House of Commons
Chambre des communes
Canada

House of Commons Standing Committee on Finance – Pre-budget Consultations 2013

This brief is submitted by:

(•) **an organization** **Organization name:** Railway Association of Canada

or

( ) **an individual** **Name:** _____

Topic: Transportation and communication

*Recommendation 1: Please provide a short summary of your recommendation.

Capital Cost Allowance (CCA) Rate for Rail Rolling Stock

Recommendation: Increase the Capital Cost Allowance rate for all rail rolling stock to at least 30%. This rate should be applicable to railway companies, rail leasing companies and private car owners.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

$10 million-$99.9 million

5 or more years

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

The RAC fully supports the Standing Committee on Finance's 2007 Report calling for the Government to fully implement the tax measures contained within the Industry Committee's unanimous 2007 report entitled Manufacturing: Moving Forward – Riding to the Challenge. A specific tax measure in this report recommends that the "Government of Canada raise the capital cost allowance rate for rolling stock, locomotives, and inter-modal equipment to 30% using the declining balance depreciation method."

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

The depreciation rate for all rail rolling stock in the U.S. is approximately 30 per cent, using their philosophy of combining both decline and straight line balances. As such, U.S. railroads can fully depreciate their rail rolling stock in 8 years versus 20 years for Canadian railways. This puts Canadian railways at a competitive disadvantage as compared to their U.S. competitors. The U.S. tax code facilitates faster asset renewal thereby enabling the entry into service of newer rail cars which reflect the growing demands of rail customers.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

In Budget 2008, the Government announced an increase in the Capital Cost Allowance (CCA) Rate for rail locomotives from 15 to 30 per cent. This announcement was welcomed by Canada's railway industry and has increased the competitiveness of Canada's rail sector.

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Recommendation 2: Please provide a short summary of your recommendation.

Recommendation: Eliminate the federal fuel excise tax on locomotive diesel fuel in order to reduce transportation costs for Canadian shippers, contribute to Canada's environmental goals, and match the U.S. which abolished its federal excise tax on locomotive fuel on January 1, 2007.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

$10 million-$99.9 million

Immediately

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

The federal government applies a $0.04/litre excise tax on locomotive diesel fuel. Currently, railways pay approximately $75 million annually in federal fuel excise taxes and are primarily passed onto shippers through freight rates or tariffs. Currently, fuel taxes represent a tax burden of 2.4% of revenue for Canadian railways as compared to 0.91% for their U.S. competitors. Railways own and maintain their right-of-way and invest approximately $2.5 billion annually into their capital stock and infrastructure. An elimination of the locomotive fuel excise tax would increase competitiveness.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Canada's railways compete directly in the North American transportation market. With access to the vast North American consumer market, global trade patterns and the increasing importance of transportation logistics provide significant opportunities for Canada. For example, containers arriving from Asia destined for the North American market may be moved by both U.S. and Canadian railways en route to their final destination. In order to take advantage of these opportunities, Canada's railways require a competitive domestic regulatory and taxation system compared to their U.S. competitors.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

On January 1, 2007 the U.S. abolished its federal excise tax on locomotive fuel. This measure has clearly established a competitive advantage for U.S. railways versus their Canadian competitors. Rail shippers are extremely price sensitive, meaning that even a slight price advantage in one jurisdiction over another will effectively shift traffic away from higher cost jurisdictions. The additional cost borne by Canadian railways works to makes rail transportation less attractive to rail shippers and puts Canada in an uncompetitive position regarding the movement of North American freight.

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Recommendation 3: Please provide a short summary of your recommendation.

That Canada Border Services Agency (CBSA) Memorandum D3-6-0 be rescinded and that Canadian Railways pay full GST (recoverable through ITC) on all leased Railway Rolling Stock (RRS) to be used for international or domestic service, whether delivered inside Canada or out. This recommendation would require the elimination of the requirement for tracking and periodic reporting on each of these RRS. Finally, amendments would have to be made with respect to paying the full GST on all leased RRS to be made on a prospective basis and that the GST is to be collected by CBSA on importation.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

Please select from the drop down menu

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Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

This recommendation could be realised through the rescinding of Canada Border Services Agency (CBSA) Memorandum D3-6-0 and through changes to sections 142(2) and 136.1(1) of the Excise Tax Act. These changes will not result in lost tax revenue for the Government of Canada

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Canada's railways would benefit through these changes. These changes would eliminate significant and needless administrative costs that are now borne by Canadian railways.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

By implementing these changes, Canada's railways would be more competitive with their American counterparts and as an engine of economic growth to Canada's national economy, all Canadians would benefit.

Please use this page if you wish to provide more explanation about your recommendation(s).

Recommendation 3, is technical and complicated. In essence, the Railway Association of Canada is recommending that the Government of Canada update it's reporting structures. Memorandum D-3-6-0 is outdated and imposes significant administrative burden on Canada's railways making them less competitive than American railways thereby jeopardizing Canada's international trade agenda. For example, CBSA Memorandum D-3-6-0 requires that railways must:

- Create a Remission List that is valid for 90 days
- Submit a B3 (used for importation of goods into Canada) to CBSA within 30 days
-At year one mark, report all unexported railcars still in Canada and make amending entry "arranged for"
- Year two mark, report all unexported railcars still in Canada and make second amending entry
-Before year three of original remission file, all railcars must be either exported or have a regular entry "arranged for".
-Submit to CBSA export lists showing all dates of export.

To further highlight the administrative burden, CBSA Memorandum D3-6-0 is approximately 30 pages in length, not including the various appendices. The corresponding American document that oversees the same regulatory regime is one page...no appendices.

Though unquantifiable, Canadian railways would recognise significant operational and administrative savings through such an administrative streamlining on the part of the Government of Canada

*Please note that at least one recommendation must be provided