A Cost Estimate of Proposed Amendments to the *Income Tax Act* to Exempt Certain Employer-Provided Transportation Benefits from Taxable Income

Ottawa, Canada
February 4, 2010
www.parl.gc.ca/pbo-dpb

The *Parliament of Canada Act* mandates the Parliamentary Budget Officer (PBO) to provide independent analysis to the Senate and House of Commons on the state of the nation's finances, the estimates and trends in the national economy.

Key Points of this Note:

- Consistent with its legislative mandate to estimate the financial cost of any proposal that relates to a matter over which Parliament has jurisdiction, the PBO was asked to prepare a cost estimate of a Bill tabled in the second session of the 40th Parliament [C-466: *An Act to Amend the Income Tax Act (transportation benefits)*].

- The proposed legislative amendments to the *Income Tax Act* would exempt certain types of employment benefits from income tax. Specifically, individuals would be permitted to exclude the following amounts provided by the employer to an employee from the calculation of taxable income:
  - Up to $150 per month in public commuter transit service expenses related to commuting to and from work;
  - Up to $150 per month in parking expenses related to the use of public commuter transit or to use carpooling (*e.g.* park and ride services).
  - Up to $240 per year to purchase and maintain a bicycle used to commute to and from work.

- Drawing on publicly available data, peer-reviewed publications and consultations with knowledgeable parties, it is estimated that the proposed legislative amendments are likely to result in forgone annual revenues to the federal government of between $10 million and $180 million, following a five-year implementation period.

	Scenario #1: *Employer Subsidy*	Scenario #2: *Employee Pay*
Transit :	Less than $8 million	Less than $143 million
Carpooling:	Less than $2 million	Less than $33 million
Biking:	Less than $1 million	Less than $2 million
TOTAL	**Less than $11 million**	**Less than $178 million**

- These cost estimates represent the gross impact of the proposed legislative amendments. The net effect would be substantially lower given: (1) decreased claims under the lower-value federal Public Transit Tax Credit, and (2) legislative rules for federal programs funded through payroll taxes (*e.g.* Canada Pension Plan and Employment Insurance) that will fully offset forgone revenues in the long-term.

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*Comments are welcome. Contact Jason Jacques (e-mail: jacquj@parl.gc.ca) for further information.

I. Introduction

This note responds to the request of November 2009 by Ms. Denise Savoie, Member of Parliament for Victoria, British Columbia, regarding the potential costs arising from the adoption of a Bill introduced in the second session of the 40th Parliament: Bill C-466, *An Act to Amend the Income Tax Act (transportation benefits)*[1].

The costing primarily relies on data, analysis and assumptions generated by government agencies and peer-reviewed publications. We have also undertaken consultations with several organizations and experts with knowledge of the influence of incentives on commuter transportation decisions.

Summary of Proposal

Several key assumptions have also been provided by the office of Ms. Denise Savoie, Member of Parliament for Victoria, B.C., which are identified in the assessment and may have a material impact on the cost estimate presented in this note.

The proposed legislative amendments to the *Income Tax Act* (ITA)[2] would exempt certain types of employment benefits from income tax. Specifically, individuals would be permitted to exclude the following amounts provided by the employer to an employee from the calculation of taxable income:

- Up to $150 per month in public commuter transit service expenses related to commuting to and from work;
- Up to $150 per month in parking expenses related to the use of public commuter transit or to use carpooling (*e.g.* park and ride services).
- Up to $240 per year to purchase and maintain a bicycle used to commute to and from work.

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Table 1. Key Features of Proposed Tax Exemption

ELIGIBILITY	▪ ANY INDIVIDUAL EMPLOYED BY A FIRM HAVING AN ARM'S-LENGTH RELATIONSHIP.
MAXIMUM VALUE	THERE ARE THREE NON-EXCLUSIVE INCOME EXEMPTIONS: 1. UP TO $1,800 PER YEAR OF PUBLIC TRANSIT BENEFITS; AND, 2. UP TO $1,800 PER YEAR OF CARPOOLING BENEFITS; AND, 3. UP TO $240 PER YEAR TO PURCHASE AND MAINTAIN A BICYCLE.

The legislative amendments also specify that an employee could only claim either the tax exemption or the Federal Public Transit Tax Credit.

A copy of the proposed legislative amendments is presented in Annex A.

[1] http://www2.parl.gc.ca/HousePublications/Publication.aspx?Docid=4174281&file=4. Accessed in December 2009.
[2] http://laws.justice.gc.ca/PDF/Statute/I/I-3.3.pdf. Accessed in December 2009.

II. Cost Estimate

<u>Relevant Costs</u>

There are two types of relevant costs to the federal treasury:

1. *Pre-existing eligible individuals*. These costs pertain to all taxpayers that currently receive a taxable transportation benefit and would experience a reduction in taxable income as a result of the proposed benefit exclusion.

2. *Induced firms and individuals*. This is an estimate of the number of taxpayers (*i.e.* individuals and institutions) that may be induced to subscribe to, or create, an employer 'transportation benefit' program as a result of the legislative amendments.

