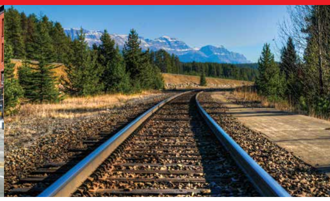
Proposal: A Refundable Tax Credit for Shortline Railway Infrastructure







Background

Shortline railways are an essential part of Canada's transportation system. Twenty per cent of all freight rail traffic in Canada — more than 113 million tonnes each year — begins on shortlines, and many industries simply wouldn't exist without these railways.

Shortlines transport bulk commodities such as metals, lumber and grain, as well as manufactured goods to and from continental rail networks, such as those of CN and CP. They provide an essential link between remote businesses and their domestic and international markets. Like all railways, shortlines are energy efficient, cost effective and low emitters of greenhouse gases.

Canada's shortlines often don't generate sufficient revenues to maintain, improve or build new infrastructure. They also face rising costs — including costs stemming from new regulatory requirements — that are putting their long-term sustainability, and the health of the businesses they serve at risk.

Proposal

In order to reduce costs and foster investment in Canada's vital shortline rail infrastructure, the Railway Association of Canada (RAC) and its members are proposing **that the federal government create a $300-million capital funding program — beginning in 2016 and ending in 2022 — dedicated to helping shortlines invest in their infrastructure.**

The proposed fund would be accessible through a refundable tax credit, capped at the lesser of:

- $15,000 per mile of track during the first two years (to stimulate investment and foster shovel-ready projects), and $5,000 per mile for the following five years; or
- 50 per cent of total eligible infrastructure investments made during each of the 7 years of the program.

Under this proposed program:

- Only railway infrastructure located in Canada and owned or leased by a public carrier (other than a Class 1 railway) would qualify for funding.
- Shortlines would have to invest at least twice the amount of their claimed tax credit in infrastructure each year.
- Eligible investments would include those made to maintain, repair, build, upgrade or otherwise improve infrastructure, such as:
    - Railway track and grading, including components such as rails, ballast, ties and other track material;
    - Railway traffic control or signaling equipment and interlockers;
    - Bridges, trestles, culverts, subways or tunnels ancillary to railway track and grading;
    - Fences, snow sheds and signs; or
    - Other public improvements.

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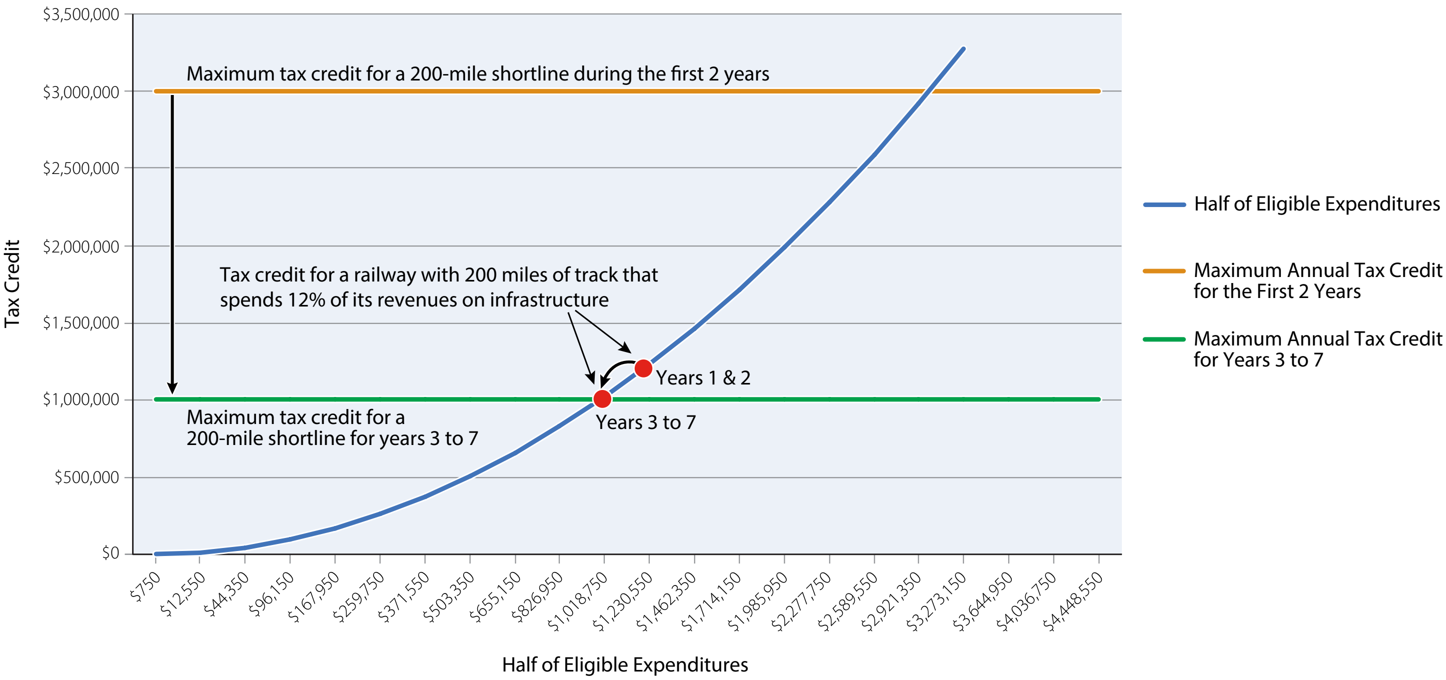
Example of RAC's Proposed Tax Credit

The fictional Red, White and Steel Railway (RW&S) owns 200 miles of track in Canada and spends $2.4 million (12 per cent) of its $20-million annual revenue on infrastructure improvements. Under RAC's proposal, in the first two years, this railway could claim a tax credit of $1.2 million, after which it could claim $1 million for five years:

Tax Credit Calculation			
	Track	**Investments**	**Tax Credit**
	200 miles	50% of eligible investments	
Years 1 and 2 ($15,000 per mile)	$3,000,000	$1,200,000	**$1,200,000**
Years 3 to 7 ($5,000 per mile)	$1,000,000	$1,200,000	**$1,000,000**

This program would provide an incentive for RW&S to increase its infrastructure investments to maximize the tax credit that it could receive (in this case, $3 million for years 1 and 2, and $1 million for years 3 to 7):



In addition to stimulating investment in railway infrastructure, resulting in improved safety and traffic fluidity, a dedicated shortline infrastructure tax credit would also:

- Provide Canadian shortlines with a dedicated funding program similar to those available to U.S. shortlines;
- Create a level playing-field with the shortlines' main competitor — the subsidized trucking sector;
- Leverage the substantial investments made by shortline railways, while producing public benefits such as reduced road congestion and emissions, lower road maintenance costs and fewer accidents; and
- Place a low administrative burden on the federal government, since the program would be managed through yearly income tax returns filed with the Canada Revenue Agency.

Railway Association of Canada