Association of Municipalities of Ontario
October 27, 2003

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R.M.Y.
CLERK

REGION OF YORK
CLERK'S OFFICE
FILE No. - P34

Denis Kelly
Regional Clerk
Region of York
17250 Yonge Street
Newmarket, Ontario L3Y 6Z1

Dear Mr. Kelly,

Re: Tax Exempt Transit Benefits

Thank you for your resolution regarding the need to an amendment to the Federal Income Tax legislation regarding employer-provided transit benefits.

AMO has received similar resolutions in the past and corresponded with the Ministers of Finance and the Environment. In reply, AMO received a letter from the Honourable Jim Peterson, Secretary of State for Finance, in 2000, indicating the support of the House of Commons for a private member's motion calling on the government to consider making employer-provided transit benefits non-taxable. While the motion did receive support in the House of Commons, it did not receive final reading.

AMO also received a response from the Minister of the Environment, the Hon. David Anderson. In his letter, he indicated that the matter was tied to the national implementation strategy on climate change, and that a number of groups had been set up to examine and identify what all sectors of the economy could do to reduce emissions. One of the recommendations of the Climate Change Transportation Table was the possibility of tax exemptions for employer-provided transit passes. However, AMO understands that while the Federal Government has not revisited this issue, it continues to be an important matter and we will continue to advocate and ensure that FCM uses its federal presence.

The Canadian Urban Transit Association (CUTA) has supported this issue, recommending again in their 2002 submission the House of Commons Standing Committee on Finance Pre-Budget Consultations that the Income Tax Act be amended to eliminate the inequity between employment benefits for drivers and transit users, making employer-provided transit benefits income-tax exempt.

Attached for your interest is a copy of AMO's letter and the replies from the Secretary of State for Finance and the Minister of the Environment, as well as CUTA's report.

Thank you for your resolution and support for AMO. We will keep members advised of any progress on this matter.

Yours truly,

Kate Zavitz

Kate Zavitz
Policy Advisor

Attachment

cc David Cohen, Director of Economic & Social Policy, FCM

393 University Ave., Suite 1701 Toronto, ON M5G 1E6
tel: (416) 971-9856 • toll free: 1-877-426-6527 • fax: (416) 971-6191 • email: amo@amo.municom.com

Secretary of State
Finance

Secrétaire d'État
Finances

Ottawa, Canada K1A 0G5

JUN - 7 2000

Mr. Michael Power
President
Association of Municipalities of Ontario
1701-393 University Avenue
Toronto, Ontario
M5G 1E6

RECEIVED
JUN - 9 2000

Dear Mr. Power:

The Honourable Paul Martin, Minister of Finance, has asked me to respond to your May 9, 2000 letter and enclosure in support of the City of London's proposal that employer-provided transit benefits not be subject to income tax.

The government agrees that encouraging the use of public transportation is important -- in particular, as a way of reducing pollution. We are indeed aware that Canadians attach a high value to the environment. Working in this direction not only makes good environmental sense, but also good economic sense.

As you may know, there is a process currently underway for developing a National Implementation Strategy for climate change. As part of this important effort, the government established a number of Issues Tables to analyze potential measures to abate greenhouse gas emissions. The multi-stakeholder Transportation Table has examined a number of approaches towards reducing greenhouse gas emissions in the transportation sector, and has recently issued its comprehensive report. The Table's recommendations, as well as those made by other Issue Tables, will be taken into account in the development of the National Implementation Strategy.

As you may also know, on April 13, 1999, the House of Commons indicated its support for Private Member's Motion M-360. Introduced by Member of Parliament Mr. Nelson Riis, this motion called on the government to consider making employer-provided transit benefits non-taxable. The proposal will receive careful consideration, and you may be assured that the government will continue to examine cost-effective ways of encouraging energy efficiency and renewable energy.

In examining such proposals, a number of factors must be taken into consideration to ensure that any action taken is fair and efficient. The proposed exclusion from tax of employer-provided transit benefits has, in the past, raised several concerns in this regard.

First, one has to ask whether it would be fair to provide tax assistance for employer-provided transit passes when the majority of riders would have to continue to purchase their passes with after-tax income.

Second, there is a question as to whether the bulk of tax assistance from non-taxation of employer-provided passes would accrue to individuals already using mass transportation. If so, the cost per new transit rider under the proposed measure might well be prohibitive.

Thank you for writing to the government on this issue. Please accept my best wishes.

Yours sincerely,

The Honourable Jim Peterson, P.C., M.P.