In both situations, the relevant fiscal costs would be reflected in two distinct revenue streams:

- For individuals, the proposed exemption would reduce inflows of personal income tax revenues. The level of loss would be equal to the average marginal personal income tax rate of eligible individuals and the total amount of exempt income[3].

- For firms, the proposed exemption would reduce payroll taxes (*e.g.* Canada Pension Plan, Employment Insurance) that would not apply to the eligible exempted income[4] and hence revenues accruing to the federal treasury.

Table 2. Sources of Potential Federal Tax Impacts

<u>**Individuals**</u>	<u>**Firms**</u>
▪ *Personal Income Taxes* ▪ *Canada Pension Plan Contributions* ▪ *Employment Insurance Contributions*	▪ *Canada Pension Plan Contributions* ▪ *Employment Insurance Contributions*

The time period of analysis is the initial five years following promulgation of the legislative amendments, given the primary relevance of this window for fiscal planning.

[3] The newly exempted income would, in effect, be a deduction from taxable income and therefore forgone revenues for each eligible individual would be the product of the marginal personal income tax rate and the amount of eligible exempted income (*i.e.* the amount of income below the maximum annual ceiling). While employees who claim the exemption will have lower employment income for the year, which will result in lower CPP and EI benefits, this is assumed to be immaterial during the five-year initial implementation period under consideration for this cost estimate.

[4] For 2010, firms are generally required to remit Canada Pension Plan contributions on their payroll of 4.95% to a maximum of $2,119 and Employment Insurance contributions for all provinces except Quebec of 1.73% x 1.4 to a maximum of $1,046. http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/clcltng/cpp-rpc/cnt-chrt-pf-eng.html & http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/clcltng/ei/cnt-chrt-pf-eng.html. Accessed in January 2010.

Calculations

There are extensive public transit subsidy programs in other governments within the Organization for Economic Cooperation and Development (OECD)[5]. These include mandatory employer subsidies (France), tax credits for riders (Canada) and tax exemptions for employees that receive employer-provided benefits (Britain, Japan and the US)[6].

The framework used by PBO staff to calculate the potential forgone revenues is modelled using actual experiences from the U.S. federal government, which introduced a series of tax measures during the 1980s and 1990s that are similar to those in the proposed legislative amendments[7]. As such, results from the U.S. offer insight regarding the key determinants of demand for the tax exemption and therefore the potential forgone revenues. These three key determinants include:

1. *Value of the Tax Benefit*. Demand increases with the value of the tax benefits to employees and, to a lesser extent, employers.

2. *Existing Infrastructure*. The greater the coverage and ease of use of existing facilities (*i.e.* transit, parking, dedicated bike paths), the greater the demand from employees.

3. *Administrative Complexity*. The greater the costs of implementation and administration of the employer benefit program, the less likely employers are to offer a program and, to a lesser extent, employees are to adopt it.

Unfortunately, PBO staff were unable to find good comparable data regarding the aspects of the legislative proposal relating to carpooling or bicycle benefits. However, consultations with external experts suggest that these figures should be a relatively small proportion of the overall cost of the Bill[8]. These expert views are also consistent with the data available from the 2006 Census regarding the methods of commuting used by Canadians[9]. Hence, the approach taken for this cost estimate is to assume that forgone revenues for these two aspects of the legislative proposal will be proportional to their share of commuting relative to public transit users.

Drawing on U.S. experiences, there are robust data for all key determinants, reflecting the relative increase in the value of the tax exemption to transit costs over time and wide variation in transit infrastructure across municipalities. In addition, legislative changes in the 1990s reduced implementation costs for employers and administrative complexity by *permitting employees to designate part of their remuneration for transit*

[5] Van Goeverden, C., Reitveld, P., Koelemeijer, J., and Peelers, P. *Subsidies in Public Transport*. European Transport. Nº32. 2006.
[6] Di Domenico, A. *Employer-Provided Benefits and the Environment: Transit Passes and Policy*. The Canadian Tax Journal. Vol. 54, Nº1. 2006.
[7] A historical review of the U.S. federal government's experience in implementing commuter transit benefits through the tax system is provided in the Transportation Research Board's Report #107. http://onlinepubs.trb.org/onlinepubs/tcrp/tcrp_rpt_107.pdf. Accessed January 2010.
[8] Personal communications with (1) Richard Oram. *Chairman*. Fund for the Environment and Human Life; (2) Kathleen Toma. *Senior Economist*. Congressional Joint Committee on Taxation; & (3) Stuart Baker*, Vice President of Marketing*, Accor Services.
[9] A summary of 2006 Census Commuting Data are presented in Annex C.

benefits and receiving it as tax exempt income (**employee-paid**), rather than *requiring employers to provide an incremental transit subsidy in addition to base remuneration* **(employer-paid**)[10].

Based on consultations with the office of Ms. Savoie, Member of Parliament for Victoria, B.C., the following section will present the results of the PBO model based on two discrete scenarios regarding a fully employer-paid (subsidy) administrative option and fully employee-paid (pre-tax deduction) administrative option, both of which are fully consistent with the proposed legislative amendments.

