Pre-Budget Submission

Presented to the House of Commons Standing Committee on Finance

August 2011

Presented by: The Recreation Vehicle Dealers Association (RVDA) of Canada

Executive Summary

2011 Federal Pre-Budget Submission from the
Recreational Vehicle Dealers Association (RVDA) of Canada

The Recreation Vehicle Dealers Association (RVDA) of Canada is a national, volunteer federation of provincial and regional RVDA associations and their members who have united to form a professional trade association for all businesses involved in the recreation vehicle industry.

The core objective of the RVDA of Canada is to bring together and represent the retail businesses involved in the recreation vehicle industry across Canada, thus providing the support and strength to protect and promote the interests and welfare of Canadian RV Dealers, and to maximize the potential of the industry for all involved.

In this context, and as part of the Finance Committee's pre-budget consultations, the RVDA of Canada thanks the Government of Canada for the opportunity to provide the following recommendations for federal program spending measures that will ensure prosperity and a sustainable future for Canadians.

RVDA of Canada 2011 Budget Recommendations:

1. **The RVDA of Canada recommends that the Government of Canada implement a national policy to establish fairness in the access to the Small Business Deduction for RV dealers.**

2. **The RVDA of Canada recommends that the Government of Canada substantially reduce the federal corporate rate of income tax for all privately owned businesses with revenues under $50 million.**

3. **The RVDA of Canada recommends that the Government of Canada fully implement planned-for corporate tax deductions over the next several years.**

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About the RVDA of Canada

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Access to the Small Business Deduction for RV dealers

RV dealers are a classic small business sector of the economy. In fact, most RV dealers are small businesses run by entrepreneurs and family members. They provide employment to a wide variety of technical services staff, sales professionals, and office professionals. As such, the Canadian RV industry serves as an engine of the economy, productivity, employment and economic growth.

Over the past several years, the RV industry has been very supportive of recent initiatives implemented by the Government of Canada that reduce the tax burden on small and medium sized businesses. They are definitely a step in the right direction, however, there is still much more that can be done in order to improve the conditions for businesses to create employment and prosperity. Every effort should be made to free small business from tax burdens that stifle growth and employment.

The Small Business Deduction (SBD) is a vital component to many small businesses' reinvestment strategy. The SBD defers income tax until profits are taken out of a company. Unfortunately, the level of the SBD is inadequate for most dealers, given the nature of the inventory they hold. Not only is the deduction inadequate, but access is unfairly denied to them. As RV dealerships have grown, have acquired more real estate, and have valuable units on their lots, they are no longer eligible and are unable to take advantage of this tax deduction.

An RV dealer begins to lose access to the SBD once his accumulated taxable "capital" exceeds $10 million. It is completely eliminated at the $15 million threshold. This is unfair to capital intensive industries like RV dealerships. Other businesses of similar size and profits enjoy far greater access to the SBD, because the inventories they hold are much less valuable.

The challenge with the method in which “capital” is calculated is comprised of two distinct factors.

First, a corporation's "capital" includes all forms of indebtedness, including the method by which RV dealers finance inventory (lien notes). Most retailers finance the acquisition of their inventory through trade accounts payable, which are not included in the definition of capital. This discrimination against RV dealers is an unwarranted and unjustified tax penalty.

Secondly, any assets or investments of other corporations associated with an RV dealer are components of “capital”. In these situations, the capital of different businesses is combined. This means that, if certain conditions are met, this will result in the loss of the SBD.

In this context, the RVDA of Canada proposes the following recommendation for consideration by the House of Commons Standing Committee on Finance:

The RVDA of Canada recommends that the Government of Canada implement a national policy to establish fairness in the access to the Small Business Deduction for RV dealers.

Components of this policy could include:

1. Removing inventory out of the calculation of capital for application of the SBD, or adding the off-setting floorplan to reduce the inventory. This would, in turn, reduce the capital amount an RV dealership shows on its balance sheet.

2. Eliminating the reduction of the SBD between $10 and $15 million of accumulated capital.

3. Lien notes should not be included in taxable capital. This imposition has already been remedied in some of the provinces that levy taxes based on a business' capital.

4. Allowing more flexibility in the definition of associated corporations for purposes of allocating the SBD.

5. Increasing the SBD to $1 million.

Reduction of Corporate Income Tax Rates for RV Dealers

In order to drive Canada’s economy, and stimulate investment and job creation, the Government of Canada should allow businesses to reinvest more of their profits to fund growth.

When money is taken out of an RV dealership in the form of employees’ salaries or bonuses, this means that the full rate of personal income tax should apply. However, a considerable amount of money which could otherwise be available for capital and operating reinvestment is often diminished through corporate income tax.

RV dealers are aware that having more money readily available would help improve productivity, such as hiring new employees or obtaining new equipment. This could be accomplished by paying less in corporate income tax.

Because RV dealers need to carry large inventory, it is vital for the RV industry to have access to a strong reinvestment and financing strategy. The RV industry depends on financing to stay viable, and there lies an opportunity to collaborate with an industry that can help stimulate the national economy.

It is important to note that the impact of the retail RV sector is not simply one time retail sales. RVing and the RV lifestyle make vital economic contributions to ongoing tourism and recreation spending in every region across Canada. In 2008, RV ownership was set at record levels and there are more than 1 million RVs on Canada's roads today. In fact, some 14% of Canadian households currently own an RV.

To off-set any short-term revenue implications to the government, through the reduction of corporate tax rates, the government should establish a new low tax rate for small privately owned businesses, likely to be managed by entrepreneurs.

In this context, the RVDA of Canada proposes the following recommendations for consideration by the House of Commons Standing Committee on Finance:

1. **Substantially reduce the federal corporate rate of income tax for all privately owned businesses with revenues under $50 million.**

2. **Fully implement planned-for corporate tax deductions over the next several years.**