RAC Taxation Committee Meeting – 2024/02

July 19, 2024

People. Goods.
Canada moves by rail.

Railway Association of Canada

Competition Law Compliance Policy

STATEMENT

The RAC is committed to compliance with all **competition laws** applicable in Canada, including Canada's *Competition Act*.
Under the leadership of its Board of Directors, the RAC carries out its activities in strict compliance with all **competition laws**, provides guidance to its committees and its employees on how to comply with these laws, and promotes with them the importance and value to the RAC of complying with them.
The RAC Corporate Secretary ensures that RAC, its committees and its staff are familiar and comply with this policy.

COMPETITION LAW

Competition laws are designed to maintain and encourage competition in the marketplace. Non-compliance with the **competition laws** relating to improper coordination among competitors could constitute a criminal offence to which significant fines and prison terms can be attached, and for which significant damages can be awarded in private lawsuits, including large class actions.
RAC is a forum for railway members to exchange information and views on the railway sector. Particularly because RAC is an association that represents most of the players in the rail sector in Canada, including many that compete with one another, any activity it conducts must be in strict accordance with the **competition laws**, and avoid even the perception of possible improper conduct.

PROHIBITED ACTIVITIES

Due to the presence of multiple competing entities in RAC, any activity, including discussions or agreements that relate, directly or indirectly, to the following "**Prohibited Topics**" are strictly prohibited:

- Prices (rates) charged to shippers for services provided by members of the RAC
- Prices (costs) paid to suppliers for services provided to members of the RAC
- Any other conditions associated with services provided to shippers or received from suppliers of RAC members, including discounts, rebates, etc. and level of service provisions
- Customer or territory allocation
- Limitation of supply of services provided by RAC members to their customers

GUIDANCE

Any activity, including discussions or agreements that could even remotely be construed as relating to the above Prohibited Topics, cannot take place at the RAC or any of its committees or any meeting organized or attended by RAC staff, or otherwise among RAC members.
To ensure compliance with these rules, when meeting, members of a RAC committee or of the Board of Directors must:

- Have a pre-set agenda and take minutes, recording resolutions adopted and summarizing the essentials of conversations that took place.
- Limit themselves to issues identified on the agenda, except if circumstances call for other issues to be addressed, in which case careful notes of the additional issues discussed must be recorded.
- If any participant believes that Prohibited Topics have been raised or discussed, they must advise all participants of their concern and any discussion relating to that issue be ceased immediately pending legal advice.
- Require legal advice if any issue to be discussed might cause the members to believe that **competition laws** could be infringed.
- Suspend or even postpone to a later date discussions on such issues if legal advice cannot be sought in a timely manner.

Staff of the RAC shall in their duties ensure the confidentiality of information brought to their attention by members, avoid conflict of interest or situations that would discredit the RAC, unless doing so could violate the **competition laws**.

Updated May 3, 2021

Railway Association of Canada

RAC TAXATION COMMITTEE
MEETING 2024-02

FRIDAY, JULY 19, 2024 | 14:00 – 15:30 (EST)

ZOOM MEETING – [CLICK HERE]

AGENDA

SCHEDULE	LEADER	TIME
1. Welcome, Call to Order and Opening Comments		**14:00**
1.1 Competition Law Compliance Policy – Forward Statement >	Jonathan	
1.2 Approval of February 22, 2024, Meeting Minutes >	Paolo	
1.3 Expanded Committee Membership	Jonathan/Paolo	
2. RAC Updates		
2.1 Public and Government Affairs	Lora	**14:10**
2.2 Government Relations Update	Katarina	**14:15**
2.3 Ontario Shortline Tax Credit Update >	Ben	**14:25**
3. Discussion Topics		
3.1 Provincial Tax Dashboard Update	Jonathan	**14:30**
3.2 RAC Tax Policy/Advocacy Research Planning (Class rates; depreciation; fuel tax; etc.)	All	**14:40**
4. Discus timing of next committee meeting	Paolo	**15:25**
5. Adjournment	Paolo	**15:30**

