January 27, 2014

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 the 2014/15 Budget. Collectively, the members of the CMC represent more than 100,000 manufacturers across Canada 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 applaud the focus on manufacturing innovation and competitiveness in Budget 2013. Your decision to extend the Accelerated Capital Cost Allowance (ACCA), the proposed Canada Job Grant, and the creation of the new Advanced Manufacturing Fund for Southern Ontario are strong indicators of the importance of advanced manufacturing in the new economy.

While we agree that it is now time for the Canadian business sector to step up and invest, we are convinced that more could be done to stimulate further industrial investment in Canada. We have, therefore, identified a number of policies that the federal government should consider implementing in order to accelerate business investment and innovation with the goal of ensuring that Canada is an attractive location for global investment, research and development, production and commercialization.

Keep the focus on investments in productive assets: The ACCA for machinery and equipment for manufacturing and processing has been in place since 2007 and is set to expire in 2015. In a recent study published by our Coalition, we compared the depreciation rules for certain types of assets in Canada versus the United States. Our analysis shows that both the ACCA and the bonus depreciation in the US have had strong effects on business investments in R&D. We also found, however, that the model of depreciation in the US is much more advantageous for companies than Canada's traditional 30 percent declining balance rate. While Canada's ACCA will not expire for another budget cycle, we believe it is critical to provide long-term direction as to the capital depreciation rates so that companies can effectively plan their investments. As stated in a separate letter dated January 27th on the specific issue of ACCA, the Coalition proposes that the capital cost allowance for manufacturing and processing machinery and equipment be reduced from the 50% straight-line rate at the end of 2015, to either a 50% declining balance or a 45% straight-line rate in 2016, before being set at a rate of no less than 40% on a declining balance basis.

Reform the rules of unused SR&ED tax credits: The SR&ED program offers large manufacturing firms non-refundable tax credits that can be carried forward until profitable years to reduce a company's overall tax burden. These provisions in the SR&ED program, in conjunction with the difficult economic period of the last decade, have culminated in larger firms carrying nearly $7 billion in unused tax credits since 2001. In line with the government's intent to provide more direct funding for business research and development, SR&ED tax credits could be exchanged for direct funding at a percentage of their value, and then put to work on further R&D. To this end, we recommend the creation of a research and development *swap* program to repurpose tax credits for companies seeking to invest in their capital assets used for R&D. This program would provide an alternative to the elimination of capital expenditures under the traditional SR&ED program. Included as a program requirement, any money received through the swap of tax credits would then be used towards company R&D related capital assets, either through the upgrading or building of new R&D facilities, or the acquisition of machinery and equipment used mostly for R&D.

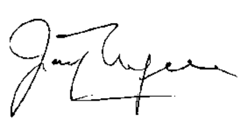
More direct funding to business investments: CMC strongly supported the creation of the Advanced Manufacturing Fund (AMF) for Southern Ontario. While manufacturing is a critical component of Ontario's economy, it is a crucial sector for the entire country and manufacturers should be allowed to benefit from government funding across the country. Other regional economic development agencies across the country should be able to take advantage of funding programs similar to the AMF that will be implemented by the Southern Ontario Economic Development Agency.

Incentivizing large scale capital investment: CMC recommends the creation of a new national Capital Investment Fund (CIF), which would be used to attract large-scale capital investments, both from within Canada and from foreign-owned manufacturers. This CIF would be a targeted investment fund applying only to major investments that increase manufacturing and processing output while exhibiting strong domestic supply chain opportunities. Such projects would include the building of new production facilities, expansion of current facilities, revamping existing operations, or upgrading of machinery and equipment.

Commercialization of innovation: Our Coalition recommends the adoption in Canada of the "patent box model". A 'patent box' is a tax incentive which provides relief from corporate tax on income generated from certain types of qualifying intellectual property (IP), particularly patents. Patent boxes are distinct from other tax incentives, such as R&D tax credits. R&D tax credits are provided at the front end of the innovation lifecycle, in the years when research and development expenditures are incurred. In contrast, patent box regimes provide tax relief at a later stage of the innovation lifecycle, in the years when income is generated from exploiting IP. Relief can be given either as a reduced tax rate or a deduction for a portion of the patent box income. Patent boxes therefore generally target the commercial or manufacturing activities that follow development rather than R&D activities themselves.

Canada's economic growth in the years to come will be tied to business capital investments. It is up to industry and government working together to seize this opportunity and make sure Canada can attract our share of investments. Thank you for your consideration of these priorities. We would be happy to meet at any time to discuss these priorities.

Sincerely,



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