial government does not satisfy all the conditions by June 30, 2025, then provincial or territorial Crown corporations investing in that jurisdiction would not be able to access the Clean Electricity investment tax credit until the province or territory is designated. The Clean Electricity investment tax credit would apply to clean electricity property that is acquired and becomes available for use on or after the date when the province or territory is designated by the federal Minister of Finance, for projects that did not begin construction before March 28, 2023.

## **Provincial and Territorial Crown Corporations**

### **Reporting Requirements**

A provincial or territorial Crown corporation that claims the credit would be required to publicly report the following information relating to its activities in its jurisdiction, on an annual basis:

- Estimates of the Crown corporation's annual forecasted **Cost of Service**, with and without any Clean Electricity investment tax credit that it has received;
- A description of the methodology used to prepare the above information;

- The amount of Clean Electricity investment tax credit received for the year and on a cumulative basis; and,
- An explanation of how the value of the Clean Electricity investment tax credit to the Crown corporation is being used to ***Benefit Ratepayers in Its Jurisdiction***.

Annual reports would need to be made publicly available by, or on behalf of, the provincial or territorial Crown corporation on the website of the corporation (or a related person) and must remain available until December 31, 2035. Reporting would begin for the taxation year for which the credit was first claimed and continue for each subsequent taxation year that ends before 2036.

The reporting-due day (i.e., the date by which reports must be made publicly available) would be nine months after the day on which each reporting taxation year ends.

For the purposes of this reporting requirement:

- ***Cost of Service*** refers to the Crown corporation's total cost to provide electricity to its customers. This generally includes depreciation and amortization costs; financing costs; operational costs (e.g., fuel and purchased power); taxes, and other costs.
- ***Ratepayers*** include all customers who purchase the electricity for end use.
- ***Benefit Ratepayers in Its Jurisdiction*** refers to the benefits provided by the Clean Electricity investment tax credit to ***Ratepayers*** in the Crown corporation's own jurisdiction. A Crown corporation must explain these benefits using qualitative and/or quantitative information. The benefits may vary based on a Crown corporation's specific circumstances, including whether it provides electricity generation, transmission

and/or distribution services. Benefits may include one or more of the following: lower electricity prices or lower electricity rates; improved system reliability; new system services; or other benefits. Benefits are relative to a scenario where the tax credit had not been claimed.

### **Non-Compliance with Reporting Requirements**

A provincial or territorial Crown corporation that does not meet the annual reporting requirements above would be liable to repay an amount equal to the lesser of five per cent of the entity's total Clean Electricity investment tax credit received for all taxation years before the reporting-due day and \$10 million.

Should a Crown corporation report late, but within 6 months after its reporting-due day, the amount of the repayment would be reduced to one-twelfth of the repayment amount (as determined above) multiplied by the greater of 1 and the number of complete months from the day on or before which the report was required to be made public to the day on which the report was made public.

### **Clean Electricity Investment Tax Credit and the Canada Infrastructure Bank**

The Clean Electricity investment tax credit is a refundable credit equal to 15 per cent of the capital cost of eligible investments in equipment related to low-emitting electricity generation, electricity storage, and the transmission of electricity between provinces and territories.

This tax credit would be available to taxable Canadian corporations, provincial and territorial Crown corporations (subject to certain conditions), corporations owned by municipalities or Indigenous communities, and

pension investment corporations. The capital cost of property that is eligible for Clean Electricity investment tax credit may be reduced by government assistance that a taxpayer receives.

The *2024 Fall Economic Statement* proposes to include the Canada Infrastructure Bank as an eligible entity under the Clean Electricity investment tax credit.

The *2024 Fall Economic Statement* also proposes to introduce an exception so that any financing provided by the Canada Infrastructure Bank would not reduce the cost of eligible property for the purpose of computing the Clean Electricity investment tax credit.

These measures would apply to eligible property that is acquired and that becomes available for use on or after the day of the *2024 Fall Economic Statement*.

## **EV Supply Chain Investment Tax Credit**

Budget 2024 announced a refundable electric vehicle (EV) Supply Chain investment tax credit equal to 10 per cent of the capital cost of eligible building property used in qualifying EV supply chain segments. This measure would incentivize companies to build important parts of the EV manufacturing supply chain in Canada, where the materials, expertise, and workforce exist to be a global leader in this growing industry. The *2024 Fall Economic Statement* provides the design and implementation details of the credit.

