Written Submission for the Pre-Budget Consultations in Advance of the 2021 Budget

By: The Canadian Automobile Dealers Association

- **Recommendation 1:** That the federal government create a national scrappage program to incentivize vehicle purchase post-COVID-19, stimulate the economy and reduce greenhouse gas emissions.

- **Recommendation 2:** That the government increase the 2021 automobile deduction limits and prescribed rates for determining the taxable benefits on automobile operating expenses from $800 to $1,100 to keep up with inflation.

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 161,000 Canadians in every province, city, town, and village in the country. In the midst of what could well be another 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 post-COVID-19. We have several recommendations to help ensure Canada's economic and environmental prosperity and competitiveness for future years.

Focus on the economic recovery post-crisis

The Canadian economy is reeling from the devasting economic impact of COVID-19. Virtually, all sectors of the economy have been hit hard and no business has been spared. The impact of the global pandemic has been particularly severe for the auto sector and vehicle sales in Canada. The strict containment measures put in place in many provinces and the resulting steep decline in economic activity have led to an unprecedented drop in vehicle sales in Canada. Vehicle sales crashed by close to 75 per cent in April and by more than 48 per cent in March — lowest levels for these months in decades.

That said, over the past couple of months the automotive retail sector and the Canadian economy have recovered at a relatively strong pace. Consumer confidence continues to trend upward and the job market is gradually rebounding as more businesses reopen. While this is good news for the Canadian economy and the auto sector, downside risks persist and uncertainty around a potential second wave remains. The Trump administration

recently announced plans to impose new tariffs on Canadian aluminum, which will create further headwinds to growth and recovery. The government of Canada needs to take adequate measures to respond to these threats appropriately and protect the economy. Measures such as the introduction of a sliding scale to the wage subsidy program will facilitate business recovery and strengthen the job market. However, more is needed to ensure the auto industry remains viable post-crisis. **We recommend a strong and robust recovery package to revive the auto sector and boost the economy through incentive programs to encourage vehicle purchase and investment post-crisis. This stimulus program should include a national scrappage program and an increase of the automotive deduction limits.**

These measures, coupled with the gradual reopening of the economy, will ensure quick recovery of the auto industry that has been significantly affected by COVID-19 and stimulate the economy.

Our dealerships employ over 161 000 Canadians in every part of the country and actively contribute to the communities where they operate. These proposed recovery measures will protect jobs and ensure long-term business continuity for new vehicle dealerships.

Once again, we commend the federal government for its leadership during these difficult times and we welcome the opportunity to meet with the Finance Committee to discuss our recovery plan in further detail.

1. Canadian Vehicle Scrappage Program Proposal

A national scrappage program will provide a financial incentive to Canadians to replace their older vehicles for newer and greener vehicles. A well-designed and well-funded program would have a significant economic benefit, increase consumer safety as well as help reduce GHG emissions by replacing older polluting vehicles with new and greener vehicles.

Vehicle scrappage or vehicle retirement programs have been adopted by several countries across the globe, including Canada for many years. Germany, for example, implemented a highly successful program post-financial crisis in 2008, which not only helped their auto sector emerge from the recession but also provided environmental benefits.

Governments saw an opportunity through vehicle scrappage programs to help enhance their environmental agenda by aiding consumers to retire their older higher polluting vehicles. In some cases, the scrappage programs offered cash strictly to retire the vehicle, or in other cases, governments offered cash for the purchase of a new and cleaner vehicle.

The current economic challenges facing Canada and the automotive industry also present an opportunity for an effective national vehicle scrappage program to complement other economic stimulus initiatives. With roughly ten million vehicles on the road that are twelve years and older, there is an opportunity to incent Canadians to retire these old high polluting clunkers and purchase new vehicles, stimulate consumption post-crisis and support auto manufacturers and vehicle dealers across Canada.

Prior to the unprecedented global economic slowdown, much of the public policy focus in the developed world with regard to the automotive industry has been to incentivize production and consumer demand for 'greener' vehicles such as zero-emission vehicles. According to the American Council for an Energy-Efficient Economy[1], it takes 15 years for half of the vehicle stock to turn over, and 30 percent of vehicles of a given model year remain on the road for 20 years. An effective national vehicle scrappage program can help better achieve emission targets and stimulate the economy.

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[1] *Accelerated Retirement of Fuel-Inefficient Vehicles Through Incentives for the Purchase of Fuel-Efficient Vehicles*. American Council for an Energy Efficient Economy., available at https://www.aceee.org/content/accelerated-retirement-fuel-inefficient-vehicles-through-incentives-purchase-fuel-efficient

In a Canadian context, the auto industry supports a national vehicle scrappage program for two primary reasons;

1) It will complement the Government's stimulus package and catalyze vehicle demand post-crisis. It will also provide the support needed to reboot the auto industry and help local dealers and vehicle manufacturers in Canada

2) It will help accelerate the turnover of the entire motor vehicle fleet to better align with Canada's aggressive GHG reduction goals.

