



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

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Canadian Automobile Dealers Association Pre-Budget Submission 2011

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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 130,000 Canadians in every province, city, town, village and hamlet in the country. The House of Commons Finance Committee's request for input on federal spending priorities comes at a critical juncture for our economy.

Pre-Budget Submission

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 are now beginning to see demonstrate that it was the necessary and right thing to do.

In the context of an economic recovery that is still far from certain, particularly given our strong ties to the U.S. market which still suffers from stubbornly high unemployment and a housing market still in chaos, our recommendations will focus on the need to restore economic growth that is sustainable and self-fulfilling.

Recommendation

Establish fairness in the access to the Small Business Deduction for automobile dealers

Most automobile dealers are small businesses run by entrepreneurs and family members.

The Small Business Deduction (SBD) is a vital component to a reinvestment strategy. 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.

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 is an unwarranted and unjustified tax penalty.

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 Proposals

- 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.