2025-1070641E5 -- Meaning of designated work site and covered worker
Date: October 2, 2025

Please note that the following document, although believed to be correct at the time of issue, may not represent the current position of the CRA.

Prenez note que ce document, bien qu'exact au moment émis, peut ne pas représenter la position actuelle de l'ARC.

PRINCIPAL ISSUES

This document considers two issues in light of the hypothetical facts presented herein. The first issue considered: Which of the following work sites described are designated work sites of the incentive claimant relevant for complying with the Labour Requirements? The second issue considered: How does the incentive claimant determine which employees are covered workers for purposes of complying with the Labour Requirements?

POSITION

1. A designated work site of the incentive claimant is one that is at the disposal of the incentive claimant. This could include a work site that the incentive claimant rents or owns, as well as a work site that the incentive claimant has legal access to, provided that it has control over that site and can access it at its own discretion. 2. To be a covered worker, the individual must meet all conditions in paragraphs (a), (b) and (c) of the definition. When making this determination, the incentive claimant examines the duties of the relevant individuals at the designated work site(s) to determine if their duties are primarily (i.e., >50%) manual or physical in nature. The CRA interprets the phrase "manual or physical in nature" to include those duties that involve physical exertion (including those using tools or machines to perform the physical labour) as opposed to mental exertion.

REASONS: These interpretations are based on a textual, contextual and purposive analysis of section 127.46.

XXXXXXXXXX 2025-107064

Nicki Verlinden

October 2, 2025

Dear XXXXXXXXXX,

Re: Labour Requirements and the meaning of "designated work site" and "covered worker"

You asked us to clarify the meaning of the terms designated work site and covered worker, which are defined in subsection 127.46(1) of the *Income Tax Act*[1] ("Act") and used in the context of the prevailing wage requirements and the apprenticeship requirements (collectively referred to in this letter as the "Labour Requirements") in section 127.46 of the Act, in regards to the hypothetical facts presented below.

Our comments

This technical interpretation provides general comments about the provisions of the Act and related legislation (where referenced). It does not confirm the income tax treatment of a particular situation involving a specific taxpayer but is intended to assist you in making that determination. The income tax treatment of particular transactions proposed by a specific taxpayer will only be confirmed by this Directorate in the context of an advance income tax ruling request submitted in the manner set out in Information Circular IC 70-6R12, Advance Income Tax Rulings and Technical Interpretations.

Unless otherwise stated, all references to a statute are to a relevant provision of the Act or to the *Income Tax Regulations*[2] ("Regulations").

A. Hypothetical Facts

- Opco is a taxable Canadian corporation[3] whose main campus is located in a province in Canada (herein referred to as "Opco's work site").

- Opco has a December 31 taxation year-end.

- Opco acquired a zero-emission XXXXXXXXXX that it uses in its XXXXXXXXXX business in Canada. For capital cost allowance ("CCA") purposes, this XXXXXXXXXX was included in Class 56 of Schedule II of the Regulations.

- In 2025, Opco will acquire a XXXXXXXXXX (the "Property") which will be a "clean technology property", as that term is defined in subsection 127.45(1).

- The Property will be XXXXXXXXXX.

- For CCA purposes, the Property will be included in Class 43.1, XXXXXXXXXX.

- XXXXXXXXXX.

- The Property will be manufactured and sold to Opco by a company XXXXXXXXXX (the "XXXXXXXXXX manufacturer") and transported XXXXXXXXXX in 2025 as an essentially finished product.

- Opco intends to claim the clean technology investment tax credit ("CT ITC") in respect of the capital cost of the Property in its December 31, 2025 taxation year, such that the Property is a "specified property"[4] and Opco is the "incentive claimant"[5].

- Legal ownership of the Property will transfer from the XXXXXXXXXX manufacturer to Opco once it has departed the XXXXXXXXXX manufacturer's work site XXXXXXXXXX(herein referred to as the "XXXXXXXXXX manufacturer's work site"), pursuant to the purchase and sale agreement between the parties.