### **Eligible Corporations**

The EV Supply Chain investment tax credit would be available only to taxable Canadian corporations that invest directly in eligible property. The credit would not be available for investments made by partnerships or

trusts.

## **Eligible Property**

The EV Supply Chain investment tax credit would be available for buildings and structures, including their component parts, that are described in paragraph (q) of capital cost allowance Class 1 of Schedule II of the *Income Tax Regulations*.

To be eligible for the credit, all or substantially all of the use of property would have to be in one or more of the three qualifying EV supply chain segments:

- EV assembly, which would comprise the final assembly of a motor vehicle that is either fully electric or a plug-in hybrid that has a battery capacity of at least 7kWh.
- EV battery production, which would comprise the manufacturing of battery cells used in the powertrains of fully electric or plug-in hybrid vehicles, or battery modules used in the powertrains of fully electric or plug-in hybrid vehicles.
- Cathode active material (CAM) production, which would:
  - include the production of CAM that is used as inputs to the manufacturing of battery cells used in the powertrains of fully electric or plug-in hybrid vehicles; but,
  - exclude preliminary processing activities, such as activities that could generally allow property to qualify for the Clean Technology Manufacturing investment tax credit.

## **Machinery and Equipment Investment Requirement**

To be eligible for the EV Supply Chain investment tax credit, a corporation would be required to invest at least \$100 million in each of the three qualifying EV supply chain segments.

To satisfy this requirement, a corporation (either by itself or as part of a related group, such as with a parent company) would have to either:

- acquire at least \$100 million in property eligible for the Clean Technology Manufacturing investment tax credit that has become available for use in each of the three segments; or,
- acquire at least \$100 million in property eligible for the Clean Technology Manufacturing investment tax credit that has become available for use in each of two segments and hold a qualifying minority interest in another corporation that acquires at least \$100 million in property eligible for the Clean Technology Manufacturing investment tax credit that has become available for use in the remaining segment.

For the purposes of this requirement, a corporation would be considered to hold a qualifying minority interest in another corporation if it owns shares entitling it to at least 10 per cent of the voting rights and 10 per cent of the value of the shares of that corporation.

## **Recapture Rules**

The EV Supply Chain investment tax credit would be subject to potential repayment obligations similar to the existing recapture rules for the Clean Technology Manufacturing investment tax credit. Over a 10-year period from the date of acquiring a particular eligible property, the credit could be repayable in proportion to the fair market value of the particular property if it is converted to an ineligible use, exported from Canada, or disposed of.

In addition, the credit could be repayable if the corporation ceased to meet the other conditions set out above.

### **Application and Phase-Out**

The EV Supply Chain investment tax credit would apply to property that is acquired and becomes available for use on or after January 1, 2024.

The credit rate would be reduced to 5 per cent for property that becomes available for use in 2033 or 2034. The credit would no longer be in effect for property that becomes available for use after 2034.

Other design elements would generally be based on those of the Clean Technology Manufacturing investment tax credit, where applicable.

### **Strategic Environmental Assessment Statement**

Overall, this measure is expected to have a positive environmental impact by lowering the prices of EVs. By encouraging greater adoption of EVs in Canada, it would contribute to reductions in emissions of greenhouse gases and air particulates, helping Canada to achieve its 2030 target of reducing total greenhouse gas emissions by 40 per cent to 45 per cent relative to 2005 levels.

Positive environmental impacts could be partly offset insofar as the measure increases manufacturing of EVs and their components and precursors in Canada, which could increase emissions of greenhouse gases and air particulates.

### **Clean Hydrogen Investment Tax Credit – Methane Pyrolysis**

The Clean Hydrogen investment tax credit is a refundable tax credit that supports the cost of eligible equipment used in clean hydrogen production. Support varies between 15 to 40 per cent of eligible expenses based on the

hydrogen's assessed carbon intensity, with projects that produce the cleanest hydrogen receiving the highest levels of support. Equipment used to convert clean hydrogen to ammonia may also be eligible for a 15-per-cent tax credit. Labour requirements must be met to receive maximum credit rates.