> Supporting material in briefing book

- Competition Law Compliance Policy
- February 22, 2024, Meeting Minutes
- RAC Letter to Ministers – Ontario Track Maintenance Tax Credit
- RAC Ontario Shortline Railway Tax Credit Infographic
- Economic Impact Analysis of Ontario Shortline Railroad Reinvestment Tax Credit, Mickelson & Company

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RAC Taxation Committee 2024-01

Thursday, February 22, 2024
Virtual Meeting

Meeting Minutes

Attendees:

Victor Wong, CPKC	Devony Spenceley, Ontario Northland
Harold Perrault, Genesee & Wyoming	Paolo Zaccagnini, CN
Jen Stride, CPKC	Jonathan Thibault, RAC
Ben Chursinoff, RAC	Kevin Mason, RAC
Johanne Delaney (RAC)	

Absent:
Kaven Poulin, SRY; Pierre Groulx, VIA Rail Canada; Erin Hillis, Ontario Northland.

1. **Call to Order & Administrative Issues**
Victor Wong called the meeting to order at 2:04 pm EDT.

1.1 Competition Law Compliance Policy – Forward Statement
The Competition Guidelines, as adopted by the RAC Board of Directors, were read to the committee participants. The Guidelines are enclosed in the latest version of the briefing book and explain that the policy emphasizes our organization's compliance with Canadian Competition Laws in all our meetings and activities.

1.2 Competition Law Compliance Policy – Forward Statement
The December 13, 2022, meeting minutes were reviewed and approved by Paolo Zaccagnini and Devony Spenceley

1.3 New Committee Chair
Paolo Zaccagnini was voted the new committee chair. It was moved by Victor Wong and seconded by Harold Perrault.

2. **RAC Updates**

2.1 Environment/climate-related tax items
In the province of BC, the Carbon tax is applied to renewable fuels in the same manner as petroleum-based fuels. This acts as a disincentive to a key decarbonization pathway for the industry, particularly as we head towards a key milestone of 2030 clean fuels.

The RAC has been working closely with Advanced Biofuels Canada since 2023, doing advocacy in the province, and supporting them throughout the process. Several advocacy letters have been signed and supported by our members. The RAC received a written response from Minister Heyman in December 2023, stating that BC officials will be reviewing the program and examining this issue as they continue to enhance their low carbon programs and carbon tax programs, etc., in the province. In August of 2023, BC's Select Standing Committee on Finance and Government Services recommended carbon tax reform.

The 2023 Federal budget included a commitment to growing the domestic biofuel sector in Canada. In May 2023 the RAC participated in an engagement session with NRCan as an opportunity to tell the rail story on low-carbon fuels and advocated for an end user credit or benefit. At that engagement session, they indicated that it was possible to have an update on last year's Fall economic statement that came out in November, however, no mention of the next steps on this initiative. The RAC will verify the 2024 Federal budget and might have more direction on where the government will be supporting Canada's domestic biofuel sector. The Fall economic statement did have an update on the clean hydrogen investment tax credit to expand eligibility for the clean hydrogen and investment tax credit to include property involved in converting clean hydrogen into ammonia. To qualify, producers must use their clean hydrogen feedstock for ammonia production, demonstrate sufficient production capacity, and show feasible transportation of hydrogen.

2.2 RAC Advocacy and Shortline Tax Credits

Since the last committee meeting, the political landscape shifted even more in favor of the Conservatives under Pierre Pollièvre. The conventional thinking is that there won't be an election until fall 2025, which means that the current government could make a lot of key decisions ahead of that date as pertain to this committee. The 2024 budget is expected the week of March 18, followed by a Fall economic statement.

The RAC's registered lobby meetings have increased 10 times above the 2022 total. Since the last tax committee meeting, the RAC has made several submissions, including five prebudget submissions, one concerning the Budget 2023 implementation consultation on the tax items that this group was discussing earlier. The RAC made strong recommendations around accelerating depreciation supporting shortline railways, expanding access to clean technology investment tax credits enabling the modal shift to rail tackling the growing tax burden.

The RAC met with the Finance Minister's office on extended interswitching and shortline support. The RAC hosted a Lobby Day at Queens Park in December 2023 to advocate for a shortline tax credit at the provincial level in Ontario with several meetings with Ministers, Deputy Ministers, Ministerial staff, and other key officials. The Ontario government was very receptive to the proposal.