- Wco is a Canadian company, whose premises are located approximately 150 km, XXXXXXXXXX, from Opco's work site (herein referred to as "Wco's work site"), and it provides XXXXXXXXXX services to its customers, including Opco.

- At all relevant times, Wco is dealing at arm's length with Opco.
- In 2025, the Property will be delivered from the XXXXXXXXXX manufacturer's work site directly to Wco's work site where Wco's employees will XXXXXXXXXX to the Property in preparation for its use by Opco in Opco's business.
- At no time will Opco own, rent or have any access rights in respect of Wco's work site.
- Once the XXXXXXXXXX is completed, Wco will transport the Property to Opco's work site, via XXXXXXXXXX
- The duties performed by Wco's employees at Wco's work site are primarily (i.e., more than 50%) manual or physical in nature, and these employees are not administrative, clerical or executive employees, nor are they business visitors to Canada as described in section 187 of the *Immigration and Refugee Protection Regulations*.
- When Opco takes physical possession of the Property from Wco at Opco's work site in 2025, Opco's employees will perform a final inspection and test the operation of the Property in preparation for its use in Opco's business.
- The Opco employees that will carry out the inspection and testing of the Property at Opco's work site are a mix of engineers and management that are not members of a labour union.
- Once inspected, and in preparation for its use by Opco in Opco's business, the Property will be XXXXXXXXXX and connected to the XXXXXXXXXX by employees of Opco.
- The Property will be available for use before December 31, 2025.
- The Property is Opco's only specified property in its 2025 taxation year.

B. Questions

1. Is Wco's work site a designated work site of the incentive claimant (i.e., Opco), based on the hypothetical facts?

2. Is the XXXXXXXXXX manufacturer's work site a designated work site of the incentive claimant (i.e., Opco), based on the hypothetical facts?

3. Is Opco's work site a designated work site of the incentive claimant (i.e., Opco), based on the hypothetical facts?

4. If the answer to question 3 is "yes", are the workers that carry out the inspection, testing, XXXXXXXXXX and connecting of the Property to the XXXXXXXXXX at that designated work site considered to be "covered workers", based on the hypothetical facts?

C. Summary of the Tax Policy

In its 2022 Federal Budget, the Department of Finance stated that, to incentivize companies to create good jobs, it would attach labour requirements to some of the newly announced clean economy investment tax credits. In order for a company to maximize the credits, it would have to ensure that workers are paid prevailing wages based on the local labour market conditions, and ensure that apprenticeship training opportunities are being created.[6]

D. Relevant legislation, discussion and conclusions

I. Overview of the Issue—the relevant legislation

Subsection 127.46(2) of the Act states: Despite sections 127.44, 127.45 and 127.48, the applicable rate for each specified tax credit of an incentive claimant is the reduced tax credit rate [7] unless the incentive claimant elects in prescribed form and manner to meet the prevailing wage requirements under subsection (3) and the apprenticeship requirements under subsection (5) for each installation taxation year [8] in respect of the specified tax credit.

In order to avoid a ten percent reduction of the regular tax credit rate[9] for the CT ITC claim to be made by Opco in respect of the Property, Opco must elect in accordance with subsection 127.46(2), to meet the Labour Requirements.

The Labour Requirements consist of three prevailing wage requirements and two apprenticeship requirements that have to be met.

The prevailing wage requirements are in paragraph 127.46(3)(b) of the Act[10] and are as follows: For the purposes of this section, the prevailing wage requirements for an incentive claimant for an installation taxation year are […]

> (i) each covered worker at a designated work site of an incentive claimant must be compensated for their work on the preparation or installation of specified property
>
> > (A) in accordance with the terms of an eligible collective agreement [11] that applies to the worker, or
> >
> > (B) in an amount that is at least equal to the amount of the regular wages (without taking into account overtime) and benefits [12] as specified in the eligible collective agreement that most closely aligns with the covered worker's experience level, tasks and location, calculated on a per-hour or similar basis;
>
> (ii) the incentive claimant attests, in prescribed form and manner, that it has met the prevailing wage requirement in subparagraph (i) for its own employees who are covered workers, if any, and that it has taken reasonable steps to ensure that any covered workers employed by any other person or partnership at the designated work site are compensated in accordance with subparagraph (i); and
>
> (iii) it has communicated, either in a poster or notice, in a manner readily visible to and accessible by covered workers at the designated work site or by electronic means, a notice confirming that the work site is a work site subject to prevailing wage requirements in relation to covered workers, including a plain language explanation of what that means for workers and information regarding how to report failures to pay prevailing wages to the Minister.