For Canada, PBO staff estimated the value of the tax benefit using the potential tax exemptions outlined in C-466, the average marginal income tax rate of Canadian federal filers in 2007[11] and the actual rates for employer payroll deductions in 2010[12]. For the second determinant (public transit infrastructure), the seven largest Canadian cities were assumed to have comparable levels of infrastructure as U.S. municipalities for which adoption data are available[13]. While the proposed Canadian legislation is permissive regarding administration and could accommodate both employee-paid and employer-paid benefits, discrete scenarios are estimated using each administrative assumption.

Finally, a further assumption regarding the ability of the Canadian Revenue Agency to appropriately administer the proposed tax exemption without undue cost is required[14].

Based on consultations with the office of Ms. Savoie, Member of Parliament for Victoria, B.C., it is assumed that the Canada Revenue Agency has an effective oversight mechanism to control access to the proposed tax exemptions.

[10] Baker, S., Judd, D., and Oram, R. *Tax Free Benefits at Thirty: Evolution of a Free Parking Offset*. Forthcoming in the Journal of Public Transportation. Copy of manuscript was shared by the authors in December 2009.

[11] The average marginal rate was calculated using actual CRA data for 2007 for total Canadian filers and the segment of total filers that claim the public transit tax credit, which range between 18% and 19%. Calculations completed by author.

[12] See footnote 4.

[13] This includes Calgary, Edmonton, Montreal, Ottawa, Toronto, Vancouver and Winnipeg. Data are provided by the Canadian Urban Transit Association's *Factbook*. 2007.

[14] This is a strong assumption given that other types of employer-provided transportation benefits, such as on-site parking, are seldom included on employee T4 slips, but are nonetheless considered taxable income pursuant to the *Income Tax Act*. Di Domenico, A. *Employer-Provided Benefits and the Environment: Transit Passes and Policy*. The Canadian Tax Journal. Vol. 54, Nº1. 2006.

Results

Detailed results using the PBO model are presented in Annex D.

Scenario #1: Employer-Paid Subsidy

- *Baseline*

  In 2006, Census data indicate that 11% of Canadian workers used public transit to commute to work. Assuming the proportion of these that were self-employed was consistent with the overall Canadian labour force[15], this represents approximately 1.7 million potentially eligible employees.

  According to a recent survey of non-wage benefit packages offered by Canadian employers, none reported offering direct subsidies for employee transit commuting[16]. Based on historical rates in the U.S., it is estimated that employers representing less than 1% of employees may currently offer a subsidy program for public transit[17]. This suggests an eligible potential pool of up to 17,000 individuals.

  Assuming that all eligible individuals claim up to the average cost of an annual transit pass in the seven largest Canadian cities (approximately $1,000 per annum)[18] and that subsidy rates in Canada are similar to those in the U.S. (*i.e.* the proportion of employer-subsidy to the overall transit pass cost), this suggests that federal personal income tax revenues could decrease **by less than three million per annum**, by the end of a five-year implementation period. Given the current income distribution pattern of individuals claiming the federal Public Transit Tax Credit[19], total payroll tax contributions for employers and employees are estimated to decrease by **less than one million dollars per annum** at the end of the five-year implementation period.

- *Inducement*

  Based on historical U.S. data, tax incentives are expected to be an ineffective inducement for firms to introduce public transit subsidy programs[20]. As such, less than 2 percent of employers are assumed to establish a new program[21]. The size of the subsidy is assumed to be within the range of 10% to 30%, based on historical U.S. data and results from the recent introduction of similar programs in Winnipeg[22]. Based on this subsidy and the decreased after tax cost of a transit

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[15] This proportion is based on labour force statistics from September 2009, presented in Statistics Canada's Labour Force Survey.
[16] Hewitt Canada. *Flexible Benefits in Canada*. 2009.
[17] See footnote 10.
[18] Based on authors' calculations and data presented on websites. Detailed data are presented in Annex E.
[19] Canada Revenue Agency's Income Statistics for 2007. http://www.cra-arc.gc.ca/gncy/stts/gb07/pst/ntrm/pdf/table2-eng.pdf. Accessed January 2010.
[20] See footnote 7, as well as personal communication with Phil Winters. Director. Center for Urban Transportation Research University of South Florida.
[21] Actual calculations are based on the U.S. historical rate of 1.4%.
[22] Calculated as the total contribution of employer toward annual transit expenses / total annual cost of a transit pass.

pass[23], demand arising from new employer-administered subsidy programs would likely result in incremental forgone revenues of **less than four million dollars** per annum by the end of a five-year implementation period.

A key reason for the relatively low inducement level (incrementality) is the widespread availability of "free parking" benefits at many workplaces. Estimates have imputed a value of up to $1,300 per space, based on replacement cost of the service (*i.e.* paying for parking) or alternative uses[24,25].

Scenario #2: Employee-Paid Subsidy

- *Baseline*

  Compared with Scenario #1, data collected by staff of the PBO indicate that a greater share of employees participate in employer-administered transit payroll deduction programs compared to direct employer subsidy programs, between 225,000 and 250,000 individuals[26].