CCPM PV

Minister of the Environment Ministre de l'Environnement

Ottawa, Canada K1A 0H3

File: London Resolution

JUN 1 2 2000

Mr. Michael Power
President
Association of Municipalities of Ontario
393 University Avenue, Suite 1701
Toronto ON M5G 1E6

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Dear Mr. Power:

Thank you for your letter of May 9, and enclosure, in which you express your support for treating employer contributions toward employee public transit commuting expenses as a tax-free benefit.

Economically viable public transit is a critical element of any plan to meet our climate change commitment under the Kyoto Protocol and in providing major support for the Federal Smog Management Plan and the Clean Air Campaign initiatives. It is important that decision-makers in all jurisdictions appreciate the full environmental benefits of public transit.

Environment Canada has supported public transit through various projects undertaken by the Canadian Urban Transit Association (CUTA). We have recently worked with Pollution Probe in conjunction with CUTA to organize a one-day pro-transit workshop, which was held simultaneously in Ottawa and Toronto. The workshop reviewed current issues and explored future opportunities to support public transit.

As part of developing our national implementation strategy on climate change, a number of groups or "Issue Tables" have been set up. More than 450 experts on 16 Tables have been working to produce extensive reports identifying what all sectors of our economy can do to reduce their emissions. The Transportation Table has recently completed an extensive study of ways to reduce emissions from all forms of transportation. The Table has produced a list of 127 actions that could be considered to reduce emissions. The Table also identified some 49 measures aimed at encouraging the implementation of these 127 actions. One of the measures that received attention from the Table is a possible tax exemption for employer-provided transit passes. The Table also examined the use of market mechanisms, for example, parking charges, road pricing and fuel taxes to stimulate the development and "take-up" of new, more efficient technologies and the choice of transportation services.

Canada

The Analysis and Modelling Group is currently evaluating the potential impact of the package of options analyzed by the Issue Tables to determine how these options can help us to achieve our Kyoto target. This analysis, referred to as the "roll-up", will serve as input to the development of Canada's national implementation strategy. Federal, provincial and territorial Energy and Environment Ministers will meet to finalize the strategy over the course of this year. You may wish to refer to the "National Climate Change Process" Web site at www.nccp.ca to obtain further information on the work of the Transportation and other Issue Tables.

I appreciate the Association's interest in this matter and hope that my comments are helpful.

Yours sincerely,

David Anderson

David Anderson, P.C., M.P.

cuta actu
Canadian Urban Transit Association
Association canadienne du transport urbain

Partnership in Urban Transit

Quality of Life and Economic Prosperity for All

Submission to

House of Commons Standing Committee on Finance
Pre-Budget Consultations

September 2002

Summary of recommendati ns

The Canadian Urban Transit Association (C TA) is the association of providers of urban transit services, suppliers and related organizations c Can da. On behalf of its members, CUTA urges the Standing Committee on Finance to adopt the fo win recommendations:

1. **Establish a sustained program for rect investment in transit, in partnership with provincial, territorial and municipal go ernm ents.**
2. **Amend the *Income Tax Act* to elimin e th inequity between employment benefits for drivers and transit users. Make empl er p ovided transit benefits income tax-exempt.**
3. **Invest $5 million annually towards m sure to improve public awareness of transit, and towards research and development me sures to improve transit effectiveness and efficiency.**

How Canada can best assure greate leve s of economic prosperity widely shared by all Canadians;

Our cities must remain attractive to busines tha operate on a global playing field, where time is money and rapid response lies at the heart of s cess We must ensure that our cities avoid the crippling traffic congestion that can drive companies e whe e. Urban transit is critical to reducing congestion and keeping it reduced – otherwise an impo ble allenge – and to moving people and goods, both faster and less expensively.

Cities with strong transit systems will thrive ore eadily in the face of future fuel shortages or price increases, giving them a competitive advant e ov r cities with less balanced, more auto-dependent transportation systems. Reliable transit ser e al o ensures that businesses can locate freely in the knowledge that their access to critical labou mark ts will be preserved, even in cities suffering from urban sprawl and declining personal mobili A erican cities have learned these lessons, and are aggressively making amends for decades of ansit eglect – will Canada learn from them, and avoid repeating their history?

