

Excerpt from the March 19 Budget Papers:

## **Accelerated Capital Cost Allowance for Clean Energy Generation**

A 50-per-cent accelerated CCA is provided under Class 43.2 of Schedule II to the ***Income Tax Regulations*** for specified energy generation equipment. Eligible equipment must generate either (1) heat for use in an industrial process or (2) electricity, by:

- using a renewable energy source (e.g. wind, solar, small hydro),
- using waste fuel (e.g. landfill gas, manure, wood waste), or
- making efficient use of fossil fuels (e.g. high efficiency cogeneration systems).

Class 43.2 was introduced in 2005 and is currently available for assets acquired on or after February 23, 2005 and before 2012. For assets acquired before February 23, 2005, accelerated CCA is provided under Class 43.1 (30 per cent). The eligibility criteria for these classes are generally the same except that cogeneration systems that use fossil fuels must meet a higher efficiency standard for Class 43.2 than that for Class 43.1. Systems that only meet the lower efficiency standard continue to be eligible for Class 43.1.

Where the majority of the tangible property in a project is eligible for Class 43.1 or Class 43.2, certain project start-up expenses (e.g. feasibility studies, engineering and design work) qualify as Canadian Renewable and Conservation Expenses (CRCE). They 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.

The Government continues to review Class 43.2 on an ongoing basis to ensure inclusion of appropriate energy generation technologies that have the potential to contribute to energy efficiency and the use of alternative energy sources. Budget 2007 proposes to extend eligibility to an emerging source of renewable energy—wave and tidal energy—and to a broader range of applications involving active solar heating, photovoltaics, stationary fuel cells, production of biogas from organic waste, and pulp and paper waste fuels. Budget 2007 also proposes to extend eligibility for Class 43.2 to assets acquired before 2020. By encouraging investment in these technologies, these changes will contribute to a reduction in greenhouse gas emissions, improve air quality and promote the diversification of the energy supply.

### ***Active Solar Equipment***

Active solar technology captures and transfers solar energy by using a pump or fan to pass a liquid or gas medium through an above-ground solar collector, where the medium is heated by the sun. Typically the medium is then transported to a heat exchanger, where its energy is transferred and used, often to heat water. The heated water can then be used for various industrial, commercial and residential purposes.

Currently, Classes 43.1 and 43.2 include active solar equipment only if it is used to heat a liquid or gas for use in an industrial process or in a greenhouse. Active solar systems have limited industrial application, however, since they tend not to produce sufficient high-grade heat.

Budget 2007 proposes to extend eligibility for active solar systems under Class 43.1 and Class 43.2 to include other commercial and residential applications such as air and water heating, other than swimming pool heating. Examples include space heating of commercial and apartment buildings, and hot water heating for laundries, car washes and hotels.

Some active solar equipment may be treated as part of the building for CCA purposes (e.g. solar collectors that are integrated into the building). Eligibility will be clarified to ensure that such equipment can qualify for Class 43.1 and Class 43.2. Specifically, solar collectors, solar energy conversion equipment, solar water heaters, energy storage equipment, control equipment and equipment designed to interface solar heating equipment with other heating equipment will be eligible, but not equipment that distributes heated air or water within a building, which will continue to be considered part of the building. Structural components of a building such as framing or windows will not be eligible.

The changes will apply to eligible assets acquired on or after March 19, 2007.