Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

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Recommendation: That the government implement flow through share as a tool to unlock private capital to help finance a resilient recovery for Canada's economy by adding the development, commercialization and deployment of clean technology to the flow through share provisions of the Tax Act.

Recommendation: Cleantech Flow-Through Shares

COVID-19 has disrupted our way of life, and the protection of life and looking after the immediate financial needs of the public has rightfully been the priority of government.

However, as Canada shifts its focus to re-opening and stimulating the economy it must also give serious thought to what kind of recovery it is stimulating. It's a simple question. Do we want to recreate the status quo? Or should the government create a pathway for a cleaner, more sustainable and more resilient future?

It is the view of CanadaCleantech Alliance (The Alliance) that the Canadian government should focus its recovery efforts on creating jobs, encouraging economic diversification and equity, spurring cleantech innovation, cutting pollution such as carbon, water and illness-causing air pollution, and making Canada more resilient.

We recognise that creating a meaningful shift and impact will require significant capital investment. By most accounts this shift will require and injection of $50-106 billion to support this recovery effort.[1][2]

The Alliance recognizes that the sheer volume of capital investment that is required to put Canada on a path towards a resilient recovery is significant at a time when the government is facing unprecedented fiscal challenges.

It's the Alliance's belief that the government can unlock private capital investment in the cleantech sector by using proven financial tools like flow-through shares in order to bring private capital into Canada's resilient recovery efforts. Specifically, the Canada Cleantech Alliance recommends that two lines get added to the definition of principal-business corporation (PBC) with relation to the provisions in the *Income Tax Act*[3] that governs flow-through shares, these are:

1. The **development** of Canadian emissions-reducing technologies; and
2. The **deployment** of Canadian emissions-reducing products and technologies.

In addition to these additions to the definition of PBC under The *Income Tax Act,* the Alliance recommends that the government ensure that expenditures a company may incur in relation to the deployment of emissions-reducing technologies are considered Qualified Expenditures under *Income Tax Act subsection 66.*

With these simple changes to the Income Tax Act, the government will help Canada achieve its goal of becoming carbon neutral by 2050, create employment opportunities for Canadians and a valuable export opportunity that will allow other jurisdiction and industries to reduce their carbon emissions using innovative Canadian technologies.

Lastly, it should be noted that Canada's vibrant cleantech sector is not just limited to emissions reducing technology, but includes technology that helps achieve Canada's clean water, soil and other environmental goals. CanadaCleantech Alliance believes that future budgets should add companies involved into the development and deployment of these technologies to the list of PBCs.

[1] Task Force for a Resilient Recovery "*Preliminary Report*", July 2020
[2] Ralph Torrie, Céline Bak, & Toby Heaps, Corporate Knights, *"Building Back Better: A roadmap to the Canada we want"*, June 3, 2020
[3] Government of Canada, "*Issuing flow-through shares*", April 24, 2008

Background

Flow-through shares are a “Made in Canada” financial tool that was put in place 35 years ago. Since then, they have helped Canada’s mining, and oil and gas sectors become global leaders by offering these sectors access to private capital at an early stage of development.[4]

Flow-through shares allow investors to immediately de-risk their investment into ventures like the development and deployment of clean technology by providing them with tax deductions and tax credits. This ability to immediately de-risk an investment, by reducing an investor’s overall tax-burden, have made them very successful in accelerating investment in Canada’s traditional resource sectors.

Should cleantech companies be allowed to issue flow-through shares, they will be able to capitalize on the tax advantages that they generate but are unable to use since many start-ups are not in a taxable position. These companies would be better positioned to financially support themselves so that they can reach a point where they are taxable and creating jobs here in Canada.

The cost of flow-through shares is marginal in comparison to their potential to draw investment into Canada’s cleantech sector. The 2019 *Report on Federal Tax Expenditures* notes that flow-through share deductions cost the federal government $30 million in personal income tax deductions and the Mineral Exploration Tax Credit for flow through share investors coast an additional $50 million in 2016.[5] The Alliance believes an independent analysis by Eight Capital shows that adding eligibility for companies to issue flow-through shares to finance development, commercialization and deployment of emissions reducing technologies in Canada could bring at least $420 million in direct investment to Canada’s Cleantech sector.

By layering in private capital, flow-through shares compliment programs like the Emissions Reductions Fund, Sustainable Development Technology Canada (SDTC), and the Regional Relief and Recovery Fund (RRRF). This combination of private capital and strong exiting federal programs has the ability to kick-start Canada’s resilient recovery.

[4] Jean-Pierre Colin, The Toronto Star, “*The post-COVID world is an opportunity to boost the green economy*”, June 27, 2020
[5] Department of Finance, “*2019 Report on Federal Tax Expenditures*”, 2019