Pre-Budget Submission

to the

House of Commons Standing Committee on Finance

by the

Association of Equipment Manufacturers

Executive Summary:

AEM represents more than 850 members composing more than 200 product lines. Members include manufacturers and service providers in the construction, agriculture, utility, mining, and forestry sectors.

AEM is strongly supportive of the Accelerated Capital Cost Allowance (ACCA) introduced in 2007 and of the Government of Canada's commitment to promoting innovation.

The following Pre-Budget submission provides five recommendations across four of the areas solicited by the Standing Committee. These recommendations cover a range of initiatives the Government of Canada could undertake to promote productivity and innovation. Such improvements would have a significant impact on boosting the already significant impact the manufacturing sector has on the Canadian economy (13% GDP) as well as an employer of Canadians (1.73 million full-time high-paying jobs).

Reducing redundant administrative burdens in the tax code as well as leveraging investment and training dollars are additional areas wherein the Government of Canada could promote a vibrant manufacturing industry which has been proven to provide $3.05 in total economic activity for every dollar spent.

August 6, 2014

Mr. James Rajotte, M.P.
Chair, Standing Committee on Finance
House of Commons
Ottawa, Ontario K1A 0A6
Via email: finapbc-cpb@parl.gc.ca

Dear Mr. Rajotte,

The Association of Equipment Manufacturers (AEM) and its member companies appreciate this opportunity to participate in the 2015 Pre-Budget Consultations.

AEM represents more than 850 members composing more than 200 product lines. Members include manufacturers and service providers in the construction, agriculture, utility, mining, and forestry sectors. Air seeders, windrowers, off-road forklifts, scissor lifts and heavy mine trucks are just a few examples of the equipment AEM members build in Canada.

This submission addresses four of the six themes identified by the Finance Committee as being of interest.

A) ***Supporting families and help vulnerable Canadians by focusing on health, education and training***

The wide gap between what manufacturers and their employees pay into Employment Insurance (EI) and what employees in the manufacturing sector receive in benefits is approaching $1 billion per year. Addressing this deficit should be the starting place for reexamining the potential for training in the manufacturing sector through the Labour Market Development Agreements (LMDA).

AEM is strongly supportive of the process by which the Canada Job Grant is looking at funding to be employer-driven with clear economic outcomes. In such a way, the LMDA training funds could be structured to best help the industry fill the greatest gaps and help Canadians find the greatest employment in skilled areas. AEM is supportive of the LMDAs in cases where funding has clearly assigned, economically measureable, targets of benefit to both employees and employers.

A preliminary challenge to effectively ensuring LMDA funds present the greatest utility to Canadian employees, employers, and the industry writ large is transparent data.

Recommendation 1: Better data be made available as a starting point for improving the existing LMDA program structure.

B) *Increasing the Competitiveness of Canadian Business through research, development, innovation, and commercialization*

Since its introduction in 2007, the ACCA has been a tremendously successful tool in helping to incentivize Canadian manufacturers make investments in productive capital assets including new machinery. Analysis conducted by the Canadian Manufacturers & Exporters has shown empirical evidence as to the effectiveness of the ACCA in Canada, but has found that the United States has a much more advantageous model. Canada must strive to close the productivity gap with the US, and such policies would play an important role.

A second type of tax incentive is a 'patent box', which incentivizes companies to innovate and drive their products to market by providing corporate tax relief for revenue derived from eligible types of intellectual property. 'Patent box' credits focus on the later stages to ensure that once an innovative product has been researched and developed, it is commercialized.

A report by the C.D. Howe Institute identified that many patents are being transferred internationally rather than being applied for in Canada and that a 'patent box' model would be highly beneficial. It advocates that a 'patent box' is, "In short, a pull, as well as a push, into R&D activity…[t]he force of attraction is a powerful thing, and new ideas and their development and use tend to attract more of the same, with spillover benefits for their surroundings."

Recommendation 2: The Accelerated Capital Cost Allowance (ACCA) be renewed with an increase to the depreciation rate from 30% to 50% (on a declining basis) for manufacturing and processing machinery and equipment.

Recommendation 3: A 'patent box' be adopted so as to increase commercialization of innovation.

C) *Improving Canada's taxation and regulatory regimes*

The many bilateral tax treaties to which Canada is a signatory contain provisions to ensure that citizens of either country are able to perform work in the other country without being subject to double taxation. This helps to ensure that companies in Canada are able to access skilled resources on a project-basis, while companies abroad are able to draw upon Canadian workers.

Notwithstanding these specific tax exemptions, many employees and employers are required to engage with CRA in a lengthy and complicated process through withholding taxes.

Withholding taxes are held by CRA on payments on services performed by non-residents in Canada. These cover both circumstances wherein fees are paid to non-residents for services in Canada (105) as well as circumstances wherein compensation is paid to employees working in Canada (102).

Both of these sections require the employer (or payer, as appropriate) to withhold, remit and report, thereby necessitating that they obtain a tax identification number, issue T4's in Canada, and ultimately file a tax return so as to recover the withheld taxes. They must do so despite the treaties that stipulate no taxes will be applicable. The current waiver from withholding taxes requires the paperwork to be completed prior to travel, which is too long a process to be effective. The burdens on employees is similarly demanding: they must obtain Tax Numbers both in the case that they are seeking a waiver, or alternately if they are seeking refunds.

As an example, a U.S. citizen working on a six-month contract in Canada would be required to go through the extensive process detailed above, despite that she would be exempt from Canadian taxes.

The administrative burden established by withholding taxes on companies and employees is a significant deterrent to ensuring that companies operating in Canada can draw upon the most skilled resources. The administrative costs contain no additional value, given the treaty exemption for some non-resident employees. Therefore, there is no risk of revenue leakage for Canada.

Recommendation 4: The withholding tax—relating to services performed and employment functions carried on in Canada—be eliminated in cases where non-residents can certify the income is exempt from Canadian tax as a result of a treaty.

D) ***Maximizing the number and types of jobs for Canadians***

The manufacturing sector's significant role in the labour market comes from its ability to continually increase production. As production levels increase, so can the sector's ability to employ Canadians. Capital costs remain one of the constraining factors to increasing production capability. Accordingly, a Capital Investment Fund would support projects that have a demonstrable capacity to increase production and processing output in Canada. Upgrading or acquiring new equipment, developing or expanding facilities, among others could be examples of initiatives a Capital Investment Fund would support.

Recommendation 5: A Capital Investment Fund (CIF) be created to support development and expansion of manufacturing facilities and equipment so as to increase jobs through bolstering manufacturing productivity.

On behalf of AEM's Canadian member companies and their employees I wish to thank you for your consideration of this submission.

Sincerely,

T. Howard Mains
Public Policy Advisor, Canada