Principles for a Canadian Scrappage Program

The national scrappage program needs to be developed with industry consultation and must be rapidly deployed to have the most effect on the market during the recovery phase. It needs to be available to all consumers equally, provide incentives equivalent to the asset value of an existing depreciated vehicle and large enough to effectively entice consumers to participate in the program.
The program should include the following elements:

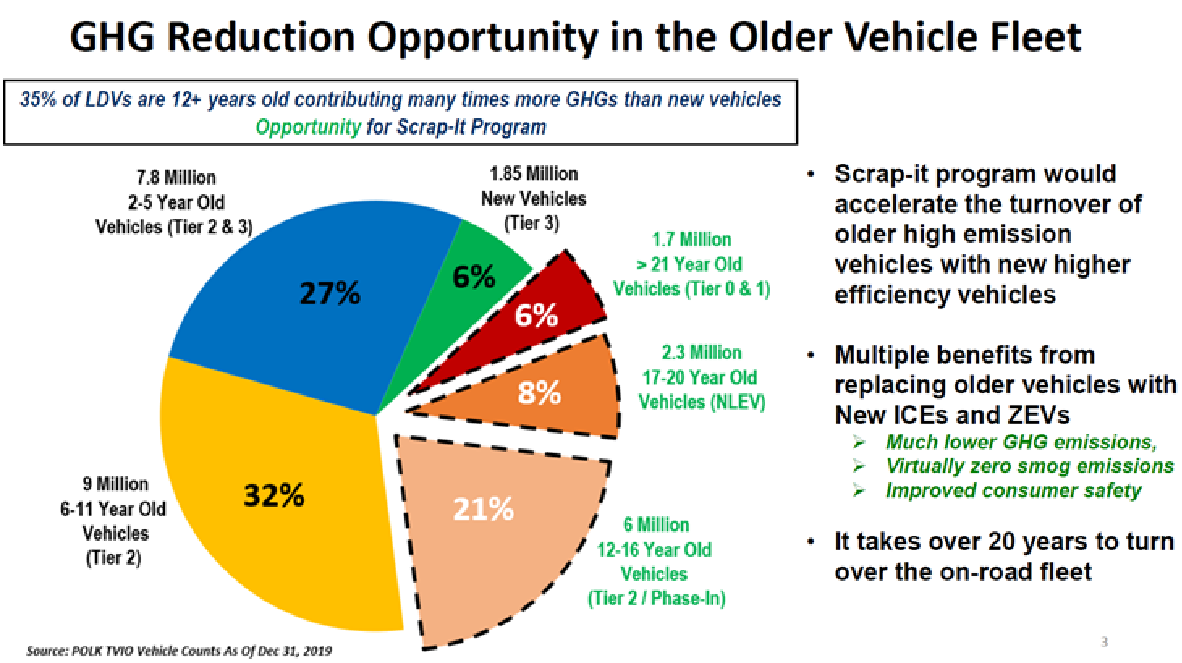
- The program should focus on the scrapping of a portion of older *(12 years and older)* on-road vehicles (Tier 0 & 1, NLEV, and Tier 2) and replacing them with newer. 35% of the vehicles on the road in Canada are 12 years and older and replacing them with newer vehicles will provide the most environmental and safety benefits (See Chart 3)

- consumer incentive between $1500 and $3000 that will substantially motivate consumers to retire their older vehicles

- Funding capped on an annual basis that will work on a first-come, first-serve basis

- Incentives would need to be technology-neutral, include all used vehicles — Internal Combustion Engines (ICEs) and ZEVs — and recognize that newer vehicles emit less than older and help reduce GHG emissions.

A program structured with these principles in mind will stimulate demand for new vehicles and encourage an accelerated fleet turn over. By rewarding consumers for a purchase of a new more fuel-efficient and advanced technology vehicle, the program will run complementary to other environmental initiatives. Moreover, such a program will stimulate vehicle purchases in Canada and support the recovery of the auto sector and new vehicle dealers who are key contributors to the local economy in communities across Canada.



<u>Recommendation 1</u>: That the federal government create a national scrappage program to incentivize vehicle purchase post-COVID-19, stimulate the economy and reduce greenhouse gas emissions.

2. Increase the deduction limits for automobile

While the fleet industry has done a good job at keeping overall costs down, the automobile deduction limit and prescribed rate for determining the taxable benefits on automobile operating expenses has not changed the current limit of $800 since it was initially set in 2001. Adjusted for inflation, this represents $1,112 in 2020 dollars. Combined with the pressures of the COVID crisis and ensuing economic downturn and uncertainty, accessing funds at reasonable cost will prove more challenging, in particular for mid to smaller fleet lessors, which will lead to increased financial pressure on running a commercial vehicle fleet.

CADA therefore recommends the government increase the deduction limit for 2021 to $1,100. This can help soften the economic blow from the COVID crisis and free up much needed capital in the market.

Increasing the deduction limit for automobile operating expenses will encourage urgently needed capital investment within Canada at a time when our capital investment has fallen far behind other developed countries.[2] As a result, our businesses are less competitive and our workers are less productive. In a dynamic global economy, we need more capital investment to keep our economy growing.

Capital investments boost the economy over the short-term while laying the foundation for long-term growth. These investments raise output, increase wages over time, and increase tax revenues for government.[3]

Recommendation 2: That the government increase the 2021 automobile deduction limits and prescribed rates for determining the taxable benefits on automobile operating expenses from $800 to $1,100 to keep up with inflation

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[2] For more information, please s. Robson, W.B.P. (August 2019). Thin Capitalization: Weak Business Investment Undermines Canadian Workers, Commentary No. 550, C.D. Howe Institute.

[3] S. more information on https://www.growwithcapital.ca/