

Fall Economic Statement 2024

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The Fall Economic Statement 2024 (the FES) was released on December 16, 2024, after a tumultuous day in Ottawa that saw the resignation from cabinet of the Honourable Chrystia Freeland, former Deputy Prime Minister and Minister of Finance, who was expected to present the FES; an announcement in the House of Commons that the FES would not be released; then, 10 minutes later, the public release of the FES without a member of the government to speak to it.

The FES provides general economic and fiscal information and projections. It notably projects a deficit of \$61.9 billion for the 2023–2024 fiscal year. The FES also provides updates on some previously announced tax measures, including several clean energy investment tax credits, and changes to the Scientific Research and Experimental Development (SR&ED) program.

The following includes a brief summary of the tax measures introduced or addressed in the FES.

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Clean energy investment tax credit regime

The FES contains a progress update on the anticipated timelines for finalizing and introducing legislation into Parliament to implement the outstanding measures for the suite of Clean Energy Investment Tax Credits (Clean Energy ITCs) announced to date. The FES also announces changes to the Clean Electricity ITC and the Clean Hydrogen ITC and provides further details on the EV Supply Chain ITC.

The FES indicates that legislation to implement the Clean Electricity ITC and to expand the

Clean Technology ITC will be introduced in Parliament “soon”. Draft legislation for both measures was released on August 12, 2024. Based on the accompanying graphic depicting the delivery timeline for the Clean Energy ITCs, “soon” for these measures is intended to mean by the end of 2024.

The FES also indicates that draft legislation for the new [EV Supply Chain ITC](#), first announced in Budget 2024, will soon be released. It appears that in this case “soon” is intended to be early 2025, with legislation expected to be introduced in Parliament later in 2025.

Given the late release of the FES, it remains to be seen whether these timelines will be met.

Clean Electricity ITC

Budget 2024 proposed that the [Clean Electricity ITC](#) would only be available in respect of expenditures made by provincial and territorial Crown corporations for eligible property situated in eligible jurisdictions.

The FES announces the results of the [consultation](#) proposed in Budget 2024 with the provinces and territories on the details of the conditions that provincial and territorial governments will need to satisfy in order for their province or territory to be designated as an eligible jurisdiction. The FES provides that in order for a province or territory to be designated as an eligible jurisdiction, its government must satisfy the following two conditions:

1. publicly commit to publish an energy roadmap to achieve net-zero emissions by 2050, inclusive of all energy sources, by the end of 2026 (Budget 2024 had proposed achieving net-zero emissions by 2035)
2. publicly request that provincial and territorial Crown corporations pass on the benefits of the Clean Electricity ITC to electricity ratepayers in their province or territory

The FES provides details, directed towards the provinces and territories, about the federal requirements under the two conditions for a province or territory to qualify as an “eligible jurisdiction”. The FES also provides guidance as to how a province or territory may request that designation and about the annual reporting requirements for provincial or territorial Crown corporations that claim the Clean Electricity ITC (and related penalties for failing to comply with the reporting requirements).

The FES also proposes to extend the availability of the Clean Electricity ITC to the Canada Infrastructure Bank and exempt any financing provided by the Canada Infrastructure Bank from reducing the cost of eligible property (which would otherwise have reduced the amount of the available Clean Electricity ITC).

EV Supply Chain ITC

The FES provides the design and implementation details of the EV Supply Chain ITC, which was first announced in [Budget 2024](#).

Only taxable Canadian corporations — not partnerships, trusts or tax-exempt corporations — making direct investments in eligible property would be eligible to claim the EV Supply Chain ITC.

The FES provides further details of the types of property that are eligible and the three qualifying supply chain segments in which the property must be used. A new requirement announced in the FES is that a corporation (either by itself or as part of a related group) must

either

- acquire at least \$100 million in property eligible for the Clean Technology Manufacturing ITC that has become available for use in each of the three supply chain segments, or
- acquire \$100 million of eligible property that has become available for use in each of two segments and hold a qualifying minority interest (being shares entitling it to 10% of the votes and value of the corporation) in another corporation that acquires \$100 million of eligible property that has become available for use in the third segment

This requirement replaces the one proposed in Budget 2024 that the taxpayer (or a member of a group of related taxpayers) must *claim* the Clean Technology Manufacturing ITC in all three of the specified segments or, alternatively, in two of the three specified segments and hold at least a qualifying minority interest in an unrelated corporation that claims the Clean Technology Manufacturing tax credit in the third segment.