The apprenticeship requirements are in subsection 127.46(5) of the Act and are as follows: For the purposes of this section, the apprenticeship requirements for an incentive claimant for an installation taxation year are that

(a) subject to paragraph (b), the incentive claimant makes reasonable efforts to ensure that apprentices registered in a Red Seal trade [13] work at least 10% of the total hours that are worked during the year by Red Seal workers [14] at a designated work site of the incentive claimant on the preparation or installation of specified property;

(b) if an applicable law or collective agreement that specifies a maximum ratio of apprentices to journeypersons, or otherwise restricts the number of apprentices employed at a designated work site, prevents the condition in paragraph (a) from being met, the incentive claimant makes reasonable efforts to ensure that the highest possible percentage of the total labour hours, performed during the year by Red Seal workers on the preparation or installation of specified property, is performed by apprentices registered in a Red Seal trade while respecting the applicable labour law or collective agreement; and

(c) the incentive claimant attests in prescribed form and manner that it has met the apprenticeship requirements in paragraph (a) or (b) in respect of covered workers at the designated work site.

II. Determining the Designated work sites

The prevailing wage requirements are relevant for covered workers at designated work sites of an incentive claimant and the apprenticeship requirements are relevant for a subset of covered workers, referred to as Red Seal workers, at designated work sites of the incentive claimant.

The first three questions in this letter pertain to the meaning of the phrase designated work site of an incentive claimant.

A “designated work site” is defined in subsection 127.46(1) as follows: **“designated work site”** in a taxation year of an incentive claimant means a work site where specified property of an incentive claimant is located during the year and includes the site of a “CCUS project” (as defined in section 127.44) or of a “clean hydrogen project” (as defined in section 127.48) of the incentive claimant.

In the hypothetical example, the Property will not be owned by Opco (i.e., it will not be specified property of Opco) when it is located at the XXXXXXXXXX manufacturer’s work site in 2025. As a result, the XXXXXXXXXX manufacturer’s work site will not be a designated work site of the incentive claimant (i.e., Opco).

In the hypothetical example, the Property will be owned by Opco (i.e., it will be a specified property of Opco) when it is located at Wco’s work site in 2025; however, in our view, Wco’s work site will not be a designated work site of the incentive claimant (i.e., Opco).

In our view, a work site will only be a designated work site of an incentive claimant if the work site is at the disposal of the incentive claimant, based on a textual, contextual and purposive analysis of section 127.46. This could include a work site that the incentive claimant owns, rents or to which the incentive claimant otherwise has legal access, provided that it has control over the work site and can access it at its own discretion.

Since Opco does not own, rent or otherwise have any access rights with respect to Wco’s work site, that site will not be a designated work site of Opco in 2025. As a result, the only designated work site of Opco in 2025 will be Opco’s work site.

III. Meaning of Covered worker

The fourth question in this letter is in regards to the definition of covered worker, which is defined in subsection 127.46(1). It states: **“covered worker”** means an individual (other than a trust)

> (a) who is engaged in the preparation or installation of specified property at a designated work site as an employee of an incentive claimant or of another person or partnership;
>
> (b) whose work or duties in respect of the designated work site are primarily manual or physical in nature; and
>
> (c) who is not
>
> > (i) an administrative, clerical or executive employee, or
> >
> > (ii) a business visitor to Canada as described in section 187 of the *Immigration and Refugee Protection Regulations* .

A covered worker is therefore a class of worker whose duties are primarily manual or physical in nature, such as tradespeople and labourers.[15] It is also notable that the worker must have been engaged in the preparation or installation of specified property at a designated work site.

