Railway Association of Canada
Association des chemins de fer du Canada

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RAC recommends that the Government:

1. Allows railway companies to deduct the full amount of capital expenditures immediately; and

   Eliminates double taxation on intercompany transactions by creating a corresponding offset in Canada for the BEAT in the U.S.;

2. Fulfills the objectives of the Pan-Canadian Framework for Clean Growth and Climate Change and Transportation 2030 by creating a Modal Shift Investment Program;

3. Creates a capital funding program of $365 million over 6 years (effective in 2021 and ending in 2026) to support shortline infrastructure investment and reduce costs associated with rail safety requirements such as grade crossings;

4. Leverages private sector investment and includes a contribution to maintain HCR operations beyond 2019; and

5. Continues to support VIA Rail's HFR project and work to preserve the option of interoperability with regional transit providers in Montreal and Toronto.

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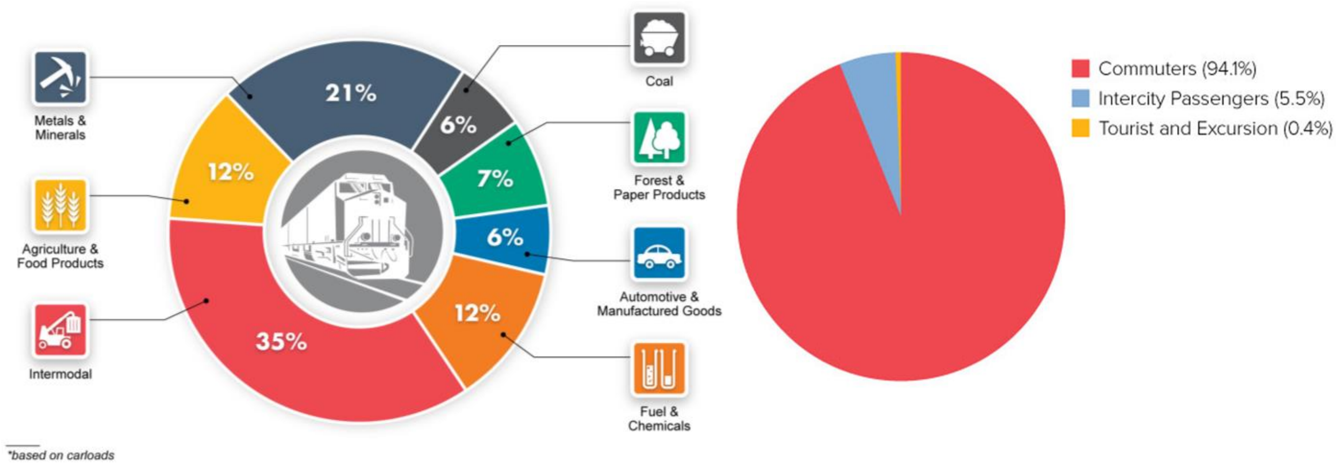
The railway industry is uniquely positioned to reduce greenhouse gas (GHG) emissions while supporting the economy and enabling trade. The Railway Association of Canada (RAC) is pleased to submit the following brief in advance of the 2020 federal budget.

Railways provide a low-cost, safe and emission-friendly service to their customers. Our members facilitate economic growth by transporting approximately $310 billion of Canadian-originated goods each year. Freight rail moves 50% of exported goods and 70% of intercity traffic in Canada.

Passenger railways complete over 80 million passenger-trips each year, allowing millions of Canadians to leave their cars at home for work and leisure travel.