Labor is another important area of advocacy for the RAC. The stacking of leave benefits is something that's been actively worked on with Government officials, and participation on a panel in the fall, on labor, attraction, and retention. There are ways that the Government can support growing the rail workforce and the RAC is making that case in submissions and meetings.

The RAC sent a letter to Saskatchewan's Finance Minister and copied all the key ministers highlighting the fuel tax is three times higher than the neighboring jurisdictions.

Work continues with the Enhanced Train Control (ETC) file and the RAC is meeting with Government officials to secure the public safety broadband network for railways.

3. __Discussion Topics__

3.1 Shortline Tax Credit Planning and Considerations

The U.S. 45G track maintenance tax credit is at $3,500 US dollars, close to $5,000 Canadian Dollars. This was implemented in 2004. The RAC has been advocating for $7,500/mile in Ontario because costs of maintenance and materials have increased since 2004. We need to consider which railways are eligible as there might be different subsidiary agreements and shortlines created after 2016 or 2017 are not eligible for the credit for now. The RAC will continue to advocate for the credit and will update the committee.

3.2 Federal Tax Items

The committee briefly discussed federal issues such as share buybacks, minimum taxes, cross-border tax matters, track maintenance capitalized 40-60 in the U.S., ACCA and class rates. Opportunity for RAC and the Committee to focus on class rates for signals equipment.

3.3 Property Tax

Railways' property tax folks have been active across most of Canada participating in discussions regarding a new methodology of the regulated assessment of the right of way. BC has one area that is impacting all the property valuations outside of Vancouver. Ontario put a halt on a lot of matters in terms of property taxes and is behind in terms of bringing up new assessed values at this time.

The RAC discussed digital vs paper administration of property taxes. BC is the only province that is mostly digital. Minimum tax levels for small hamlets in the Prairies is an issue. Opportunity for Ontario to follow BC's lead. The committee discussed a possible joint letter between the RAC and other "linear" industries.

3.4 Provincial Dashboard

The RAC created a tax dashboard including information on various tax rates in each province that can be accessed on the RAC members' website. You will also find information on Average Tax Burdens by province. The updated worksheet will be circulated to the committee before each meeting for discussion.

4. **Next committee meeting**

The next taxation committee meeting will be in September 2024. A doodle poll will be sent out for the date.

5. **The meeting adjourned at 3:33pm EDT.**

Action Items – February 22, 2024	Lead	Status
1. Meeting Minutes	Johanne	Complete
2. Send out a doodle poll for the next meeting date	Johanne	
3. Send out an updated provincial dashboard to committee members	Jonathan	

Railway Association of Canada

July 8, 2024

Hon. Prabmeet Sarkaria (minister.mto@ontario.ca)
Hon. Victor Fedeli (MEDJCT.Minister@ontario.ca)
Hon. Peter Bethlenfalvy (Minister.fin@ontario.ca)
Hon. King Surma (Minister.MOI@ontario.ca)
Hon. Greg Rickford (minister.northerndevelopment@ontario.ca)

Dear Ministers,

I am writing to share additional information and context in support of a proposed Railway Track Maintenance Tax Credit for shortline railways based in Ontario.

Shortline railways are fundamental components of Ontario's – and Canada's – transportation network. Operating across 2,000 track miles and supporting around 20,000 jobs in Ontario (at facilities, direct, indirect, and induced), they provide invaluable 'first mile, last mile' connections between local producers and global markets. In addition to supplying inputs to production facilities, Ontario's shortlines originate over 85,000 carloads, bringing $7 billion worth of Ontario-produced goods to market each year.

Environmentally and logistically advantageous to trucking, shortlines can play a critical role in your government's ambitious economic development plans, including but not limited to the electric vehicle battery and automotive supply chains, the Ring of Fire, and regional economic development generally.

Several RAC shortline members are in towns and cities that will be very familiar and in which you are investing heavily (see also RAC's infographic, "Ontario Shortline Railway Tax Credit: Delivering for the future economy"). Essex Terminal Railway serves the **Port of Windsor**. GIO Rail Holdings and Ontario Southland operate critical lines in and out of **St. Thomas**. Huron Central interchanges with CPKC at **Sudbury** and with CN at **Sault Ste. Marie**. Agawa Canyon connects 'the Soo' and communities in **Northern Ontario**. These locally owned and/or operated enterprises are willing partners in building a stronger Ontario for the long term.

