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Canadian Urban Transit Association  
Association canadienne du transport urbain



Archives of Société de transport de Montréal (STM)

# TAX-EXEMPT TRANSIT BENEFITS: NEW INSIGHTS MAKE THE CASE

Over the last decade, a coalition of business, labour, health and environmental groups has urged Canada's federal government to give tax-exempt status to employer-provided transit benefits. The government has yet to act on this initiative, despite all-party support from the House of Commons, predictions of net economic benefits, and two decades of unqualified success with similar measures in the United States.

In the last few years, Canada's commitment to fight climate change has made tax exemption for transit benefits an even more important issue. The federal government is seeking ways to reverse the relentless growth in greenhouse gas emissions from transportation, one-third of which are from urban passenger travel. Measures like tax-exempt transit benefits can promote public transit use in a targeted and cost-effective way, and make a meaningful contribution toward achieving our Kyoto Protocol obligations.

The need to fight air pollution, congestion and climate change has led the federal government to invest in transit infrastructure through the New Deal for Cities and Communities and other programs. At the same time, however, the government has not yet taken steps to boost transit use through this simple and relatively inexpensive tax amendment — an action that would help to maximize the return on federal infrastructure investments.

## What are tax-exempt transit benefits?

They are non-taxable dollar amounts given by employers to employees to subsidize the cost of commuting by transit.

## New analysis, new insights

In February 2005, the federal government's budget identified tax-exempt transit benefits as an environmental measure that would be considered, subject to further assessment of its environmental effectiveness, fiscal impact, economic efficiency, fairness and simplicity.

In response, CUTA commissioned IBI Group to conduct an independent analysis of tax-exempt transit benefits. The study applies the five criteria specified in the federal budget with positive results, and projects some dramatic impacts (see below).

### Highlights of new analysis

#### Impacts of tax-exempt transit benefits

All impacts are estimated for 2016 in Canadian cities with transit service. Financial figures are in 2005 dollars.

Source: *Tax Exemptions for Employer-Provided Transit Benefits* (IBI Group, 2005)

#### Uptake and value

- 32% to 57% of workers would be offered transit benefits
- The average benefit would be \$55 per month

#### Commuter transit ridership

- Up 27% to 54% for commuters who accept the benefit
- Up 8.3% to 31% for all commuters

#### Commuter car travel

- Down 5.6% to 11% for commuters who accept the benefit
- Down 1.7% to 6.3% for all commuters

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## Highlights of new analysis (continued)

### Impacts of tax-exempt transit benefits

#### Emissions from commuting

- Greenhouse gases: down 1.1% to 4.0% (90,000 to 330,000 tonnes)
- Nitrogen oxides: down 0.4% to 1.6%
- Volatile organic compounds: down 1.6% to 5.9%

#### Annual economic impacts

- Social cost savings (total): \$385 million to \$1.4 billion
  - Parking cost savings: \$116 million to \$431 million
  - Personal travel cost savings: \$332 million to \$1.2 billion
  - External congestion cost savings: \$30 million to \$112 million
- Federal tax revenues foregone: \$106 million to \$257 million (2006 estimate: \$13 million to \$52 million)

#### Cost-effectiveness of greenhouse gas emission reductions

- Social economic benefits of \$4,260 per tonne
- Lost federal revenue of \$725 to \$1,460 per tonne

## Winnipeg, Manitoba

### Employers get on board with transit benefits

The EcoPass program in Winnipeg has shown that employers are willing to provide transit benefits, and that transit benefits work in Canada. Participating employers buy regular monthly passes from Winnipeg Transit, and resell them to employees at a discount of 30% or more. Winnipeg Transit then rebates up to one-third of the discount to the employer.

Early in 2004, the program involved 21 employers with 19,000 eligible employees. At participating workplaces, ridership increased 45% and net transit revenues increased 30%. Greenhouse gas emissions decreased by an estimated 150 tonnes annually.

Winnipeg Transit's EcoPass has succeeded, even though the taxable status of transit benefits discourages some employers and employees from signing up. Tax exemption would be certain to help the program reach new levels of success.



Winnipeg Transit

Among the notable results expected by 2016 are a projected increase in commuter transit ridership of 8.3% to 31%, and a net economic benefit of \$385 million to \$1.4 billion per year that would vastly outweigh the loss in federal tax revenues. Aside from these and other quantitative results, the study concluded that tax-exempt transit benefits would significantly improve equity for transit commuters who do not enjoy the benefit of free parking that their co-workers accept.

### U.S. experience shows it will work

The United States exempted transit benefits from taxation over 20 years ago as a way to encourage transit use. Starting in 1984, eligible employers could give workers up to US\$15 monthly in tax-exempt transit benefits. Transit ridership increased 25% at participating workplaces. In some areas, 30% of participants were new transit users, and existing riders took transit 32% more.

Over time, the allowable monthly benefit has grown to US\$105 and the program has grown more successful. By 2002 in San Francisco, 27% of employers participated and over one-quarter of weekday commuter rail riders were transit benefit recipients.

Employers get a tax deduction for their expense and save on payroll taxes. Because it's cheaper to give transit benefits than increase salaries, a \$1,200 annual transit benefit has the same value as a \$2,000 raise. Employers can maintain payrolls by converting wages to benefits, and employees can add pre-tax salary dollars to the benefit.