As described in the FES, recapture rules similar to those applicable to the Clean Technology Manufacturing ITC would also apply to the EV Supply Chain ITC. Over a 10-year period from the date of acquiring an eligible property, the credit would be repayable in proportion to the fair market value of the property if the property is converted to an ineligible use, exported from Canada or disposed of. The credit would also be repayable if the corporation ceased to meet the other requirements describe above.

Consistent with the announcement in Budget 2024, the FES confirms that the EV Supply Chain ITC would apply to property that is acquired and becomes available for use on or after January 1, 2024. The credit would be reduced to 5% for property that becomes available for use in 2033 or 2034, and would no longer be available for property that becomes available for use after 2034.

Clean Hydrogen ITC

The FES proposes to expand the availability of the Clean Hydrogen ITC to projects that produce hydrogen from methane pyrolysis, noting that this process “is a nascent but promising technology” that “has the potential to produce clean hydrogen from natural gas or other hydrocarbons without the need for investments in CCUS [carbon capture, utilization and storage]”. More generally, methane pyrolysis technology allows hydrocarbons to be split into hydrogen and carbon solids, which can be used for other industrial purposes. Accordingly, although these processes would involve the creation of hydrogen from hydrocarbons, projects using the technology would not be required to capture carbon dioxide (CO₂) emissions using a CCUS process in order to qualify for the Clean Hydrogen ITC.

The Clean Hydrogen ITC for methane pyrolysis projects would be capped at \$3,000 per tonne of annual hydrogen production capacity in respect of the capital costs of pyrolysis reactor systems, and venting or flaring the hydrogen (other than for system integrity or safety purposes) would not be allowed, to ensure projects are focused on producing hydrogen rather than higher-grade carbon. The calculation of the carbon intensity of the projects will also depend on how the solid carbon produced by the project is used.

The expansion of the Clean Hydrogen ITC to include methane pyrolysis would apply in respect of property that is acquired and becomes available for use on or after the day of the FES.

The FES indicates that, going forward, the government will continue to review eligibility for other low-carbon hydrogen production pathways.

Scientific Research and Experimental Development (SR&ED) program

The FES proposes changes to Canada's Scientific Research and Experimental Development (SR&ED) program. The changes follow [an initial consultation](#) launched in January 2024 and a [second phase of consultation](#) announced in Budget 2024. The changes would be effective as of December 16, 2024.

Enhanced 35% refundable tax credit

Currently, Canadian-controlled private corporations (CCPCs) can claim 35% of qualifying SR&ED expenditures as a refundable tax credit each year, to a maximum of \$3 million of expenditures. The maximum expenditure level is also phased out where the CCPC's taxable capital employed in Canada during the prior taxation year is between \$10 million and \$50 million.

The FES proposes to increase the maximum qualifying expenditures to \$4.5 million and the phase-out thresholds for the CCPC's taxable capital to between \$15 million and \$75 million. As described in the FES, CCPCs would also be allowed to elect to base their phase-out threshold on their gross revenue, determined in the same manner as the new proposal for public corporations (described below).

The 35% refundable SR&ED tax credit currently only available to CCPCs is also proposed to be made available to certain Canadian public corporations. To be eligible, a corporation must be resident in Canada and not be controlled (directly or indirectly) by a non-resident person(s), and must have a class of shares listed on a designated stock exchange (or have elected or been designated by the Minister of National Revenue to be a public corporation). If all or substantially all of the shares of a corporation resident in Canada are owned by an eligible Canadian public corporation(s), that corporation will also be eligible.

The relevant phase-out threshold for eligible public corporations will be \$15 million to \$75 million of average gross revenue over the three prior years as reported in annual financial statements presented to shareholders that are prepared in accordance with generally accepted accounting principles. If the corporation belongs to a corporate group, the \$4.5-million expenditure limit applies to the group and the phase-out threshold is based on the gross revenue reported in the highest level of consolidation of the group's annual financial statements presented to shareholders (if the group prepares consolidated financial statements). Expenditures that exceed the limit will qualify for the standard 15% non-refundable SR&ED tax credit.

Capital expenditures

The FES proposes to restore eligibility for capital expenditures under the SR&ED program for purposes of both deductions against income and tax credits. Capital expenditures were previously made ineligible for property acquired after 2013. The rules will generally be the same as those applicable up to 2013 and will apply to property acquired and lease payments payable on or after December 16, 2024. The recapture rules will be extended to apply where the taxpayer sells or changes the use of SR&ED capital property.

Capital expenditures would be deductible against income in the year when the property becomes available for use (or a subsequent year) as long as the taxpayer intends to use substantially all of its operating time in its expected useful life for SR&ED purposes, or substantially all of its value will be consumed in performing SR&ED activities.