As the appended analysis by Mickelson & Company clearly shows, a Railway Track Maintenance Tax Credit will have three main areas of economic impact:

(1) Supporting Ontario industries
(2) Supporting good paying jobs for Ontario workers; and
(3) Growing the provincial economy: **$10.58 of economic output for every $1 of tax credits – increasing provincial economic output by over $150 million per year.**

Much of the existing shortline infrastructure was originally installed in the early 1900's. Costs to maintain and upgrade bridges, monitor and upgrade worn rail, and replace ties are significant. While the large, transcontinental Class 1 railroads have a revenue model that supports such infrastructure reinvestment; most shortlines do not. In Canada, shortlines **own or maintain approximately one-fifth of the rail network yet receive only about 5% of freight rail industry revenue**. At our recent Shortline Conference in Ottawa, one industry leader revealed that his company reinvests 98% of its gross operating margin into infrastructure and still struggles to keep up. His story is similar across the sector.

The Railway Association of Canada recently surveyed shortline leaders who have significant operations in Ontario. Respondents overwhelmingly reported such a tax credit would not only help railways meet and surpass stringent safety standards, it would have meaningful medium and long term impacts for growth, employment, and the environment. The following examples demonstrate growth opportunities for shortline railways and their customers.

- For Cando Rail & Terminals, a tax credit would facilitate investments that enable greater handling capacity through infrastructure upgrades. Customers that could benefit include Toyota at Cambridge and Woodstock and Magna International at St. Thomas. Long term, Cando Rail & Terminals could advance the development and deployment of battery-operated locomotives.
- GIO Rail could install additional timber to increase track infrastructure to handle 286K lbs cars and build infrastructure in the St. Thomas area to support increased volumes as local industry grows around the Giga Plant. A tax credit could also support long term growth for GIO Rail as they seek to secure a long-term railcar storage location as high demand exists for surge storage capacity.
- Essex Terminal Railway could redevelop brownfield sites along their rail corridor to handle heavier cargo and comply with stringent Transport Canada safety standards.
- For Ontario Southland Railway, a tax credit could support infrastructure upgrades to position them to service major electric vehicle supply chains in St. Thomas.

Ontario's shortline railways directly employ hundreds of people in areas of Ontario where secure, good-paying jobs are welcome and needed. These railways also indirectly support and sustain thousands of jobs associated with railway suppliers, contractors, and customers across the province.

My colleagues, our members, and I look forward to continuing our discussions on how to make this tax credit a reality so that together, we can continue to build a stronger economy and a stronger Ontario for generations to come.

Sincerely,

Marc Brazeau
President & CEO
Railway Association of Canada

Appended – Mickelson & Co. Report & RAC Shortline Railway Tax Credit Infographic

Ontario Shortline Railway Tax Credit: Delivering for the future economy

Shortline railways are vital links in Ontario's transportation network and key to the province's future growth. Ontario's 13 shortline railroads provide crucial 'first mile, last mile' connections, linking local producers to global markets, supplying Ontario industries with critical inputs, and transporting $7 billion (CAD) worth of goods annually.

Investment in Ontario's existing shortline network is crucial so that the full potential of the Province's Ring of Fire and other ancillary development opportunities can be realized.

~2,000 track miles

Directly employing 1,100 people

more than 85,000 carloads originating in Ontario

Railway Association of Canada

Investing in Ontario's Future

Much of Ontario's shortline infrastructure dates back to the early 1900s. The cost of maintaining and upgrading bridges, rails, and ties is substantial. Unlike large transcontinental railroads, shortlines lack the revenue model to support such investments.

Several RAC shortline members operate in key Ontario communities. For instance:

- Essex Terminal Railway serves: the Port of Windsor and GIO Rail Holdings
- Ontario Southland maintain critical lines in and out of St. Thomas
- Huron Central connects with CPKC at Sudbury and CN at Sault St. Marie.
- Agawa Canyon links 'the Soo' with Northern Ontario.

These locally owned and/or operated railways are dedicated partners in building a stronger Ontario for the future.