Figure 1: Rail traffic in Canada

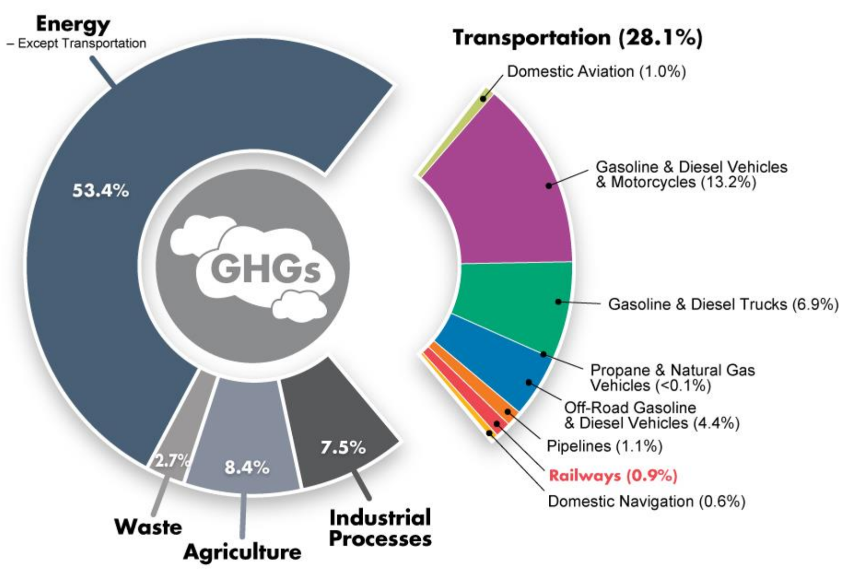


Each year, approximately 2,800 locomotives and 31,000 dedicated railroaders transport goods and people across 44,000 kilometers of rail track across Canada and several points in the United States (U.S).

Figure 2: Canada's rail franchise

Railways are among the lowest industrial emitters in Canada, accounting for just 1% of GHG emissions. Despite rising ridership and increasing demand, railways continue to achieve emissions reductions. Since 1990, freight railways have reduced their GHG intensity by more than 40%, while experiencing an 80% increase in workload, and intercity passenger railway emissions have decreased by 55%, while ridership has increased by 2%.

Figure 3: Canada's emission portfolio



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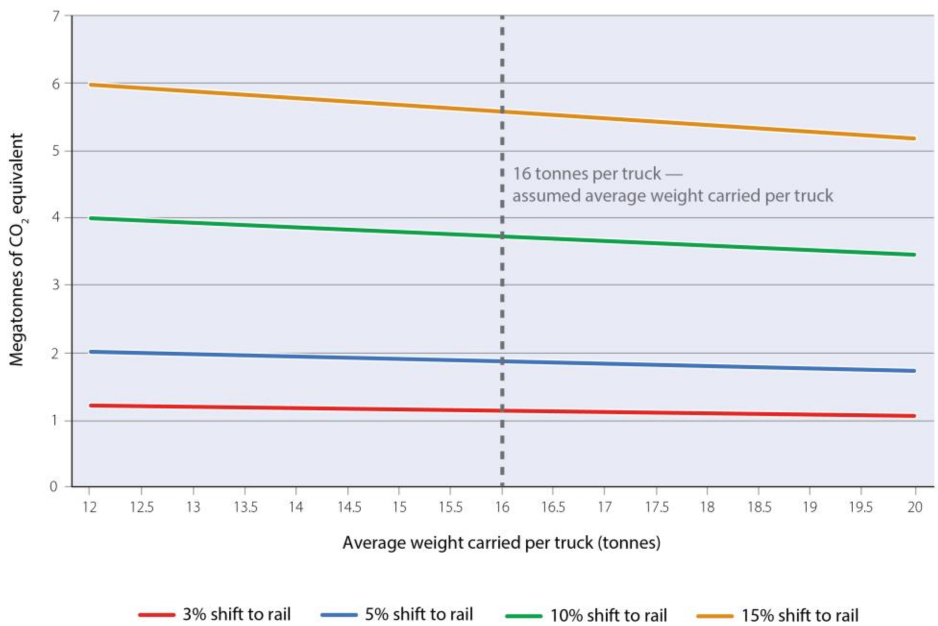
Budget 2020 provides an immediate opportunity for the Government of Canada (Government) to capitalize on the environmental benefits of rail. Freight rail is four times more efficient than truck, while passenger rail is three times more efficient than the average car. A single freight train can remove more than 300 trucks from Canada's roadways.

The Pan-Canadian Framework on Clean Growth and Climate Change and Transport Canada's Transportation 2030 recognize the importance of moving more goods and people by rail. In fact, shifting just 10% of truck traffic to rail would reduce emissions by 3.7 Megatonnes (Mt) of CO_{2e} per year.

Figure 4: Modal shift model



A policy framework that incents - rather than constrains - investment into the Canadian railway network would support objectives related to climate change and economic growth.

