

CBAACAA

*Promoting and Simplifying Business Aviation
Promouvoir et simplifier l'aviation d'affaires*

**SUBMISSION FOR THE
PRE-BUDGET
CONSULTATIONS IN
ADVANCE OF THE
UPCOMING 2023
FEDERAL BUDGET**

October 2022

Recommendations

Recommendation #1: The federal government should **place a moratorium on the luxury tax on aircraft** until additional consultation with industry has been completed and until an economic impact analysis has been conducted by the Department of Finance.

Recommendation #2: The federal government should support Canada's climate goals, objectives and targets, by **making the requisite investments in the sustainability of the aviation sector**, including:

- Deploying financial incentives that encourage the purchase and environmental modernization of business aircraft, materials, and services.
- Creating incentives to stimulate wider production and use of sustainable aviation fuel (SAF).

Recommendation #3: Promote economic growth and innovation potential by **making Canada's R&D and tax environment more globally competitive**, including by:

- Making a portion of the R&D investment tax credit refundable to companies in the aerospace industry and have the remaining portion of the credit remain non-refundable and subject to a 20-year carry-forward period, after which point any unused credits would expire
- Allowing corporations to renounce R&D expenditures to flow-through share investors, similar to what is currently permitted in the mining, oil and gas industries.
- Enacting a tax holiday for corporations carrying out large investment projects in Canada. Quebec currently offers a 15-year tax holiday in such cases

Recommendation #4: Work with industry to **create a modernized set of Canadian Aviation Regulations (CARs) for business aviation** that is more flexible and responsive to business aviation operations, particularly for small operators, including the increased use of appropriate delegations and exemptions.

Business aviation – a linchpin of Canada's economy

Canada's geography – vast and diverse – has been the dominant factor shaping so much of what and who we are as a nation, including our culture and our economy. Connecting Canada has forever been a challenge, and as such, has been the subject of much Canadian lore and history – from traversing our rivers by canoe, to constructing cross-national railroads and highways, to building some of the most innovative aircraft the world has seen.

Today, business aviation is a linchpin in keeping Canada's economy moving and our communities connected. Business aviation moves skilled workers and advanced equipment to remote regions of the country, it moves executives around the world at the speed global business demands – helping to ensure Canada stands tall among our global peers – and it moves critical goods to the most isolated communities in the hidden corners of our country.

Business aviation encompasses the whole of the aviation value chain, including manufacturing, and creating high-value jobs across the country. The sector is a significant driver of economic growth and jobs and will continue to be an anchor in Canada's economic recovery.

Not only does business aviation help drive Canada's economy forward every day, but our operators are also standing ready to support Canada and Canadians when disaster strikes. Our aircraft transport organs for transplant, evacuate citizens facing imminent danger and participate in rescue operations, as was the case in last year's floods impacting the interior of British Columbia.

Today, we estimate there are more than 1400 business aircraft flying in Canada, covering virtually every square mile of our vast country, and taking us to every corner of the globe, no matter how remote or seemingly inaccessible. Altogether, Canadian business aviation operations and manufacturing is a \$12.1 billion sector, employing just over 47,000 people at an average salary of approximately \$96,000.

Canada's business aviation community recognizes that two of the most significant challenges we currently face are growing our economy and simultaneously reducing our environmental impact. We agree with the federal government that these goals are not mutually exclusive, and we are working hard to innovate, grow, and become more competitive while also becoming more sustainable as a sector.

Presently however, there are federal policies in place that will impact business aviation and Canada's sustainability goals negatively – specifically, the luxury tax on aircraft. While the sector is trying to grow and trying to become greener in every way possible, the federal government is hamstringing operators and manufacturers, making them less able to compete globally and disincentivizing the purchase of the most efficient and sustainable aircraft on the market today.

Despite this and the challenges related to the pandemic, we have emerged as a stronger sector with a clear vision of how we can contribute to Canada's most important goals: a robust, resilient and equitable economy that supports a green and sustainable future.

We invite the government to work with our community to create investments, policies and programs that will support Canada's dynamic and essential business aviation sector while at the same time, contribute to the twin goals of sustainability and economic growth.

Growing global competitiveness through tax, R&D, innovation, sustainability, and regulatory modernization

Recommendation #1: The federal government should **place a moratorium on the luxury tax on aircraft** until additional consultation with industry has been completed and until an economic impact analysis has been conducted by the Department of Finance.

While the federal government has been advancing its luxury tax scheme since 2020, it has yet to conduct any economic impact analysis of the tax. When this was raised during the study of Bill C-19, the government's Budget Implementation Act, parliamentarians across all parties supported an amendment – the spirit of which was to delay the implementation of the tax as it applies to aircraft – to a date after September 1, 2022, so that further analysis could be conducted on the tax's impact to industry and jobs.

Despite the spirit of the amendment (which was adopted unanimously), the federal government has moved ahead to apply the luxury tax on aircraft, effective September 1, 2022. While the government's "luxury tax" on aircraft may lead to a minor increase in tax revenues, the potential for negative implications and unintended consequences is significant.

