Amalgamated Transit Union, Canadian Council (ATUCC)

Brief: *Toward Environmental and Economic Sustainability Through Tax-Exempt Transit Benefits*.

PRESENTED TO THE STANDING COMMITTEE ON FINANCE

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STATEMENT OF THE ISSUE

Current Canadian federal tax policy allows most automobile commuters to receive untaxed free parking, while transit benefits are fully taxed. Eliminating this inequity could potentially increase transit commuting 25-50% among commuters offered this benefit.[1] There are two main ways by which the true costs of using an automobile are concealed. These economic distortions can be characterized as "sins of omission" and "sins of commission." The absence of tax breaks for transit use is a sin of omission. Sins of commission are deliberate interventions designed to lower the price of automobile use below both its market value and its social cost. The provision of employer provided parking is one important example of such a policy.

The federal government is much less involved in planning and funding personal transport in Canada than in most developed countries. Federal transport policy is primarily concerned with rail, marine and air travel, and provides special infrastructure grants, which may include some local transport projects. Transport Canada has a national urban transit vision, but the federal government has done little to implement improvements or provide services or funding to address social exclusion. "*Social Inclusion* refers to people's ability to participate adequately in society, including education, employment, public services, social and recreational activities. *Social exclusion* refers to constraints to adequate participation."[2] We are asking the federal government to change income tax regulation/legislation to make transit benefits, whether they be in the form of a pass or ticket/token purchases, a non-taxable benefit in order to redress

[1] Litman, T. 1998. *Transportation Cost Analysis; Techniques, Estimates and Implication.* Victoria BC: Victoria Transport Policy Institute.

[2] Litman, Todd. 2003. Social Inclusion as a Transport Planning Issue in Canada. Victoria Transport Policy Institute, p. 2.

issues of both social exclusion and environmental damage, both of which are crucial to economic sustainability in Canada.

STATEMENT OF THE FACTS

Transportation choice advocates such as the National Task Force to Promote Employer Provided Tax-Exempt Transit Passes[3] have long advocated a change to the Income Tax Act to eliminate taxes on employer issued transit passes. The arguments of all of these groups have, with the exception of the economic benefits accrued through a reduction in the volume of vehicular traffic on the nation's roads, largely centred on the environment in terms of the reduction of Greenhouse gases (GHG) that lead to climate change and global warming. Despite the fact that statistics continue to bolster the argument for increasing transit ridership which ostensibly results in a concomitant reduction in GHG, tax-exempt transit benefits have yet to come to fruition. It is the ATUCC's contention that tax-exempt transit benefits will permit Canadian workers and the Canadian economy to meet their needs and express their greatest potential in the present, while preserving biodiversity and natural ecosystems.

Public Transit: A Sustainable Mode of Transportation

The prosaic definition of sustainability is providing the best for people and the environment both now and in the indefinite future. In the terms of the 1987 *Brundtland Report*[4], sustainability is: "*Meeting the needs of the present generation without compromising the ability of future generations to meet their needs.*" At the heart of the concept of sustainability there is a fundamental, immutable value set that is best stated as 'parallel care and respect for the ecosystem and for the people within.' From this value set emerges the goal of sustainability: to achieve human and ecosystem well-being together. [5]

Sustainability arguments have, in environmental terms, gained more currency of late as Canada moves closer to its reduction of GHG to 6 percent by the end of the first commitment period

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[3] A coalition comprised of the Amalgamated Transit Union Canadian Council, Canadian Labour Congress, Canadian Urban Transit Association, Federation of Canadian Municipalities and Pollution Probe.

[4] The Brundtland Report, also known as Our Common Future, was published by the World Commission on Environment and Development (part of the United Nations) in 1987, and was so called because of the commission Chair, Gro Harlem Brundtland. It deals with sustainable development and the change of politics needed for achieving that. The definition of this term in the report is quite well known and often cited:"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

[5] http://en.wikipedia.org/wiki/Sustainability

(2012) of the Kyoto Accord. Failing to do so will mean that Canada must make up the difference plus a penalty of 30 percent in the second commitment period. The country's ability to sell credits under emissions trading will also be suspended.