Your question pertains to employees of Opco that undertook the following preparation or installation activities of the specified property at a designated work site (i.e., Opco’s work site):

- Inspection of the Property,
- Testing of the Property,
- XXXXXXXXXX, and
- Connecting the Property to the XXXXXXXXXX.

To be a covered worker, all three conditions set out in paragraphs (a), (b) and (c) of that definition must be met. Paragraph (a) has been met because the employees of Opco are engaged in the preparation or installation of specified property at a designated work site (i.e., Opco’s work site). It is [a] question of fact whether paragraphs (b) and (c) have been met.

Assuming that the relevant Opco employees are not those listed in paragraph (c), to determine whether paragraph (b) has been met, Opco must examine the duties of each of these employees at the designated work site to determine if their duties are primarily[16] manual or physical in nature. It is our view that the phrase manual or physical in nature as it appears in the definition of covered worker within the Labour Requirements, refers to those duties that involve physical exertion (including those using tools or machines to perform the physical labour) as opposed to mental exertion.

We trust that these comments will be of assistance.

Yours truly,

Kimberley Wharram

Manager, Resources Section

for Division Director

Reorganizations Division

Income Tax Rulings Directorate

Footnotes

1 R.S.C. 1985, c. 1 (5th suppl.), as amended.

2 C.R.C., c.945, as amended.

3 Defined in subsection 89(1).

4 The term specified property is defined in subsection 127.46(1) of the Act and "means property all or a portion of the cost of which qualifies for a specified tax credit."

5 The term incentive claimant is defined in subsection 127.46(1) of the Act and "means a person that, or a partnership at least one member of which, plans to claim or has claimed a specified tax credit for a taxation year."

A specified tax credit is defined in the same subsection and "means the CCUS tax credit under subsection 127.44(1), the clean technology investment tax credit under subsection 127.45(1) and the clean hydrogen tax credit under subsection 127.48(1)." Note: The Labour Requirements do not apply to the clean technology manufacturing investment tax credit in section 127.49 of the Act.

6 "An Investment Tax Credit for Clean Technologies" in "2.2 Securing Canada's Competitiveness and Creating Good Jobs for Workers" of Fall Economic Statement 2022, available at: https://www.budget.canada.ca/fes-eea/2022/report-rapport/chap2-en.html#a7

7 The term reduced tax credit rate is defined in subsection 127.46(1) and "means the regular tax credit rate minus 10 percentage points." The term regular tax credit rate is defined in the same subsection and "means the specified percentage (as defined in subsections 127.44(1), 127.45(1) and 127.48(1), as the case may be)."

8 The term installation taxation year is defined in subsection 127.46(1) as follows: “installation taxation year in respect of a specified tax credit, means a taxation year during which preparation or installation of specified property occurs.”

9 For the CT ITC, the regular tax credit rate for 2025 would be 30%.

10 Note: As of the date of this letter, paragraph 127.46(3)(a) is not applicable because there are no prescribed circumstances and no prescribed conditions.

11 This is a defined term in subsection 127.46(1) of the Act.

12 This is a defined term in subsection 127.46(1) of the Act.

13 This is a defined term in subsection 127.46(1) of the Act. For more information on this definition, see 2024-1046391E5.

14 This is a defined term in subsection 127.46(1) of the Act. For more information on this definition, see 2024-1046391E5.

15 See comments made by the Department of Finance in Budget 2023: “Labour Requirements Related to Certain Investment Tax Credits” in the “Tax Measures: Supplementary Information” of Budget 2023, available at: https://www.budget.canada.ca/2023/report-rapport/tm-mf-en.html#a46

16 The term “primarily” has generally been interpreted to mean “most important” or more than 50% for income tax purposes. See for example paragraph 120 of *Gerbro Holdings Co. v. R.,* [2016] 6 C.T.C. 2091 2016 TCC 173, and paragraph 2.2 of Income Tax Folio S3-F8-C2, Tax Incentives for Clean Energy Equipment. While a question of fact, there does not appear to be any contrary intention that would indicate a different meaning. Accordingly, as an example, a person spending more than 50% of their time at a designated work site on physical or manual work would meet this condition.