Canadian Automobile Dealers Association
Pre-Budget Submission 2017

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Presented by: Canadian Automobile Dealers Association
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Overview

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.

We represent over 3,200 active small and medium-size businesses. Our members employ over 150,000 Canadians in every province, city, town, and village in the country. In the midst of what is likely to be a fifth consecutive record year for new car sales and total dealership sales, automobile dealers represent one of the most valuable source of tax revenues for governments at all levels, paying tens of billions of dollars annually in taxes. The House of Commons Finance Committee's request for input on federal spending priorities comes at a critical juncture for our economy. We have several recommendations to help ensure Canada's economic and environmental prosperity and competitiveness for future years.

Focus on the Environment

Today's new vehicles are cleaner, less polluting, and more fuel efficient than they ever have been. This is a result of the twin forces of consumer demand (fuel efficiency is at or near the top of most consumers' wish lists) and government regulation. The Corporate Average Fuel Economy (CAFE) standards continue to drive innovation in light vehicle fuel economy and auto manufacturers have invested billions of dollars to meet the requirements. The current government's focus on our environmental objectives is well in line with what's already happening in the light vehicle market in Canada.

From 1990 to 2015, emissions from passenger vehicles grew by only 16.7 per cent even though the total vehicle fleet almost doubled, while emissions from the transport sector as a whole grew by 42 per cent. As a result, light vehicles' share of total transport sector emissions dropped from 58 per cent to 48 per cent. Their share of overall emissions dropped from 13 per cent to 11 per cent over that period, even as the number of vehicles on the road increased by many millions. The reason: the fuel efficiency of late model vehicles. The industry is moving in the direction of environmental sustainability already, and there is a great deal of excitement for the technology that will continue to improve fuel efficiency for traditional internal combustion engines, and for the continued proliferation of non-traditional propulsion technologies such as electric and hybrid vehicles. CADA's main recommendations are aimed at helping to accelerate this process, already well under way in the Canadian marketplace.

CADA's Recommendations

1) A Robust Vehicle Scrappage Program to Reduce GHG Emissions and Pollutants

Canada's auto dealers are recommending that the federal government introduce an aggressive "scrappage" program aimed at removing older, higher-emitting, less-safe vehicles from the road, and replacing them with new, more efficient vehicles. Canada would see immediate economic, environmental and safety benefits from a program that encourages drivers to replace older vehicles with new ones. One 1990 model year vehicle produces as much as 40 times more smog-causing emissions than a 2017 model, so removing that old car from Canada's roads represents the environmental equivalent of removing 40 new cars.

A new Canadian scrappage program would offer Canadian consumers a meaningful incentive towards the purchase of any new light-duty vehicle, provided a used vehicle of at least 10 years of age or older is traded-in and scrapped. In order to be effective and to motivate consumer behaviour, the incentive offered must be in line with the approximate value of the vehicle to be scrapped.

Retiring old vehicles will have a positive impact on vehicle emissions because the vehicles being retired were originally subject to emissions standards that were much weaker than those required of new vehicles. Also, mechanical breakdowns and effects of general wear and tear in older engines, exhausts, and pollution control systems have greatly increased their on-road emissions.

There are over 24 million light-duty vehicles on Canada's roads, almost 50% of which or 12 million vehicles are at least 10 years old. Encouraging consumers to get them off the roads will reduce smog-causing emissions, greenhouse gas emissions, improve fuel efficiency, and safety. New vehicles, as well as being much more efficient than older ones, are equipped with the most advanced safety systems such as electronic stability control, standard airbags and other features not included in old cars.

Meaningful scrappage programs have been implemented in many countries around the world, and indeed some Canadian jurisdictions as well. Germany, Spain, France and the UK have all invested heavily in their own programs with great success. Getting older, less safe, and high-polluting vehicles off of Canadian roads is an achievable objective of federal policy, and will have a strongly positive impact on our environment and the quality of our air, not to mention our climate change commitments with regards to reduced greenhouse gas emissions. It will also provide a significant incentive towards greater consumer spending, an important driver of economic growth.

2) Encouraging the Proliferation of Zero-Emission Vehicles (ZEVs)

Though ZEVs continue to be a niche vehicle class in Canada, demand for them is growing. However there is a dearth of infrastructure and consumer awareness that limits demand for ZEVs in the

Canadian marketplace. There's a clear role for the federal government to address some of the shortcomings in the domestic ZEV market.

A federal ZEV strategy can have many components, but the biggest problems that governments can solve in this space relate to infrastructure, public awareness, and dealership training.

CADA recommends:

1) Substantial federal investment in public ZEV infrastructure such as charging stations.

2) Tax credits or direct cash incentives for dealers and other private actors who install charging stations on their premises and for investments in other ZEV infrastructure such as service bays and specialized tools.

3) Federal assistance – through existing job training programs through Employment and Social Development Canada – aimed at enhancing dealership staff knowledge of ZEVs.

4) A national ZEV public awareness campaign to enhance consumer awareness of the range of ZEVs currently available in the Canadian marketplace.

3) Improving Canada's Small Business Tax Regime

Most automobile dealers are small businesses run by entrepreneurs and family members. The Small Business Deduction (SBD) is a vital component to small 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 due to the capital intensive nature of automobile retailing.

An automobile dealer begins to lose access to the SBD once his accumulated taxable capital exceeds $10 million. Access to the SBD is completely 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 simply by virtue of the fact that they are not in the business of selling high-value items such as new cars and trucks.

There are two issues that compound the problem in the manner that "capital" is computed: First, a corporation's "capital" is defined to include all forms of indebtedness, including lien notes (the method by which automobile dealers finance inventory). Most retailers finance the acquisition of their inventory through trade accounts payable, which are not included in the definition of capital. This discrimination against automobile dealers represents an unwarranted and unjustified tax penalty. Redefining taxable capital to exclude lien notes would solve this problem.

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Secondly, "capital" includes assets or investments of other corporations with whom the dealer is associated. In these circumstances, the capital of different businesses is aggregated, which, if certain thresholds are met, will result in the loss of the SBD.

CADA Recommends:

1) Eliminate the "grind" on access to the SBD for private businesses.

2) 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.

3) Allow more flexibility in the definition of associated corporations for purposes of allocating the SBD.

4) The SBD should be increased to $1 million.

5) Previously-announced and delayed reductions in the small business tax rate should be implemented beginning in 2018.