  Given the average annual cost of a transit pass and the average marginal personal income tax rate, the PBO model indicates that the annual cost at the end of a five-year period would be **less than one hundred million dollars per annum**. Assuming the same income distribution pattern as the previous scenario (Annex D), payroll tax contributions are estimated to decrease by **less than forty million dollars per annum** at the end of the five-year implementation period.

- *Inducement*

  For employers, it is assumed that over a five-year implementation period, the number of employees covered by offering firms will grow between 5% and 10%[27].

  For employees, based on published data regarding the elasticity of demand for public transit with respect to price changes, it is assumed that the relevant take-up range is between 0% to 18%, which includes multiple jurisdictions as well as medium-term time periods of implementation[28].

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[23] The "decreased after tax cost of the transit pass" refers to the impact of the impact of the proposed legislative amendments in the creation of the tax exemption.

[24] Tax Exempt Status for Employer-Provided Transit Benefits. Transportation Table of the National Climate Change Process. Ottawa. 1999.

[25] As noted earlier, while the *Income Tax Act* requires that these benefits be included in an individual's taxable income (*Employers' Guide: Taxable Benefits and Allowances.* Canada Revenue Agency. 2008). Evidence suggests that this is done infrequently (Personal Communication with Todd Litman, Executive Director of the Victoria Transport Institute. December 2009). CRA was unable to provide information regarding the frequency and value of table parking benefits referenced on T4 slips (request by author, December 2009).

[26] Direct consultation by staff of the PBO with municipal transit authorities in Vancouver, Calgary, Edmonton, Winnipeg, Toronto, Ottawa and Montreal. A range is provided owing to uncertainty among certain respondents of actual annual demand.

[27] Bureau of Labour Statistics. *Employee Benefits Survey*. 2009.

[28] Litman, T. *Transportation Elasticities: How Prices and Other Factors Affect Travel Behaviour*. Victoria Transport Policy Institute. 2009.

Table 3. Inducement Estimates

Finance Canada (2004)[29]	**0% to 18%**
Litman (2009)	**3% to 6%**

Using the same assumptions regarding transit pass costs, average marginal income tax rates and distribution across income groups, the total incremental forgone revenues from all tax sources would be **less than thirty-nine million dollars per annum** after a five-year phase-in period.

- *Carpooling & Biking*

  As mentioned earlier, carpooling and biking costs are assumed to be proportional to their share of commuting relative to public transit users. For carpoolers, it is assumed that each carpooler has between 1 and 2 other individuals in the vehicle, which suggests an overall cost estimate of **less than thirty-three million dollars per annum** after five years. For cyclists, the forgone revenue estimate is reduced by the lower maximum claim amount (*i.e.* $240 per annum, rather than $1,800), resulting in forgone revenues of **less than two million dollars per annum** after five years.

<u>Summary</u>

Overall, the proposed amendments to the ITA would likely result in forgone federal tax revenues of between **ten million dollars and one hundred eighty million dollars per annum** after five years, depending on the assumptions used regarding adoption rates among employees and employers and the administrative structure of the tax exemption (*i.e.* employer subsidy versus employee pay).

Table 4. Summary of Potential Forgone Revenues

	Scenario #1*: Employer Subsidy Only*	**Scenario #2: *Employee Pay***
Transit :	Less than $8 million	Less than $143 million
Carpooling:	Less than $2 million	Less than $33 million
Biking:	Less than $1 million	Less than $2 million
TOTAL	**Less than $11 million**	**Less than $178 million**

It is noted that these figures represent changes in gross inflows. In the case of payroll taxes (*e.g.* CPP, EI), there are statutory provisions in place to ensure that either payouts are reduced by a corresponding amount (*i.e.* CPP) or premium adjustments are made to ensure the program remains revenue neutral (*i.e.* EI). As such, in the long-term, the net impact of these changes should be nil.

These fiscal estimates do not include offsetting decreases in claims pertaining to the Federal Transit Tax Credit, which would be a mutually exclusive benefit under the proposed legislation. Given that the value of

[29] Finance Canada figures are referenced in Di Domenico, A. *Employer-Provided Benefits and the Environment: Transit Passes and Policy*. The Canadian Tax Journal. Vol. 54, Nº1. 2006.

this credit is calculated at the lowest federal income tax rate (15%), staff of the PBO believe that it is reasonable to assume that most employees would shift to the proposed tax exemption where possible[30]. Based on Finance Canada's current estimate of the value of this tax expenditure, reduced claims for the tax credit could substantially offset potential forgone revenues arising from the proposed tax exemption[31].

Secondary beneficial impacts arising from decreased traffic that results from fewer single commuter car trips are also excluded from these calculations. While there is a substantial body of research regarding increased productivity, economic output and therefore tax revenues, this aspect of the proposal is beyond the scope of work of the current analysis[32].

[30] As previously noted, the tax exemption would be an effective deduction from taxable income at an average marginal rate of approximately 19%, in addition to reduced payroll taxes.

[31] Government of Canada. *Tax Expenditures and Evaluations 2009* (Table 1). http://www.fin.gc.ca/taxexp-depfisc/2009/taxexp0901-eng.asp#taxexpend. Projected to be $130 million in 2010. Accessed January 2010.

