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March 9, 2021

The Hon. Chrystia Freeland
Deputy Prime Minister
Minister of Finance
Via email to: chrystia.freeland@canada.ca

RE: CanadaCleantech Alliance – Considerations for the Federal Budget 2021

Dear Minister Freeland,

CanadaCleantech Alliance applauds the government's historic commitment to climate action. On behalf of more than 1,000 cleantech manufacturers, innovators, accelerators, investors and researchers across Canada, we are pleased to provide our recommendations for the Federal Budget 2021 in support of your national vision to build back better and to position the country as the most competitive jurisdiction in the world for clean technology.

We recognize the importance of the commitments the government set out in the Throne Speech and the "Healthy Environment - Healthy Economy" plan for Canada to achieve its climate targets and to contribute to the fight against climate change while creating good-paying jobs and retooling our economy to compete in a low-carbon world.

The Canadian cleantech sector plays a key role in fulfilling these commitments. However, despite the sector's positive development over the last years and the efforts your government has put into supporting it, there are still barriers to growth. In particular, the sector is struggling with access to capital, markets and talent[1].

In this submission we will focus on access to capital, which is crucial whether it is for seed, growth or project funding. Domestic access to financing is important for Canadian cleantech companies in order to compete and succeed in global markets, and for keeping them and their Intellectual Property (IP) in Canada as they scale. Canadian cleantech ventures are significantly undercapitalized relative to comparable ventures from the US, according to SDTC and Cycle Capital, whose 2017 report found that Canadians raise roughly half the equity and debt as comparable ventures in the US[2].

The competition for cleantech ventures is heating up, especially as governments around the world pass massive stimulus packages focusing on clean technology. This includes the U.S. under the new Biden administration which is the most important export market for Canadian cleantech companies. With

[1] "Challenges faced by Canadian cleantech companies" Insights from 2019 + 2020 Industry Data: MaRS Data Catalyst Felder, Motha-Pollock, Gouveia (2021)
[2] http://www.cyclecapital.com/wp-content/uploads/2017/04/CCM-SDTC_Forging-a-cleaner-economy.pdf, p. 26/27

Canada being a limited market, Canada's cleantech ecosystem needs the government to support its entrepreneurs at least at an equal level.

CanadaCleantech Alliance therefore recommends a list of tax and financial policy instruments that can facilitate access to capital for Canada's cleantech companies whether they are early-stage ventures or fully commercialized.

1. Early-Stage Capital

1.1. Implement Angel Investor Tax Credits (AITC) to mobilize private investment in (pre-public) early-stage ventures. An Angel Investor Tax Credit is used to mobilize early-stage investment in BC and Saskatchewan, as well as in over 24 US states including New York, Oklahoma and Georgia, and in the UK and other European countries[3]. Angel investments are high risk investments: to mobilize Canadians to invest in inherently riskier ventures, and to address the undercapitalization gap identified above, there generally needs to be an incentive for individuals to take this risk and put their personal assets on the line. To overcome the geographic limitations of provincial programs, all of Canada would benefit from a national Angel Investor Tax Credit that would allow capital to flow where it can have the greatest impact.

1.2. Optimize, extend and accelerate CRA's SR&ED Program. SRED is a major source of financial support for businesses conducting R&D in Canada, in particular those that are pre-revenue. As export activities are still slow at the moment, we recommend accelerating SRED for a period of 36 months in order to stimulate innovation and help companies prepare for the time when exports return to a pre-COVID level. Accelerating it would mean allowing a higher percentage to be refundable, to establish faster processing of cleantech-related claims and providing guaranteed deductibility of certain expenses incurred during the commercialization process. To support commercialization, SRED could be very impactful if it incorporated cleantech capital and marketing expenses as qualifying expenses.

1.3. Introduce a "Patent Box" Tax Credit to incentivize corporate investment in Canadian innovations, modelled on some provinces' "patent box" tax credit (e.g. Saskatchewan, Québec). This program offers a lower corporate tax rate on profits derived from any products that incorporate patents, plant breeders' rights, trade secrets or copyright, with added incentives for innovations developed in that province. If adopted nationally this could help drive protected innovation across the country for long term Canadian success.