Tax Policy and Canadian Railway Competitiveness

In its Budget 2019 submission, RAC emphasized its concern over the adoption of sweeping tax measures in the U.S. Coming into force in 2017, the *Tax Cuts and Jobs Act* reduced the federal statutory corporate tax rate for U.S. companies from 35% to 21%, while the Base Erosion and Anti-Abuse Tax (BEAT) minimum tax increased costs for Canadian railways. This provision forces U.S. entities to pay the BEAT on payments made to foreign affiliates, without a corresponding offsetting credit or deduction for the equivalent amount of BEAT paid in the U.S.

Intercompany revenues earned in Canada are already taxable at ~27% and due to the non-refundable 10% BEAT, Canadian railways must now pay additional taxes on those same

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intercompany revenues- contrary to the fundamental Canadian tax principle of preventing double taxation. BEAT effectively increases export costs for Canadian railways operating in the U.S. and creates cost inefficiencies that incent railways to invest further into the U.S. Canadian railways should not be penalized for operating a North American railway network.

New U.S. tax measures also increased the bonus depreciation available in the year of acquisition from 50% to 100% for most property/capital acquired before January 1, 2023. While the Government addressed this issue for certain industries in its 2018 Fall Economic Statement, Canadian railways remain at a major disadvantage to U.S. railways and other Canadian capital-intensive industries, which is further enticing Canadian railways to invest in the U.S. rather than in Canada.

The following tables highlight: (1) the differences between the Canadian and U.S. tax regimes as they relate to railway capital spending and (2) the tax treatment of railways versus other capital-intensive industries in Canada.

Table 1: Canadian vs. U.S. Tax Depreciation Regimes for Rail*

Canadian Railways				U.S. Railways			
	Class Rates	CCA $ Claimed	% Claimed		Class Rates	CCA $ Claimed	% Claimed
Track Infrastructure							
Year 1	10%	$15	15%	Year 1	100%	$100	100%
Total by year 4		$38	38%	Total by year 4		$100	100%
Rail Yard Facility (Building)							
Year 1	4%	$6	6%	Year 1	100%	$100	100%
Total by year 4		$17	17%	Total by year 4		$100	100%
Railcars							
Year 1	15%	$23	22.5%	Year 1	100%	$100	100%
Total by year 4		$52	52%	Total by year 4		$100	100%
Locomotives							
Year 1	30%	$45	45%	Year 1	100%	$100	100%
Total by year 4		$81	81%	Total by year 4		$100	100%

*For $100 of capital spending

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Table 2: Railways vs. other industries in Canada*

Canadian Railways			Manufacturing and Processing ("M&P") Industry			Trucking Industry		
	Class Rates	CCA% Claimed		Class Rates	% Claimed		Class Rates	% Claimed
Track Infrastructure			M&P Plant			N/A**		
Year 1	10%	15%	Year 1	10%	15%			
Total by year 4		38%	Total by year 4		38%			
Railcars			Specific M&P Building (Kiln, tank, or vat)			Trailers		
Year 1	15%	22.5%	Year 1	100%	100%	Year 1	30%	45%
Total by year 4		52%	Total by year 4		100%	Total by year 4		81%
Locomotives			M&P Equipment			Hauling Trucks		
Year 1	30%	45%	Year 1	100%	100%	Year 1	40%	60%
Total by year 4		81%	Total by year 4		100%	Total by year 4		91%

*For $100 of capital spending.
**As infrastructure used to move freight (inter-provincial roads) for the trucking industry is already fully funded by the Government.

U.S. tax reform has altered the competitive landscape in North America. Tax changes in Canada are required to ensure that railways remain competitive and can continue to invest at a rate comparable to previous years and proportionate to their American competitors.

RAC argues that additional accelerated depreciation measures would ensure that railways could continue to make the investments required to maintain and grow a resilient railway network that supports the needs of the Canadian economy, while ensuring that an appropriate fiscal framework is in place to move more goods and people by rail and fight climate change.

Recommendation 1:

Allow railway companies to deduct the full amount of capital expenditures immediately; and;

Eliminate double taxation on intercompany transactions by creating a corresponding offset in Canada for the BEAT in the U.S.

