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The Hon. François-Philippe Champagne
Minister of Finance and National Revenue of Canada
90 Elgin, Ottawa, Ontario K1A 0G5
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Subject: *Optimizing Canada's Clean Economy Investment Tax Credits*

Dear Minister Champagne:

The undersigned industry associations strongly support the Government of Canada's suite of Clean Economy Investment Tax Credits as one of the country's most important strategic economic policy tools. Beyond supporting Canada's transition to a lower-carbon economy, these tax credits help position Canada to compete in an increasingly complex global environment by attracting investment, strengthening industrial competitiveness, building resilient domestic supply chains, and accelerating the commercialization of Canadian innovation.

When effectively designed and implemented, the Clean Economy Investment Tax Credits (ITCs) are positioned to enable Canada to advance many of the Government's broader strategic priorities. They help unlock investment in critical minerals, electricity infrastructure, advanced manufacturing, hydrogen, carbon management, biofuels, and other technologies that underpin Canada's future prosperity. They support the development of secure domestic energy systems, strengthen Canada's role as a reliable trading partner, diversify exports into high-growth global markets, improve productivity, and create high-value jobs across the country. They also enhance Canada's economic resilience and contribute to strategic capabilities that are increasingly important for defence, Arctic sovereignty, and critical infrastructure.

Meeting these priorities in the face of the current economic headwinds and geopolitical uncertainty requires a recalibration of the Clean Economy ITCs to provide greater certainty, broader eligibility, reduced administrative burden, and stronger commercialization supports. As countries around the world compete aggressively for clean economy investment, Canada must continue to offer a competitive, predictable, and investment-friendly policy framework. The Clean Economy Investment Tax Credits send an important signal that Canada is committed to building the industries that will define future economic growth while enabling existing sectors—including resource industries, manufacturing, chemicals, fertilizers, steel, cement, utilities, transportation, and energy—to modernize, decarbonize, and remain globally competitive.

The recommendations contained in this letter reflect broad input from organizations representing both Canada's traditional industries and its clean technology sectors. Together, these sectors employ hundreds of thousands of Canadians, account for a significant share of Canada's exports and GDP and will play a central role in strengthening Canada's economic sovereignty. Our recommendations are intended to optimize the existing tax credits so they can more effectively achieve their intended objectives while supporting investment across a broad range of technologies, sectors, ownership structures, and business models.

The recommendations are guided by four overarching principles:

- **Provide long-term investment certainty.** Capital-intensive projects require policy certainty over investment horizons that often exceed two decades. Greater certainty will attract private capital, accelerate commercialization, strengthen exports, create high-quality jobs, and improve Canada's global competitiveness. It is therefore recommended that the Clean Economy ITCs be **extended at full value until 2040**.
- **Maintain a technology- and pathway-neutral approach by expanding eligibility.** Canada's competitive advantage lies in its diversity of natural resources, industrial capabilities, and innovation. Tax credits should reward outcomes rather than prescribe technologies and avoid overly restrictive eligibility requirements to ensure all projects capable of delivering intended policy outcomes can access the full benefits of the supports.
- **Enhance commercial viability and reduce administrative barriers.** Ensuring that eligibility requirements reflect real-world commercial projects, eligibility is streamlined, simplifying compliance, and recognizing common financing and ownership structures will improve uptake and ensure the credits function as intended.
- **Strengthen Canada's commercialization ecosystem.** The Clean Economy ITCs should support industrial-scale projects to succeed in reducing their emissions, whether for existing facilities that retrofit, or new facilities. The Clean Economy Investment Tax Credits are most effective for the commercialization of clean technologies when complemented by programs such as SR&ED, NRC IRAP, BDC, EDC, strategic procurement, and export development initiatives. Together, these tools enable Canadian companies to innovate, commercialize, manufacture, scale, and export globally. Already today, Canada is home to 2,470 clean technology companies, employing 224,062 people, contributing \$43.3 B to Canada's GDP and an export volume of \$10.8 B.

The attached Appendix provides detailed recommendations for optimizing each of the Clean Economy ITCs. While many of the recommendations are technical in nature, they are united by a common objective: ensuring that Canada's tax credit framework fully delivers on its potential to attract investment, strengthen industrial competitiveness, diversify exports, enhance energy and economic security, support critical mineral and manufacturing value chains, and reinforce Canada's long-term prosperity.

