BRIEFING

Transportation Association of Canada   Association des transports du Canada   February 1996

TRANSPORTATION TAX TRENDS 1993-95

In 1993, the TAC Board of Directors prepared and endorsed **A New Vision for Canadian Transportation** *(Reference 1), designed to enhance Canada's competitiveness in the face of rapidly changing continental and global economies. The vision is supported by 19 elements which call for new directions in taxation, regulations, infrastructure financing, productivity, and other areas.*

In the realm of taxation, the vision calls for "revised federal, provincial, and municipal tax structures applied to the transportation sector so as to enhance the viability and competitiveness of Canadian industry".

To develop a better understanding of transportation taxation issues and possible actions, in 1993 TAC commissioned and published a report on **Transportation Taxation and Competitiveness** *(Reference 2). The overall conclusion of that study is that "the transportation industry and its users are being asked to pay more than their fair share into general revenues; this is not equitable and threatens the viability of Canadian carriers and Canada's international competitiveness." TAC supports this conclusion while recognizing that the report may not encompass the full spectrum of views held by individual members on this complex subject.*

More than two years have passed since the publication of TAC's new vision and the special taxation study. Federal, provincial and municipal tax policies have evolved during that time. Some changes have had a positive impact on the transportation community, some have had a negative impact, and some have been neutral. This Briefing highlights those changes, based on research done by the Taxation Task Force of the TAC Multi-Modal Council. The 1993-95 tax trend update is presented as an information service to the Canadian transportation community and does not necessarily represent the official views or policies of the Association.

A VISION FOR CANADIAN TRANSPORTATION IN THE YEAR 2003

Canada's economy and society are strengthened by a responsive, progressive and competitive transportation system, geared to the needs of shippers and passengers and operated as a sustainable, seamless network providing quality, efficient and affordable services.

ELEMENTS OF THE VISION . . .

1. **Modal Integration**
2. **Industry Viability**
3. **Competition**
4. **Consumer Satisfaction**
5. **Freight**
6. **Passengers**
7. **Policy**
8. **Regulation**
9. **Taxation**
10. **Canadian Control**
11. **Free Market and National Interests**
12. **Infrastructure**
13. **Financing**
14. **Productivity**
15. **Labour Force**
16. **New Technology**
17. **Safety**
18. **Environment**
19. **Urban Transportation**

THE TAXATION ELEMENT . . .

"Federal, provincial and municipal taxation policies support the competitiveness of carriers and shippers operating in domestic, continental and global markets. Taxation is neither detrimental to the competitive position of any carrier, nor is it excessive or unfair to any user of the transportation system."

RESULTS OF THE 1993 TAX STUDY . . .

The 1993 **Transportation Taxation and Competitiveness** *report (Reference 2) prepared by KPMG Peat Marwick Thorne in association with KPMG Peat Marwick Stevenson & Kellogg, under the direction of a multimodal, multipartite committee of the TAC Multi-Modal Council. Its objectives were to: assess the impact of current transportation taxes on the competitiveness and viability of both carriers and shippers; and present elements of an efficient and fair transportation tax structure.*

Key Findings

The study found that tax biases are impairing the Canadian transportation community's competitiveness and contribution to national economic growth and prosperity. Approximately 16% of Canada's Gross Domestic Product (GDP) relates to transportation services. Operating revenues for Canadian commercial carriers totaled $32.2 billion in 1990. The Canadian transport industry provides over 420,000 direct jobs. Canada's export sector accounts for approximately 25% of our GDP. Competitive transportation services are essential for success in export markets. Taxes affect transportation costs, and through costs, the competitiveness of Canada's transportation industry, Canadian shippers and other users.

- Excessive taxation of Canadian carriers impairs the financial viability of these companies.
- Biases in transportation taxation negatively affect the competitive position of Canadian manufacturers and producers and as a result, the overall Canadian economy. For many major exports, Canada is a price-taker on international markets and the need to remain competitive dictates that transportation costs be restrained.
- Differential taxation between the U.S. and Canada results in the diversion of traffic to U.S. carriers and U.S. routings.
- Biases in taxes negatively impact Canadian tourism, retail trade and the choices made by price sensitive leisure travelers.

- The imbalance between taxes paid and the value of benefits received impacts the quality of Canada's transportation infrastructure and as a result, the operating costs and competitiveness of users.

Comparative Tax Burdens by Mode

Canadian carriers incur higher tax burdens than other industries and competing U.S. carriers (see the figure below). Canadian air carriers, motor carriers and railways contribute between 6% and 14% of gross revenues to taxes. By comparison, the insurance and manufacturing industries contribute approximately 1% and 5% respectively. Competing U.S. carriers contribute between 3% and 8% of gross revenues to taxes.

