CMC | Canadian Manufacturing Coalition

January 27, 2014

The Honourable Jim Flaherty
Minister of Finance
140 O'Connor Street
Ottawa, Ontario K1A 0G5

Re: Permanent Accelerated Capital Cost Allowance Measures

Dear Minister:

We are writing as members of the Canadian Manufacturing Coalition. We represent all industries within Canada's important manufacturing sector, as well as resource, technology, and service industries that depend on a competitive and profitable manufacturing base in Canada. Together, our members employ two million Canadians and represent more than 100,000 companies across the country.

Our organizations have been strong advocates and enthusiastic supporters of the Government's Accelerated Capital Cost Allowance (ACCA) for investments in manufacturing and processing machinery and equipment (Class 43 assets) that was introduced in 2007 and then extended for two-year periods in the 2009, 2011, and 2013 budgets. As you are aware, and have remarked on many occasions, this accelerated rate of depreciation has helped to buoy investments in manufacturing technologies during a period of severe economic challenge. It has been extremely important for our members.

The current 50% straight-line depreciation rate for manufacturing and processing machinery and equipment is set to expire at the end of 2015. We are concerned that if this happens and the capital cost allowance returns to the 30% declining balance rate that was previously in effect, effective tax rates on manufacturing investments will significantly increase. This could negatively affect investment intentions, innovation and productivity performance, as well as our ability to attract and retain new product mandates. Jobs in Canada's critical manufacturing sector are at risk, as are those in many of the other business sectors that depend on manufacturing across the country.

However, we are also mindful that, according to the Government's accounting methods, the current ACCA rate for manufacturing investments appears expensive at a time when it is crucial to return to fiscal balance. We are aware as well that cost considerations have meant that the Government has been able to extend the ACCA for only short periods of time. This has eroded the value of the fast write-off for any manufacturer investing in equipment where the timeline for planning, approval, order, delivery, installation, and start- up extends beyond two years.

For these reasons, we recommend that the Capital Cost Allowance for investments in Class 43 assets be made permanent at a rate that is no lower than 40% on a declining balance basis. This rate would allow manufacturers to write-off 90% of their investments in machinery and equipment over a period of five years, which would keep Canada's tax regime competitive with the United States.

Furthermore, in order to lower the tax costs of transitioning to this new rate, we propose that the capital cost allowance for manufacturing and processing machinery and equipment be reduced from

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the 50% straight-line rate at the end of 2015, to either a 50% declining balance or a 45% straight-line rate in 2016.

We urge the Government to announce these changes in its 2014 budget.

Once again, we want to thank you for your support for an accelerated CCA that manufacturers across Canada have both valued and leveraged in making productivity and innovation enhancing investments. It has been extremely important in sustaining jobs and investments across Canada's manufacturing sector.

Sincerely,

Jayson Myers
President & CEO
Canadian Manufacturers & Exporters
Chair, Canadian Manufacturing Coalition

James Quick
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