2. Scaling Capital and Corporate Procurement

2.1. Allow cleantech companies to issue **Flow Through Shares** (FTS). FTS can be an effective tool to increase investments in (publicly listed) clean technology companies. Many Canadians are looking for ways to invest in clean technology but the sector has very real risks to it. Flow-through shares allow investors to immediately de-risk their investment in 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

[3] https://www.startups.com/library/expert-advice/angel-investor-tax-credits;

very successful in accelerating investment in Canada's traditional resource sectors. Why not apply this proven tool to accelerate investment in our cleantech resources. 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.[4]

2.2. **Extend the Accelerated Capital Cost Allowance (ACCA)** that is currently limited to specific clean energy and electric mobility technologies and infrastructure projects to include a broader spectrum of clean technologies (provisions 43.1 and 43.2 of the tax code). We would also suggest making ACCA refundable so both early stage and more mature cleantech companies can benefit from it and get a return on their investment from day one which gives them access to capital that they need to further develop their technologies.

2.3. Provide a **30% (refundable) Investment Tax Credit (ITC)** on capital investments made in clean technology equipment, pilot projects and infrastructure by using a broad definition of clean tech that goes beyond the technologies that are currently covered in provisions 43.1 and 43.2 of the tax code (see above). It should not be limited to renewable energy, electric mobility and storage projects and equipment and specifically include investments in Carbon Capture, Utilization and Storage (CCUS) technologies **similar to the U.S. Section 45Q (Carbon Capture Tax Credit)[5].** The list of qualifying companies could be broadened by surveying the cleantech sector through CanadaCleantech Alliance and by establishing a lean and expedited approval process for new technologies to be included. The applying companies could be vetted by an experts' panel. Compared to ACCA, an ITC is larger and can easily be made refundable in order to apply to early-stage clean tech companies as well.

2.4. **Increase the capital gains deductibility** (e. g. for gains during an IPO or acquisition of a cleantech start-up/ SME). In the US, capital gains on equity held in a small business for more than 5 years qualifies for 100% tax exclusion up to $10 million. In Canada this is limited to ~$860,000 per person[6].

3. Project Finance / Capital Intensive Technologies

3.1. **Extend the Canadian Infrastructure Bank's mandate** to administer an encompassing **Loan Guarantee Program (LGP)**, modelled on the US DOE's Loan Guarantee Program for Renewable Energy and Efficient Energy.[7] The DOE's program has just gotten fresh wind through the appointment of SunEdison CEO Jigar Shah as program head by the U.S. Energy Secretary to support the commercialization of cleantech. An LGP can help first-of-a-kind projects and other high-impact ventures with access to debt capital that private lenders cannot or will not provide. We recommend that such a Loan Guarantee Program includes flexible, customized financing

[4] CanadaCleantech Alliance, Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget, accessible at https://bit.ly/2O8nMwX

[5] https://bit.ly/3sT3iXD

[6] https://www.taxtips.ca/smallbusiness/capitalgainsdeduction.htm

[7] https://www.energy.gov/sites/prod/files/2020/01/f70/DOE-LPO-Renewable-Energy-Efficient-Energy-Jan2020.pdf

according the borrowers' needs. We also recommend that the LGP owner engages with projects early in development and remains involved for the entire lifetime of the loan. Projects should be supported by a team of experienced financial, technical, legal, risk mitigation, portfolio management, and environmental professionals.

3.2. We would also recommend allowing **Tax Equity Investments** which facilitate the investment in clean technologies and projects that qualify for tax incentives but cannot use them. Tax equity attracts equity investors with tax liabilities and investment appetite. It is very common for solar projects in the U.S. A tax equity investor will usually invest 40% of the equity in a solar project in return for 100% of the tax benefits, plus additional cash proceeds, over a period of around 5 years.[8]

We would be more than happy to further discuss our recommendations with you and your team.

Sincerely,

Maïke Althaus

Executive Director
CanadaCleantech Alliance on behalf of:

Jason Switzer	Denis Leclerc	Jeanette Jackson	Peter McArthur
Executive Director	President and CEO	CEO	Chair
Alberta	Québec	British Columbia	Ontario

[8] https://www.everycrsreport.com/reports/R45693.html