THE SMALLBIZ BUILDER

PADGETT THE SMALL BIZ PROS

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This Month:

- Small Businesses Air Quality Improvement Tax Credit

Small Businesses Air Quality Improvement Tax Credit

To encourage small businesses to invest in better ventilation and air filtration to improve indoor air quality, the Federal government introduced a temporary Small Businesses Air Quality Improvement Tax Credit. This **refundable tax credit** would be available in respect of **qualifying expenditures** attributable to air quality improvements in qualifying locations **incurred between September 1, 2021 and December 31, 2022**.

Tax Credit Rate and Limits

The tax credit would be refundable and have a credit rate of **25 per cent of the qualifying expenditures**. There is a maximum of $10,000 in qualifying expenditures per location and a maximum of $50,000 overall (total locations and for the entire program). The limits on qualifying expenditures would need to be shared among affiliated businesses.

Who is Eligible?

- sole proprietors
- Canadian-controlled private corporations ("CCPCs") with taxable capital of less than $15 million in the taxation year immediately preceding the taxation year in which the qualifying expenditure is incurred. For this purpose, the taxable capital of associated corporations is also counted.
- partnerships. The credit would be claimed by members of the partnership that are CCPCs or individuals (other than trusts) and would be based on their proportionate interest in the partnership.

Qualifying Expenditures

Qualifying expenditures would **include**:

- expenses directly attributable to the purchase, installation, upgrade, or conversion of mechanical heating, ventilation and air conditioning (HVAC) systems, as well as the purchase of devices designed to filter air using high efficiency particulate air (HEPA) filters, the primary purpose of which is to increase outdoor air intake or to improve air cleaning or air filtration.

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- expenses attributable to an HVAC system would only be considered qualifying expenditures if the system is:
- designed to filter air at a rate in excess of a minimum efficiency reporting value (MERV) of 8; or
- designed to filter air at a rate equal to MERV 8 and to achieve an outdoor air supply rate in excess of what is required for the space by relevant building codes. For a system that is upgraded or converted, prior to the improvement the system must have been designed to filter air at a rate equal to MERV 8.

Qualifying expenditures would **exclude** an expense:

- made or incurred under the terms of an agreement entered into before September 1, 2021;
- related to recurring or routine repair and maintenance;
- for financing costs in respect of a qualifying expenditure;
- that is paid to a party with which the eligible entity does not deal at arm's length;
- that is salary or wages paid to an employee of the eligible entity

An expense that may be considered a qualifying expenditure would be reduced by the amount of any government assistance received by the eligible entity in respect of that expense.

Qualifying Locations

Qualifying locations generally mean real or immovable property used in the course of ordinary commercial activities in Canada (including rental activities), excluding self-contained domestic establishments (i.e., a place of residence in which a person generally sleeps or eats).

Timing

The tax credit would be available in respect of qualifying **expenditures incurred between September 1, 2021 and December 31, 2022.**

The **taxation year for which an eligible entity would claim the tax credit** would depend on when the qualifying expenditure was incurred:

- Qualifying **expenditures incurred before January 1, 2022** would be claimed in the first taxation year that ends on or after January 1, 2022. For example, a sole proprietor or individual member of a partnership would be able to make a claim in their 2022 tax return. A CCPC could make the claim in its first taxation year that ends after January 1, 2022.
- Qualifying **expenditures incurred on or after January 1, 2022** would be claimed as normal in the taxation year in which the expenditure was incurred.