[32] An overview of these benefits is provided in Transportation Research Board's Report #85. http://onlinepubs.trb.org/onlinepubs/tcrp/tcrp_rpt_85.pdf. Accessed January 2010. A Canadian framework for estimating these benefits is also provided in *Tax Exempt Status for Employer-Provided Transit Benefits*. Transportation Table of the National Climate Change Process. Ottawa. 1999. http://www.vtpi.org/IBI_TransitTax_1999.pdf. Accessed January 2010.

Annex A: Proposed Legislative Amendments

C-466	**C-466**
Second Session, Fortieth Parliament, 57-58 Elizabeth II, 2009	Deuxième session, quarantième législature, 57-58 Elizabeth II, 2009
HOUSE OF COMMONS OF CANADA	**CHAMBRE DES COMMUNES DU CANADA**
BILL C-466	**PROJET DE LOI C-466**
An Act to amend the Income Tax Act (transportation benefits)	Loi modifiant la Loi de l'impôt sur le revenu (avantage relatif au transport)
FIRST READING, OCTOBER 27, 2009	PREMIÈRE LECTURE LE 27 OCTOBRE 2009
MS. SAVOIE	MME SAVOIE

402397

SUMMARY

This enactment amends the *Income Tax Act* to provide for a tax exemption for employee transportation benefits.

SOMMAIRE

Le texte modifie la *Loi de l'impôt sur le revenu* afin de prévoir une exemption d'impôt pour les avantages relatifs au transport accordés aux employés.

Also available on the Parliament of Canada Web Site at the following address:
http://www.parl.gc.ca

Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante :
http://www.parl.gc.ca

2nd Session, 40th Parliament,
57-58 Elizabeth II, 2009

HOUSE OF COMMONS OF CANADA

BILL C-466

An Act to amend the Income Tax Act (transportation benefits)

R.S., c. 1 (5th Supp.)

Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

1. The *Income Tax Act* is amended by adding the following after subsection 81(3.1):

Transportation benefits

(3.2) There shall not be included in computing an individual's income for a taxation year an amount received by the individual from an employer with whom the individual was dealing at arm's length for, or reimbursement of, eligible transportation benefits.

Definitions

(3.3) The following definitions apply in this section.

"eligible transportation benefits" «avantage admissible relatif au transport»

"eligible transportation benefits" means

(*a*) a monthly amount that does not exceed $150 received or paid by the individual to commute from the individual's place of residence to his or her place of employment on public commuter transit services,

(*b*) a monthly amount that does not exceed $150 received or paid by the individual to park

(i) near public commuter transit services used to commute to his or her place of employment,

(ii) in order to participate in a carpooling group with three or more persons, or

2e session, 40e législature,
57-58 Elizabeth II, 2009

CHAMBRE DES COMMUNES DU CANADA

PROJET DE LOI C-466

Loi modifiant la Loi de l'impôt sur le revenu (avantage relatif au transport)

L.R., ch. 1 (5e suppl.)

Sa Majesté, sur l'avis et avec le consentement du Sénat et de la Chambre des communes du Canada, édicte :

1. La *Loi de l'impôt sur le revenu* est modifiée par adjonction, après le paragraphe 81(3.1), de ce qui suit :

Avantage relatif au transport

(3.2) N'est pas inclus dans le calcul du revenu d'un particulier pour une année d'imposition le montant qu'il a reçu d'un employeur avec lequel il n'a aucun lien de dépendance à titre d'avantage admissible relatif au transport ou de remboursement relatif à cet avantage.

Définitions

(3.3) Les définitions qui suivent s'appliquent au présent article.

«avantage admissible relatif au transport» "eligible transportation benefits"

«avantage admissible relatif au transport» S'entend :

a) d'un montant mensuel n'excédant pas 150$ reçu ou payé par le particulier pour l'utilisation quotidienne des services de transport en commun entre son lieu de résidence et son lieu d'emploi;

b) d'un montant mensuel n'excédant pas 150$ reçu ou payé par lui pour stationner son véhicule, selon le cas :

(i) près des services de transport en commun utilisés pour se rendre à son lieu d'emploi,

(ii) afin de faire du covoiturage avec au moins trois personnes,

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(iii) near his or her place of employment as the driver of a carpooling group of three or more persons,

(*c*) a yearly amount that does not exceed $240 received or paid by the individual to purchase or maintain a bicycle that is primarily used by the individual to commute to his or her place of employment,

and for the purposes of this definition, shall not include an amount that is deductible under section 118.02 in computing any person's tax payable under this Part for the taxation year.

"public commuter transit services" «*services de transport en commun*»

"public commuter transit services" has the same meaning as in subsection 118.02(1).

(iii) près de son lieu d'emploi en tant que conducteur d'un groupe de covoitureurs formé d'au moins trois personnes;

c) d'un montant annuel n'excédant pas 240$ reçu ou payé par lui pour l'achat ou l'entretien d'une bicyclette qu'il utilise principalement pour se rendre à son lieu d'emploi.