There is growing evidence that our urban eco mies benefit from stronger investment in transit:

- American research has found that a $10- llion capital investment in transit can generate more than 300 jobs, with an overall benefit-to-cost r o as igh as nine to one.
- Recent research commissioned by the (nad *Transportation Act* Review Panel estimated the marginal social cost of peak period p seng r travel to be $0.47 per passenger-kilometre by automobile, compared to just $0.30 by tr sit. These figures show that we can substantially reduce the costs to society of accommodating th ever increasing demand for passenger travel, by carrying people on urban transit rather than in aut obil s.
- International research has found that c es v ith strong public transit systems enjoy significant economic efficiencies. For example, the omb ned operating costs of public and private passenger transportation in Toronto amounted to ju seve percent of that city's gross regional product in 1990,

compared to about 12 percent for a group of large American cities. Toronto's lesser diversion of wealth to transportation, which likely arises from its high transit ridership and compact urban form, frees up private and public resources that can be used to support other critical sectors such as health and education.

How the government can best assure the highest quality of life for all.

Millions of Canadians, many of them disadvantaged by youth, advanced age, poverty or disability, rely on public transit to give them access to critical education, employment and health care opportunities. Indeed, 30 percent of Canadian transit riders are students, seniors, children or disabled persons – and it is these citizens who are most negatively affected by the higher fares and reduced services caused by decreased transit funding. Improvements to urban transit, on the other hand, would directly increase the range of opportunities to them.

The availability of transit is an important financial consideration in the lives of lower-income Canadians, for whom spending on transportation competes with other "basics of life" such as food, shelter, education and medicine. Transit's affordability (a year of travel for about the same cost as one month of car ownership) allows riders to more readily take advantage of other opportunities. This is no small issue – according to Statistics Canada, the average Canadian family spends more on transportation (18 percent of household spending) than on food (16 percent).

Maintaining Canada's enviable status among nations requires us to preserve the quality of life so cherished by our citizens. To this end, public transit has a long, well-documented history of helping to build the kinds of communities that Canadians want to live in – those having clean air, healthy environments, safe roads and green spaces.

In modern cities, where "getting around" can be synonymous with "getting ahead," transit provides a vital step up for both the young and the elderly, the able-bodied and the physically challenged, the rich and the not-so-rich. Transit has the support of Canadians of all ages and from all walks of life, because it provides them with the ability and freedom to participate fully in their communities. In a poll of Canadian adults conducted in March 2002, 92% agreed that public transit makes a community a better place to live, with 73% feeling that they saw a personal benefit from transit even though they may not use it. It is not surprising, then, that the Canadian public has made transit a priority when it comes to investing in urban transportation: survey respondents favoured transit expansion over road expansion by a factor of two to one. What is more, 92% agreed that both the federal and provincial levels of government should invest in public transit.

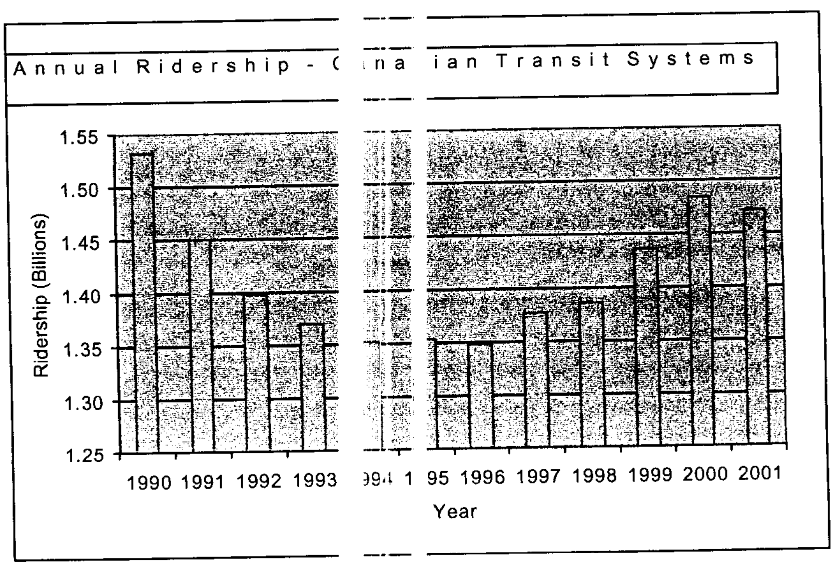
Transit helps to keep Canadians healthy by giving them cleaner air to breathe. While twenty million Canadians are exposed to harmful levels of air pollution, and one in five has some kind of respiratory problem, bus travel is significantly less polluting (25 to 90 percent less, depending on the specific pollutant) than travel by single-occupant car. This makes a real difference on an urban scale – as an illustration, downtown air quality measurements taken during transit labour disruptions in Vancouver, Calgary and Hamilton have found ground-level ozone concentrations to be 15 to 70 percent higher than normal for the time of year. Urban transit is also three times more energy-efficient than car travel and will play a key role in reducing Canada's greenhouse gas emissions – thereby helping to prevent climate change and allay its threats to Canada's ecosystems and public health.

