



## Income Tax Advantages to Going "Green"

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The Federal government has put in place a number of income tax measures designed to encourage business and industry to invest in and to use alternative and renewable energy sources. In addition, the federal government and many provincial governments have a number of funding programs in place to support the development of "green" energy.

The three main federal income tax measures offered to "green" energy projects include the special rate of capital cost allowance for Class 43.1 and 43.2 assets, the classification of certain expenditures as Canadian Renewable Conservation Expenses (CRCEs) and the use of flow-through shares. Natural Resources Canada has published and maintains a technical guide entitled "Class 43.1 Technical Guide and Technical Guide to Canadian Renewable and Conservation Expenses." The purpose of the guide is to describe the types of systems that qualify for Class 43.1 (and 43.2) treatment and those expenditures that qualify as CRCEs.

Examples of alternative and renewable energy systems include cogeneration and/or specified waste fuelled generation systems, active solar heating systems, heat recovery systems, wind energy conversion systems, systems to produce biogas and anaerobic digestion, and systems to convert biomass into bio-oil, to name a few.

### Capital Cost Allowance Class 43.1 and Class 43.2

Class 43.1 provides for an accelerated write-off of capital cost allowance for certain capital expenditures on equipment that is designed to produce energy in a more efficient way or to produce energy from alternative renewable sources. Under Class 43.1, costs can be written off at a rate of 30% on a declining balance basis, subject to the "available for use," "half-year," and "specified energy property" rules. If it were not for Class 43.1, the costs of the qualifying systems would otherwise be written off at rates of 4%, 6%, 8% or 20%, depending on the property and equipment.

Class 43.2, introduced in 2005, provides for an accelerated rate of 50% on a declining basis for certain types of energy-saving property and equipment for renewable energy solutions acquired before 2020. For an asset to qualify under Class 43.2, it must meet all the requirements of Class 43.1 but is subject to higher efficiency standards.

### Canadian Renewable and Conservation Expenses (CRCEs)

CRCEs are expenses paid to an arm's length party in connection with the development of an energy project wherein at least 50% of the capital cost of the properties to be used in the project will be Class 43.1 or 43.2 properties. Examples of CRCE expenditures include the cost of temporary roads to the site, pre-feasibility studies, site approval costs, evaluation and feasibility studies, site preparation costs, and the costs of building service connections for the transmission of electricity or power.

CRCEs can be deducted in the year incurred or carried forward indefinitely.

### Flow-through Shares

CRCEs can be transferred to investors in flow-through shares. A principal business corporation can renounce any CRCEs that it incurs for the period that begins on the day the agreement was made and ends 24 months after the end of the month that includes the date of issue of the flow-through share(s). The amount that may be renounced to a shareholder is subject to a number of conditions,

including the restriction that the amount renounced cannot exceed the consideration paid for the shares.

The flow-through share provisions contain a look-back rule that provides an additional tax advantage. Under the look-back rule, CRCEs incurred in the year after the flow-through share subscription agreement is concluded may be renounced to the shareholders effective in the first year so that all the CRCEs incurred in both first and second years can be deducted in the first year. Accordingly, an investor would be able to receive a deduction for the amount paid for the flow-through shares in the year of subscription even though the CRCE has not yet been incurred at the time of the issuance of the shares.

The flow-through share provisions allow principal business corporations to finance their operations adequately and to allocate certain expenditures to their shareholders for the purposes of assisting shareholders in sheltering their personal income from current taxation.

## **Funding**

In addition to providing income tax incentives, the federal government has supported renewable energy through various funding programs. Most recently, the 2009 Federal Budget announced a \$1-billion investment over five years for a Green Infrastructure Fund, through which funding will be allocated based on merit to support green-infrastructure projects on a cost-shared basis.

Provincial governments have also played an important role in advancing renewable energy in Canada. Like the federal government, multiple provincial governments have directly supported demonstration projects or have provided incentives for renewable energy technologies.

Investments in alternative and renewable energy sources provide a number of income tax advantages. Contact your Collins Barrow advisor to discuss the income tax incentives that may be available to your business.

*Kathy Byvelds, CA, is a Tax Partner in the Winchester office of Collins Barrow.*

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