Eligible hydrogen production pathways under the Clean Hydrogen investment tax credit currently include hydrogen produced from the electrolysis of water, or from the reforming or partial oxidation of natural gas or other eligible hydrocarbons, so long as emissions are abated using carbon capture, utilization, and storage (CCUS).

The *2024 Fall Economic Statement* proposes that the Clean Hydrogen investment tax credit be expanded to include methane pyrolysis as an eligible production pathway. Going forward, the government will continue to review eligibility for other low-carbon hydrogen production pathways.

## **Technology**

Methane pyrolysis for hydrogen production is a nascent but promising technology capable of producing clean hydrogen. By carrying out the chemical reaction that separates hydrogen from carbon in an oxygen-free environment, the process has the potential to produce clean hydrogen from natural gas or other hydrocarbons without the need for investments in CCUS.

In addition to hydrogen, methane pyrolysis also produces solid carbon that can be used as an input in other production processes, or treated as waste which can safely be disposed. Solid carbon can have a wide range of market values depending on its quality.

## **Eligible Projects**

Eligible projects under the Clean Hydrogen investment tax credit would be expanded to include projects that produce hydrogen from the pyrolysis of natural gas and other eligible hydrocarbons (i.e., methane pyrolysis). Existing design features of the Clean Hydrogen investment tax credit would generally apply, along with other pathway-specific design details described below.

Unlike the reforming and partial oxidation production pathways, the pyrolysis process would not be required to capture carbon dioxide (CO<sub>2</sub>) emissions using a CCUS process (dual-use heat and power equipment would still be required to capture CO<sub>2</sub> using a CCUS process).

### **Eligible Equipment**

Eligible equipment would include property that is used to produce all or substantially all hydrogen from methane pyrolysis, determined without reference to any solid carbon that is produced, such as:

- pyrolysis reactors;
- heat exchangers;
- separation equipment and purifiers; and,
- compression and on-site storage equipment.

As is the case for the Clean Hydrogen investment tax credit in general, eligible equipment would also include dual-use electricity and heat equipment, project support equipment, ammonia production equipment, and oxygen production equipment, provided they satisfy the existing requirements.

Equipment downstream of the point where hydrogen and solid carbon is separated would not be eligible, including dryers, pulverisers, bag collectors, densifiers, and pin mixers.

## **Limit on Coverage of Pyrolysis Reactor System Costs**

The pyrolysis reactor system may become more expensive as the production of higher-grade carbon is targeted, which would have increased market value, without changing the amount of hydrogen the project would produce.

Therefore, to ensure that the Clean Hydrogen investment tax credit is targeted towards clean hydrogen production rather than solid carbon production, support for the capital costs of the pyrolysis reactor system would be limited to \$3,000 per tonne of annual hydrogen production capacity. Incurred expenses that are in excess of the \$3,000 limit would be ineligible for tax support.

## **Carbon Intensity**

Methane pyrolysis projects would generally be required to follow existing rules for measuring carbon intensity using the Fuel Life Cycle Assessment Model. Guidance on the measurement of carbon intensity would be expanded to include methane pyrolysis projects.

In addition, the carbon intensity of methane pyrolysis projects would depend on the end use of the produced solid carbon.

- Projects that convert or incorporate their solid carbon into a product that is not intended to be used as a fuel or energy source by the taxpayer or a purchaser would be able to allocate project emissions between the hydrogen and solid carbon co-product based on relative production adjusted for energy content (i.e., energy allocation).
- Projects that treat solid carbon as waste and send it to landfills would not be allowed to allocate carbon emissions to the solid carbon (i.e., the carbon intensity would be allocated to hydrogen production).

- Projects that use solid carbon for a purpose other than those described above, or that do not account for the use of the solid carbon, would be assumed to have disposed of it in a manner that results in conversion into CO<sub>2</sub> and subsequent release into the atmosphere. The corresponding emissions would be factored into the calculation of the project's carbon intensity.

The end use of the solid carbon, as set out in the project's "End-Use Plan" (described below), would factor into the determination of the project's expected and actual carbon intensity calculations.

### **Carbon End-Use Plan**

To ensure that the solid carbon produced from a methane pyrolysis project is not converted to CO<sub>2</sub> that is subsequently released, taxpayers would be required to track the end use of their solid carbon through an "End-Use Plan". The End-Use Plan would account for any solid carbon produced, and its end use, for a period of seven years, starting when the project first produces hydrogen.

