

Brief | 2023 Federal Budget

Introduction

The purpose of this note is to provide you with relevant highlights from Budget 2023 that we believe are of interest to you as a leading service provider committed to increasing the productivity of the energy sector while continuing to lower emissions. Please note we stand ready to work with you to do a deeper dive into budget annexes and supplementary information in the days ahead.

Top Line Summary

In August 2022, Joe Biden signed into law the Inflation Reduction Act (IRA)— legislation that committed hundreds of billions to the net-zero economy and that would potentially cement the United States as the choice destination for businesses in the clean economy to set up shop. With big investments being made south of the border, the federal government committed to responding in kind by establishing a suite of new investment tax credits worth \$21 billion over the next five years that will enable our net-zero transition and make Canada a globally competitive destination for companies in the clean technology space. Not only do these tax credits seek to position Canada as a leader in the net-zero economy, but they also help Canada and its allies pivot trade away from China and shore up supply chains within our sphere of allies – what federal reserve chair Janet Yellen has coined as “friend-shoring.” Key tax credit measures are outlined in more detail below.

An Investment Tax Credit for Clean Technology Manufacturing

- Budget 2023 proposes a refundable tax credit equal to 30 %of the cost of investments in new machinery and equipment used to manufacture or process key clean technologies, and extract, process, or recycle key critical minerals, including:
 - Extraction, processing, or recycling of critical minerals essential for clean technology supply chains, specifically: lithium, cobalt, nickel, graphite, copper, and rare earth elements;
 - Manufacturing of renewable or nuclear energy equipment;
 - Processing or recycling of nuclear fuels and heavy water;
 - Manufacturing of grid-scale electrical energy storage equipment;
 - Manufacturing of zero-emission vehicles; and,
 - Manufacturing or processing of certain upstream components and materials for the above activities, such as cathode materials and batteries used in electric vehicles.
 - The investment tax credit is expected to cost \$4.5 billion over five years, starting in 2023-24, and an additional \$6.6 billion from 2028-29 to 2034-35. The credit would apply to property that is acquired and becomes available for use on or after January 1, 2024, and would no longer be in effect after 2034, subject to a phase-out starting in 2032.

Clean Hydrogen Investment Tax Credit to support investments in clean hydrogen production (up to 40%)

- Budget 2023 announces the details of the Clean Hydrogen Investment Tax Credit with the following key design features:
 - The levels of support will vary between 15% and 40 %of eligible project costs, with the projects that produce the cleanest hydrogen receiving the highest levels of support.

- The Clean Hydrogen Investment Tax Credit will also extend a 15% tax credit to equipment needed to convert hydrogen into ammonia, to transport the hydrogen. The tax credit will only be available to the extent the ammonia production is associated with the production of clean hydrogen.
- Labour requirements will need to be met to receive the maximum tax credit rates. If labour requirements are not met, credit rates will be reduced by ten percentage points. These labour requirements will come into effect on October 1, 2023.
- The proposed Clean Hydrogen Investment Tax Credit is expected to cost \$5.6 billion over five years, beginning in 2023-24. Between 2028-29 and 2034-35, the Clean Hydrogen Investment Tax Credit is expected to cost an additional \$12.1 billion.

Enhancing the Carbon Capture, Utilization, and Storage Investment Tax Credit

- Budget 2023 proposes that the Investment Tax Credit for Carbon Capture, Utilization, and Storage:
 - Include dual use heat and/or power equipment and water use equipment, with tax support prorated in proportion to the use of energy or material in the carbon capture, utilization, and storage process, subject to certain conditions;
 - In addition to Saskatchewan and Alberta, be available to projects that would store CO₂ using dedicated geological storage in British Columbia;
 - Require projects storing CO₂ in concrete to have their concrete storage process validated by a third-party based on an ISO standard prior to claiming the investment tax credit; and,
 - Include a recovery calculation for the investment tax credit in respect of refurbishment property.
 - The proposed changes are expected to cost about \$520 million over five years, beginning in 2023-24.

Clean Technology Investment Tax Credit

- Budget 2023 proposes to expand eligibility for the Clean Technology Investment Tax Credit to include geothermal energy systems that are eligible for capital cost allowance Classes 43.1 and 43.2:
 - Will provide support to Canadian businesses in adopting clean technology at a 30% refundable rate.
 - The Clean Technology Investment Tax Credit would be available to businesses investing in such property that is acquired and becomes available for use on or after the day of Budget 2023. Projects that will co-produce oil, gas, or other fossil fuels would not be eligible for the Clean Technology Investment Tax Credit.
 - Budget 2023 also proposes to modify the phase-out of the Clean Technology Investment Tax Credit. Rather than starting the phase-out in 2032, the tax credit would now begin to phase out in 2034 and would not be available after that year.
 - Including geothermal systems in this measure is expected to cost \$185 million from 2023-24 to 2027-28. This will bring the total expected cost of the Clean Technology Investment Tax Credit to about \$6.9 billion over the same period.

Additional details about all Investment Tax Credits announced in Budget 2023 can be found in the [Budget Supplementary Information](#).