

Tax Incentives for Clean Growth: Balancing Sticks with Carrots

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Tax tools as a carrot, not a stick

- Most common tool for reducing emissions is some form of carbon pricing, a “stick” to reduce emissions.
- Tax incentives, can also be used a carrot to promote the research, development and adoption of clean technologies and practices.



Why not just rely on carbon pricing? Why use carrots?

- Lack of stringency
- Clean innovation faces obstacles to commercialization and scale-up that other types of innovation do not encounter, such as policy risk, capital intensity, and technology risk.



Why not just rely on carbon pricing? Why use carrots?

- Development of clean technologies in Canada can reduce emissions worldwide.
- Adoption of clean technologies in Canada lowers production prices (learning by doing), which can reduce emissions worldwide.



Which tax credit model to use?

Well... what problem are you trying to solve?

- Lack of financing for start-ups?
- Lack of financing for scale-ups?
- Market adoption of new technologies?

[List not exhaustive]

These are different problems, and require different tools.



Here's just four options of many...

1. Investor tax credits
2. Flow-through shares
3. ACCA for cleantech
4. Elimination of import tariffs for manufacturing inputs used by cleantech firms.



Investor Tax Credit

What does an investor tax credit look like?

Take, for example, an angel investor considering making a \$100,000 investment in a small company for a 10% equity share. If the small company qualifies for an investor tax credit, the investor not only receives the 10% share in the company, they are also able to claim 30% of that investment against their personal income tax, in this case \$30,000. In effect, this decreases the cost of investment to \$70,000, reducing the risk and increasing the likelihood of future profits.



Investor Tax Credit

British Columbia's Small Business Venture Capital Tax Credit offers a 30% tax credit - prioritizes clean technology as a target area.

An evaluation found it generated more tax revenue than expended and contributed to job creation and revenue growth.



Flow-Through Shares

What does a flow-through share look like?

Consider a firm making an investment in renewable energy generation. With the Canadian renewable and conservation expenses (CRCE) they are eligible to claim start-up and development expenses, however they are not yet making a profit and thus cannot yet benefit from the tax incentive. With flow-through shares, they have the option to pass-through that credit to investors in exchange for a premium price for equity investment, allowing the firm to attract financing and benefit from the tax credit immediately.



Why two different instruments?

ITCs are for investments in a “cleantech” firm but does not support firms in other sectors that are developing technology with improved environmental performance.

Flow-through shares pass along savings from eligible investments which could include resource and energy efficiency investments by non-cleantech firms.

Investor tax credits define the firm as cleantech, whereas flow-through shares define the investment as cleantech.



Accelerated Capital Cost Allowance for Cleantech

(Partially) as a response to the Trump Tax Cut, the federal government announced an increase to the depreciation write-off rate of clean energy and manufacturing equipment to 100% in the first year.



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There is a need to accelerate the adoption of a broader suite of clean technologies across the economy. **ACCA for clean energy equipment is currently limited to 19 specific clean energy technologies.**



Accelerated Capital Cost Allowance for Cleantech

Targeting the acquisition of clean and innovative technologies can be done by **greatly expanding the list of eligible technologies** or **imposing a minimum performance standard** that allows the capital asset to qualify for immediate write-off.



Finally: Import Tariff Elimination

Import tariffs exist on many components that cleantech manufacturers use in their products, such as thermostats.

Much of these are imported tariff free under a trade-deal such as CUSMA or CETA.



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BUT... this imposes significant compliance costs on firms, who must comply with Country of Origin paperwork when importing.

Setting MFN tariff rate to zero would eliminate this paperwork burden at an extremely low fiscal cost to government (since most components already come in tariff free).



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