Methane pyrolysis projects would be required to establish contracts with their solid carbon offtakers prior to the beginning of the compliance period for the Clean Hydrogen investment tax credit. The contracts would need to bind the purchaser to use the solid carbon as described in their End-Use Plan and facilitate information sharing to confirm its end use. Details on the information that would be required will be provided at a later date.

### **Venting and Flaring**

In order to ensure that the Clean Hydrogen investment tax credit is targeted to clean hydrogen production, and not the production of solid carbon, methane pyrolysis projects would be restricted from venting or flaring the hydrogen produced by the project (other than venting/flaring

for system integrity and safety). This would help ensure that projects have an offtaker for their clean hydrogen and that the hydrogen is used for an economic purpose and not wasted. Details on how the venting and flaring restriction would apply will be provided at a later date.

## **Coming into Force**

The expansion of the Clean Hydrogen investment tax credit to include the pyrolysis of natural gas and other eligible hydrocarbons as an eligible hydrogen production pathway would apply in respect of property that is acquired and becomes available for use in an eligible project on or after the day of the *2024 Fall Economic Statement*.

## **Strategic Environmental Assessment Statement**

The Clean Hydrogen investment tax credit is expected to have a positive environmental impact by encouraging investment in clean hydrogen production that would reduce emissions of greenhouse gases. This would help advance the government's Federal Sustainable Development Strategy target to reduce greenhouse gas emissions by 40 to 45 per cent below 2005 levels by 2030 and achieve net-zero greenhouse gas emissions by 2050.

## **Scientific Research and Experimental Development Tax Incentive Program**

Under the Scientific Research and Experimental Development (SR&ED) tax incentive program, qualifying expenditures are fully deductible in the year they are incurred. In addition, these expenditures are generally eligible for an investment tax credit. The rate and level of refundability of the credit vary depending on the characteristics of the taxpayer, including its legal status and its size. In general terms:

- For most corporations other than Canadian-controlled private corporations (CCPCs), a 15 per cent non-refundable tax credit is available on qualified SR&ED expenditures. Unincorporated businesses, individuals, and certain trusts have access to a 15 per cent partially refundable tax credit on qualified SR&ED expenditures.
- For CCPCs, a fully refundable enhanced tax credit at a rate of 35 per cent is available on up to \$3 million of qualifying SR&ED expenditures annually. The \$3 million expenditure limit for a taxation year is gradually phased out based on prior-year taxable capital, which applies on the basis of an associated group. The expenditure limit is gradually reduced where taxable capital employed in Canada for the previous taxation year is between \$10 million and \$50 million.
- Qualifying expenditures in excess of a CCPC's expenditure limit are eligible for the 15 per cent tax credit. Depending on whether a CCPC's income in the previous taxation year exceeds its qualifying income limit, these credits can be partially refundable.

### **Expenditure Limit and Taxable Capital Phase-out Thresholds**

The *2024 Fall Economic Statement* proposes to increase the expenditure limit on which the enhanced 35 per cent rate can be earned from \$3 million to \$4.5 million. As a result, qualifying CCPCs would be able to claim up to \$1.575 million per year of the enhanced, fully refundable tax credit.

The taxable capital phase-out thresholds for determining the expenditure limit would also be increased from \$10 million and \$50 million to \$15 million and \$75 million, respectively.

### **Canadian Public Corporations**

The *2024 Fall Economic Statement* also proposes to extend eligibility for the enhanced refundable tax credit to eligible Canadian public corporations. An eligible Canadian public corporation would be a corporation that, throughout the taxation year:

- is resident in Canada;
- has a class of shares listed on a designated stock exchange (a list is available on the Department of Finance website) or, if not, has elected, or been designated by the Minister of National Revenue, to be a public corporation; and,
- is not controlled directly or indirectly in any manner whatever by one or more non-resident persons.

Canadian-resident corporations all or substantially all of the shares of the capital stock of which are owned by one or more eligible Canadian public corporations would also be eligible.

An eligible Canadian public corporation would be eligible for the enhanced 35-per-cent tax credit rate on up to \$4.5 million of qualifying SR&ED expenditures annually. Access to the \$4.5 million expenditure limit for any given tax year would be phased out based on a corporation's gross revenue. Specifically, the expenditure limit would be reduced on a straight-line basis when the corporation's average gross revenue over the three preceding years is between \$15 million and \$75 million.