We would welcome the opportunity to discuss these recommendations with you at your convenience and would be pleased to provide additional technical input and implementation perspectives to support the continued evolution of Canada's Clean Economy ITCs.

Sincerely,

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Signatories:

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Atlantic Hydrogen Alliance



Canadian Biogas Association



Canada Cleantech Alliance



Canadian Gas Association



Canadian Steel Producers Association



Carbon Removal Canada



Cement Association of Canada



Chemical Industry Association of Canada



CleantechNorth



Econext



Fertilizer Canada



Hydrogène Québec



NGIF Capital & NGIF Accelerator / Cleantech Ventures



Ontario Clean Technology Industry Association (OCTIA)



Pacific Manufacturing Association of Canada



Appendix: Detailed recommendations to improve Clean Economy Investment Tax Credits

Clean Hydrogen Investment Tax Credit (CH-ITC)

The CH-ITC is a cornerstone measure for scaling hydrogen production in Canada, and recent policy steps have reinforced the government's intent to proceed with the credit, including previously announced changes such as expanding eligibility to methane pyrolysis. Within the existing \$18.5 billion envelope, targeted refinements would increase uptake and unlock substantially more private investment without additional fiscal cost.

Priority recommendations:

- **Support affiliated ownership structures:** Amend subparagraph 127.48(6)(e)(i) to support ownership of a clean hydrogen project and an eligible clean electricity generation source within an affiliated ownership structure. Current legislative requirements around rights to environmental attributes can create unnecessary barriers where integrated projects are developed through affiliate entities for financing, risk allocation, or regulatory reasons.
- **Provide automatic 40% credit for low carbon intensity grids:** Provide an automatic 40 percent Clean Hydrogen ITC for electrolysis projects using low carbon intensive electricity grids (90%+ non-emitting grid mix). This would reduce administrative burden, better reflect the low-carbon profile of those grids, and improve investment certainty for projects in jurisdictions already aligned with federal decarbonization goals.
- **Make the CH-ITC pathway agnostic:** Multiple technologies and pathways should be eligible as long as CI requirements are met.
- **Include hydrogen derivative equipment:** Expand eligibility to include equipment required for the production, handling, storage, and conditioning of hydrogen derivatives.
- **Expand eligibility to include natural (or white) hydrogen projects and related infrastructure.**
- **Include oxygen, by-product hydrogen and gas equipment:** Oxygen production equipment required for more efficient auto-thermal reforming (ATR) technologies, as well as equipment to utilize by-product gas recovered from industrial processes or by-product hydrogen currently being vented by Canada's chemical industry should be eligible.
- **Include clean LOHC (Liquid Organic Hydrogen Carrier) equipment:** Expand the definition of "eligible clean hydrogen property" to include LOHC and afford clean LOHC equipment the same treatment as clean ammonia equipment with respect to the specified percentage available for the tax credit.
- **Improve CH-ITC deployment timelines:** Apply the ITC at the time capital is deployed to better reflect the time value of money and improve project economics.
- **Remove the CCUS requirement for renewable hydrocarbons:** Remove the carbon capture requirement for projects that produce hydrogen from eligible renewable hydrocarbons to better align Canadian policy and incentives with other jurisdictions and help prevent capital from moving to regions with more supportive policies.

More information on recommended changes to the CH-ITC can be found [here](#).

Clean Technology Investment Tax Credit (CT-ITC)

The CT-ITC provides a refundable tax credit of up to 30 percent for eligible investments in specified clean technology property, and the government has proceeded with changes to include certain waste biomass systems for heat or electricity generation. This is a positive step for new biogas-to-electricity projects, but the current design does not adequately recognize Renewable Natural Gas systems, despite their economic and emissions-reduction potential.

The Canadian Biogas Association has highlighted that RNG represents more than \$1 billion in near-term investment opportunity and can better support farmers, municipalities, and industrial users as partners in Canada's clean energy strategy. Broader recognition of RNG systems should therefore be adopted so that eligible RNG projects can access the same top-tier 30 percent Clean Technology ITC available to comparable clean energy investments.

Furthermore, the U.S. One Big Beautiful Bill Act (OBBBA) provides financial support to domestic biofuel production in the U.S. It is therefore recommended that the Government of Canada make all biofuels (ethanol, biodiesel, sustainable aviation fuel, renewable diesel, pyrolysis oil, renewable natural gas) infrastructure and equipment eligible under the CT-ITC to attract investments in biofuel projects in Canada and to level the playing field with the US.