Canadians are also becoming more aware of t imp rtance of road safety. Few, however, realize that transit makes an important contribution in this rea. n fact, transit is the safest mode of urban travel – by distance travelled, the fatality rate for trans pass igers in Canadian cities is just five percent of that for automobile passengers. This means that ar nves nent in transit is also an investment in the lives of Canadians.

Transit at the crossroads: C all nge and choice

As Canadian cities struggle to redefine their le as engines of the new economy, they face mounting challenges in attempting to simply make ends eet. Vhile they are home to rapid economic growth and soaring private wealth, our cities sorely lack th abili y to generate the revenue they need to maintain and expand basic services. (This issue receives cid a d thorough discussion in the recent report *Early Warning: Will Canadian Cities Compete?,* pare by the Federation of Canadian Municipalities.) In many cities, transportation – with its attendant ls of collisions, congestion and pollution – is the number one public issue. Transit is an important part of ie sc ution, but municipalities find themselves caught in a financial "squeeze play," with little hope of ndin a resolution without the help of senior levels of government.

Transit in Canada has arrived at a crossroads nd v e face an important choice that will determine our nation's competitiveness and quality of life or d cades to come. We could choose the road to a stronger role for transit and increased benefit for s ciety, the economy and the environment – or, we could choose the road to lower ridership, gre er g vernment spending on all modes of transportation, increased congestion, deteriorating air quality nd a hanging climate. In the absence of bold action by our senior levels of government, we have mo ed p ilously close to choosing the latter path simply by default. The convergence of the following m or ch llenges means that action is required now to ensure



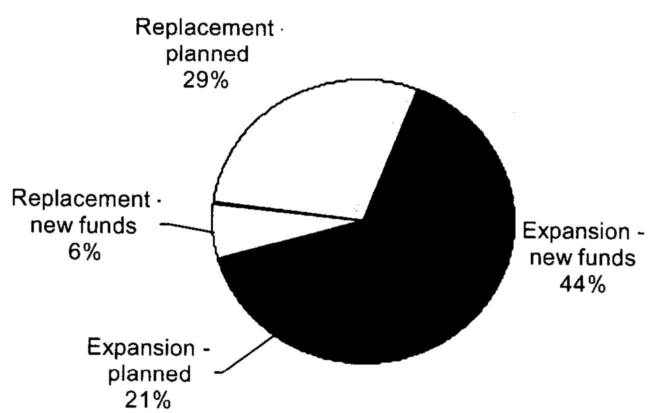
a positive future for our cities and their citize :

- **Transit demand is getting ahead of capacity.** Traffic congestion is becoming an ever-greater economic drain and environmental threat, and the costs of driving continue to increase. In response, national transit ridership has risen 10 percent since 1996 even though there is insufficient funding to allow supply to keep pace. We must capitalize on this momentum with improved service, rather than extinguish it with an indifferent response.

- **There is no fat left to cut.** Transit systems in Canada are very efficient, recovering 62 percent of their total operating costs from fare revenue. This compares to averages of 55 percent in France, 44 percent in Sweden, 41 percent in the United States, and 28 percent in the Netherlands. Years of belt-tightening, restructuring and "making do" have left Canadian transit properties stretched to the limit of their abilities and resources.

- **Transit infrastructure needs are critical.** The Canadian Urban Transit Association estimates that $13.6 billion will be required over five years to meet transit infrastructure investment needs across Canada. Of that amount, $4.8 billion is needed just to renew outdated facilities and rolling stock, and $8.8 billion is needed to expand services to meet growing demand. Current transit budgets can only meet $6.8 billion of the total needs, creating a shortfall of $6.8 billion. Without new funding sources, insufficient capital investment will place pressure on operating budgets, increase life-cycle costs, limit service accessibility, and create negative environmental impacts.

Projected Uses of Infrastructure Funds



- **Transit investment is declining.** Transit funding by Canadian governments has dropped 25 percent over the last five years. Many municipalities have been left with little choice but to cut service and raise fares, making their transit systems less competitive. While some provincial governments have enhanced their support for municipal transit, others have been reducing their contributions – and Canada remains the only G-7 country without a national transit investment program. Federal and provincial funding in Canada currently amounts to only about 4 percent of transit's operating and 15 percent of transit's capital costs, versus 25 percent and 58 percent for operating and capital in the United States, and 15 to 30 percent for operating and 30 to 100 percent for capital in European G-7 countries.