The impact of automobile use exemplifies the fact that many of the costs of driving are not born by drivers, but by society as a whole – and their payment is not linked to driving, but is hidden or 'externalized' in other costs. Aside from construction and maintenance costs, which are paid for out of municipal and provincial taxes, these costs can include higher environmental clean-up and public health costs. In a report issued in June of 2005, the Ontario Medical Association says it now has "clear scientific evidence" of premature deaths for a number of pollutants. The literature indicates that pollutants stemming from automobiles such as ozone, nitrogen dioxides, suspended particulates, sulphur dioxide and carbon monoxide correlate with many respiratory problems, even at low pollutant levels. The report estimates the cost of lost workdays from illnesses related to air pollution — including caregivers' time — at $374 million this year, rising to almost $467 million by 2026. Health care for air pollution related illnesses, including hospital stays and medications, will cost about $507 million this year and nearly $702 million by 2026. The last OMA study, released five years ago, estimated 1,900 deaths that year due to smog-related illnesses.[6]

While transit systems are cutting down on emissions through the introduction of hybrid buses, it is clear that the value of tax benefits for transit use is through the reduction of the amount of vehicles on the nation's roadways. Atlanta's experience during the Olympic Games in 1996 demonstrates how much transportation system management can cut traffic and protect public health. By leasing one thousand additional buses, focusing on transportation system management, and marketing improved non-driving travel choices during the Olympics, Georgia officials cut the number of cars in the morning rush hour by 23 percent. This reduced traffic led to lower air pollution emissions, with a 28 percent drop in smog concentrations even as the region accommodated over one million additional visitors. This in turn caused the number of asthma acute care events to decrease 42 percent during this period[7].

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[6] Tanya Talaga, The Price of Deadly Air, Toronto Star, June 14, 2005
http://www.thestar.com/NASApp/cs/ContentServer?pagename=thestar/Layout/Article_Type1&c=Article&cid=1118700615678&call_pageid=968332188492&col=Columnist1106219420627&DPL=IvsNDS%2f7ChAX&tacodalogin=yes

[7] Testimony of Michael A. Replogle, Transportation Director, Environmental Defense, before the Subcommittee on Highways and Transit, Committee on Transportation and Infrastructure, U.S. House of Representatives, May 21, 2002.

On Montreal's "Car Free Day 2003" levels of carbon monoxide and nitrogen oxide were reduced by 80 percent in the area affected. The "Car Free Day 2004" brought more good news - noise pollution levels fell from the usual 80.5 decibels down to 50.[8] Transportation management can result in improvements to the environment. This is why the New Deal for Cities program has placed improvements to public transit at the top of its agenda. Indeed, the Minister of State for Infrastructure, the Hon. John Godfrey recently described the rather dire state of the environment in southern Ontario:

> "Air pollution. We've already seen smog days and big-city haze across cities in Canada. I just came yesterday from two weeks in southern Ontario where it has not only been hot, but the air is not breathable. You cannot go out during the day. It is unpleasant. It's not just the heat; it's the bad quality of the air. And that bad air is drifting up to the cottage country where people thought they could get away with it. In some ways southern Ontario is the canary in the mine, it's telling us the worst effects of these bad air days, which are at a record number right now in southern Ontario.[9]

It is, however, our contention that the New Deal for Cities program will not attract enough new riders to public transit to make an impact on these high levels of pollution without a concomitant incentive in the form of tax-exempt transit benefits.

