Minister of Finance — Ministre des Finances

Ottawa, Canada K1A 0G5

AUG 13 2003

Mr. Denis Kelly
Regional Clerk
The Regional Municipality of York
17250 Yonge Street
Newmarket, ON L3Y 6Z1

Dear Mr. Kelly:

A copy of your May 28, 2003 letter to your Member of Parliament, Mr. Bryon Wilfert, has been forwarded to me. I also welcome this opportunity to respond to your letter to my colleague, the Honourable Maurizio Bevilacqua, Secretary of State (International Financial Institutions).

I have noted your suggestion that employer-provided transit passes not be subject to income tax. The government agrees that encouraging the use of public transportation is important. We are indeed aware that Canadians attach a high value to the environment and will continue to examine cost-effective ways of encouraging energy efficiency and renewable energy. Working in this direction makes not only good environmental sense, but also good economic sense.

However, making employer-provided transit passes a non-taxable employment benefit would not be a cost effective way to promote the use of public transit or to reduce the environmental impacts associated with personal automobile use. This measure would be ineffective as the majority of benefits would go to existing users of public transit. In fact, even under generous assumptions regarding employer participation and increased transit use, which are consistent with the experience in the U.S., about 75 per cent of the benefits would accrue to existing users without yielding any additional environmental benefit. As a result, the federal-provincial cost per new rider would exceed the average cost of a transit pass. In fact, transit use would have to double among employees offered the benefit for the majority of the benefits to go to new users.

Making employer-provided transit passes a non-taxable employment benefit would also raise issues of fairness. There would be no benefit for transit users who do not receive employer-provided passes, such as students, seniors and the unemployed, who would continue to purchase transit out of after-tax dollars. In addition, the measure would yield no benefit to residents of small centres and rural areas where little or no public transit exists, and individuals already using environmentally friendly modes of transit (walk, bike) or for whom using public transit is impractical.

In 2002, the Standing Committee on Finance reached these same conclusions and advised against proceeding with a similar but broader proposal (Private Member's Bill C-209) that would have permitted all transit users to deduct a portion of their transportation costs for income tax purposes.

Canada

It is also important to note that, beyond issues of taxation, the Government of Canada has put in place infrastructure programs that help support direct investments in public transit and is making other significant investments to reduce our greenhouse gas emissions and improve the environment.

For example, in the last three budgets, the government has announced a total of $7 billion in funding for municipal and strategic infrastructure. I would note that some of this funding has been committed to public transit projects.

In Budget 2003, the federal government announced investments of $3 billion in support of climate change and the environment, which is on top of the $2.3 billion the government has invested in these areas since 1997. Included in this $3 billion is $2 billion allocated over five years to support climate science, environmental technology and cost-effective climate change measures and partnerships in areas such as renewable energy, energy efficiency, sustainable transportation and new alternative fuels. Of this funding, $250 million will go to Sustainable Development Technology Canada to develop and demonstrate technology with the potential to reduce emissions and $50 million to the Canadian Foundation for Climate and Atmospheric Sciences to increase atmospheric research activities. The remaining $1.7 billion over five years will support innovation and cost-effective measures leading to greenhouse gas emission reductions in Canada. Actions in such areas as building retrofits, wind power, fuel cells and ethanol, will be considered.

To further improve our stewardship of the environment and contribute to the sustainable development of our economy, Budget 2003 also provides $1 billion to address federal contaminated sites, improve air and water quality, support the assessment and management of toxic substances, further protect Canada's species at risk and their critical habitat, support the World Summit on Sustainable Development Plan of Implementation, and establish and maintain parks and conservation areas.

Thank you for writing to me on this important issue.

Yours very truly,

John Manley

c.c.: Mr. Bryon Wilfert, M.P.