

The Elimination of Airport Rent: Return on Investment

InterVISTAS

FINAL REPORT

strategic
transportation
& tourism
solutions



Prepared for
Canadian Airports Council

Prepared by
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Executive Summary

The Canadian Airports Council (CAC) commissioned Inter VISTAS Consulting Inc. (Inter VISTAS) to undertake a study to estimate the return to government of the elimination of airport rent paid by certain Canadian airports.

The study found significant positive impacts to the federal government for the elimination of airport rent. The returns on the investment would include 590,300 new air travellers annually generating:

- \$304M in traveller expenditures
- 5,550 person years of employment
- \$210M in wages
- \$350M in GDP growth
- \$720M in economic output

Note that the impacts on employment, wages, GDP and economic output reported above include direct, indirect and induced effects. Section 4.1.2 defines these economic terms.

Traffic Impacts

The results of this study show that total passenger traffic is estimated to increase by 590,300 passengers annually. The breakdown of stimulated passengers by sector is shown in Table ES-1 below.

Table ES-1: Summary of Traffic Impacts Due to Eliminating Airport Rents in Canada

	2007 Actual Passengers (millions)	% Traffic Increase	Stimulated Passengers
Domestic	27.3	1.32%	359,600
Transborder	21.1	0.99%	124,800
International	17.9	0.59%	105,900
Total	66.3	0.89%	590,300

Source: Statistics Canada – Air Carrier Traffic at Canadian Airports (2007).

Note: The enplaned and deplaned passenger statistics from Statistics Canada publication is divided by two to represent the actual passengers travelling at the rent paying airports.

Traveller Expenditure Impacts

The growth in air passenger traffic resulting from airport rent elimination is also expected to increase the total amount spent by travellers in Canada. The impact on traveller expenditures is estimated to be some \$304 million, with **Table ES-2** showing a breakdown by sector.

Table ES-2: Summary of Traveller Expenditure Impacts Due to Eliminating Airport Rents in Canada

Sector	Traveller Expenditure Impacts (\$millions)
Domestic	\$ 120
Transborder	\$ 64
International	\$ 119
Total	\$ 304

Economic Impacts

Eliminating airport rents in Canada will stimulate passenger traffic growth and traveller expenditures, which in turn has a direct positive impact on the number of jobs required to support travel activity, particularly in those industries servicing air travel and tourism.

This study estimates that eliminating airport rents in Canada is expected to generate 2,700 direct person years of employment and \$90 million in direct wages. The direct GDP and economic impacts associated with the employment impacts is measured to be \$140 million and \$300 million respectively.

Direct employees will require support from other industries; thereby generating an additional 1,350 indirect person years of employment. Further, the expenditures incurred by those employed directly and indirectly is expected to create additional induced employment equivalent to 1,400 person years.

Table ES-3 summarises the direct, indirect, and induced economic impacts associated with eliminating airport rents in Canada.

Table ES-3: Summary of Economic Impacts Due to Eliminating Airport Rents in Canada

Type of Impact	Person Years	Wages (\$ million)	GDP (\$ million)	Economic Output (\$ million)
Direct	2,700	\$ 90	\$ 140	\$ 300
Indirect	1,350	\$ 60	\$ 110	\$ 220
Induced	1,400	\$ 60	\$ 100	\$ 200
<i>Total</i>	5,550	\$ 210	\$ 350	\$ 720

Tax Impacts

Of the \$280 million in airport rents revenue forgone by the federal government, it is expected that \$50.3 million will be recovered through tax impacts from passenger traffic growth, increased traveller expenditures and employment generated as a result of the elimination of airport rents.

Figure ES-1 summarises the estimated federal tax impacts associated with the elimination of airport rents in Canada.

Figure ES-1: Summary of Federal Tax Impacts Due to Eliminating Airport Rents in Canada, 2007

SUMMARY OF TAX IMPACT FROM ELIMINATING AIRPORT RENTS - 2007

		Federal	
		Tax	Amount (\$m)
Paid by Passengers		GST on AIF	0.6
		GST on ATSC	0.2
		GST on Airfares	4.6
		GST on Traveller Expenditures	18.2
		Total	23.6
Paid by Employers or Employees		Personal Income Tax	10.1
		Corp. Income Tax	5.3
		EI - Employer	2.0
		EI - Employee	1.4
		CPP - Employer	3.9
		CPP- Employee	3.9
		Total	26.7
		Grand Total	\$50.3

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1. Introduction

The Canadian Airports Council (CAC) commissioned Inter *VISTAS* Consulting Inc. (Inter *VISTAS*) to undertake a study to estimate the return to government of the elimination of airport rent paid by certain Canadian airports.