"The tax system, by influencing the actions of Canadians, can have important direct and indirect impacts on the environment and sustainable development. As the department responsible for analysis and advice on the structure of the tax system, Finance Canada has the opportunity to influence sustainable development in Canada by better integrating the economy and the environment."

*Report of the Commissioner of the Environment and Sustainable Development — 2004, Office of the Auditor-General*



## Frequently asked questions – answered!

**Q Why is the playing field not level between employer-provided parking and transit benefits?**

**A** Under the federal *Income Tax Act*, employer-provided parking and transit benefits are both taxable. In reality, most employees receive free parking as a benefit without paying income tax on it. While Revenue Canada cannot identify the extent of the problem, surveys have found that about 80% of auto commuters receive free or subsidized parking. At the same time, employer-provided transit benefits — which are taxed at source — are practically non-existent.

When deciding how to get to work, most commuters only consider out-of-pocket driving costs like parking fees. Tax-exempt parking benefits are thus a major incentive to commute by car, rather than transit. Tax exemption for transit benefits would level the playing field and treat transit riders equitably. It would also offer employers a powerful incentive to offer transit benefits to their employees.

**Q Would tax-exempt benefits be inequitable because not all employers would offer them?**

**A** No. Other non-taxable benefits like medical and dental plans are not offered by all employers, and that situation is not considered inequitable. Taking a different perspective, tax-exempt transit benefits would actually correct another inequity — the unfair tax treatment of transit commuters whose car-driving colleagues receive free parking at work.

**Q Would tax-exempt transit benefits create an administrative burden for the federal government?**

**A** Administration comes from tax collection, not tax exemptions. Other than a small change in legislation, no ongoing effort by Revenue Canada or the Department of Finance would be required. Medical and dental benefits are already tax-exempt, and do not place a burden on the federal government.

**Q Would the "cost per new rider" of tax-exempt transit benefits be high because most recipients already use transit?**

**A** In calculating the effect of tax-exempt transit benefits on federal revenues, we should consider more than just new riders. We should also consider the fact that tax-exempt benefits would strengthen transit's attractiveness to the many current riders who choose transit over other travel options. Retaining these "choice" riders is just as important as attracting new riders. In fact, including new riders and retained choice riders (rather than just the former) in the calculation reduces the per-rider cost to government by about two-thirds.

**Q What positions have opposition parties taken on tax-exempt transit benefits?**

**A** In its climate change plan, the New Democratic Party specifically endorses tax exemption for employer-provided transit passes. The other opposition parties have proposed their own complementary ideas.

In August 2005, the federal Conservative Party promised to make bus and subway passes tax deductible if they form the next federal government. A 16% federal tax credit would apply to the purchase of monthly passes by individuals for themselves or their dependants. Under this proposal a commuter paying \$80 monthly for a transit pass would save just over \$150 per year, and lost federal revenues could amount to \$400 million annually.

Bill C-306, introduced by a member of the Bloc Québécois in 2004, recommends tax-exempt status for all individual expenses related to transit fare purchases. The bill passed second reading in September 2005, and has been referred to the Standing Committee on Finance.





St. Catharines Transit

### The long road in support of tax-exempt transit 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.

- 1995** Campaign begun by CUTA and the Federation of Canadian Municipalities (FCM)
- 1997** Creation of Task Force with CUTA, FCM, Amalgamated Transit Union Canadian Council, Canadian Labour Congress, Ontario Lung Association and Pollution Probe
- 1998** Unanimous "early action" recommendation by the federal Transportation Climate Change Table
- 1999** Private member's bill to consider tax exemption for employer-provided transit benefits passed by House of Commons, 240 votes to 25
- 2001** Transport Canada study on 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"
- 2005** Federal budget identification of tax-exempt transit benefits as an environmental measure to be considered by the government, subject to further assessment
- 2005** In-depth analysis of tax-exempt transit benefits commissioned by CUTA, for submission to the federal government

### U-Pass programs set the bar for employer-provided transit benefits in Canada

Across Canada, transit systems are working with student groups and administrators to make transit more affordable for students. Universal transit pass (U-Pass) programs at over 20 universities and colleges are giving students unlimited access to transit, and boosting transit ridership to unprecedented levels in many communities.

U-Pass programs require all students to pay a fee that is typically much lower than the cost of regular monthly passes. Mandatory participation makes the programs similar to public health or pension plans. While some individuals benefit more than others, U-Passes succeed because they offer substantial benefits to student bodies and institutions as a whole.

Two of the most recent U-Pass programs in Canada, at Saint Mary's University (Halifax, N.S.) and Brock University (St. Catharines, Ont.), have led to substantial ridership increases of 100% and over 200%, respectively. In 2004, the University of Sherbrooke (Que.) joined the U-Pass community with a groundbreaking commitment by that institution to fund all program costs.

*CUTA's U-Pass Toolkit, published in 2004, contains comprehensive guidance and U-Pass case studies. It is available online at [www.cutaactu.ca/pdf/U-PassToolkit.pdf](http://www.cutaactu.ca/pdf/U-PassToolkit.pdf).*

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.

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