Pour l'application de la présente définition, est exclu du calcul de l'impôt payable par un particulier en vertu de la présente partie pour l'année d'imposition tout montant déductible en application de l'article 118.02.

«services de transport en commun» *"public commuter transit services"*

«services de transport en commun» S'entend au sens du paragraphe 118.02(1).

Published under authority of the Speaker of the House of Commons

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Annex B: Terms of Reference

TERMS OF REFERENCE FOR A COST ESTIMATE OF BILL C-466: AN ACT TO AMEND THE INCOME TAX ACT (TRANSPORTATION BENEFITS)

Issue

A Member of Parliament of the House of Commons has requested that the Parliamentary Budget Officer (PBO) provide a cost estimate of Bill C-466: *An Act to Amend the Income Tax Act (transportation benefits)*.

Relevant Costs

There are two types of relevant costs to the federal treasury:

1. *Pre-existing eligible individuals*. These costs pertain to all taxpayers that currently receive a taxable transportation benefit and would experience a reduction in taxable income as a result of the proposed benefit exclusion.

2. *Induced individuals and firms*. This is an estimate of the number of taxpayers (*i.e.* individuals and institutions) that may be induced to subscribe to, or create, an employer 'transportation benefit' program as a result of the legislative amendments. Depending on the availability of good data on which analysis can be performed, this could include a delineation of those induced as a result of:
    - their own direct financial benefit (largely the lower marginal costs of offering tax-free benefits versus salary, or other financial benefits there may be);
    - their indirect benefit through status as a corporate citizen / good employer; as well as,
    - pressure from their employees to offer such a benefit.

Scope of Work

Other considerations discussed in Parliament, such as environmental considerations and transportation industry subsidies, would not be incorporated into this fiscal costing exercise.

Pending completion of the initial two stages and with agreement of the Member, staff to the PBO could undertake additional analysis regarding the offsetting benefits of the bill in terms of public spending on traffic gridlock, roads, transit subsidies, or any other mitigating factor that would offset the public cost of the tax incentive. The terms of reference for this aspect of the project, including timeline and resources, would be confirmed with the Member's office before work is initiated.

Proposed Approach

There are two proposed phases.

- Phase I: Consultation with External Experts

  The staff of the PBO would complete a literature review and external consultation to determine the appropriate range for assumptions used to generate a cost estimate for forgone tax revenues.

- Phase II: Preparation and Review of Existing Cost Estimates

  The PBO would prepare a cost estimate based on the Phase I consultation and literature review. This would include a review of the costing model used to prepare the estimates, as well as the related assumptions, with selected external experts.

Resources & Timeline

This costing estimate would require the work of 1.0 full-time equivalent (FTE) over the next three months. A final product could be provided to the Member by end of January 2010.

The costing estimate report would be presented and reviewed with the requesting Member of Parliament and subsequently be posted on the PBO website.

Communications

All external consultations pertaining to this product would cease in the event of a federal election.

Publication of the final report on the PBO's web site would be performed at a time deemed appropriate by the requesting Member.

Annex C: Selected Commuting Choices of Canadians: 1996, 2001 and 2006 Census (%)[33]

	Auto: *As Drivers*	Auto: *As Passengers*	Public Transit	Biking
1996	73.3	7.4	10.1	1.1
2001	73.8	6.9	10.5	1.2
2006	72.3	7.7	11.0	1.3
TREND	*-1.0*	*+0.3*	*+0.9*	*+0.2*

[33] Sources: Statistics Canada, censuses of population, 1996 to 2006. http://www12.statcan.ca/census-recensement/2006/as-sa/97-561/tables-tableaux-notes-eng.cfm. Accessed January 2010.

Annex D: Scenario #1 Detailed Results[34]

Figure 1. Average Marginal Income Tax Rate of Federal Transit Tax Credit Claimants

Taxable Income	Number of Claims	%	Amount Claimed	%	Marginal Federal PIT Rate	Average Marginal Rate (By # Claims)	Average Marginal Rate (By Value of Claims)
Loss and nil	6 680	*1%*	$2 897 000	*0%*	*0%*	0,00%	0,00%
$1 to $10,000	149 200	*12%*	$55 860 000	*7%*	*15%*	1,75%	0,99%
$10,000 to $15,000	129 530	*10%*	$58 382 000	*7%*	*15%*	1,52%	1,04%
$15,000 to $20,000	114 540	*9%*	$60 976 000	*7%*	*15%*	1,35%	1,08%
$20,000 to $25,000	100 790	*8%*	$62 273 000	*7%*	*15%*	1,18%	1,11%
$25,000 to $30,000	86 430	*7%*	$57 648 000	*7%*	*15%*	1,02%	1,03%
$30,000 to $40,000	173 430	*14%*	$125 682 000	*15%*	*15%*	2,04%	2,24%
$40,000 to $50,000	145 710	*11%*	$113 673 000	*13%*	*22%*	2,51%	2,97%
$50,000 to $60,000	103 700	*8%*	$82 071 000	*10%*	*22%*	1,79%	2,14%
$60,000 to $70,000	73 060	*6%*	$59 523 000	*7%*	*22%*	1,26%	1,55%
$70,000 to $80,000	55 080	*4%*	$45 948 000	*5%*	*22%*	0,95%	1,20%
$80,000 to $90,000	37 690	*3%*	$31 478 000	*4%*	*26%*	0,77%	0,97%
$90,000 to $100,000	27 200	*2%*	$22 606 000	*3%*	*26%*	0,55%	0,70%
$100,000 to $150,000	50 490	*4%*	$44 190 000	*5%*	*26%*	1,03%	1,36%
$150,000 to $250,000	16 560	*1%*	$14 094 000	*2%*	*29%*	0,38%	0,48%
$250,000 and over	6 690	*1%*	$5 852 000	*1%*	*29%*	0,15%	0,20%
Total	**1 276 780**		**$843 153 000**			**18,24%**	**19,06%**