- The Canadian **railway** tax system is uncompetitive when compared to the U.S. Fuel and municipal taxes are primarily responsible.
- The tax structure for the Canadian **motor carrier** industry is generally competitive with the U.S. Provincial fuel taxes are significantly higher than state fuel taxes, but other taxes such as the U.S. federal excise tax and taxes on equipment tend to equalize the burden.
- Canadian **air carriers** sustain twice the tax burden of U.S. airlines. Fuel taxes, capital taxes and air transportation taxes are primarily responsible.
- Approximately 50% of the price of gasoline is tax. Even at today's Canadian/U.S. dollar exchange rates, it is attractive for **motorists** and shoppers to purchase gasoline in the U.S. instead of Canada. This has a negative impact on domestic and foreign tourism and retail trade.
- Federal and provincial fuel taxes and other fees exceed the funds invested in **highway infrastructure**. Motorists and highway carriers seek more balance between fuel taxes and government investment in infrastructure.

A Fair and Efficient Tax Structure

The consultants recommended reform in four areas.

Resolve interjurisdictional differences. Lack of harmonization of the tax system and of tax levels in federal, provincial and municipal jurisdictions increases the cost of doing business.

COMPARATIVE TAX BURDENS (% OF REVENUES) 1993

Reduce or eliminate fuel taxes. Unless federal and provincial fuel taxes can be logically linked to social or environmental costs related to transportation, they appear to have little justification.

- Rail and air infrastructure is largely financed by private investment and/or user charges. Railway and airline fuel taxes are not a means to finance this infrastructure.
- For motor carriers and motorists, fuel taxes can be justified to finance infrastructure. However there is disparity between the level of taxes levied and government expenditures on the road system.

Balance municipal taxes and local services. The level of municipal taxes on railway rights-of-way are not justified by the level of local services provided.

Reconsider public charges to ports. Major Canadian commercial ports compete directly with U.S. ports. Federal, provincial and municipal governments should reconsider the public charges to, and support of these facilities.

CHANGES IN TRANSPORTATION TAXATION SINCE 1993 . . .

Information in this update was prepared by a Taxation Task Force chaired by Jan Bowland of KPMG Management Consulting. Other contributors to the Task Force were CN Rail, CP Rail, Air Canada and Alberta Transportation & Utilities. Their report was reviewed by the TAC Multi-Modal Council prior to publication.

Actions with positive impacts on the transportation community

Trucking companies are now permitted to claim a QST refund on inputs in **Quebec**. In 1992, Quebec harmonized its retail sales tax with the federal GST. Under that system, most taxes paid for business expenses were refundable. However, no refunds were available on fuel and highway vehicles. As a result, motor carriers were not able to claim QST credits even though transportation services in Quebec were taxable. In its 1995 budget, the Quebec government changed this policy and permitted refunds on fuel and vehicles. The change is effective for smaller fleets as of August 1995 (companies with less than $6 million in revenues) and for larger companies in December 1996. These changes will help the Quebec motor carrier industry.

Between 1993 and 1995, **Newfoundland** decreased its tax on **diesel fuel** by 1.1 cents per litre to 16.5 cents per litre.

In 1994 **Manitoba** reduced its tax on **locomotive fuel** by 2.0 cents per litre from 9.45 cents per litre to 7.45 cents per litre in order to bring Manitoba's tax more in line with other provinces. In 1995, Manitoba decreased its tax on locomotive fuel by a further 1.15 cents per litre to 6.3 cents per litre.

In its 1995 budget, **British Columbia** announced a reduction in **provincial property taxes** on railway rights-of-way and on some major structures. Effective in 1996, this means about a one third reduction in these taxes.

In 1995, **Saskatchewan** reduced the rate for **aviation fuel** to 3.5 cents per litre and offered a rebate of 3.5 cents per litre on **aviation gasoline**.

Starting with its 1993/94 budget, the **Alberta** government included total revenues from **motor vehicle fuel taxes and licenses** with its transportation budget. While this action does not result in dedicated taxes, it does increase the visibility of revenues related to expenses.

In 1994, **federal government** charges for short haul domestic and transborder **air tickets** was reduced from 7% of the amount paid or payable plus $10, to 7% of the amount paid or payable plus $6.

Actions with neutral impacts on the transportation community

In 1994, **Quebec** increased taxes by 0.7 cents per litre to 15.2 cents per litre for gasoline and 13.3 cents per litre for diesel fuel. These tax increases were offset for the transportation community by a reduction in Quebec Sales Tax from 8% to 6.5%.

Several jurisdictions recorded no fuel tax increases (notably Alberta, New Brunswick, and Ontario) despite significant pressures to reduce deficits.

Actions with negative impacts on the transportation community

In 1995, the **federal government** increased **gasoline** taxes by 1.5 cents per litre to 10 cents per litre.

In 1994, **Newfoundland** increased **gasoline** taxes by 0.8 cents per litre to 16.5 cents per litre.

In 1994, **Prince Edward Island** increased average **gasoline** taxes by 1.3 cents per litre to 12.0 cents per litre and **diesel** taxes by 0.9 cents per litre to 15.4 cents per litre.

In 1993, **Nova Scotia** increased average **gasoline** taxes by 1.7 cents per litre to 13.5 cents per litre and **diesel** taxes by 1.4 cents per litre to 15.4 cents per litre.

In 1994 and 1995, some **federal government air transportation taxes** increased:

- the maximum tax for transportation purchased in Canada or enplaned in Canada increased from $40 to $50 in 1994, and to $55 in 1995.
- in 1994, the maximum tax for transportation purchased outside of Canada for travel to Canada increased from $19 to $25.