The Social Equity Argument

It is the ATUCC's opinion that the current tax regime discriminates against those who cannot afford the use of a car to travel to a present or potential employer. Labour mobility is a fundamental right and a key to sustainable development. The *Brundtland Commission's* definition of sustainable development contains two key concepts: The concept of "needs", in particular the essential needs of the world`s poor, to which overriding priority should be given, and the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs.[10]

We argue that if the government is serious about enhancing investment in *all* Canadian citizens then it can no longer ignore the need to level the playing field between motorists, who often get free parking provided by their employers, and transit-users, who get no comparable benefit. In order to attract and maintain personnel, particularly in urban centres, Canadian employers will need incentives such as tax-exempt transit benefits. Such a move will, on the federal government's behalf, exemplify an investment in human capital in terms of facilitating the

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[8] http://www.canada.com/montreal/montrealgazette/news/editorial/story.html?id=d9a9285f-7090-4b5f-ac45-24d13dfd6092

[9] http://www.infrastructure.gc.ca/speeches-discours/20050712_e.shtml

[10] http://en.wikipedia.org/wiki/Sustainable_development

mobility of Canadian workers within the labour market. This is particularly important for workers in those sectors of employment at the lower end of the wage scale.

> Case studies from Ottawa, Montreal, Edmonton, and Toronto [suggest] an increasing recognition of the link between transit accessibility and viable business location for such facilities as manufacturing facilities, call centres, and recreational businesses.
> In Vancouver, Victoria, Calgary, Toronto, Niagara Falls, and Halifax, transit provides access to tourism-related employment for younger and lower-income workers. In the Niagara Region, the need for this transportation was strong enough that tourism operators contracted for a special transit service to allow them to access potential employees in other nearby communities. The bus transit systems of Welland, St. Catharines, and Niagara Falls are examining an intermunicipal service to support this need.[11]

This mobility enables Canadian workers to travel to employers offering better wage rates and hours, to travel to educational institutions for skills development and to have access to quality child-care centres. Tax-exempt transit benefits also help employers to attract and retain employees particularly those earning a low and/or moderate wage. In Canada, lower-income riders (less than $20,000 annual income in 2002) represent 63 percent of riders in small transit systems, 51 percent in medium size transit systems, and 41 percent of riders in large transit systems.[12] In Ontario, the Premier's Leaders Forum on Strategic Growth Report cited the need to change auto use through incentives such as road pricing, increased gas taxes and *transit pass deductibility for low-income workers* in order to ensure the long term economic viability of the rapidly growing Golden Horseshoe area.[13] The fact is that most of the hard working people who do much of the manual labour within urban centres, such as Toronto, do not live there. Indeed, lower-cost housing is often located in automobile dependent areas at the urban fringe, such as the Golden Horseshoe area of southern Ontario, which results in lower-income households facing a choice between unaffordable housing or excessive transport expenses and reduced accessibility for non-drivers.

Labour mobility, for those of all income levels, and environmental sustainability are both improved through the introduction of tax-exempt transit benefits such as an employer provided tax-exempt pass. Many current automobile users can be defined as "choice" commuters who would utilize public transit if given a tax incentive.[14] Affording employers tax-exempt transit benefits has been a huge incentive for employees offered this benefit. In the US, the offer of such a benefit to federal executive agency employees in the national capital region induced 11

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[11] http://www.cutaactu.ca/pdf/TransitMeansBusiness.pdf
[12] Litman, Todd. 2004. *Evaluating Public Transit Benefits and Costs.* Victoria Transport Policy Institute, p. 19.
[13] The Premier's Leaders Forum on Strategic Growth by *The Conference Board of Canada*, August, 2005, p. 15.
[14] A "choice" user is defined in opposition to a "captive" user who needs a car to drive to work either because s/he requires that vehicle to carry out his/her duties or because there is no other mode of transportation available.

