

Canadian Automobile Dealers Association

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

The Canadian Automobile Dealers Association (CADA) is the national association for franchised automobile dealerships that sell new cars and trucks. CADA deals with national issues that affect the well-being of franchised automobile and truck dealers. The association also advocates dealer views and concerns to Parliament, federal agencies, the courts, the public and Canada's automobile manufacturers. CADA acknowledges the extraordinary efforts made by governments of all levels in recent years to enact measures designed to stimulate a recessionary economy in general, and to support the automotive industry in particular. Though these were very difficult steps to take at the time, the results we have seen in the past two years demonstrate that it was the necessary and right thing to do. In the context of a less-than-certain recovery here and in the United States, CADA has a specific taxation policy issue that has been problematic for our members in the past, and if solved would help spur economic recovery and job growth at a very small cost. The Small Business Deduction (SBD) is a vital component to businesses' reinvestment strategies. The SBD helps to defer income tax until such time as an owner withdraws profits. Unfortunately, the level of the SBD is inadequate to meet the requirements of most automobile dealers. Not only is the deduction inadequate, but access is frequently and unfairly denied to automobile dealers. An automobile dealer begins to lose access to the SBD once his accumulated taxable "capital" exceeds \$10 million and is eliminated at the \$15 million threshold. This is unfair to capital intensive industries like automobile dealerships. Other less capital-intensive businesses of similar size and profits enjoy far greater access to the SBD. Our proposals to rectify this inequity are:

- Eliminate the "grind" on the SBD for private businesses.
- Taxable capital should be redefined to exclude 'lien notes'. This unintended imposition has already been remedied in some of the provinces that levy taxes based on a business' capital.
- Allow more flexibility in the definition of associated corporations for purposes of allocating the SBD.
- The SBD should be increased to \$1 million.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

The members of the Canadian Automobile Dealers Association (CADA) collectively represent one of the most important employers in the country. Our over 3,000 stores provide more than 130,000 stable, well-paying jobs in every region and community in Canada. Despite the difficulties of the recession of 2008 and 2009 and the subsequent downsizing of our dealer network, this overall employment number has stayed remarkably stable in recent years. Moreover, our members provide very well-paying jobs: the average wage in a dealer's store is almost twice that of the average retail wage in Canada. Allowing dealers greater access to the SBD would give them greater flexibility to hire people and to create new jobs. That automobile dealers cannot access the SBD simply due to the capital-intensiveness of the

industry in which they operate imposes greater taxation on the retail auto sector than other retail industries of comparable size which are less capital and inventory-intensive. Greater access to the SBD for new car dealers will mean more well-paying jobs for Canadians at a time when they are needed more than ever.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

Any measure that enhances the competitiveness of Canadian businesses and grows their ability to hire new workers will help ease the demographic transition we are facing over the next generation. No one policy instrument will solve the problem of an increased dependency ratio that we know with certainty we are facing over the next two decades. However, a pro-growth agenda is paramount for the future competitiveness of the Canadian economy. Such an agenda would necessarily consist of many policies. CADA and its members feel that correcting the inequity that currently exists in the application of the SBD would be an important part of this pro-growth agenda. Car dealers are for the most part small and medium-sized businesses that happen to operate in a highly capital-intensive environment. Because of the way capital is defined in the income tax act they are largely denied access to the SBD – a vital tool in the kit of most small businesses in Canada.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

Similarly to above, the application of the income tax act should be made in an equitable manner so that no business or sector is put at a competitive disadvantage merely due to an interpretation of the Act. Taxation should be neutral in this regard. Currently, the application of the SBD is not equitable and is heavily skewed against capital-intensive sectors such as retail automobile dealers. A general simplification of taxation is needed and an equitable application of existing tax legislation is required to deal with the challenges our economy faces. Allowing all small and medium businesses equal access to the SBD would go a long way to correcting inequities that currently exist.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

CADA has made its case for the equitable application of the SBD for many years. Our position on this issue is very clear. In a more general sense, it is the view of CADA that Canada requires a more sweeping simplification of the application of business and personal taxes in Canada. The amount of time and resources small business must allocate merely to obeying a large thicket of laws and regulations represents a massive drain on our economy. This is why CADA is highly supportive of the government's Red Tape Reduction initiative. If the adoption of the Red Tape Reduction Commission's recommendations is combined with a more general simplification of tax law and a more equitable interpretation of the ITA as it exists, it would help unleash a new era of strong growth in an economy that will sorely need it in the years to come.