

CAPC

Fiscal Investment Policy Working Group

October 2006

Initiative	Action Plan Item	Owner	Time	Status 12/05	Status 10/06	Comments	
Support for Investment	Investment Programs: 1 Expand, better coordinate, improve flexibility and transparency of Automotive Investment Incentive Programs	FED	ST	G	Y	TPC has committed \$401M in support. No new projects immediately imminent but the Federal government is reviewing options for future direction.	
		ONT	ST	G	G	OAIS initiated a \$500M, 5-year program in April 2004 to stimulate innovation, investment and employment in Auto Sector. 9 projects announced to date. ONT looking at extending.	
	Taxes:	a) Establish Investment Tax Credit for new machinery and equipment	FED/ONT	MT	R	R	No movement from FED/ONT. CAPC continues to pursue improved investment incentives such as accelerated Capital Cost Allowance and Investment Tax Credits
			QUE	MT	G	G	Quebec corporations that acquire manufacturing and processing equipment are entitled to a capital tax credit equal to 5% of the cost of property acquired before January 1, 2008.
		b) Eliminate Capital Tax	FED	ST	G	G	Federal Capital Tax eliminated January 1, 2006
			ONT	MT	Y	Y	Ontario has accelerated it's plan to eliminate Capital Taxes by January 2012. Direction is positive but timing needs to be shortened (remains yellow)
		2 c) Eliminate Federal Large Corporation Tax	QUE	MT	Y	Y	Quebec will reduce the tax rate from 0.525% in 2006 to 0.29% in 2009. Timing is too long. There is no plan to eliminate completely.
			FED	MT	Y	G	LCT Eliminated in March 2006 budget. Provincial governments need to follow suit with this initiative to remove a key impediment to automotive investment.
		d) Reduce Corporate Tax Rates	FED	MT	Y	G	Federal Gov't to reduce corporate surtax 4% effective Jan 2008, thus reducing the rate from 21% to 19% by 2010. CAPC FED target rate is 17%
			ONT	MT	R	R	Announced rate reductions repealed by the government. The Manufacturing & Processors (M&P) rate was to drop to 8% in 2006 but has reverted back to 12%.
			QUE	MT	R	R	Corporate income tax rates for Quebec companies will increase from the current 9.9% to 11.9% in 2009.
		e) Expand Manufacturers & Processors Tax Deduction	FED	MT	R	R	No progress to date
			ONT/QUE	MT	R	R	No progress to date
		3 Vehicle Leasing: Eliminate Vicarious Liability	ONT	ST	Y	Y	Budget Measures Act, March 1, 2006, established a \$1M "cap" on the vicarious liability of vehicle lessors/renters. If a leased/rented vehicle causes a serious accident, the lessor or rental company will have no liability so long as the customer has \$1M of insurance. Several open issues remain.
			QUE	MT	R	G	Vehicle lessors have no legal liability for bodily injury. Vehicle lessors have no legal liability for material damages suffered by a 3rd party provided the lease is for more than one year.

G Addressed / Implementation underway and on time
Y Plans, commitments and timelines not clear - Attention required
R Immediate attention required

ST Short Term
 MT Medium Term
 LT Long Term

FED = Federal Government
 ONT = Ontario Provincial Government
 QUE = Quebec Provincial Government

CAPC Fiscal and Investment Policy Work Group Executive Summary

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October 27, 2006

1. INVESTMENT PROGRAMS

Federal Status: **Yellow (was Green)**

Under past programs, the federal government has committed \$401 million in support of major assembler investment projects by Ford, GM, Toyota and DCX. While no major new investment projects are immediately imminent, the Federal Government is reviewing its options in terms of what future directions it will take in this area. As a result, this item changes status from green to yellow.

A recently completed CAPC study shows Federal and Provincial investments in an auto facility have a 3 and 5 year payback respectively. The study will be tabled with CAPC on October 27.

Ontario Status: **Green**

Ontario Automotive Investment Strategy (OAIS) was initiated April 14, 2004. The \$500 million, 5-year program is designed to stimulate innovation, investment and employment in the automotive sector. To date, nine projects have been announced. With the original fund largely committed, Ontario is looking at options to extend the OAIS program funding. Status remains Green.