Increasing Economic Output

Supporting Ontario industries who rely on shortlines to get their products to markets.

Supporting several thousand good paying jobs for Ontario workers.[1]

Driving economic growth: each $1 tax credit yields $10.58 output, increasing annual provincial output by $150M+.

How it Works

The proposed Ontario tax credit would provide a **50% tax credit** for track rehabilitation improvements, capped at **$7,500 CAD on a per mile basis**.

The program would be available to shortline railroads only with the projected maximum annual cost to the province of **$15 million CAD**.

1 Economic Impact Analysis of "Ontario Shortline Railroad Investment Tax Credit." Mickelson & Company, LLC. May 2024.

Economic Impact Analysis of “Ontario Shortline Railroad Reinvestment Tax Credit”

An Ontario shortline tax credit is needed to help shortlines make critical track upgrades to handle heavier railcars, leading to their ability to increase load capacity, while serve existing customers more safely and efficiently, and attract new business opportunities. Increased investments will lead to immediate job creation, boost safety, take trucks off congested highways, and reduce emissions.

Ontario Shortline Railroad Industry Overview[1]:

Ontario’s shortline railroads play a critical role in the economic vitality of the province, moving over $7.8 billion (CAD) worth of goods annually. Shortline railroads are local job creators connecting hundreds of small businesses to the larger national freight rail network and providing an alternative to increased truck traffic on congested highways. One unit train of freight rail can remove upwards of 300 trucks off Ontario’s congested highways.

Shortlines keep the Ontario economy moving and connect rural businesses to the national freight network by providing the first and last mile of safe and affordable freight service for forestry, mining, agriculture, heavy manufacturers (steel and automotive) and other vital sectors in Ontario.

Table 1 - Ontario Shortline Industry Overview

Number of Ontario Shortline Railroads:	13
Estimated Total Ontario Shortline Track Miles:	2,000
Proposed Maximum Annual Cost of ON Railroad Tax Credit:	$ 15,000,000
Direct Ontario Shortline Employees (FTE's):	1,100
Estimated Carloads Originating on a Shortline Railroad in Ontario:	85,000
Estimated Number of Trucks Taken off Highways Annually:	297,500
Estimated Annual Pavement Damage Savings:	$ 12,792,500

The Need for Shortline Infrastructure Investment:

Freight railroading is one of the most capital-intensive industries in the country and privately-owned rail infrastructure must be upgraded to keep Ontario rail customers connected to the national rail network. Without continued maintenance and reinvestment, the province won’t be able sustain current or future economic opportunities. Specifically, the tremendous future potential connected with the Ring of Fire and its ancillary development opportunities will be further boosted by this crucial investment in Ontario’s existing shortline network.

[1] Data contained in Table 1 is provided by: Railway Association of Canada, *2024 Ontario Pre-Budget Submission*, https://www.railcan.ca/policy-advocacy/government-relations/

Much of the existing shortline infrastructure was originally installed in the early 1900's, and many of the current lines were either abandoned or poorly maintained as branch lines of Class I railroads before being spun-off to current shortline owners. The infrastructure costs are significant to maintain and upgrade bridges, replace worn rail, and replace ties. The large transcontinental Class 1 railroads have a revenue model that supports such infrastructure reinvestment; most shortlines, however, do not. This is demonstrated by the fact that across Canada **shortlines own or maintain 30% of the North American rail network yet receive only 5% of freight rail industry revenue**[2]. Shortline railroads continually invest 25% to 33% of their annual revenues in their track. Provincial assistance in maintaining and updating this track supports rural economic development by improving the reliability and performance of the infrastructure.

Combined Economic Impact of the proposed Ontario Shortline Railroad Tax Credit

The economic activity of the shortline industry can be measured using three separate metrics: employment, labour income, and value added. Employment includes the number of payroll and self-employed jobs (including part-time jobs), averaged over the year. Labour income includes the wages, salaries and benefits paid to employees and owners' income for the self-employed. An industry's value added represents its contribution to GDP.

The shortline industry's economic impact goes beyond its own employees and direct payroll and value added. The employees of the shortline industry and its supply chain spend their wages and salaries on goods and services generating additional (induced) economic activity. The combined economic impact of the shortline industry includes direct, supply chain (indirect), and induced impacts.