Taxpayers would not be entitled to claim a tax credit for capital expenditures to acquire property that had previously been used (or acquired for use or lease). However, for property

that does not satisfy the “substantially all” tests required for deductions against income, a tax credit could be claimed for a portion of the cost that relates to its SR&ED usage.

For CCPCs that qualify for the 35% tax credit, tax credits based on capital expenditures would only be refundable up to 40%.

Accelerated Investment Incentive

The Accelerated Investment Incentive (AII) increases the amount of the first-year capital cost allowance (CCA) deduction for eligible property. The previous AII has begun to be phased out starting in 2024 and is scheduled to end entirely in 2028.

The FES proposes to establish a new AII effective for eligible property newly acquired *after* 2024 that becomes available for use before 2030. The phase-out period for the new AII would run from 2030–2033 and the AII would end in 2034.

Increased first-year CCA deductions for certain manufacturing or processing machinery and equipment, clean energy generation and energy conservation equipment, and zero-emission vehicles that are also scheduled to be phased out starting in 2024 and ended in 2028 are similarly proposed to be extended according to the same timelines.

Pension fund changes

The FES announced that, as a result of the [consultation process led by Stephen Poloz](#), the federal government intends to amend the 30% rule (which generally prohibits pension plans from holding more than 30% of the shares of a corporation that vote for the election of directors) so that it does not apply with respect to investments in Canadian entities. The 30% rule would continue to apply with respect to investments in non-Canadian entities. The federal government will consult with provinces on the treatment of provincially regulated pension plans.

The FES also announced that the government is considering allowing pension funds to exceed the 10% private sector ownership limit for municipal-owned utility corporations.

In addition, the federal government announced it is consulting on requiring large, federally regulated pension plans to increase their public transparency regarding the distribution of their investments by jurisdiction and asset class within each jurisdiction. The proposed disclosure would apply to federally regulated pension plans with more than \$500 million of assets under management. The FES stated that the largest public sector pension funds in Canada are already working to adopt similar disclosures.

Patent box regime

The Department of Finance previously [announced a consultation](#) on introducing a potential patent box regime. Budget 2024 stated that the government was [continuing to review](#) the submissions. The FES announced that the government intends to implement a patent box regime, but similarly notes that it is still reviewing the feedback from the consultation and will announce further details in the 2025 federal budget.

Canada Carbon Rebate for Small Businesses

Budget 2024 proposed to create the Canada Carbon Rebate for Small Businesses (CCRSB), a refundable tax credit available to eligible businesses in provinces where the fuel charge applies. The tax credit would return a portion of the fuel charge to the eligible businesses.

The CCRSB is computed by reference to the number of employees. Budget 2024 proposed to make the CCRSB available to CCPCs with fewer than 500 employees. The first CCRSB payment, representing the 2019–20 to 2023–24 fuel charge years, would be available to eligible corporations that filed their 2023 tax returns by July 15, 2024. The government subsequently extended the availability of the first CCRSB payment to eligible corporations that filed their 2023 tax returns by December 31, 2024.

The FES announces that for the 2024–25 fuel charge year onward, eligible corporations must file their tax return for the calendar year in which the fuel charge year begins by July 15 of the following calendar year to receive the CCRSB. Cooperative corporations and credit unions will also qualify for the CCRSB. Eligible corporations with fewer than 20 employees will be treated as if they have 20 employees for purposes of computing the CCRSB (i.e., will qualify for a minimum payment). Finally, the amount of the CCRSB available to corporations with more than 300 employees will be phased out on a straight-line basis such that corporations with 300 employees receive the maximum amount while corporations with 500 employees receive \$0.

Eligible Small Business Corporation (ESBC) shares

Individuals who dispose of Eligible Small Business Corporation (ESBC) shares are currently allowed to defer tax on any resulting capital gain in respect of proceeds that are used to purchase replacement ESBC shares. The replacement shares must be bought during the year of disposition or within the first 120 days of the following year. ESBC shares are currently limited to common shares of a corporation that has a maximum of \$50 million of carrying value of its assets (together with any related corporations) immediately before and after the share was issued.

The FES proposes, effective for disposition occurring after 2024, to increase the period to purchase replacement ESBC shares to the year of disposition and the entire following year (rather than the first 120 days). The maximum carrying value is proposed to be increased to \$100 million, and preferred shares will also qualify as ESBC shares.

