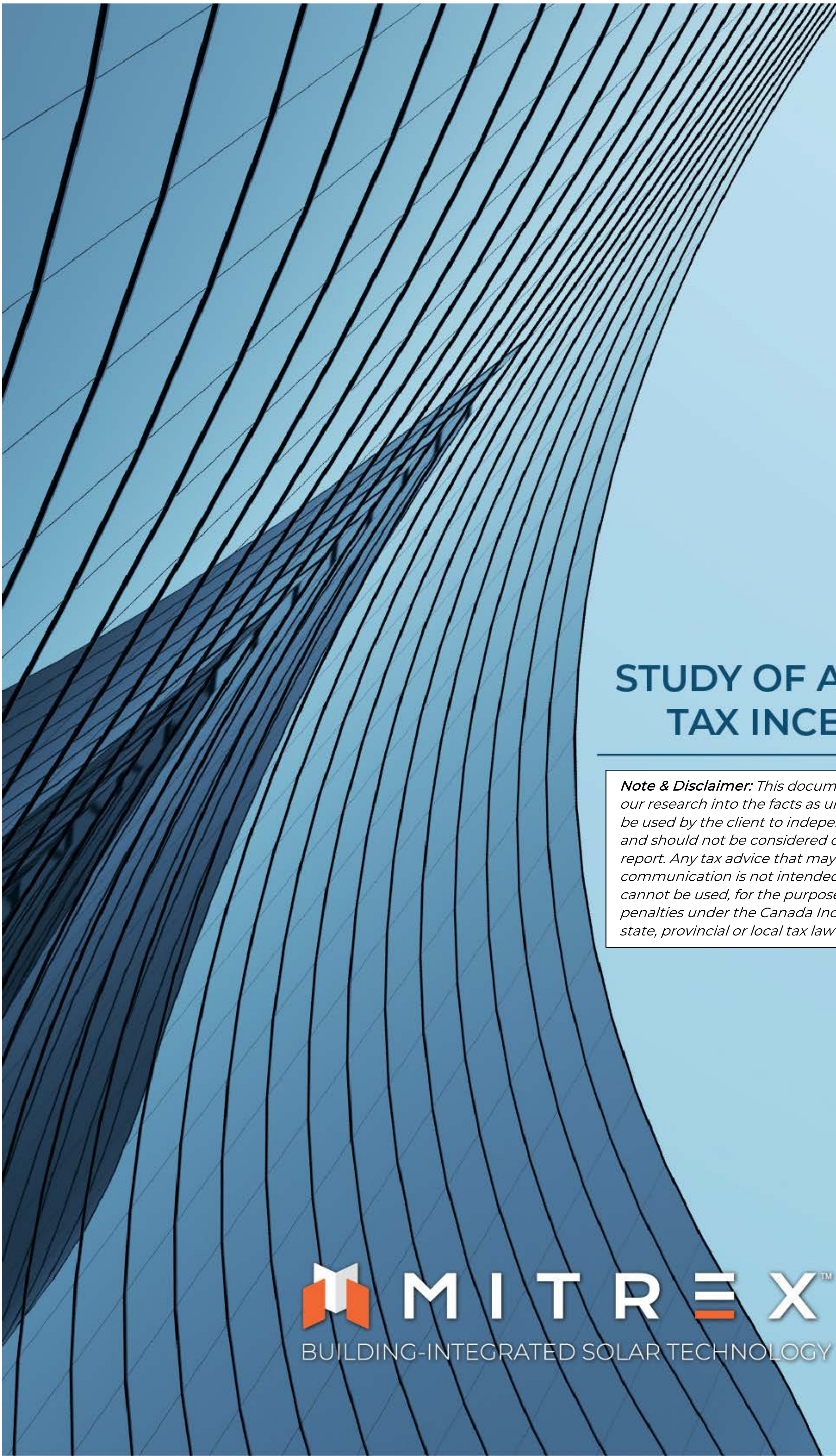

STUDY OF AVAILABLE TAX INCENTIVES

Note & Disclaimer: *This document lays out the results of our research into the facts as understood by us. It should be used by the client to independently make decisions and should not be considered conclusion, decision, or report. Any tax advice that may be contained in this communication is not intended or written to be used, and cannot be used, for the purpose of avoiding tax-related penalties under the Canada Income Tax Act or applicable state, provincial or local tax law provisions.*