- ***Direct impacts***: activities involved in the initial investment in track maintenance and its direct contribution to economic output. This includes expenditures on labour, materials, and equipment.

- ***Indirect impacts***: the additional economic activity generated in other sectors due to increased demand for goods and services. This can include suppliers of materials, equipment manufacturers, outside contractors, tie vendors, engineers, metal fabricators, and other industries supporting track maintenance.

- ***Induced impacts***: the secondary effects of increased household income resulting from job creation and higher wages. This leads to additional spending on consumer goods and services, further stimulating rural and regional economic activity in Ontario.

The analysis employs a combination of modeling and assessments using publications completed from PricewaterhouseCoopers and StrategyWise on similar U.S. tax credit programs to estimate the potential impacts of the proposed tax credit in Ontario. Key factors considered included the current employment of shortline railroads and their customers and economic effects of maintenance expenditures. This economic impact analysis does not consider the effects of new Ontario businesses locating on shortline railroads stemming from improved rail connectivity, which would be quite significant.

[2] PricewatershouseCoopers LLP, *The Section 45G Tax Credit and the Economic Contribution of the Short Line Railroad Industry*, 2018 (hereinafter "2018 PWC Report").

The proposed Ontario shortline railroad tax credit would have three areas of economic impact:

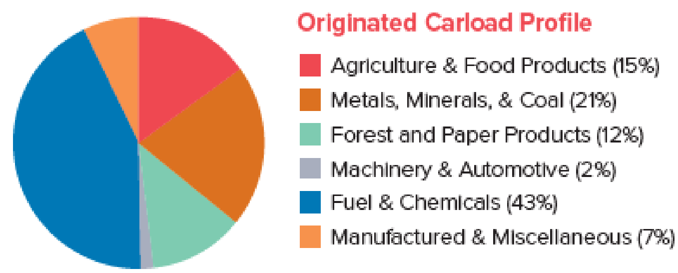
(1) Supporting Ontario Industries

(2) Supporting good paying jobs for Ontario workers; and

(3) Economic impacts of the investments made from the proposed Ontario tax credit.

(1) <u>Supporting Ontario Industries:</u>

Ontario's shortline railroads serve hundreds of shippers, transport various types of commodities, and provide safe and efficient rail service at competitive shipping rates. These industries served by shortlines are estimated to employ over 16,134 people[3] in Ontario accounting for over an estimated $878 million in labour income and an additional estimated value added of $1.9 billion[4].



For example, the Agawa Canyon Railroad (ACR), based in Sault St. Marie, is a privately-owned 300-mile shortline railroad providing freight rail service to dozens of shippers in northern Ontario. The ACR provides critical rail service to Algoma Steel, which produces 3.7 million tons of steel annually, ships finished product to 200+ customers throughout North America and employs over 2,700 workers in Ontario. The ACR, like other shortlines in Ontario, is challenged with upgrading its track infrastructure from the deferred maintenance of its previous Class 1 owners. An Ontario tax credit program will not only help ACR maintain and upgrade its infrastructure to serve its existing customers, but also attract new business. As an example, for ACR to provide sufficient rail service to the resource-rich regions like the Ring of Fire, an estimated <u>$30 million in bridge repairs</u> alone will be needed. This type of critical rail rehabilitation on ACR and other shortlines will not only facilitate efficient transport of critical minerals from remote areas but also bolster peripheral economic sectors crucial to Northern Ontario's economy.

Table 2 - Economic Impact of Ontario Industries Reliant on Shortline Rail

Description	Reliant impact *	
Employment		16,134
Labor income ($$ in millions)	$	885
Value added ($$ in millions)	$	1,907

[3] *Provincial Rail Industry Profiles*, Railway Association of Canada, 2022

[4]Ontario jobs supported by Ontario shortlines multiplied by average Ontario salary of $54,834. GDP measured using the IMPLAN modeling extrapolation from the 2018 PWC Report, page 7

(2) Supporting Ontario Workers:

The economic impact of the Ontario shortline industry can be measured with three separate metrics: employment, labour income, and value added (contributed) to GDP. As shown in Table 3, 1,100 direct shortline full time equivalents in Ontario that have an annual wage of $101,572[5] and adds to $220 million annually to the provincial GDP. These shortline investments would support an estimated 2,860 Ontario jobs through the economic activity associated with shortline railroad spending[6] (e.g. track rehabilitation expenditures). Combined, the industry supports 3,960 jobs in the province, total labour income amounts to $402.2 million, and the industry's value added to GDP is $792.4 million.