Create a Modal Shift Investment Program

RAC believes that revenues collected from climate change initiatives should be reinvested into rail as a low-emission transportation solution. RAC encourages the Government to replicate the efforts of the Government of Quebec (Quebec), which ensures that revenues generated by its carbon pricing regime are directed into the rail sector and incent modal shift.

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A portion of the Quebec Green Fund has been allocated to implement the PREGTI and PETMAF programs. PREGTI reduces freight transportation emissions by creating intermodal projects that promote the use of rail and marine transportation. Recent projects sponsored by Quebec include investments into railway tracks, transload facilities and reload centres. PETMAF reduces railway sector emissions by providing railway companies with funding to invest in clean technologies.

From 2011 to 2015, $30.4 M was awarded to rail and intermodal infrastructure projects, resulting in reductions of approximately 210,000 tonnes of CO_{2e} per year. This works out to a cost per tonne reduction of $14 over a 10-year project period. If similar models were used to allocate $165 M over five years across Canada, emissions could be reduced by 5.8 Mt of CO_{2e}.

Table 3: Proposed modal shift reinvestment program

Jurisdiction	Funding	Estimated $CO2^e$ reductions over 5 years
QC, BC, ALB, ON	$120 M ($30 M each)	4.2 Mt
SK, MN, Maritimes	$45M ($15 M each)	1.6 Mt
Total	**$165 M**	**5.8 Mt**

Recommendation 2:

Fulfill the objectives of the Pan-Canadian Framework for Clean Growth and Climate Change and Transportation 2030 by creating a Modal Shift Investment Program.

Support for Shortline Railways in Canada

Shortline railways are a critical component of Canada's world-class supply chain, providing crucial first-mile, last-mile service that connects customers and rural economies to the world. The recently completed statutory reviews of the *Canada Transportation Act* and *Railway Safety Act* underscored that there is demonstrable role for Government to support the shortline railway sector.

To date, neither the New Building Canada Plan nor the National Trade Corridor Fund have been a significant source of funding for shortline railways. Conversely, shortline railways in the U.S. continue to enjoy multiple federal and state-level funding programs that include grants, tax credits and low-interest loans.

Their funding supports competitiveness and improves safety. In fact, a survey recently completed by RAC shortline members in Ontario alone highlighted that on average each railway could benefit from $2.8 million in project spending immediately if Government funding was secured.

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Recommendation 3:

Create a capital funding program of $365 million over 6 years (effective in 2021 and ending in 2026) to support shortline infrastructure investment and reduce the costs associated with rail safety requirements such as grade crossings.

RAC encourages the Government to support the Huron Central Railway (HCR). This railway provides critical rail service to customers from Sault Ste. Marie to Sudbury and requires immediate support to continue operations beyond 2019. HCR forecasts that a federal-provincial contribution of $42 million is required over five years to maintain the line in operation. In addition, HCR is committed to investing more than $4.6 million in the railway.

Recommendation 4:

Leverage private sector investment and include a federal contribution to maintain HCR operations beyond 2019.

Continued Support for VIA Rail's High Frequency Rail project

RAC welcomes the Government's support for VIA Rail's High Frequency Rail (HFR) project. In June 2019, the Government, with the Canada Infrastructure Bank, committed $71.1 million in funding to further advance HFR and complete additional activities over the next two years, while Budget 2018 provided funds to replace VIA's aging fleet in the Quebec City-Windsor Corridor.

HFR will allow VIA to better connect Canadians in the most populous region of the country by increasing train frequencies, shortening trip times, and providing more reliable service. This initiative will boost Canadian productivity while reducing emissions by 10 Mt (or 14 Mt if electric) of CO_{2e} over 30 years, which is equivalent to removing 10% of cars from the road for one year in Canada. This plan is endorsed by several communities in Ontario and Quebec.

We encourage the Government to continue its support for the HFR project in order to leverage the environmental benefits of moving more passengers by rail.

Recommendation 5:

Continues to support VIA Rail's HFR project and work to preserve the option of interoperability with regional transit providers in Montreal and Toronto.

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Conclusion

We would welcome an opportunity to appear as a witness as the committee undertakes its consultations. Comments and questions can be directed to Michael Gullo, Senior Director, Policy and Public Affairs at 613-564-8103 or mgullo@railcan.ca.