Priority recommendations:

- **Make RNG eligible:** Expand the CT-ITC to clearly include Renewable Natural Gas production systems and related eligible equipment so that the credit better reflects the role RNG can play in emissions reduction, waste management, and domestic energy supply.
- **Give RNG projects full 30% credit access:** Ensure qualifying RNG projects are eligible for the full 30 percent credit so that these projects are treated comparably to other recognized clean technology investments and can advance on a competitive basis.
- **Align CT ITC with federal priorities:** Recognize RNG within the top-tier CT-ITC as a practical, near-term decarbonization solution that supports farmers, municipalities, and industrial users while helping mobilize private capital into clean growth opportunities across Canada.
- **Make sure 2023 amendments apply to integrated industrial process-heat systems:** Refine the Clean Technology ITC to ensure the 2023 Fall Economic Statement amendments to include waste biomass heat generation apply broadly to integrated industrial process-heat systems, including cement alternative lower-carbon fuel (ALCF). This is essential to the growth of ALCF use at cement plants and is consistent with the federal government's decarbonization and investment objectives.
- **Expand eligibility to capital expenditures related to clean technology manufacturing equipment:** Streamline the CT ITC and the CTM ITC so the CTM ITC can be transitioned to a more effective OPEX-based manufacturing tax credit whereas the CT ITC would become the CAPEX instrument and cover a broader range of clean technologies and related (manufacturing) equipment. This includes clarifying eligibility for a broader range of existing as well as emerging clean technologies and ensuring the credit accounts for the specialized equipment needs of companies operating in key sectors like critical minerals and clean energy equipment. It also entails expanding the definition of eligible equipment to encompass a wider range of essential components and systems required for the full lifecycle of clean technology manufacturing compared to current provisions under the CTM ITC.
- **Implement safe harbour for labour requirements:** Implement a 50% safe harbour whereby labour requirements are considered satisfied when at least half of project hours meet prevailing wage and apprenticeship criteria.
- **Accelerate and streamline compliance process:** Follow through with the CRA administration support in a timely manner to accelerate and streamline the compliance process — consistent with the administration of the SR&ED program — thereby improving the speed, certainty, and predictability that private capital requires to flow into eligible clean economy projects.
- **Streamlining application and certification:** Reduce administrative barriers by providing clearer guidance and more efficient certification processes for manufacturing investments. Ensuring companies can reliably determine eligibility and access the credit is essential to providing the investment certainty needed to build new, capital-intensive manufacturing facilities in Canada.

Clean Electricity Investment Tax Credit (CE-ITC)

The CE-ITC is a foundational tool for accelerating the buildout of the electricity infrastructure Canada needs to support economic growth, electrification, industrial development, and emerging demand from sectors such as critical minerals, data centres, and low-carbon fuels.

Priority recommendation:

- **Expanding the qualifying entity criteria:** Expand the qualifying entity criteria to include trusts whose sole beneficiaries are taxable Canadian corporations — whether held directly or through one or more partnerships — and which otherwise satisfy existing eligibility criteria. Expanded eligibility will support refurbishment of existing asset, lower costs for rate payers, and level the playing field for a greater number of electricity sector assets.

Clean Technology Manufacturing Investment Tax Credit (CTM-ITC)

The CTM-ITC is a critical policy instrument for building the domestic industrial base required to support Canada's broader clean energy transition. The credit helps position Canadian companies to compete in global supply chains. The recommended changes would also improve market access and investment certainty for Canadian SMEs and scale-up companies commercializing innovative clean technologies.

Priority recommendations:

- **Transitioning the CTM-ITC from an investment-based incentive to a production-based tax credit (similar to the U.S. Section 45X Advanced Manufacturing Production Tax Credit):** In the U.S., per Atlas Public Policy, domestic manufacturing facilities producing components eligible for 45X account for approximately US\$186 billion of announced investment and 166,000 announced jobs across clean energy manufacturing sectors, demonstrating the effectiveness of production-based incentives in attracting investment, creating jobs, and building domestic supply chains. A production-based credit would help Canadian clean technology manufacturers compete domestically as well as in global markets.
- **Aligning with industrial realities:** Review and update the scope of the credit on an annual basis to ensure it remains responsive to rapidly evolving clean technologies and manufacturing methods. This includes clarifying eligibility for emerging technologies and broadening the definition of “qualifying mineral activity” under the *Income Tax Act* to include critical activities that enable to clean technology manufacturing such as chemical manufacturing. Further, we recommend expanding the definition of a “mineral resource” under the *Income Tax Act* to include sedimentary rock phosphate.