For example, the tax creates incentives to use older, less fuel-efficient and sustainable aircraft, making it harder for business aviation to fulfill carbon reduction plans and further contribute to the federal government's ambitious environmental commitments. Additionally, as designed, the tax will reduce demand for Canadian-made aircraft, negatively impacting jobs, business, and Canada's overall economic growth potential.

For these reasons, we implore the federal government to put a moratorium on the tax's application on aircraft until the department conducts an economic impact analysis and broader consultation with the industry is completed.

Recommendation #2: The federal government should support Canada's climate goals, objectives and targets by **making the requisite investments in the sustainability of the aviation sector**, including:

- Deploying financial incentives that encourage the purchase and environmental modernization of business aircraft, materials, and services.
 - Creating incentives to stimulate wider production and use of sustainable aviation fuel (SAF).
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The business aviation community is fully committed to both growing Canada's economy and to reducing our impact on the environment. While we are taking action as an industry, our impact can be scaled and amplified with additional support from the federal government.

First, CBAA recommends that the federal government deploy financial incentives that encourage the purchase and environmental modernization of business aircraft, materials, and services. Incentive programs could take several forms, including an accelerated capital cost allowance, expense tax deduction, tax credits and/or a rebate program.

Incentives would be particularly crucial for leading Canadian companies such as Bombardier, CAE and Pratt & Whitney Canada, as well as hundreds of other small, medium and large companies that are part of the business aviation community, employing Canadians in such diverse fields as avionics, engineering, design, and many more.

Second, CBAA recommends that the federal government offer additional incentives to stimulate wider production and use of sustainable aviation fuel (SAF). Making SAF more widely available and accessible will make a significant positive impact on industry emissions. To date, one of the largest barriers to adoption for the sector is availability – there is a role for the federal government to play in deploying incentives and programming targeted at stimulating research and production of SAF, for example.

Using incentives, the Government of Canada can play a decisive role in creating the appropriate environment to encourage Canadian companies to manufacture and for the operators to use SAF.

Recommendation #3: Promote economic growth and innovation potential by **making Canada's R&D and tax environment more globally competitive**, including by:

- Making a portion of the R&D investment tax credit refundable to companies in the aerospace industry and have the remaining portion of the credit remain non-refundable and subject to a 20-year carry-forward period, after which point any unused credits would expire.
- Allowing corporations to renounce R&D expenditures to flow-through share investors, similar to what is currently permitted in the mining, oil and gas industries.
- Enacting a tax holiday for corporations carrying out large investment projects in Canada. Quebec currently offers a 15-year tax holiday in such cases

Making Canada's tax, R&D, and innovation climate more globally competitive is advantageous not just to the aviation sector broadly, but also to Canada's economy as a whole, as individuals, their families, and business owners – large and small – will ultimately reap the benefits of growth. So too will the Canadian government with a wider revenue base and the stimulation of a virtuous circle of additional investment.

First, CBAA recommends that the federal government make a portion of the R&D investment tax credit refundable to companies in the aerospace industry and have the remaining portion of the credit remain non-refundable and subject to a 20-year carry-forward period, after which point any unused credits would expire. Second, CBAA recommends allowing corporations to renounce R&D expenditures to flow-through share investors, similar to what is currently permitted in the mining, oil and gas industries. Finally, CBAA recommends enacting a tax holiday for corporations carrying out large investment projects in Canada. Quebec currently offers a 15-year tax holiday in such cases.

Recommendation #4: Work with industry to **create a modernized set of Canadian Aviation Regulations (CARs) for business aviation** that is more flexible and responsive to business aviation operations, particularly for small operators, including the increased use of appropriate delegations and exemptions.

CBAA commends the Government of Canada on its actions to modernize CARs and eliminate outdated regulations. A more modern, risk-based approach to regulating our sector will enhance the safety of our operations, increase efficiencies, reduce the burden of red tape and reduce costs.

At the same time, we can increase safety and reduce costs of business aircraft operations even further with the increased adoption of delegates and exemptions by enabling greater throughput at Transport by leveraging proven capabilities of associations and their subject matter experts (SMEs).

While discussions between Transport Canada and the CBAA to seek further options for delegates and exemptions and to modernize business aviation CARs were well underway in the early part of 2020, they have been understandably slowed by the intense focus on COVID-19. But we must continue to work on these regulatory improvements to find efficiencies that improve the system and enhance operations as we recover from the economic effects of the pandemic.

About the Canadian Business Aviation Association

The Canadian Business Aviation Association (CBAA) is a non-profit association formed in 1961 as Canada's voice for business aviation. Since its inception, CBAA has assumed an increasing role in its advocacy for Canadian business aviation interests.

With a membership of approximately 400 companies and organizations, including operators, management companies and suppliers, CBAA represents the entire business aviation community with a unified and collective voice.

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