2. TAXES

(a) Establish Investment Tax Credit (20%) for New Machinery and Equipment and increase the CCA rate on new equipment used in M&P.

Federal/Ontario Status: **Red**

While there has been no movement Federally or Provincially in this area, CAPC will continue to pursue near term policy initiatives that will include measures to improve investment incentives such as accelerated capital cost allowances and Investment Tax Credits (ITC).

Quebec Status: **Green**

A corporation carrying on business in Québec that acquires manufacturing and processing equipment is entitled to a capital tax credit equal to 5% of the cost of property acquired before January 1, 2008.

(b) Eliminate Capital Tax

Federal: **Green**

The Federal Government eliminated the Capital Tax on January 1, 2006

Ontario Status: **Yellow**

Ontario has accelerated its plan to eliminate capital taxes by Jan.1, 2012 via phased rate reductions. Although the direction is positive, the timeline to elimination is too long to warrant a GREEN status.

Quebec Status: **Yellow**

Quebec will reduce its capital tax rate from 0.525% in 2006 to 0.29% in 2009. Direction is positive but timeline is too long and there is no plan to eliminate completely. As stated above in item 2(a) a corporation carrying on business in Québec that acquires manufacturing and processing equipment is entitled to a capital tax credit equal to 5% of the cost of property acquired before January 1, 2008.

(c) Eliminate Federal Large Corporation Tax (LCT) Green (was Yellow)

Federal LCT eliminated in the March budget. Item changed from Yellow to Green. Provincial governments need to follow suit with this initiative to remove a key impediment to automotive investment.

(d) Reduce Corporate Income Tax Rates

Canada needs to strive for a composite federal-provincial income tax rate of 25% or less to be competitive (EU average rate 25%, OECD average rate 28%, Asia Pacific average rate 30%, Latin America average 28%). Canada is currently averaging at the 35% combined rate level.

Federal Status: **Green (was Yellow)**

Federal Government will reduce the corporate surtax (4%) effective January 1, 2008 and will reduce the current corporate income tax rate from 21%, to 19% by 2010 for all corporations. CAPC goal is 17%.

Ontario Status: **Red**

Previously announced rate reductions have been repealed by the government. The Manufacturing & Processors (M&P) rate was scheduled to drop to 8% in 2006, but has reverted back to 12% level. Heading in the wrong direction. On a more positive note, the Government of Canada and the Government of Ontario recently signed a corporate income tax collection agreement allowing Ontario businesses to benefit from one tax return, one set of rules and one point of contact.

Quebec Status: **Red**

Corporate income tax rates for Quebec companies will increase from the current 9.9% to 11.9% in 2009.

(e) Expand Manufacturers and Processors Tax Deduction

To encourage investment in new manufacturing and processing facilities in Canada, CAPC recommends that the federal and provincial governments continue and expand the M&P deduction to reduce the federal rate to 17% and the provincial rates to 8%.

Status: **Red**

No progress to date for manufacturing at all Government levels

3. VEHICLE LEASING – ELIMINATE/MINIMIZE VICARIOUS LIABILITY

To ensure that leasing options remain available to Canadian consumers and recognizing the responsibility of vehicle lessees, industry is striving to eliminate or limit the statutory obligation of truck and auto lessors under provincial “vicarious liability” legislation. Surveys reveal the industry is facing over \$1 billion in outstanding vicarious liability claims filed in Canadian courts.

Ontario Status: **Yellow**

Bill 18, Budget Measures Act, 2005 came into force on March 1, 2006. The new law establishes a “cap” of \$1M on the vicarious liability of vehicle lessors and renters. If a leased or rented vehicle owned is the cause of a serious accident, the lessor or rental company will have no liability so long as the customer has \$1M of insurance. Several open issues remain unresolved holding this item at a Yellow status for Ontario.

Quebec Status: **Green**

Vehicle lessors have no legal liability for bodily injury in Quebec. Vehicle lessors have no legal liability for material damages suffered by a 3rd party provided the lease is for more than one year.

Note: Industry is working to eliminate vicarious liability in the provinces of Alberta and BC