- **Municipalities cannot do it alone.** Financial transfers to Canadian local governments as a portion of their overall revenue declined from 22.4 percent in 1996 to 17.9 percent in 2000, placing pressure on local governments to increase the prop ty ta es that make up over 80 percent of their locally-derived revenue. Property taxes are a regr sive nd highly visible form of taxation, and increases are unpalatable. Transit fares are the her aditional source of revenue to pay for transit operations, but cost recovery from fares alre dy high and further fare increases could threaten growing ridership. Generally speaking, far incre ses that exceed the level of inflation, have a direct negative impact on ridership. Other innov ive n eans of generating revenue, such as road user fees and local taxes on parking spaces or hotel oms are generally not available to municipalities under the terms of provincial empowering le slati n. For these reasons, the realistic ability of municipalities to raise additional funds on th r ow is quite limited.

Directions for stronger tran it

CUTA has consistently recommended decis e fe eral action on several key fronts, including the following major priorities:

- reliable, sustained funding for national tran ren wal and expansion;
- income tax reforms that correct important equi es between automobile and transit users e.g. make employer provided transit benefits income x-ex mpt. ;
- improved public awareness of transit and i bene its; and
- research and development to improve tran t effe tiveness and efficiency.

Canada's federal government is aware of th mpo tance of these issues. In fact, it is making steady progress towards reinvigorating its support fo rban transit on a national level. The past year alone has seen a number of important milestones in this gard

- Three Transit Studies commissioned by Tran port Canada to give the federal government an overview of our transit industry, a nationa visio for public transit, and a cost-benefit framework for the evaluation of transit investments.

- The final report of the Canada Transporta on A t Review Panel highlighted transit's important role in reducing the overall social costs of u an t ansportation. The report proposes "unprecedented federal action and funding" in helping ransi to reach its potential, and makes the landmark recommendation that urban transit should e elig ble for funding through road user charges.

- The interim report of the Prime Ministe s Ca cus Task Force on Urban Issues. The Task Force recommends that the Government of C nada establish a National Transportation Program that would: provide long-term sustainable fun g fo public transportation systems.

- Transport Canada is also developing a lo g-ter national transportation strategy – or Transportation Blueprint – that will respond to a numb of id ntified key challenges, one of which is the need to make public transit more attractive.

- Establishment of the Canada Strategic fra stru cture Fund, also including a limited provision for public transit.

The federal government has also taken positive steps by including transit in several new funding programs, including its municipal infrastructure program and the Green Municipal Funds managed by the Federation of Canadian Municipalities. It must be noted, however, that the level of funding that transit is likely to receive through these channels will accomplish relatively little in the face of the immense challenges that cities are facing, coast-to-coast. Existing programs do not come close to providing the substantial resources that will be required to renew and sustain transit's national role. In fact, one of the research reports commissioned by the *Canada Transportation Act* Review Panel concluded that the economically optimal level of government subsidy for transit was in the order of $5.7 billion annually, compared to the actual subsidy of $2.1 billion from all levels of government in the year 2000. The same report also concluded that, in the absence of a federal funding role, this under-spending on urban transit will continue.

The federal government has taken the critical step of recognizing an important national interest in urban transit. What we now require is federal action to help municipalities and transit operators overcome the imposing challenges that are threatening that national interest. CUTA therefore urges the Standing Committee on Finance to act on the following four recommendations:

Recommendation 1

Establish a sustained program for direct investment in transit, in partnership with provincial, territorial and municipal governments.

The viability of transit as an alternative to urban sprawl and automobile dependence would be substantially strengthened by a new partnership among federal, provincial, territorial and municipal governments that is dedicated to sharing public transit investments.

The Canada Infrastructure Program provides a model for an effective transit investment program. It shows that cooperative tripartite funding of municipal infrastructure improvements can be a "win-win-win" scenario, achieved without constitutional difficulties. Unfortunately, it cannot itself provide major benefits for transit in the face of competing municipal priorities (e.g., water and wastewater treatment) and the ineligibility of rolling stock for funding under the terms of the program.

Due to the magnitude of the costs involved, federal and provincial involvement is urgently required to meet transit infrastructure needs. Municipalities simply cannot bear the cost of rehabilitating and expanding their rolling stock, rights-of-way, maintenance facilities, passenger terminals, park-and-ride lots, transit priority measures and advanced technologies.

