

CAPC Fiscal and Investment Policy Working Group Scorecard – April 2007

Priority	Initiative	Resp.	Timing	Status	Comments
A	Investment: Sustain, better coordinate, improve flexibility and transparency of Automotive Investment Incentive Programs	FED	ST	Y	TPC has committed \$401M in support. TPC now ITO and unclear if it supports auto
		ONT	ST	G	OAIS initiated a \$500M, 5-year program in April 2004 to stimulate innovation, investment and employment in Auto Sector. Program funds appear deleted. Industry looking for signal about continuation.
		QUE	ST	R	2006 Budget: \$75m over 3 years for innovation and R&D activities in university research and improved R&D incentives for businesses. Nothing specific to Manufacturing
A	Increase the Capital Cost Allowance (CCA) rate on New Equipment used in Manufacturing and Processing	FED	ST	G	2007 Federal Budget temporarily increased the CCA rate to 50% straight-line rate for purchases between Mar 19, 2007 and 2009.
A	Establish a refundable Investment Tax Credit (ITC) for new machinery and equipment	FED	MT	R	No progress to date. CAPC will continue to pursue refundable tax credits for new auto assembly and component manufacturing machinery and equipment
		ONT	MT	R	No progress to date
		QUE	MT	Y	Quebec corporations that acquire manufacturing and processing equipment are entitled to a <u>capital tax credit</u> . Quebec Budget 2007 increased the tax credit from 5 to 10% and extended the deadline from 2008 until 2012.
A	Expand Manufacturing & Processing (M &P) Profits Tax Deduction [M&P Credit]	FED	MT	R	No progress to date
		ONT/QUE	MT	R	No progress to date
A	Eliminate/Reform Feebate Program	FED	ST/MT	R	2007 Federal Budget included ecoAuto and Green Levy programs assign rebates up to \$2000 or levies up to \$4000 based on vehicle fuel efficiency label rating.

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B	Eliminate Capital Tax	FED	ST	G	The Federal Government eliminated the Large Corporation Tax January 1, 2006
		ONT	ST	Y	Ontario has accelerated its plan to eliminate capital taxes by January 2012. Direction is positive but timing needs to be shortened to January 1, 2009 when the Federal Government takes over the tax collection system (remains yellow).
		QUE	ST	Y	Quebec to reduce tax rate from 0.525% in 2006 to 0.29% in 2009. 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 when the ince
B	Reduce general Corporate Tax Rates	FED	MT	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%. GST reduced 1% in 2006 with plans for a further 1% drop.
		ONT	MT	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%. Coordinated income tax collection will lower corp. tax processing costs (+)
		QUE	MT	R	Corporate income tax rates for Quebec companies will increase from the current 9.9% to 11.9% in 2009.
B	Vehicle Leasing: Eliminate Vicarious Liability	ONT	ST	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 o
		QUE	MT	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.

CAPC Fiscal and Investment Policy Work Group Executive Summary

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April 19, 2007

**** 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.

The 2007 Federal Budget referenced plans for a new Science and Technology Fund to be announced in Spring 2007. No details are available as yet.

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) ** Increase the Capital Cost Allowance (CCA) rate on New Equipment Used in Manufacturing and Processing (M & P)

Federal Status: **Green**

The 2007 Federal Budget temporarily increased the CCA rate for machinery and equipment used in manufacturing and processing to 50% straightline rate, allowing such investments to be written off on average over a two-year period. The increased rate will apply to machinery and equipment purchased on or after March 19, 2007 and before 2009.

Ontario/Quebec Status: **Red**

No progress to date.

(b) ** Establish Investment Tax Credit (20%) for New Machinery and Equipment.

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 Investment Tax Credits (ITC).

Quebec Status: **Yellow (was Red)**

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. Quebec Budget 2007 increased the tax credit from to 10% and extended the deadline from 2008 until 2012.

**** (c) Expand Manufacturers and Processors (M &P) 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 effectively reduce the Federal corporate tax rates to 17% and the Provincial rates to 8%.

Status: **Red**
No progress to date for manufacturing at all Government levels

**** (d) Eliminate/Reform Feebate Program**

Federal Status: **Red**
This new measure announced in the 2007 Budget represents an unacceptable intervention into the new vehicle market using arbitrary fuel efficiency label cutpoints to assign levies up to \$4000 and rebates up to \$2000 without delivering any commensurate environmental improvement.

(e) Eliminate Capital Tax

Federal: **Green (was Yellow)**
The Federal Government eliminated the Capital Tax on January 1, 2006

Ontario Status: **Yellow**
Ontario has accelerated its plan to eliminate capital taxes by July 1, 2010. Although the direction is positive, the timeline to elimination is too long to warrant a GREEN status. Should be eliminated when the tax collection responsibility is transferred to the Federal Government Jan 1, 2009.

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.

(f) 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%. CAPC recognizes the positive benefit the GST reduction to 6% will have on Auto Dealers across Canada.

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.

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