SALES TAX AND FUEL TAX RATES (1992-1995)

at December 1992, 1993, 1994 and June 1995.
% change from December 1992 to June 1995.
% change in **(bold)** represent decreases.

			Motive Fuel Tax (average cents/litre)			
Jurisdiction	Year	Sales Tax %	Gasoline	Diesel	Aviation	Locomotive
Federal *(1)*	1992	7	8.5	4.0	4.0	4.0
	1993	7	8.5	4.0	4.0	4.0
	1994	7	8.5	4.0	4.0	4.0
	1995	7	10.0	4.0	4.0	4.0
	% change	None	18%	None	None	None
Alberta	1992	None	9.0	9.0	5.0	9.0
	1993	None	9.0	9.0	5.0	9.0
	1994	None	9.0	9.0	5.0	9.0
	1995	None	9.0	9.0	5.0	9.0
	% change		None	None	None	None
British Columbia	1992	6	10.0	10.5	5.0	3.0
	1993	7	11.0	11.5	5.0	3.0
	1994	7	11.0	11.5	5.0	3.0
	1995	7	11.0	11.5	5.0	3.0
	% change	16%	10%	9.5%	None	None
Manitoba	1992	7	10.5	10.9	5.4	9.45
	1993	7	11.5	10.9	4.2	9.45
	1994	7	11.5	10.9	4.2	7.45
	1995	7	11.5	10.9	4.2	6.30
	% change	None	9.5%	None	**(22%)**	**(33%)**
New Brunswick	1992	11	10.7	13.7	2.5	4.3
	1993	11	11.2	13.7	2.5	4.3
	1994	11	10.7	13.7	2.5	4.3
	1995	11	10.7	13.7	2.5	4.3
	% change	None	None	None	None	None
Newfoundland	1992	12	18.7	15.6	0.7	None
	1993	12	15.7	17.6	0.7	None
	1994	12	16.5	16.35	0.7	None
	1995	12	16.5	16.5	0.7	None
	% change	None	**(12%)**	6%	None	
Nova Scotia	1992	10	11.8	14.0	0.9	Exempt
	1993	11	13.5	15.4	0.9	Exempt
	1994	11	13.5	15.4	0.9	Exempt
	1995	11	13.5	15.4	0.9	Exempt
	% change	10%	14%	10%	None	
Ontario	1992	8	14.7	14.3	2.7	4.5
	1993	8	14.7	14.3	2.7	4.5
	1994	8	14.7	14.3	2.7	4.5
	1995	8	14.7	14.3	2.7	4.5
	% change	None	None	None	None	None
Prince Edward Island	1992	10	11.7	11.7	0.7	None
	1993	10	10.7	11.6	0.7	None
	1994	10	12.0	12.5	0.7	None
	1995	10	12.0	12.5	0.7	None
	% change	None	2.6%	7%	None	
Quebec	1992	8 and 4*(2)*	14.5	12.6	3.0	3.0
	1993	8 and 4	14.5	12.6	3.0	3.0
	1994	8 and 4*(3)*	15.2	13.3	3.0	3.0
	1995	6.5	15.2	13.3	3.0	3.0
	% change	Reduction	5%	5.5%	None	None
Saskatchewan	1992	8	13.0	13.0	7.0	13.0
	1993	9(March)	15.0	15.0	7.0	15.0
	1994	9	15.0	15.0	7.0	15.0
	1995	9	15.0	15.0	3.5*(4)*	15.0
	% change	12%	15%	15%	**(50%)**	15%

(1) The Federal GST is mostly recoverable for businesses; tax is payable by the end users (consumers).
(2) Goods 8%/Services 4%.
(3) In May 1994, the rate became 6.5% for goods and services.
(4) The Saskatchewan government reduced the rate for aviation fuel to 3.5 cents per litre and offered a rebate of 3.5 cents per litre on aviation gasoline.

TAC mission: to promote the provision of safe, efficient, effective and environmentally sustainable transportation services in support of Canada's social and economic goals.

This **Briefing** was prepared by the TAC sponsored **Multi-Modal Council**. It was edited by John Hartman, Council Secretary and member of the TAC Secretariat staff.

TAC is the foremost, broad-based assembly of transportation stakeholders in Canada. It is a national non-profit, non-partisan association of more than 450 voluntary corporate members including the federal, all provincial and territorial and many municipal governments, passenger transport services, goods carriers, contractors, manufacturers, consultants, academic and research groups, and others. It acts as a neutral forum for the discussion of transportation issues and concerns, and as a technical focus in the roadway transportation area. It was founded in 1914 as the Canadian Good Roads Association, became RTAC in 1970 and TAC in 1990.

The mission of the **TAC Multi-Modal Council** is to provide a forum to address international, national and regional multi-modal, multi-disciplinary transportation issues within the Canadian transportation community.

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REFERENCES

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(2) ***Transportation Taxation and Competitiveness*****,** Transportation Association of Canada, 1993, ISBN:1-895102-43-X.