In 2007, the actual airport rent collected by the federal government at Canadian airports totaled \$285 million. Although eliminating airport rents directly implied reduced revenues for the federal government, passing these savings onto passengers would result in greater traffic demands and increased traveller spending, stimulate employment growth and have a positive impact on GDP and economic output for the Canadian economy. This in turn would generate tax revenues for the federal government: the foregone airport rent figure is thus a gross number – the net reduction would be smaller due to the tax revenues from stimulated activity.

The purpose of this study is to understand the big picture impacts of eliminating airport rents in Canada (i.e., additional traffic, increased traveller spending, employment, wages, GDP and economic output), as well as narrower fiscal impacts (increased federal tax revenues from increased passenger activity less foregone airport rent). This result can serve as valuable input to the federal government's development of a new tourism strategy and business case.

1.1 General Methodology

In order to estimate the return to government that may result from the elimination of airport rents, Inter *VISTAS* took on the following basic approach:

- Take the impact of rent elimination on a per passenger basis at all the rent paying airports;
- Determine the percentage change that would have on domestic, transborder and international fares based on average fares;
- Apply travel elasticities to the change in airfares to estimate incremental traffic;
- Multiply incremental traffic volumes by average spend rates per traveller; and
- With this spending estimate, use input/output model multipliers to produce estimates of the GDP and employment impacts, as well as tax impacts.

The methodology for estimating traffic impacts is discussed in further detail in **Section 2.1**, while the estimation of economic impacts (employment, wages, GDP and economic output) is discussed in **Section 3.1**. **Section 4.1** describes the methodology used in estimating tax impacts.

1.2 Data Sources

In addition to airport rent data provided by the CAC, our study relied on the following data sources:

- Statistics Canada – Air Carrier Traffic at Canadian Airports (2007);
- Inter *VISTAS* Consulting Inc. Estimating Air Travel Demand Elasticities (prepared for IATA) (2007) for domestic, transborder and international airfare elasticities of traffic demand;
- Statistics Canada Air Fare, Canadian Air Carriers, Level I 2006 (2006 and 2007) for average airfare data for Canadian domestic and international travel;
- Statistics Canada – the Tourism Satellite Account (2007) for share of spending by industry;
- Statistics Canada Travel Survey of Residents of Canada (2007) for average Canadian traveller spending for domestic travel;
- Statistics Canada International Travel (2007) for average Canadian traveller spending for transborder and international travel; and
- Statistics Canada Input/Output Multipliers (2006) for economic multipliers.

It should be noted that this analysis uses 2007 airport rents instead of 2008 airport rents in order to be consistent with other data used. For instance, the most recent statistics on passenger traffic, average airfare and average spend data is for 2007.

1.3 Report Overview

The report is organized into the following sections:

- **Chapter 2** discusses the estimation of traffic impacts. **Section 2.1** provides the detailed methodology for estimating traffic impacts, while **Section 2.2** presents the results;
- **Chapter 3** discusses the estimation of traveller expenditures impacts. **Section 3.1** provides the detailed methodology for estimating traveller expenditures impacts, while **Section 3.2** presents the results;
- **Chapter 4** discusses the estimation of economic impacts, such as employment, wages, GDP and economic output. **Section 4.1** provides the detailed methodology for estimating economic impacts, while **Section 4.2** presents the results;
- **Chapter 5** discusses the estimation of fiscal impacts (increased federal tax revenues from increased passenger activity less foregone airport rent). **Section 5.1** provides the detailed methodology for estimating tax impacts, while **Section 5.2** presents the results; and
- **Chapter 6** summarises the pros and cons of eliminating airport rents from the perspective of the Canadian federal government.

2. Traffic Impacts

2.1 Methodology for Estimating Traffic Impacts

The impact of airport rent elimination can be measured on a per passenger basis by taking total value of airport rent collected at Canadian airports in 2007 (almost \$285 million) over the total number of passengers at the rent paying airports during the same year (roughly 66 million).¹ This gives an average savings per passenger of \$4.30 from the elimination of airport rent.

Savings that result from the elimination of airport rents in Canada is expected to stimulate growth in overall passenger volumes. This change in passenger traffic is estimated by **Equation 2-1** below.