[34] Data regarding Taxable Income, Number of Claims and Amount Claimed provided by the Canada Revenue Agency. All other calculations prepared by the author.

Figure 2. Average Federal Payroll Taxes Remitted By Transit Commuters

Taxable Income	Number of Claims	Imputed Canada Pension Plan Contribution*	Imputed Employment Insurance Plan Contribution (Employees)*,**	Imputed Employment Insurance Plan Contribution (Employers)*,**	Total Employee	Total Employer
Loss and nil	6 680	*0%*	*0%*	*0%*	*0%*	*0%*
$1 to $10,000	149 200	*4,95%*	*1,73%*	*2,42%*	*7%*	*7%*
$10,000 to $15,000	129 530	*4,95%*	*1,73%*	*2,42%*	*7%*	*7%*
$15,000 to $20,000	114 540	*4,95%*	*1,73%*	*2,42%*	*7%*	*7%*
$20,000 to $25,000	100 790	*4,95%*	*1,73%*	*2,42%*	*7%*	*7%*
$25,000 to $30,000	86 430	*4,95%*	*1,73%*	*2,42%*	*7%*	*7%*
$30,000 to $40,000	173 430	*4,95%*	*1,73%*	*2,42%*	*7%*	*7%*
$40,000 to $50,000	145 710	*4,71%*	*1,66%*	*2,32%*	*6%*	*7%*
$50,000 to $60,000	103 700	*3,85%*	*1,36%*	*1,90%*	*5%*	*6%*
$60,000 to $70,000	73 060	*3,26%*	*1,15%*	*1,61%*	*4%*	*5%*
$70,000 to $80,000	55 080	*2,83%*	*1,00%*	*1,39%*	*4%*	*4%*
$80,000 to $90,000	37 690	*2,49%*	*0,88%*	*1,23%*	*3%*	*4%*
$90,000 to $100,000	27 200	*2,23%*	*0,79%*	*1,10%*	*3%*	*3%*
$100,000 to $150,000	50 490	*1,70%*	*0,60%*	*0,84%*	*2%*	*3%*
$150,000 to $250,000	16 560	*1,06%*	*0,37%*	*0,52%*	*1%*	*2%*
$250,000 and over	6 690	*0,85%*	*0,30%*	*0,42%*	*1%*	*1%*
Total	**1 276 780**			***Average Value (By #)***	**5,79%**	**6,39%**

** Assume Mid-Point in Each Taxable Income Range (i.e. $40,000 to $50,000 = $45,000); $250,000 for maximum*
***Differential Rates for the Province of Quebec are Not Included*

Annex D: Scenario #2 Detailed Results

Figure 3. Scenario #1: Employer Paid Subsidy for Transit

BASELINE ESTIMATE

(i)	% of Canadians that Use Public Transit to Commute	11%
ASSUME: SELF-EMPLOYED PROPORTION CONSISTENT WITH OVERALL LABOUR FORCE		
(ii)	% of Eligible Workers that Commute	85%
(iii)	Canadian Labour Force (millions)	18,3
(i*ii*iii)	Maximum Total Potential Individuals Eligible for Windfall Gains (millions)	1,7

		low	*high*
(iv)	% of Canadian Employers Currently Administering Subsidy Program	0%	1%
ASSUME: EMPLOYERS HAVE AN EQUAL PROPORTION OF THE EMPLOYED LABOUR FORCE			
(v)	Total Transit Commuting Employees of Administering Firms	0	17 111
(vi)	Average Annual Cost of Adult Transit Pass in Major Canadian Cities	$943	$1 331
(vii)	Value of Subsidy in Proportion to Pass	5%	30%
(viii)	Average Marginal Federal Personal Income Tax Rate of Transit Commuters	18%	19%
(vi*vii*viii)	Total Federal Personal Income Tax Forgone Revenues (millions)	$0	$2
(ix)	Average Federal Payroll Taxes for Employers and Employees	12%	12%
(vi*vii*ix)	Total Federal Payroll Tax Forgone Revenues (millions)	$0	$1
	TOTAL FORGONE REVENUES (millions)	**$0**	**$4**