Table 3 - Economic Impact of Ontario Shortline Railroad Employment & Spending

	Direct Impact	Indirect & Induced Impacts	Combined Impacts
Employment	1,100	2,860	3,960
Labor Income ($$ in millions)	$ 111.7	$ 290.5	$ 402.2
Value Added ($$ in millions)	$ 220.1	$ 572.3	$ 792.4

(3) Direct economic impact of investments made from the proposed Ontario tax credit:

The proposed Ontario tax credit would provide a 50% tax credit for track rehabilitation improvements, capped at $7,500 CAD on a per mile basis. The program would be available to shortline railroads only with the projected maximum annual cost to the province of $15 million CAD. **This proposal is not a handout, as it requires the railroads to spend $2 upfront before earning $1 in tax credits, so a minimum of $30 million CAD in rail infrastructure investment would be needed first to generate the maximum annual cost.**

The 2018 PWC Report found that a 50% tax credit rate for shortlines reduces the user cost of capital by 63%, the responsiveness associated with such reduction increases the amount of investment by 47%. At full program utilization ($30 million in infrastructure investments), it is implied shortlines will spend another $14.1 million in track maintenance expenditures due to the $2 for $1 program setup. Ultimately, $44.1 million in annual track maintenance improvements across the province of Ontario results in $114 million in indirect and induced impact to the province. The total estimated economic impact of the tax credit program is $158 million or $10.58 of economic output for every $1 of tax credit generated.[7]

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[5] *Provincial Rail Industry Profiles*, Railway Association of Canada, 2022; FTE numbers supplied by RAC.

[6] 2018 PWC Report, page 6, IMPLAN industry multipliers for combined jobs to direct jobs is 3.6, labour income is 3.3 and value added of 2.9.

[7] 2018 PWC Study, page E-3, tax credit at 50% rate drives a 63% reduction in the cost of capital and 47% increase in investment. An indirect multiplier of 2.6 is the industry given IMPLAN multiplier (also extrapolated from 2018 PWC study).

This report's analysis is also in line with details from the StrategyWise, *Economic Impact Analysis Tax Credit for Qualified Railroad Track Maintenance Expenditures (State of Alabama), 2019.* The state of Alabama has a maximum tax credit amount of $3,642,695 annually, the report demonstrates an economic impact to Alabama can be up to **$22 for every $1 of tax credit generated** because of the Railroad Track Maintenance Tax Credit Program.

Maximum Annual Tax Credit Cost	$	15,000,000
Ontario Shortline Investment to Maximize (50% tax credit)	$	30,000,000
Additional Direct Investment Generated Annually (47%)	$	14,100,000
Total Annual Direct Shortline Railroad Infrastructure Investments	$	44,100,000
Indirect Impact Multiplier (PWC)		2.6
Total Annual Indirect Impact of Tax Credit Investments to Ontario	$	114,660,000
Total Annual Economic Impact (Direct + Indirect)	**$**	**158,760,000**
Estimated Economic Output from every $1 of tax credits	$	10.58

Conclusion

The Ontario Shortline Railroad Tax Credit is modelled after a very successful U.S. 45G Railroad Track Maintenance Tax Credit ("45G") that has stimulated over $5 billion in shortline rail reinvestment since 2005. Additionally, twelve (12) U.S. states similar to the province of Ontario, that are dependent upon freight rail transportation have passed similar legislation (Alabama, Arkansas, Florida, Georgia, Kansas, Kentucky, Minnesota, Mississippi, Nebraska, Oklahoma, Oregon, and South Carolina). A successful transportation network is the key to rural economic development and shortline railroads need investment to ensure continued and future support of Ontario businesses. Supporting this infrastructure network maintains existing industry, attracts new investments to the province and enhances the overall transportation efficiency in Ontario.

*This report was prepared by:

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