percent of employees who used to drive to work to switch to transit, taking 12,500 cars off the region's crowded roads every workday. It is also much cheaper for an employer to increase non-taxable employee benefits than to offer added taxable income to retain or attract workers, which is an increasing issue in a tight labour market. If the employer is able to expand employment without adding more parking spaces or to otherwise avoid the cost of building, leasing, or maintaining parking spaces for workers, capital cost savings can be significant which, in turn, make businesses more productive. Sustainability is enhanced in that it permits the expansion of the economy in the long term without using up natural capital for current growth at the cost of long term growth.[15]

REFUTING THE BARRIERS TO IMPLEMENTATION

The only barrier to implementation has been the finance department. Concerns cited include revenue loss, perceived inequity, a belief that taxation is not an appropriate/effective tool, a belief that existing subsidies already give public transit an advantage and a fear that such a measure could set a precedent. We address these points below.

Perceived Inequity: *"Such an exemption [employer provided tax-exempt pass] would be unfair to employees who must purchase their own passes out of after-tax income … it is also unfair for persons living in rural areas and others who do not have the option of using mass transportation."*

Tax exemption would redress the inequity suffered by transit commuters who receive no benefits while 80 percent of Canadian employees enjoy free or heavily subsidized parking.[16] Transit service, particularly in the form of paratransit service, is also essential for those who are too young, too old, or too ill to drive. The present system is inequitable to this significant proportion of the population. Some employees are unable to drive, for reasons including illness, infirmity or addiction. Tax-exemption for transit benefits ensures that these employees can gain to the same extent as those employees who receive parking subsidies.

As for being unfair to those in rural regions devoid of public transit it is estimated that 80 percent of the Canadian population currently live in or on the fringe of urban centres, such as the Golden Horseshoe area, with access to public transportation. Tax-exempt transit benefits will result in increased public transit use which benefits all transit users including those that may not pay, or pay very little, in income tax. Indeed, groups that may fit this criteria such as lower

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[15] *Natural capital* refers to the mineral, plant, and animal formations of the Earth's biosphere when viewed as a means of production of oxygen, water filter, erosion prevention, or provider of other natural services.

[16] IBI Group, 1999. *Tax Exempt Status for Employer Provided Transit Benefits*.

income families, people on social assistance, students and the elderly will benefit from the resulting increase in transit revenues and service. It should be noted that there is already a form of vertical equity at work where students, seniors and those individuals on social assistance do, more often than not, already receive discounts on their transit fares. All taxpayers will also benefit from the health care savings and infrastructure cost savings that the increased use of public transit provides. Indeed, there are very few tax policies which are of obvious benefit to so many people.

Tax exempt benefits can also eliminate the gender and ethnic bias prevalent in employer-paid parking. For example, one of the firms highlighted in Donald Shoup's US study[17] conducted a travel survey in 1992 that showed that 78 percent of men and only 62 percent of women drove to work alone. In this case and, by extension here in Canada, subsidizing parking results in the unintentional subsidization of men more than women. Similarly, in the United States, 92 percent of non-Hispanic White households own a car, while only 81 percent of the Hispanic households and only 70 percent of African-American households own a car. Therefore, parking subsidies tend to primarily benefit middle class white males.[18]

Taxation system not an effective tool: *"Exempting employer provided transit passes from income taxation is not an effective means of achieving this objective."*

Taxation is already effectively used to discourage some behaviours while encouraging others - tax increases on alcohol and cigarette use, tax credits to oil companies for land reclamation costs, tax deductions for charitable and political donations. This tax exemption is a proven incentive in the US to use public transit. From 1984 until 1993, the US permitted employers to provide $15 to $21 per month in tax-exempt transit benefits. This small amount resulted in transit ridership increasing by 25 percent among those employees offered the benefit. The US tax code now permits $100 per month which has resulted in further participation. While there is no hard data regarding the numerical figures for this further participation, Canadian research predicts that changing the Income Tax Act could result in transit ridership increases from a minimum of 27 percent to a maximum of 54 percent among recipients of a transit benefit.[19] Granted, existing transit users would accept this benefit, but it is our contention that with the

