



CANADIAN FINANCE & LEASING ASSOCIATION
ASSOCIATION CANADIENNE DE FINANCEMENT ET DE LOCATION

By Messenger

February 10, 2005

The Honourable Greg Sorbara
Minister of Finance
C/o Budget Secretariat
Government of Ontario
Frost Building North, 3rd floor
95 Grosvenor Street
Toronto, ON M7A 1Z1

Reinforcing the foundations for economic growth
Eliminate capital taxes: a brake on investment enhancing
Ontario's productivity and competitiveness.

Dear Mr. Minister,

We thank the Government for this opportunity to submit recommendations as part of the pre-budget consultations.

The Canadian Finance & Leasing Association (CFLA) represents the asset-based financing, equipment and vehicle leasing industry in Canada. With over **\$116 billion** of financing in place with Canadian businesses and consumers (about 50% in Ontario), the members of the asset-based financing industry are the largest providers of debt financing in this country after the traditional lenders (banks and credit unions). About 60% of the industry's customers are estimated to be small and medium-sized businesses.

In its submission [*"Reinforcing the foundations for economic growth"*](#), CFLA acknowledges that there are compelling and substantial demands for government spending. That said, we believe that Budget 2005 should also have a focus on reinforcing the foundations for economic growth: investment in education (human capital), infrastructure (physical capital) and capital assets.

Going forward, we believe that the strategy for economic growth has to be founded on a highly-educated workforce, efficient public infrastructure and productive capital assets located in Ontario. We submit that a highly-educated workforce is mobile, it will go where the jobs are. To keep the jobs in Ontario, we require efficient infrastructure and capital assets in the province.

The CFLA submission argues that economic growth will be based on enhancing productivity, which will in turn raise living standards for all Ontarians and increase government revenues.

While there remains an important preoccupation with the effects of the rising value of the Canadian dollar *vis-à-vis* our U.S. trading partner for export reasons, the other side of that coin contains an advantage. Most new and innovative machinery and equipment are offered for sale in U.S. dollars. For the first time in a decade or more, the rising value of the Canadian dollar makes the acquisition of machinery and equipment much more affordable for Ontario firms.

It is our recommendation that a primary way to cope with the combined challenges of enhancing productivity and a rising dollar is for Ontario business to become more competitive through increased investment in capital equipment. Capital taxes are a disincentive to investment in

capital equipment.

CFLA members raise the standard of living of all Canadians

[Asset-based financing, investment and economic growth in Canada](#), a recently published groundbreaking study prepared by a respected, independent group of economists has found that:

“the rise in asset-based financing from 1992 to 2002 improved living standards in Canada by 2.3% (or about 8% of the 26.8% increase in Canada’s living standards over that period).”

For the very first time, anywhere, this study connects the dots from the financing CFLA members make available to business customers, to the positive impact of their investment in machinery, equipment and vehicles on productivity, and then to the resulting enhancement of living standards of all Canadians generated by the improved productivity.

CFLA members are partners with Ontario business – small, medium and large – in enhancing productivity and competitiveness. Productivity growth is not an end in itself, rather a means to an end: the expanded well-being of our entire society.

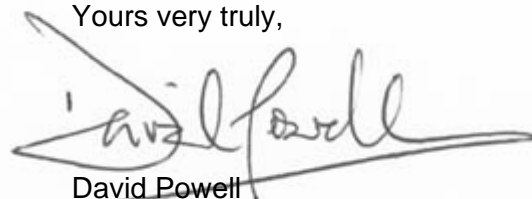
This 100-page study was "peer-reviewed" and praised by **Dr. Jack M. Mintz**, President and Chief Executive Officer, C.D. Howe Institute and the Deloitte & Touche LLP Professor of Taxation, Joseph L. Rotman School of Management, at the University of Toronto, and by **Jim Stanford**, economist at the Canadian Auto Workers Union.

This study points out that government policy in Canada is not encouraging investment in machinery and equipment to the degree that the economic research suggests would be best for the economy. A strategy of improving the economic climate for machinery and equipment investment should pay significant dividends in terms of stronger economic growth, higher productivity and living standards for Canadians for many years to come.

Two copies of this study accompany the CFLA submission. It can also be found posted on the CFLA Website at: [http://www.cfla-acfl.ca/CFLA-Final Economic Report-PDF-Dec04.pdf](http://www.cfla-acfl.ca/CFLA-Final_Economic_Report-PDF-Dec04.pdf)

We would welcome an opportunity to discuss the findings of this report and their policy implications with you and your colleagues.

Yours very truly,



David Powell
President & Chief Executive Officer

Attachments

- (1) *Reinforcing the foundations for economic growth*, A pre-Budget submission from the Canadian Finance & Leasing Association, February 8, 2005
- (2) *Asset-based financing, investment and economic growth in Canada*, The Centre for Spatial Economics (C₄SE), December 15, 2004
- (3) List of CFLA Members

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The Hon. Joe Cordiano, Minister of Economic Development and Trade
Don Black, Deputy Minister, Ministry of Economic Development & Trade
Bob Seguin, Assistant Deputy Minister, Ministry of Economic Development & Trade
Herman Ng, Special Assistant, Stakeholder Relations, Office of the Minister of Finance
Phil Howell, Assistant Deputy Minister & Chief Economist, Office of Economic Policy, Ministry of Finance