- For a corporation that is a member of a corporate group that prepares consolidated financial statements, gross revenue would be as reported in the annual financial statements of the group presented to shareholders at the highest level of consolidation. Members of a corporate group for financial reporting purposes would be required to share access to the enhanced SR&ED credit's expenditure limit.

- For a corporation that is not a member of such a corporate group, gross revenue would be as reported in the corporation's annual financial statements prepared in accordance with generally accepted accounting principles and presented to shareholders.

Credits earned in respect of expenditures above their expenditure limit would be eligible for a 15-per-cent non-refundable credit rate.

## **Election for CCPCs**

Instead of determining eligibility based on taxable capital, CCPCs would have the option to elect to have their expenditure limit for the enhanced SR&ED credit determined based on the same gross revenue phase-out structure proposed for Canadian public corporations.

## **Coming into Force**

The proposed new rules to determine eligibility for the enhanced SR&ED credit would apply for taxation years that begin on or after the date of the *2024 Fall Economic Statement*.

## **Additional Tax Support for Productivity-Enhancing Assets**

The SR&ED program delivers support to businesses through both an immediate deduction against income and a tax credit. Currently, eligible expenditures under the SR&ED program generally include salary and wages, as well as the cost of materials, contract payments, third-party payments and overhead expenditures. Capital expenditures were removed from eligibility under the SR&ED program for property acquired after 2013.

The *2024 Fall Economic Statement* proposes to restore the eligibility of capital expenditures for both the deduction against income and investment tax credit components of the SR&ED program. The rules would be generally the same as those that existed prior to 2014. This change would apply to

property acquired on or after the date of the *2024 Fall Economic Statement* and, in the case of lease costs, to amounts that first become payable on or after the date of the *2024 Fall Economic Statement*.

## **Deduction Against Income**

Eligible capital expenditures for the purposes of immediate expensing under the SR&ED program would be expenditures incurred to acquire new or used depreciable property that the claimant intends to either:

- use all or substantially all of the operating time in its expected useful life in the performance of SR&ED in Canada, or,
- consume all or substantially all of its value in the performance of SR&ED in Canada.

Eligible property would be eligible for expensing once it becomes available for use.

If these criteria are met, the expenditure could be fully deducted for the purpose of determining taxable income in the year the eligible property becomes available for use or carried forward to the extent it is not deducted in the tax year (i.e., as part of a pool of deductible SR&ED expenditures).

## **Qualifying SR&ED Expenditures for Tax Credit Purposes**

Qualifying capital expenditures would also generally be eligible for the SR&ED tax credit, with some differences from those eligible for immediate expensing, including:

- The acquisition of property that had been used or acquired for use or lease before it was acquired by the claimant would not be eligible for a tax credit.

- A SR&ED-related capital expenditure ineligible for a full deduction against income because it does not meet one of the all-or-substantially-all tests noted above could still be considered "shared-use equipment", meaning that part of the cost of the property would be eligible for the tax credit.

## **Other Rules**

For qualifying CCPCs with access to the SR&ED program's enhanced 35-per-cent tax credit, credits earned on capital expenditures would be eligible for partial refundability at a rate of up to 40 per cent, unlike credits earned on current expenditures which are fully refundable up to a CCPC's expenditure limit.

If a taxpayer sells, or converts the use of, SR&ED capital property, recapture rules would apply in respect of the capital cost allowance for claimed and unclaimed SR&ED capital expenditures, as well as the investment tax credit.

## **Extension of the Accelerated Investment Incentive and Immediate Expensing Measures**

The Accelerated Investment Incentive, which provides an enhanced first-year capital cost allowance (CCA) for most depreciable capital property, began phasing out in 2024 and is set to be fully eliminated after 2027. Immediate expensing measures for manufacturing or processing machinery and equipment, clean energy generation and energy conservation equipment, and zero-emission vehicles are also currently phasing out on the same timeline.

The *2024 Fall Economic Statement* proposes to fully re-instate the Accelerated Investment Incentive and immediate expensing measures for a five-year period, with a four-year phase-out after 2029.