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[17] Shoup, Donald C. 1994. "Cashing Out Employer-Paid Parking, A Precedent for Congesting Pricing?" in *National Research Council Transportation Research Board, Special Report #242*. National Academy Press: Washington, p.154.
[18] Dadson, Joseph E., Trevor Fleck, and Stephanie Tencer. 1999. *Moving Ahead: Encouraging Environmentally Sustainable Transportation in Toronto Through the Use of Economic Instruments*. University of Toronto Transportation Modal Shift Group, Innis College, University of Toronto.
[19] CUTA, 2005.

support already evinced by transit systems in Canada their marketing efforts would push a ridership increase closer to the maximum.

Local actions cannot, however, compensate for the existing economic bias of widely available free tax-exempt parking. Nor can free tax-exempt parking, and its consequent privileging of the automobile, adequately contribute to the productivity of expanding urban centres or the incomes of people who work within their boundaries. As Bruce Katz noted, referring to experiences with growth management over the past 20 to 30 years in cities such as Portland, Oregon, "Those places that have really tried to reinvest, tried to re-centralize, tried to grow along cores and corridors, are having a positive impact on income; and those places that have built mature, accessible, sustained public transit systems are having a measurable effect on productivity."[20] Although local and provincial governments can develop transit systems and control land use, fiscal incentives are essential for effective transportation demand management (TDM). Any TDM policies implemented at the local and provincial level will be approximately 20 percent less effective without tax exempt transit benefits. The Transportation Association of Canada, the Federation of Canadian Municipalities and transportation planners emphasize that changes in federal tax policy are critical for successful TDM.[21]

Transit Subsidies: *"Other measures such as higher excise taxes on gasoline than diesel fuel, and substantial subsidies from provincial and local governments … currently favour the use of public transit"*

The idea that since the federal government is already subsidizing public transit through the New Deal for Cities and Communities Program and the NDP Budget Amendment of 800 million dollars their role is complete is a shortsighted one. As both John Bennett[22] of the Sierra Club and Transport 2000 Chairperson Jean Leveille[23] point out any investment in public transit needs to be complemented by measures to encourage their use, such as providing transit benefits that are tax deductible. CUTA has illustrated that the best evidence for the potential success of tax-exempt transit benefits comes from U-Pass programs in universities where 'choice' commuters are offered substantial discounts to use public transit. BC Transit's U-PASS offered to students at the University of Victoria and Camosun College increased student ridership by 50 percent and the students increase in the total share of riders was up to 24 percent in 2003. In London,

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[20] The Premier's Leaders Forum on Strategic Growth by *The Conference Board of Canada*, August, 2005, p. 6.
[21] Litman, Todd. 1997. *Employer Provided Transit Passes: A Tax Exempt Benefit*. Victoria Transport Policy Institute.
[22] Bueckert, Dennis. 2005. Tories take fast lane on green transport. *Canoe News*, August 2. http://cnews.canoe.ca/CNEWS/Canada/2005/08/02/pf-1156796.html
[23] De Souza, Mike. 2005. Tax credits not enough, lobby group says. *Canada.com News*, August 3. http://www.canada.com/components/printstory/printstory4.aspx?id+1b752af7-5be8-4b7c-aaf6-1da2

Ontario, the University of Western Ontario and Fanshawe College increased student ridership by 50 percent and those students increased total system ridership by 40 percent from 1998-2003. The most startling example of such a program has occurred in St. Catharines, Ontario, where Brock University students have taken advantage of a discounted tuition based pass since September of 2003. In the last year without a discounted tuition based pass, 2002-2003, 329,000 Brock students used a St. Catharines Transit bus. In the 2004-2005 academic year, 1, 714, 448 students rode the bus.[24] This is over a *500 percent increase* in ridership due to the introduction of discounted tuition based pass! Building new transit facilities, purchasing new vehicles and adding additional routes will not, *in themselves*, dramatically increase ridership but will be better utilized through the introduction of tax-exempt transit benefits.