MITREX™

BUILDING-INTEGRATED SOLAR TECHNOLOGY

Applicable Tax Incentives

The following tax incentives are available for clean energy, including solar energy, equipment that is integrated into a building used for the purpose of earning income in Canada:

- **Accelerated Capital Cost Allowance (CCA) for Class 43.1 and Class 43.2**
  Fixed location photovoltaic equipment used primarily for generating electrical energy from solar energy as well as electrical energy storage equipment qualify for CCA under class 43.1 or class 43.2. This typically includes cost of:

  - solar cells or modules, including those integrated into a building
  - related equipment, including inverters, control and power conditioning equipment
  - support structures for the solar array
  - batteries and ancillary equipment
  - transmission equipment

  Guidance on what constitutes eligible property and ineligible property for class 43.1 and class 43.2 is available in sections 2.7 and 2.19 of the Technical Guide to Class 43.1 and 43.2.

  CCA, in simple terms, is the depreciation of a capital asset for tax purposes and is an allowable deduction in calculating taxable income. Class 43.1 has a 30% CCA rate while class 43.2 has a more generous 50% CCA rate. The CCA claim under both the classes is calculated on a declining balance basis and is limited in the first year to one-half (the half-year rule), so that the effective CCA rate in the first year of claim is 15% and 25% for class 43.1 and class 43.2, respectively.

  Eligible depreciable property for both the classes is largely the same, but to qualify for class 43.2, the property should be acquired before 2025. The income tax rules distinguish between the date of acquisition of a depreciable property and the date it becomes available for use. CCA can only be claimed starting from the year in which the depreciable property is available for use. As such, to be categorized in class 43.2, the solar equipment should be acquired before 2025 even though a CCA claim may be made in a later year when the equipment becomes available for use.

- **First-year enhanced CCA**
  Eligible equipment for class 43.1 or class 43.2 that is acquired after November 20, 2018 and is available for use before 2024 can qualify for 100% CCA in the first year it becomes available for use. There is no restriction on CCA claim under half-year rule in this case. Between 2024 and 2027, the first-year enhanced CCA will be gradually phased out and will not be available for equipment that becomes available for use in 2028 and onward.

It may be noted that these tax incentives are not available concurrently. For example, for solar technology that is integrated into a building and that becomes available for use before 2024, its qualifying cost can be entirely written off under the first-year enhanced CCA or it may be subject to CCA under class 43.2 (at 25% in the first year and 50% in the following years on a declining basis) or otherwise it may be subject to CCA under class 43.1 (at 15% in the first year and 30% in the following years on a declining basis).

Eligibility for Tax Incentives

The building and, accordingly, its integrated solar technology are depreciable properties of the owner that have been acquired for the purpose of earning income from a business in Canada. The solar equipment, in this case, qualifies for CCA under class 43.1 or class 43.2 or the first-year enhanced CCA, subject to the acquisition and available for use dates noted above.

We considered if any limitations on CCA claim under the income tax rules may reduce the amount of tax incentive in this scenario and determined that specific exclusions make it possible to claim the full amount of CCA. Two specific limitations and the applicable exclusions under the income tax rules are noted below:

- CCA claim on a rental property is limited to net rental income of the owner (before CCA) and cannot be used to create or increase a loss. This limitation would not apply to rental apartment, given the explicit exclusion available to a corporation whose principal business is the leasing, rental, development or sale, or any combination thereof, of real property owned by it.
- Specified energy property rules limit CCA to the amount of income from such property, so that CCA claim cannot create or increase a loss. This limitation does not, however, apply to a depreciable property used primarily for the purpose of earning income from a business carried on in Canada (other than the business of selling energy generated from the property). The owner of rental apartment can make use of this exclusion to claim the full amount of CCA.