## **Accelerated Investment Incentive**

The Accelerated Investment Incentive provides an enhanced first-year deduction for capital property that is subject to the CCA rules, with limited restrictions. Currently, eligible property must be acquired after November 20, 2018, and be available for use before 2028 in order to qualify for the incentive. Eligible property that would normally be subject to the half-year rule qualified for an enhanced CCA equal to three times the normal first-year deduction, if it became available for use before 2024. This measure started phasing out for property that became available for use after 2023, which reduces the benefit to two times the normal first-year CCA deduction in the 2024-2027 phase-out period.

The *2024 Fall Economic Statement* proposes to fully re-instate the Accelerated Investment Incentive for qualifying property acquired on or after January 1, 2025, and that becomes available for use before 2030. It would be phased out starting in 2030 and fully eliminated for property that becomes available for use after 2033 (as outlined in Table 3).

Table 3

## Current and Proposed Enhanced First-Year Allowance Under the Accelerated Investment Incentive

(property subject to the half-year rule)

	<b>Current Enhanced First-Year Allowance</b>	<b>Proposed Enhanced First-Year Allowance Extension</b>
2023	Up to 3x normal rate	-
2024	Up to 2x normal rate	-
2025	Up to 2x normal rate	Up to 3x normal rate
2026	Up to 2x normal rate	Up to 3x normal rate
2027	Up to 2x normal rate	Up to 3x normal rate
2028	Normal rate	Up to 3x normal rate
2029	Normal rate	Up to 3x normal rate
2030 to 2033	Normal rate	Up to 2x normal rate
2034 onward	Normal rate	Normal rate

Eligible property not normally subject to the half-year rule would qualify for an enhanced CCA equal to one-and-a-half times the normal first year allowance if it is acquired on or after January 1, 2025, and becomes available for use before 2030. For eligible property not normally subject to

the half-year rule that is acquired on or after January 1, 2025, and becomes available for use during the 2030-2033 phase-out period, the enhanced allowance would be equal to one-and-a-quarter times the normal first-year allowance.

The Accelerated Investment Incentive also applies to eligible Canadian development expenses and Canadian oil and gas property expenses. These expenses would qualify for the same enhanced allowances described above as eligible property not subject to the half-year rule.

### **Immediate Expensing Measures**

Manufacturing or processing machinery and equipment under CCA Class 53 of Schedule II to the *Income Tax Regulations*, clean energy generation and energy conservation equipment under Class 43.1 (and Class 43.2 for property acquired before 2025), and zero-emission vehicles under Classes 54, 55, and 56 qualified for an enhanced first-year allowance that provided a 100-per-cent deduction for property that became available for use before 2024. These immediate expensing measures are currently phasing out for property that becomes available for use after 2023 and before 2028.

The *2024 Fall Economic Statement* proposes to fully re-instate these immediate expensing measures for qualifying property acquired on or after January 1, 2025, and that becomes available for use before 2030. These immediate expensing measures would be phased out starting in 2030 and fully eliminated for property that becomes available for use after 2033 (as outlined in Table 4). The half-year rule would continue to effectively be suspended for property eligible for these measures.

Table 4

**Current and Proposed Immediate Expensing for Manufacturing or Processing Machinery and Equipment, Clean Energy Generation and Energy Conservation Equipment and Zero-Emission Vehicles**

	<b>Current Enhanced First-Year Allowance</b>	<b>Proposed First-Year Enhanced Allowance Extension</b>
2023	100%	-
2024	75%	-
2025	75%	100%
2026	55%	100%
2027	55%	100%
2028	Normal rate	100%
2029	Normal rate	100%
2030 to 2031	Normal rate	75%
2032 to 2033	Normal rate	55%
2034 onward	Normal rate	Normal Rate

## Strategic Environmental Assessment Statement

The extension of the immediate expensing measures for clean energy generation and energy conservation equipment and zero-emission vehicles could lead to modestly lower emissions of greenhouse gases and air pollutants to the extent that they displace higher emitting technologies.

An extension of the Accelerated Investment Incentive and immediate expensing of manufacturing or processing machinery and equipment could result in negative indirect environmental effects given that it could increase economic growth, which is normally associated with higher consumption, higher greenhouse gas emissions, and faster depletion of natural resources. On the other hand, these measures could also result in some positive environmental effects to the extent that businesses replace existing capital with more energy efficient and lower-emission technologies.