Precedent Setting: *"Excluding employer provided transit passes from taxation…would set a precedent encouraging the exemption of other forms of remuneration from taxation."*

Tax cuts and exemptions for corporations are also precedent setting. It is clear that corporate lobbyists, such as the Canadian Chamber of Commerce and other groups, are actively involved in these consultations in order to have the two percent tax cut for corporations with assets exceeding $50-million reinstated. "Productivity" is not, however, the exclusive domain of Canadian corporations vis-à-vis their counterparts in the rest of the world. The government should not implement these cuts for corporations with assets over $50-million and should, instead, invest in the productivity of companies via tax-exempt benefits provided through them or directly to their present and future employees. This will facilitate the movement of labour from suburban or fringe regions into and out of downtown cores.
The "Red Book" claimed that a Liberal Government will "establish a framework in which environmental and economic policy point in the same direction." This is a precedent that needs to be set in practical terms through the implementation of tax-exempt transit benefits. Implementing this proposal would be a sign that this government is interested in working towards a sustainable future in both environmental and social terms. The ATUCC believes that irrespective of calculations regarding the cost-effectiveness of affording tax-exempt transit benefits the revenue from the taxes imposed on transit riders would not be "lost" but, rather, it would be kept in the hands of Canadians who will either spend or invest it and, consequently, benefit the economy of Canada.

CONCLUSION

[24] Personal communication with Graham Morrison, St. Catharines Transit Commission, August 10, 2005.

Changes in how we manage, price, and operate public transit can improve our health, boost system efficiency, protect our environment and natural resources, and reduce the costs of our very expensive system of mobility, while addressing the issue of social exclusion through the expansion of travel choices, employment opportunities and economic productivity.

The governments own words illustrate how such a measure can increase productivity in Canada in terms of attracting corporations to this country:

> Municipalities that act to reduce emissions through improved public transit deliver multiple benefits through, for example, cleaner air, reduced traffic congestion and more livable and attractive cities. International firms choosing to locate in Canada routinely cite quality of life for their employees as a key consideration in selecting a location for investment.[25]

Tax-exempt transit benefits will also increase fairness by giving non-drivers a benefit comparable in value to what motorists receive. Once again, we quote directly from the *Moving Forward on Climate Change: A Plan for Honouring our Kyoto Commitment*: "Partnerships with provinces and territories, including… co-promotions to help increase transit ridership… will bring programs and services closer to the individuals who need them."[26] Tax-exempt benefits will increase vertical equity since non-drivers are more likely to be lower-income and physically disadvantaged than motorists. The New Deal for Cities and Communities funding is, by itself, insufficient in terms of increasing ridership and combating pollution and social inequity. As the Department of Infrastructure's website states: "No one order of Government has the means to address these challenges alone. Since the policies and programs of the Government of Canada have direct and indirect impacts in cities and communities, we need to work together with other orders of government."[27] A partnership is also required between the Department of Finance and the Department of Infrastructure's New Deal for Cities program. This will ensure a sustainable economic future for lower income workers who utilize public transit. This is an investment in human capital that benefits the productivity of Canadian businesses. If the Liberal government is considering carefully targeted tax cuts, as part of a "productivity agenda" that could form a key portion of their next election platform, then we urge them to implement tax-exempt transit benefits. Such a program will ensure the success of the New Deal funding, increase labour mobility and access, and enhance the ability of companies to recruit and maintain a consistent labour force all of which are, in turn, an investment in the *people* of Canada.

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[25] Project Green Moving Forward on Climate Change: A Plan for Honouring our Kyoto Commitment, p. 34. http://climatechange.gc.ca/kyoto_commitments/report_e.pdf
[26] Ibid.
[27] http://www.infrastructure.gc.ca/faq/ndcc_e.shtml