CUTA has identified $700 - 900 million per year as an appropriate federal contribution towards transit infrastructure; with matching provincial contributions, this amount would yield at least $1.5 billion per year in new investment and could fully address the existing transit infrastructure backlog in four to five years. This fund could be established in several ways, such as by dedicating the equivalent of a percentage of the federal excise fuel tax. The Federation of Canadian Municipalities, among others, has recommended an allocation of three cents per litre of fuel sold that would create a federal investment stream of approximately $1 billion per year.

Recommendation 2

Amend the *Income Tax Act* to eliminate the inequity between employment benefits for drivers and transit users, make employer provided transit benefits income tax-exempt.

Eighty percent of Canadian automobile commuters receive subsidized parking from their employers, but most do not pay tax on those benefits. Meanwhile, an employee who enjoys the benefit of employer-subsidized transit fares must pay income tax on it. This pricing distortion helps to preserve the regime of automobile dominance that threatens the financial, social and environmental health of our cities.

The amendment of income tax legislation has been a long-standing objective of CUTA and its members, as well as of a nation-wide coalition of municipal officials, labour and taxpayer groups, and prominent citizens. CUTA's recommendation to make employer-provided transit benefits tax-exempt was identified by the federal government's Transportation Climate Change Table as having substantial positive economic net benefits. The United States made a similar move decades ago, with resounding success – and it is time for Canada to learn from that experience. It is an important step that would cost little to implement but would, over time, become a major stimulant for new transit ridership.

Recommendation 3

Invest $5 million annually towards measures to improve public awareness of transit, and towards research and development of measures to improve transit effectiveness and efficiency.

The goal of changing consumer behaviour is widely acknowledged to be a prerequisite to developing more sustainable transportation systems. However, improved transit service and infrastructure are only one means of accomplishing this; public education and outreach are also required to successfully position transit as the mode of choice for urban travel. Funding is required for a national image-building campaign, and for the development of regional and local transportation demand management programs.

Funds are also needed to research and disseminate best practices in transit management and operations. The *Canada Transportation Act* Review Panel, for example, recommended experimentation with innovate forms of transit service – but the financial risks inherent in experimentation are difficult for transit operators to absorb in this tight fiscal climate. Federal involvement could pave the way for innovations to be identified, tested, documented and propagated, thus returning the initial investment many times over.

Public Transit

Tax-exempt transit benefits:

The case for action—now!

For almost a decade, a broad coalition of business, labour, social, health and environmental groups has urged Canada's federal government to give tax-exempt status to employer-provided transit benefits. To date, the government has refused to act—despite all-party support from the House of Commons, despite its own studies predicting economic benefits that vastly exceed the costs, and despite almost two decades of American success with similar measures.

Canada's transit industry and its allies are not prepared to abandon this cause. The reasons to act—climate change, traffic congestion and air pollution, to name a few—are growing in number and significance. As part of its new urban strategy, the federal government has promised to support a long-term program of transit infrastructure investment—but has refused to make a simple tax amendment that could boost national transit use.

We must complement infrastructure with programs that encourage transit use through incentives and public awareness. By refusing to do so, Canada's national leaders are missing a rare and valuable opportunity to affect public policy at a local level.

An uneven playing field

Under the federal *Income Tax Act*, employer-provided parking and employer-provided transit benefits are both considered taxable. However, Revenue Canada's interpretation and the tax preferences included in the *Act* allow many employees to receive free parking as a benefit without paying income tax on it. While Revenue Canada cannot identify the extent of the problem, surveys show that about 80 percent of auto commuters receive free or subsidized parking.[a] It is no surprise that employer-provided transit benefits—which are taxed—are practically non-existent.

When deciding how to get to work, most commuters only consider out-of-pocket driving costs like gas, tolls and parking. Parking fees, where they exist, are usually the most significant of these. Tax-exempt parking benefits are thus a major incentive to commute by car, rather than transit. Tax-exempt transit benefits would level the playing field. They would provide equity for non-drivers, and balance the effect of free parking by reducing the cost of transit. And they would give employers a real incentive to offer transit benefits to their employees.

cuta actu

Canadian Urban Transit Association
Association canadienne du transport urbain

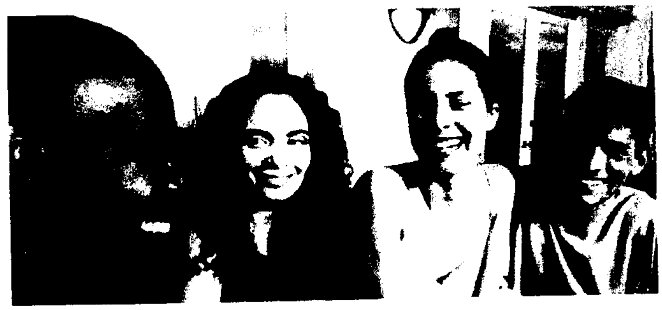
U.S. experience shows tax exemption works

Almost 20 years ago, the United States made transit benefit: tax-exempt in order to encourage transit use. In response, tr: agencies and private companies have adopted a "win-win-w strategy—joining forces to administer public transit benefit in a way that works for businesses, employees and transit companies alike.

