Generous Federal Investment Tax Credits for Clean Energy Projects

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In 2021, the federal government introduced a series of **refundable investment tax credits (the "ITCs")** to accelerate the transition to a low-carbon economy, stimulate economic growth, and support innovation.

The Spring Economic Update 2026 confirms the growing importance of these measures. In particular, it announces that the Canada Revenue Agency (the "**CRA**") will give increased priority to requests for advance rulings regarding eligible clean energy projects. In this regard, the CRA plans to increase its capacity to process these applications by more than 4.5 times by July 2026.

In this context, two measures are of particular note: the **Clean Technology ITC** and the **Clean Electricity ITC**.

1. The Clean Technology ITC

The Clean Technology ITC generally applies to certain capital investments in equipment and systems that contribute to the production of clean energy, the improvement of energy efficiency, and the reduction of greenhouse gas emissions, provided that such assets are acquired and used in Canada in accordance with the applicable criteria.

This refundable credit can reach **up to 30% of the capital cost** of eligible property. It thus serves as a significant financial lever, helping to strengthen liquidity and improve project profitability, particularly during the early years.

In practice, the analysis required to apply for this credit focuses primarily on the following elements:

the entity's **eligibility** (including its status as a taxable Canadian corporation);
the **property's qualification** (eligible category, function, and use);
the **timeline** (dates of acquisition, installation, and commissioning);
the impact of **labour** requirements, which may influence the applicable rate;
interaction with other tax credits.
The application **period** covers property acquired and that becomes available for use between March 28,

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2023, and December 31, 2034.

2. The Clean Electricity ITC

The Clean Electricity ITC is another measure that is gaining importance. It is of particular interest in structures where the investor (or certain investors) is tax-exempt or belongs to categories of entities for which several clean economy ITCs have historically been less accessible.

Indeed, this credit is designed to be accessible to a broader range of entities, including notably (according to the proposed definitions) certain eligible trusts, designated provincial or territorial Crown corporations, corporations principally owned by municipalities, as well as entities affiliated with Aboriginal governments.

At this stage, the government has published legislative proposals accompanied by explanatory notes, and the CRA has recently consolidated the relevant information on this subject on its website. Notably, it appears that:

the credit would provide a base rate of **15% of the capital cost** of eligible clean electricity-related property;
eligibility would apply to **property used primarily to generate, store, or transmit electricity**, subject to technical and environmental criteria;
the rate could be reduced in the event of non-compliance with certain **labour** requirements;
the proposed application **period** would cover investments made from April 2024 and that becomes available for use on or before December 31, 2034.

3. Structuring: Corporation or Limited Partnership

Beyond the technical eligibility of the property, the legal structure chosen for a project will have a decisive impact on the ability to claim ITCs and pass on their economic value to investors.

In some cases, a taxable corporation is simpler to administer and more easily meets the eligibility criteria. Conversely, a limited partnership ("**LP**"), while useful for certain financing objectives, presents several disadvantages in the context of ITCs:

3.1 Constraints Related to Investors' Tax Status

Certain tax credits—particularly the Clean Technology ITC, often considered one of the most advantageous—are naturally better suited for taxable investors. When an LP has non-taxable members, converting the tax benefit into economic value may be less optimal, depending on how the credit is allocated and used.

3.2 Allocation of Credits and Limits for Limited Partners

The rules governing credits within a partnership generally require that the allocation to each partner be reasonable, taking into account, in particular, their capital investment and contribution. Furthermore, for a limited partner, the share of the credit may be limited by "at-risk" rules, which cap certain tax benefits based on actual economic exposure. In practice, this can reduce the amount of credit available and limit allocation flexibility.

3.3 Increased Complexity of Monitoring and Compliance

An LP generally entails heavier administrative obligations: calculating at-risk amounts, tracking allocations, documenting contributions and distributions, and ensuring consistency between the partnership agreement, financing agreements, and tax positions. This complexity can become a significant issue in the event of a tax audit.

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Conclusion

Federal ITCs represent a major financial incentive for clean energy projects. However, their application depends on technical, tax, and structuring criteria that must be rigorously analysed and documented.

Furthermore, the legislative framework governing these credits is constantly evolving (implementing regulations, administrative guidelines, and technical requirements), making a case-by-case analysis essential to confirm eligibility and optimize a project’s structure.

We invite you to contact our tax team. We would be happy to assist you in successfully bringing your project to completion.

Key Takeaways

A Major Administrative Acceleration by July 2026

The CRA is making clean energy a priority: its capacity to process advance tax ruling requests will increase by more than 4.5 times by July 2026. For proponents, now is the time to act to secure early tax certainty.

Two Powerful Financial Levers with Distinct Criteria

Clean Technology: A major refundable credit of up to 30% of capital costs, primarily targeting taxable Canadian corporations.
Clean Electricity: A refundable credit of up to 15% of capital costs structured to include entities that were historically restricted, such as Crown corporations, municipalities, and Indigenous organizations.

Legal Structuring Can Make or Break Your ITCs

Choosing the right legal vehicle is just as critical as technical asset eligibility. While popular for financing, LPs introduce significant complexity due to "at-risk" rules, the involvement of non-taxable partners, and a heavy compliance burden during tax audits.

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