Carbon Capture, Utilization, and Storage Investment Tax Credit (CCUS-ITC)

The CCUS-ITC remains a foundational policy tool for advancing large-scale industrial decarbonization in Canada, particularly for capital-intensive projects with long development, permitting, and construction timelines. Recent federal changes, including the extension of the highest CCUS-ITC rates to 2035, are an important step toward improving project bankability, but additional refinements are still needed to ensure the credit functions effectively in real-world project structures and investment environments.

Priority recommendations:

- **Expenditure-based credit timing:** Amend the CCUS-ITC so that entitlement arises when eligible expenditures are incurred, rather than only when property is acquired or imported into Canada. This would better reflect the capital-intensive nature of CCUS projects, improve treatment of long-lead items, and align the credit with efficient project capital deployment.
- **Tax shelter rule alignment:** Revise the CCUS-ITC so that the tax shelter investment rule does not deny the credit for an entire project where an issue arises with a particular property or investment structure. As recommended by Pathways Alliance, the rule should be aligned with the Clean Technology ITC approach so that any denial is limited to the specific property at issue rather than the full project.
- **Recapture relief for normal commercial structures:** Expand recapture deferral rules to better accommodate related-party transfers, partnerships, and tax-deferred reorganizations where property continues to be used for its intended purpose in a qualified CCUS project. This would better reflect how major infrastructure projects are financed and owned, including projects involving multiple owners or Indigenous participation.
- **Align CCUS Investment Tax Credit eligibility for BECCS:** Raise the refundable federal ITC rate for Bioenergy with Carbon Capture and Storage (BECCS) to match the rate offered for Direct Air Capture projects. Finance Canada currently caps BECCS at 50% while Direct Air Capture qualifies for 60%, and closing this gap would unblock final investment decisions on billions of dollars in planned Canadian BECCS projects, deliver a strategic lifeline to a forestry sector under acute pressure from US softwood tariffs and worsening wildfires, and generate baseload energy alongside a net increase in tax revenue, jobs, and GDP.
- **Expand eligibility:**
 - An investment that captures and utilizes, but does not immediately sequester CO₂ that can prove a reasonable path forward for permanent sequestration of a percentage of CO₂ captured should be eligible for the CCUS ITC as long as it reduces the overall carbon intensity of current operations. Furthermore, the CCUS ITC should better reflect the integrative nature of CCUS investments on existing facilities.
 - Repurposing existing equipment and facilities is critical to project economics and efficiency. The CCUS ITC should include a provision allowing a prorated cost for existing combined heat and power that supports CCUS, instead of only allowing new standalone costs for inclusion.
 - Apply CCUS ITC to projects that include agreements between entities in other provinces and territories for permanent carbon storage.
 - Make small scale CCUS, pilot scale projects, feasibility studies, pre-construction costs (such as engineering and design costs), and future research and development costs eligible for CCUS ITC.
- **Include capital expenditures associated with combined heat and power (CHP/cogeneration) facilities as eligible expenditures** where they are used to provide the additional energy required to operate carbon capture equipment at industrial facilities. This would enable lower-carbon operation of CCUS systems while also encouraging investment in high-efficiency cogeneration that can provide reliable electricity to the grid. The current legislation discourages integrated cogeneration. In jurisdictions that have more carbon-intensive grids, this design flaw actively prevents industrial facilities from maximizing grid

displacement, increasing overall provincial emissions compared to what an integrated, optimized system could achieve.

- **Expand Eligible Utilization Pathways:** Make the tax credit eligible for the use of captured CO₂ in food production and other industrial applications, for the production of synthetic fuels (e.g. e-methane) as well for CO₂ enrichment in greenhouses to boost photosynthesis, accelerate plant growth, and increase crop yields. For the production of synthetic fuels, carbon dioxide removal from the atmosphere (e.g. direct air capture) and from renewable sources should be eligible, but not from non-renewable sources.