Increased funds to the Canada Revenue Agency

The FES proposes a \$451.5-million funding increase for the CRA over five years, starting in 2025–26, to

- audit emergency business subsidy amounts (namely, the Canada Emergency Rent Subsidy (CERS) and Canada Emergency Wage Subsidy (CEWS))
- “close major tax compliance gaps” (including targeting non-filers with “a high likelihood of tax owing, particularly in the high net-wealth population and those active in the underground economy”)
- permanently fund the Trust Filers Verification Program (T3VP)
- “[p]rotect Crown revenue against tax schemes, stop unwarranted refunds, and protect vulnerable populations by expanding capacity to review high-risk claims”

The FES estimates the increased funding will result in \$2.9 billion of additional federal revenue over the five years beginning in fiscal year 2025–26.

The FES also notes the government is considering how to address “carousel schemes”, which it describes as “a type of fraud in which transactions flow through fabricated supply chains to exploit the tax system and syphon off GST/HST revenues.”

Confirmation of intention to proceed

The FES reaffirms the federal government's intention to proceed with numerous previously announced tax measures, including

- legislative amendments to give effect to the suspension of the Canada-Russia Tax Treaty, as announced by the government on November 18, 2024
- legislative proposals included in the notice of ways and means motion tabled on September 23, 2024, related to [capital gains](#) and the [lifetime capital gains exemption](#)
- legislative and regulatory proposals released on [August 12, 2024](#), including with respect to the following measures:
 - [the *Global Minimum Tax Act* and the *Income Tax Conventions Act*](#)
 - [synthetic equity arrangements](#)
 - [substantive CCPCs](#)
 - [interest deductibility limits \(EIFEL\)](#)
 - [Canadian Entrepreneurs' Incentive](#)
 - [Alternative Minimum Tax](#)
 - [Employee Ownership Trust Tax Exemption](#)
 - [non-compliance with information requests](#)
 - [avoidance of tax debts](#)
 - [mutual fund corporations](#)
 - [manipulation of bankrupt status](#)
 - [accelerated capital cost allowance for productivity-enhancing assets](#)
 - [accelerated capital cost allowance for purpose-built rental housing](#)
 - [withholding for non-resident service providers](#)
 - [Clean Electricity Investment Tax Credit](#)
 - [proposed expansion of eligibility for the Clean Technology Manufacturing Investment Tax Credit to support polymetallic extraction and processing](#)
 - [proposed expansion of eligibility for the Clean Technology Investment Tax Credit to support generation of electricity and heat from waste biomass](#)
 - [other changes related to the clean economy investment tax credits](#)
 - [technical tax amendments to the *Income Tax Act* and the *Income Tax Regulations* \(expected to include the proposed changes to the \[trust reporting rules\]\(#\) and the \[application of hybrid mismatch rules to foreign affiliates\]\(#\)\)](#)
 - [technical amendments relating to the GST/HST, excise levies and other taxes and charges announced in the August 12, 2024, release](#)
- [the *Crypto-Asset Reporting Framework* and the *Common Reporting Standard* announced in Budget 2024](#)
- [the proposed exemption from the Alternative Minimum Tax for certain trusts for the benefit of Indigenous groups announced in Budget 2024](#)
- [legislative and regulatory proposals announced in the 2023 Fall Economic Statement with respect to the GST/HST joint venture election rules](#)
- legislative proposals released on August 4, 2023, including with respect to the following

measures:

- [technical amendments to GST/HST rules for financial institutions](#)
- [revised luxury tax draft regulations to provide greater clarity on the tax treatment of luxury items](#)
- tax-exempt sales of motive fuels for export
- technical tax amendments to the *Income Tax Act* and the *Income Tax Regulations*
- [legislative amendments to implement changes discussed in the transfer pricing consultation paper released on June 6, 2023](#)
- legislative proposals released on August 9, 2022, including with respect to the following measures:
 - [technical amendments to the *Income Tax Act* and *Income Tax Regulations*](#)
 - remaining legislative and regulatory proposals relating to the GST/HST, excise levies and other taxes and charges announced in the August 9, 2022, release
- legislative amendments to implement the [Hybrid Mismatch Arrangements rules](#) announced in Budget 2021

The resignation of Canada's Deputy Prime Minister and Minister of Finance has added to the level of uncertainty regarding the current federal government, which is a minority government. It remains to be seen whether the proposed measures listed above will be enacted before the next federal election, which is required to occur on or before October 2025, or whether they will be enacted (in their current or modified form) by a subsequent government.

If you have any questions or require additional analysis on the Fall Economic Statement 2024, please contact any member of our [National Tax Department](#).