



Canadian Automobile Dealers Association
Corporation des Associations de Détaillants d'Automobiles

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Canadian Automobile Dealers Association Pre-Budget Submission 2016

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Presented by: Canadian Automobile Dealers Association
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... At the Wheel

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 3,000 active small and medium-size businesses. Our members employ over 160,000 Canadians in every province, city, town, village and hamlet in the country. In the midst of what is likely to be a third 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.

Fairness on HST for Financial and Insurance Services

Ever since the establishment of the GST more than two decades ago, financial services have been exempt from the sales tax. This exemption recognizes the vital role that such services play in the economy and in the prosperity of Canadians.

Financial services are not only provided by banks. Many retail players offer financial services to assist their customers. Car dealers are one such retail group, providing and arranging for billions of dollars of financial and insurance services to Canadian consumers every year. Since the establishment of the GST in the early 1990s, income earned by automobile dealers through the provision of financial services and insurance products has been exempt from GST and HST. Dealers arranging for financing for their customers through automotive manufacturer captive finance arms or other financial institutions have historically been exempt – like other providers of financial services – from sales tax. The same has been the case for dealer income related to the sale of insurance products to their customers, given the important advisory and intermediary role the dealer plays in the sale of the insurance policy to the customer.

In 2009 the federal government signaled its intent to change some of the details surrounding the definition of financial services for the exemption in the Income Tax Act, specifically what constitutes “arranging for” a financial service. At that time, a wide array of financial institutions that deal with automobile dealerships investigated the definition as it pertains to the retail automotive sector. They concluded that a “typical dealer transaction” constituted “arranging for” a financial service as per the Act and as such its exemption from sales tax was appropriate. Despite this conclusion, soon after, the government started making changes to its interpretation of arranging for financial services, and automobile dealers in various regions of Canada started facing audits and often significant and retroactive assessments for finance income.

A 2014 CRA ruling in response to a 2013 CADA submission re-established the traditional interpretation of dealer financial services as exempt from sales tax, and audits were vacated. However more recently, dealers have been subject to audits and assessments on income earned by selling

insurance products to their customers, despite the very similar intermediary role played by the dealer in these transactions. In many cases these assessments have reached back in time several years, in effect retroactively hiking taxes on dealers for services that have traditionally been tax exempt. From a policy standpoint it makes little sense to treat dealer financial services and insurance services differently: both constitute “arranging for” given the active role played by the dealer, and both should remain exempt from sales tax as financial services as performed by the automobile dealer.

Recommendation

Canadian businesses rely on a tax and regulatory regime that is predictable, fair, transparent, and consistent. While most would accept the need to change tax laws as circumstances dictate on an ongoing basis, the notion of retroactive tax hikes is a troubling and ominous one. To retroactively reinterpret such a vital piece of tax law for Canadian business is not conducive to the kind of business climate we need to foster in Canada.

Therefore CADA recommends that the Canada Revenue Agency continue to treat automobile dealer income from the sale of insurance products as sales tax exempt as it historically has, and that it not establish the precedent for retroactive tax increases on Canadian small businesses. Automobile dealers arranging for financial and insurance services for their customers have always been exempt from sales tax in such transactions and should continue to be so, in the interest of a tax and regulatory regime that is fair and transparent and conducive to economic growth and job creation.

As this recommendation is merely a request for a continuation of historical practices and tax interpretations, it will involve zero fiscal cost to the federal government.