September 21, 2012

The Hon. James Flaherty
Minister of Finance
Department of Finance
140 O'Connor Street
Ottawa, ON K1A 0G5

Dear Minister:

On behalf of the members of the Canadian Manufacturing Coalition (CMC), we are writing regarding budget 2012/2013. As you know, the CMC represents more than 50 business associations across Canada, 100,000 manufacturers and their two million employees. While some CMC members have submitted individual submissions to the parliamentary consultation process, we believe it would be beneficial to provide an outline of our joint priorities for the upcoming budget.

Our organizations have been major proponents and supporters of the government's recent tax policies, such as the reductions in corporate income taxes and the Accelerated Capital Cost Allowance (ACCA). We have supported these measures as a key tool to drive business investment and believe they were critical tools to soften the impact of the recent global economic downturn on Canada.

While Canada's economy continues to emerge from the economic downturn, many significant challenges remain, including ongoing economic instability in many of our largest markets in the US, EU, and China. Furthermore, the competition for manufacturing investment globally is intensifying as countries look to innovative, high wage paying, and high skilled jobs through value added industry. While we supported the programs and policies that the government of Canada introduced at the beginning of the recession to drive investment, other countries have caught up to these investment initiatives and Canada must re-examine its policies to drive investment going forward.

Based on input from our member companies through the recently completed Management Issues Survey, we believe that there are three critical areas for the government to focus on – investment in productive assets, investment in innovation and investment in people – in order to drive economic growth in Canada. With this, our priorities for budget 2013/2014 are:

- **Make the Accelerated Capital Cost Allowance (ACCA) permanent.** With your leadership and support, the federal government implemented the ACCA as a temporary measure in its 2007 budget and has renewed it every two years since then, recognizing the positive effect of this tax incentive of business investment in productive assets, such as machinery and equipment and information and communications technology. However, the ACCA is set to expire in 2013 and must be renewed and made permanent to continue to drive investment.

- **Improve the Scientific Research and Experimental Development Program.** In its last budget, the federal government proposed measures that will reduce the incentives for large companies to conduct R&D activities in Canada. Given that manufacturing accounts for 50 per cent of all SR&ED claims and only 75 large corporations account for roughly half of all business expenditure in R&D in Canada, we recommend the government introduces additional changes to the SR&ED program to attract more global R&D to Canada. These changes should include:
    - **Provide an accelerated depreciation rate for machinery and equipment related to business R&D.** With the elimination of capital expenditures from the SR&ED tax credit, Canada will not offer any incentives to capital-intensive innovative companies to undertake large R&D projects in Canada. CME recommends the government provide an accelerated depreciation rate for machinery and equipment used for R&D purposes, similar to the ACCA used for manufacturing and processing machinery and equipment.

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- **Increase direct support for R&D by making the SR&ED partially refundable for large companies.** The government has already indicated its intent to provide more direct support to business R&D. CME recommends the government use the current SR&ED program to provide direct support through a refundable tax credit. CME believes using the tax system to provide direct support to business R&D, would allow companies to plan their R&D investments over the medium and long term, would reduce administrative costs related to granting agencies and would make direct support available to any company conducting R&D activities that fit into the government`s criteria, and audited by the CRA.
- Another very important improvement that the Government could implement to the SR&ED program is to **eliminate the taxation of R&D tax credit after it is claimed**. Under the current system, SR&ED tax credits are subject to corporate income tax the year after they are claimed, which really reduces the incentive for business R&D expenditures. CME therefore recommends that SR&ED tax credits be excluded from business taxation.

- **Increase the availability and skills of the labour pool.** Current and expected labour and skills shortages in Canada are having a major impact on Canadian productivity. Despite unemployment rates remaining close to 7.5%, roughly 50% of Canadian companies reported current labour shortages in the Management Issues Survey. Respondents also noted that their primary labour market priorities included the rising cost of labour, upgrading skills of employees, the aging workforce, and payroll taxes. While we applaud the government's recent actions to increase the supply and quality of foreign labour through reforms to the immigration system and temporary foreign worker program, much more needs to be done to close the existing labour gap, especially in developing the domestic workforce. As such, we recommend that the government:
  - **Support workplace training by introducing an Employers' Training Tax Credit** as an offset against Employment Insurance premiums to upgrade the skills of existing and new workers; and
  - Develop industrial labour market inclusion strategies for unemployed, youth and aboriginals that increases awareness of available jobs in industry and supports their hiring.

Thank you for your consideration of these priorities. We look forward to working with you over the coming months during the ongoing consultations for Budget 2013/2014 and would be happy to meet at any time to discuss these priorities.

Respectfully,

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