Equation 2-1: Calculation of Passenger Traffic Growth due to the Elimination of Airport Rents in Canada

$$\% \text{Change in Traffic} = \frac{\% \text{Change in Traffic}}{\% \text{Change in Airfare}} * \% \text{Change in Airfare}$$

$$\text{where } \frac{\% \text{Change in Traffic}}{\% \text{Change in Airfare}} = \text{Airfare Elasticity of Traffic Demand}$$

$$\text{and } \% \text{Change in Airfare} = \frac{\text{Average Savings Per Passenger} * \% \text{Savings Passed on by carriers}}{\text{Average Airfare}}$$

The airfare elasticity of traffic demand represents the responsiveness of air passenger traffic at rent paying airports in Canada due to changes in airfare. Using the results from an air travel elasticity study that InterVISTAS prepared for the International Air Transport Association in 2007, **Table 2-1** summarises the elasticities for domestic, transborder and international sectors of travel.

¹ Actual passengers at rent paying airports are calculated using enplaned and deplaned passengers from Statistics Canada Air Carrier Traffic at Canadian Airports and dividing by two.

Table 2-1: Airfare Elasticities of Traffic Demand Selected by Sector, 2007

Sector	Elasticity
Domestic	-0.88
Transborder	-0.88
International	-0.95

Source: Inter VISTAS Consulting Inc. Estimating Air Travel Demand Elasticities (prepared for IATA) (2007).

Average airfares are estimated for each of the domestic, transborder and international sectors using data from Statistics Canada. **Table 2-2** shows the average airfares used in the analysis.

Table 2-2: Average One-Way Airfare on Canadian Carriers, 2007

Sector	2007 Average Airfare
Domestic	\$ 191
Transborder	\$ 255
International	\$ 460

Source: Statistics Canada Air Fare, Canadian Air Carriers, 2007 (published in 2009).

As previously discussed, the average savings per passenger is simply calculated from dividing total airport rents collected at Canadian airports by the associated passenger traffic levels for that year. This was estimated as \$4.30 savings per passenger. It is assumed that two-thirds of this savings will be passed on to passengers by the airlines.

By applying the data collected to **Equation 2-1**, the increase in passenger traffic that results from eliminating airport rents in Canada can be calculated. The following section presents the estimation results.

2.2 Summary of Traffic Impacts

The estimated traffic impacts associated with the elimination of airport rents in Canada are shown in **Table 2-3**.

Table 2-3: Summary of Traffic Impacts Due to Eliminating Airport Rents in Canada

	2007 Actual Passengers (millions)	% Traffic Increase	Stimulated Passengers
Domestic	27.3	1.32%	359,600
Transborder	21.1	0.99%	124,800
International	17.9	0.59%	105,900
Total	66.3	0.89%	590,300

Source: Statistics Canada – Air Carrier Traffic at Canadian Airports (2007).

Note: The enplaned and deplaned passenger statistics from Statistics Canada publication is divided by two to represent the actual passengers travelling at the rent paying airports.

3. Traveller Expenditure Impacts

3.1 Methodology for Estimating Traveller Expenditure Impacts

The change in traveller spending as a result of the elimination of airport rents in Canada can be estimated using **Equation 3-1** and **Equation 3-2** for the air transport industry and for all other industries respectively.

Equation 3-1: Calculation of Traveller Expenditures attributable to the Air Transport Industry due to the Elimination of Airport Rents in Canada

*Spend attributable to Air Transport Industry = Stimulated Passengers * Average Airfare*

Equation 3-2: Calculation of Traveller Expenditures attributable to all Other Industries due to the Elimination of Airport Rents in Canada (except air transport)²

*Spend attributable to Industry i = Stimulated Passengers * Average Spend per Passenger
* Industry i's share of GDP from tourism satellite spending*

As shown in **Equation 3-1**, the increased spending contributing to the air transport industry can be calculated by multiplying the estimated stimulated passengers determined in **Section 2.2** by the average airfare by sector data from Statistics Canada, as previously discussed in **Table 2-2**.

For all other applicable industries besides air transport, the increased traveller expenditures can be calculated by multiplying stimulated passengers by average spend per passenger by sector (**Table 3-1**) and the industry's share of total traveller expenditures in Canada as provided by Statistic Canada's Tourism Satellite Account (**Table 3-2**), as shown in **Equation 3-2**.

Table 3-1: Average Spend by Sector

Sector	Average Spend
Domestic	\$ 463
Transborder	\$ 526
International	\$ 1,342

Source: Statistics Canada Travel Survey of Residents of Canada (2007) and International Survey (2007).

² An allowance has been made for connecting passengers who have a much lower spend rate.