From 1984 until 1993, the United States allowed employer to provide $15 to $21 U.S. per month in tax-exempt transi benefits. The federal government controlled costs by limiti the employers that could offer the benefit, and by requirin them to offer the benefit as new compensation rather than conversion of salary. Despite these restrictions, transit ride increased 25 percent among employees who were offered t benefit.[b] Surveys in Philadelphia found that existing trans users who accepted the benefit increased their ridership b 32 percent, and that 30 percent of employees accepting the benefit were new transit users.[c]

Subsequent changes to the U.S. tax code increased the allow benefit to $60 U.S. per month in 1993, and to $100 U.S. p month in 2002. There are no longer any restrictions on emp eligibility. Employers get a tax deduction for the expense, save on payroll-related taxes. It's also cheaper for employe offer a transit benefit than to increase salaries by the same amount—after tax, a $1,200 annual transit benefit can ha much value to an employee as a raise of $2,000. Employe convert existing wages into the benefit, rather than havin increase their corporate payroll. And as a bonus, employe contribute toward the benefit using pre-tax salary dollars.

Increases in allowable benefits have yielded higher rates o ticipation by employers and employees. In the San Franci area, employer participation rose sharply from 3 percent i 1992 to 27 percent in 2001, and the sale of transit vouchers distributed through employer benefit programs has doubled in the past year.[d] Over one-quarter of weekday riders on San Francisco's commuter rail system enjoy employer-provided transit benefits.



University passes demonstrate the potential

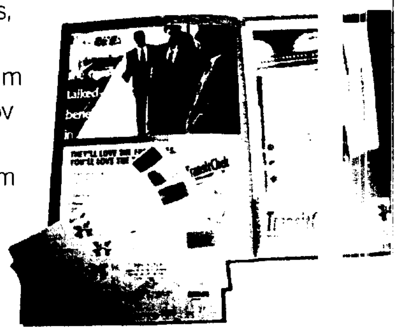
What would happen if employer-provided transit benefits were made tax-exempt in Canada? Our best evidence comes from programs that sell discounted transit passes to university students:

- In the three years that BC Transit's U-PASS has been offered to students at the University of Victoria and Camosun College on Vancouver Island, student ridership is up at least 50 percent.
- Similar programs at the University of Western Ontario and Fanshawe College in London, Ontario, have helped to increase total system ridership by 26 percent in three years.

Changing the *Income Tax Act* would create similar success stories among Canadian businesses.

For more about the American experience with tax-free transit benefits, see:

- www.commuterchoice.com
- www.commuterchoice.gov
- www.transitchek.com
- www.commutercheck.com
- www.wageworks.com



We urge [the government of Canada] to bring forward legislation, as soon as possible, to implement this easy and practical step towards revitalization of urban regions and reduction of the serious environmental impacts of urban transportation.

— The Toronto Board of Trade

The impacts of tax exemption

Figure 1 illustrates the potential impacts of tax-exempt employer-provided transit benefits in Canada. It shows two scenarios with different benefit contribution mechanisms and monthly caps, with corresponding differences in employer uptake and transit use among employees who are offered the benefit.

Figure 1 shows that Canada's federal government could limit the costs of tax exemption by capping monthly benefits and restricting the contribution mechanism. But such limitations would dissuade employers from offering the benefit, and discourage many employees from accepting it.

The increases in employee transit use shown in Figure 1 do not account for the ability of transit benefits to retain existing riders—and thus boost transit ridership over time. They also do not account for transit commuters using transit more often for non-commuting trips—an option that would be more attractive once they are using monthly passes to commute, rather than cash or tickets.