Based on available data, it is not possible to assess whether the net environmental impact will be positive or negative in the short run. In the long run, given the temporary nature of these measures, they are not expected to result in significant environmental impacts.

## Previously Announced Measures

The *2024 Fall Economic Statement* confirms the government's intention to proceed with the following previously announced tax and related measures, as modified to take into account consultations and deliberations since their release:

- Legislative proposals included in the notice of ways and means motion tabled on October 29, 2024, related to charities and reproductive services.

- Legislative proposals included in the notice of ways and means motion tabled on September 23, 2024, related to capital gains and the lifetime capital gains exemption.
- Legislative and regulatory proposals released on August 12, 2024, including with respect to the following measures:
  - Canadian Entrepreneurs' Incentive;
  - Alternative Minimum Tax;
  - Disability Supports Deduction;
  - Employee Ownership Trust Tax Exemption;
  - Worker Cooperatives;
  - Charities and Qualified Donees;
  - Registered Education Savings Plans;
  - Non-Compliance with Information Requests;
  - Avoidance of Tax Debts;
  - Mutual Fund Corporations;
  - Synthetic Equity Arrangements;
  - Manipulation of Bankrupt Status;
  - Accelerated Capital Cost Allowance for Productivity-Enhancing Assets;
  - Accelerated Capital Cost Allowance for Purpose-Built Rental Housing;
  - Interest Deductibility Limits;
  - Withholding for Non-Resident Service Providers;
  - Substantive CCPCs;

- Regulations related to the application of the enhanced (100-per-cent) GST Rental Rebate to qualifying co-operative housing corporations;
- Technical amendments relating to the GST/HST, excise levies and other taxes and charges announced in the August 12, 2024, release;
- Clean Electricity Investment Tax Credit;
- Proposed expansion of eligibility for the Clean Technology investment tax credit to support generation of electricity and heat from waste biomass;
- Proposed expansion of eligibility for the Clean Technology Manufacturing investment tax credit to support Polymetallic Extraction and Processing;
- Other changes related to the Clean Economy Investment Tax Credits;
- The Global Minimum Tax Act and the Income Tax Conventions Act; and,
- Technical tax amendments to the Income Tax Act and the Income Tax Regulations.
- Legislative proposals released on July 12, 2024, related to implementing an opt-in Fuel, Alcohol, Cannabis, Tobacco and Vaping (FACT) value-added sales tax framework for interested Indigenous governments.
- The Crypto-Asset Reporting Framework and the Common Reporting Standard announced in Budget 2024.

- The proposed exemption from the Alternative Minimum Tax for certain trusts for the benefit of Indigenous groups announced in Budget 2024.
- Legislative and regulatory proposals announced in Budget 2024 with respect to a new importation limit for packaged raw leaf tobacco for personal use.
- Legislative and regulatory proposals announced in the *2023 Fall Economic Statement* with respect to the GST/HST joint venture election rules.
- Regulatory proposals released on November 3, 2023, to temporarily pause the federal fuel charge on deliveries of heating oil.
- Legislative proposals released on August 4, 2023, including with respect to the following measures:
  - Technical amendments to GST/HST rules for financial institutions;
  - Tax-exempt sales of motive fuels for export;
  - Revised Luxury Tax draft regulations to provide greater clarity on the tax treatment of luxury items; and,
  - Technical tax amendments to the *Income Tax Act* and the *Income Tax Regulations*.
- Legislative amendments to implement changes discussed in the transfer pricing consultation paper released on June 6, 2023.
- Legislative proposals released on August 9, 2022, including with respect to the following measures:
  - Technical amendments to the *Income Tax Act* and *Income Tax Regulations*; and,

- Remaining legislative and regulatory proposals relating to the GST/HST, excise levies and other taxes and charges announced in the August 9, 2022, release.
- Legislative amendments to implement the Hybrid Mismatch Arrangements rules announced in Budget 2021.
- The income tax measure announced on December 20, 2019, to extend the maturation period of amateur athlete trusts maturing in 2019 by one year, from eight years to nine years.
- Legislative amendments to give effect to the suspension of the Agreement Between the Government of Canada and the Government of the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital under domestic law as of November 18, 2024.

The *2024 Fall Economic Statement* also reaffirms the government's commitment to move forward as required with other technical amendments to improve the certainty and integrity of the tax system.

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