Figure 3. Scenario #1 (CNTD.)			
INDUCED BEHAVIOUR			
(x)	% of Canadian Employers Induced to Introduce a Subsidy Program	0%	1%
ASSUME: EMPLOYERS HAVE AN EQUAL PROPORTION OF THE EMPLOYED LABOUR FORCE			
(xi)	% Increase in Adoption Rates Among Employees (Arising From Tax Changes)	3%	10%
(xii)	% Increase in Adoption Rates Among Employees (Arising From Subsidy)	4%	8%
(vii*viii*ix*x*xi)	Total Incremental Federal Personal Income Tax Forgone Revenues (millions)	$0	$2
(viii*ix*x*xi*xi)	Total Incremental Federal Payroll Tax Forgone Revenues (millions)	$0	$2
	TOTAL INCREMENTAL FORGONE REVENUES	**$0**	**$4**
	TRANSIT TOTAL (millions)	**$0**	**$8**
Carpooling Estimate		**$0**	**$2**
Bicycling Estimate		**$0**	**$0**
	GRAND TOTAL (millions)	**$0**	**$9**

Figure 4. Scenario #2: Employee-Paid (Pre-tax)

		low	high
BASELINE ESTIMATE			
(i)	# of Commuters Purchasing Transit Passes Through Employer Administered Programs	225 000	250 000
ASSUME: EMPLOYER-ADMINISTERED PRE-TAX PROGRAMS IN SEVEN MAJOR CITIES ARE SUBSTANTIVE TOTAL IN CANADA			
(ii)	Average Annual Cost of Adult Transit Pass in Major Canadian Cities	$943	$1 331
(iii)	Average Marginal Federal Personal Income Tax Rate of Transit Commuters	18%	19%
(i*ii*iii)	Total Federal Personal Income Tax Forgone Revenues (millions)	$38	$63
(iv)	Average Federal Payroll Taxes for Employers and Employees	12%	12%
(i*ii*iv)	Total Federal Payroll Tax Forgone Revenues (millions)	$26	$41
	TOTAL FORGONE REVENUES (millions)	**$64**	**$104**
INDUCED BEHAVIOUR			
(v)	% of Canadian Employers Induced to Offer a Program	5%	10%
ASSUME: EMPLOYERS HAVE AN EQUAL PROPORTION OF THE EMPLOYED LABOUR FORCE			
ASSUME: EMPLOYEES ADOPT AT A CONSTANT PROPORTION TO EMPLOYERS OFFERING PROGRAM			
(vi)	% Increase in Adoption Rates Among Employees (Arising From Tax Changes)	0%	18%
(iii*v*vi)	Total Incremental Federal Personal Income Tax Forgone Revenues (millions)	$4	$24
(iv*v*vi)	Total Incremental Federal Payroll Tax Forgone Revenues (millions)	$3	$15
	TOTAL INCREMENTAL FORGONE REVENUES (millions)	**$6**	**$39**
	TRANSIT TOTAL (millions)	**$70**	**$143**
Carpooling Estimate		**$16**	**$33**
Bicycling Estimate		**$1**	**$2**
	GRAND TOTAL (millions)	**$88**	**$178**

Annex E. Employer-Administered Commuter Transit Pass Programs[35]

	Monthly Adult Fare	Regular Service Passenger Trips	Program Offered	Discount	Administration	Total Employer/Employee Participation
VANCOUVER	*$74 to $248*	*172,069,504*	*Employer Pass Program*	*15% discount*	*Employer must opt in annually; employees can opt-in month to month.* *25 participants minimum.*	*22,000 passes.*
EDMONTON	*$77*	*61,904,454*	*ETS@ Work Program*	*24% discount*	*Employer must opt in annually; employees must opt-in for at least six months, one month cancellation notice required.* *25 participants minimum.*	*54 Employers, 70,000 passes.*
CALGARY	*$85*	*90,296,395*	*None*	*Not Applicable*	*Not Applicable*	*Not Applicable*
WINNIPEG	*$74*	*41,201,317*	*Ecopass*	*Up to 15%*	*Employer must opt in annually; employee opt-in processes vary by employer.* *25 participants minimum.*	*76 employers; 4,000 passes*
TORONTO	*$121*	*459,769,000*	*Metropass Volume Incentive Program*	*Up to 12%*	*Organization purchases passes and then re-sells to employees. Minimum 12 month commitment by employers; minimum of 50 passes per month.*	*[Pending]*
OTTAWA	*$75 to $116*	*95,646,026*	*Ecopass*	*Up to 12%*	*Employer must opt in annually; employees must make a one-year commitment.* *25 participants minimum.*	*25,000 passes*

35 All data collected directly by author via consultation with transit authorities in January 2010, except for annual passenger trip data for all jurisdictions and national data, which are taken from the Canadian Transit Fact Book – 2007 Operating Data.

MONTREAL	*$70*	▪ *367,528,000*	▪ *Allégo*	▪ *Up to 8.33%*	▪ *Employer must opt in annually; employees must make a one-year commitment.* ▪ *25 participants minimum.* ▪ *Program also includes carpooling.*	▪ *49 firms; 100,000 employees*
CANADA	*$60*	▪ *1,761,208,215*				