Furthermore, Figure 1 does not account for the wide range of substantial social benefits that would result from greater transit use by Canadian commuters. These secondary benefits have been highlighted by federal government bodies including the Prime Minister's Caucus Task Force on Urban Issues and the *Canada Transportation Act* Review Panel.[e,f] They include reductions in congestion and the resulting delays to businesses and commuters, a reduced need for road construction, cleaner air, reduced greenhouse gas emissions, improved road safety and many others. In fact, analysis for the Transportation Climate Change Table found that the benefits of tax exemption (including cost savings for road construction, parking and congestion) would be at least 3 to 7 times greater than the costs.[a]

The long road in support of tax-exempt transit benefits

1995. Campaign begun by the Canadian Urban Transit Association (CUTA) and the Federation of Canadian Municipalities (FCM)

1997. Creation of a Task Force including the Amalgamated Transit Union Canadian Council, Canadian Labour Congress, CUTA, FCM, Ontario Lung Association and Pollution Probe

1998. Unanimous recommendation as an "early action" item by the federal Transportation Climate Change Table

1999. Survey finds 75 percent of Vancouver businesses support tax exemption for transit benefits

1999. Private member's bill asking the federal government to consider tax exemption for employer-provided transit benefits passed by House of Commons, 240 votes to 25

2001. Transport Canada study on a national vision for public transit identifies 15 key policy goals, including "A level playing field [for] transit versus auto travel decisions... [including] rationalization of income tax regulations affecting allowable deductions and taxable benefits"

Support for tax exemption has been expressed by the Departments of Transport and Environment, several House Standing Committees, and hundreds of Canadian organizations representing workers, seniors, students, health care professionals, businesses, municipalities and environmentalists.

Figure 1. Potential impacts

Scenario	Contribution mechanism	Benefit cap	Employer participation	Employee transit use	Federal cost (foregone taxes)
Basic (similar to U.S. in 1991)	Employer only New benefit (no salary conversion)	$21 per month	Year 1: 1% Year 10: 5%	25% to 35% increase	Year 1: $0.67M Year 10: $3.35M
Advanced (similar to U.S. in 2002)	Employer and/or employee New benefit or salary conversion	None	Year 1: 10% Year 10: 60%	50% increase	Year 1: $19.8M Year 10: $119M

Note: Basic scenarios and estimates of employer participation and employee transit use taken from reference a

Addressing federal government concerns

The Department of Finance has put forth a number of concerns with tax-exempt employer-provided transit benefi In response, CUTA and its allies offer the following points.

Concern: Taxes are not an appropriate tool to change people's behaviour.
Response: Canada already uses taxes for this purpose —such as the excise taxes on cigarettes and alcohol. We also enjoy tax deductions that encourage charitable donations, retirement savings and political contributions—wh not transit use?

Concern: It would be an administrative burden on the federal government.
Response: Administration comes from tax collection, not ta exemptions. Other than a small change in legislation, no ongoing effort by Revenue Canada or the Department of Finance would be required. Most necessary work would be done by transit companies, municipalities and the private sector. Medical and dental benefits are already tax-exempt, and do not place a burden on the federal government.

Concern: This would set a precedent for excluding other benefits from taxation.
Response: The precedent is already set—tax exemptions have been granted to other benefits because of long-term advantages like reduced social costs. The dominance of ca commuting in Canadian cities is a serious threat to our environment and our quality of life. Tax-exempt transit benefits can help us change this.

Concern: Tax exemption would be inequitable to employe of businesses that don't offer transit benefits—they would ha to buy transit passes with after-tax income.
Response: Tax exemption would fix the inequity now suffe d by transit commuters whose car-commuting colleagues re ive free parking at work. Increased transit use by commuters would also enable transit companies to improve service fo he members of society who need it the most—youth, the eld y and persons with disabilities.

Concern: Because a majority of people who would benefit from tax relief are already using transit, the cost of tax-exempt transit benefits would be high when measured against the number of new riders.
Response: We need to include more than just new riders in cost calculations. This incentive would also help to retain existing riders—an important consideration, because rider turnover is a fact of life for transit systems. The estimated cost per new rider would be drastically reduced—perhaps by half—if we included the 50 percent of existing transit users who are "choice users". As well, the government's cost estimates exclude the value of numerous economic benefits like reduced traffic congestion and pollution, and do not account for the portion of foregone taxes that would be collected later as GST or other forms of revenue.

Let's make it happen

CUTA has published this "special edition" issue paper with the hope of influencing the coming federal budget—but we need your help. Please contact your Member of Parliament, the Minister of Finance and the Prime Minister. Let them know that the time is right, more than ever, for tax-exempt employer-provided transit benefits.

References

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The Canadian Urban Transit Association (CUTA) is the voice of Canada's public transit industry. For additional information, including research reports, industry updates, news bulletins and more, please contact us or visit our website.

Suite 1401—55 York Street
Toronto ON M5J 1R7 Canada
416-365-9800
416-365-1295 (fax)
transit@cutaactu.ca
www.cutaactu.ca

cuta actu
Canadian Urban Transit Association
Association canadienne du transport urbain

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