Table 3-2: Industry Share of GDP from Tourism Satellite Spending, 2007

Industry Definition	% Breakdown of Tourism Spending
Amusement and Recreation Industries	12%
Automotive Equipment Rental and Leasing	7%
Food Services and Drinking Places	26%
Interurban and Rural Bus Transportation	4%
Rail Transportation	10%
RV Parks, Recreational Camps, and Rooming and Boarding Houses	2%
Taxi and Limousine Service	3%
Travel Arrangement and Reservation Services	3%
Traveller Accommodation	33%
Water Transportation	2%

Source: Statistics Canada – The Tourism Satellite Account, 2007 (published in 2009).

Note that the Tourism Satellite Account includes both personal and business travel.

3.2 Summary of Traveller Expenditure Impacts

By aggregating the estimated traveller expenditure impacts for all industries discussed in **Section 3.1**, the total spending associated with the elimination of airport rents in Canada is estimated to be some \$304 million, as summarised in **Table 3-3**.

Table 3-3: Summary of Traveller Expenditure Impacts Due to Eliminating Airport Rents in Canada

Sector	Traveller Expenditure Impacts (\$millions)
Domestic	\$ 120
Transborder	\$ 64
International	\$ 119
Total	\$ 304

4. Economic Impacts

Chapter 2 estimated the passenger traffic impacts from the elimination of airport rents in Canada, which allowed for the estimation of traveller expenditure impacts in **Chapter 3**. **Chapter 4** uses traveller expenditure impacts calculated to estimate economic impacts associated with the elimination of airport rents in Canada, particularly in terms of employment, wages, GDP and national output.

4.1 Methodology for Measuring Economic Impacts

Using traveller spending as a proxy for economic output, one can use input/output economic multipliers to work backwards to determine the impact on employment, wages, GDP and economic output.

This section starts off with providing definitions for important terms that are used in estimating economic impacts and then describes the methodology of using input/output multipliers to measure economic impacts.

4.1.1 What is Economic Impact?

Economic impact is a measure of the spending and employment associated with a sector of the economy, a specific project (such as the construction of a new facility), or a change in government policy or regulation. Economic impacts can be measured in various ways. Two of the most popular ways to assess economic impact are in terms of the dollar value of industrial output produced, or in terms of person years (full-time equivalents (FTEs)) of employment generated. Other measures include value-added (GDP) and value of capital used and/or created. All of these are used to express the gross level of activity or expenditure from a sector of the economy, a specific project or a change in policy or regulation. As such, they are not “net” measures that weigh benefits against costs; nevertheless these measures can be useful in developing an appreciation of projects, investments and economic sectors.

4.1.2 Direct versus Indirect versus Induced Employment

Employment can be broken down into the following categories:

Direct economic impact is employment that can be attributed to the operation and management of an airport including firms on-site at the airport and airport-dependent businesses off-site. Thus, the direct employment base includes employees of airlines, fixed base operators, aircraft maintenance, among others, on-site at the airport.

Indirect economic impact is employment in down-stream industries that results from the presence of an airport. For example, suppliers of food to fixed based operators at an airport would be considered indirect employment. Indirect employment is generated in industries that supply or provide services to the airport employers.

Induced economic impact is employment generated from expenditures by individuals employed indirectly or directly. For example, if an airline maintenance firm employee at an airport decides to expand or re-model his/her home, this would result in additional (induced) employment hours in the general economy. The home renovation project would support hours of induced employment in the construction industry, the construction materials industry, etc.

Total economic impact is the sum of direct, indirect and induced effects. The multiplier (indirect and induced) economic impacts represent the maximum potential stimulus to the economy resulting from activity of airport related businesses.

4.1.3 Applying Economic Multipliers

Indirect and induced effects are typically measured by the use of *economic multipliers*. Multipliers are derived from economic/ statistical/accounting models of the general economy. The multipliers used for the analysis are based on Statistics Canada economic multipliers for Canada from the 2006 Interprovincial Input-Output model, the most recent available. These multipliers were updated with Consumer Price Indices to account for inflation through 2007.

4.2 Summary of Economic Impacts

As previously described, economic impacts associated with the elimination of airport rents in Canada can be estimated by using input/output multipliers to work backwards from the estimated \$304 million in traveller expenditures, which is used as a proxy for economic output.

Using this methodology, economic impacts can be calculated in terms of direct, indirect and induced effects, as summarised in **Table 4-1**.

Table 4-1: Summary of Economic Impacts Due to Eliminating Airport Rents in Canada

Type of Impact	Person Years	Wages (\$ million)	GDP (\$ million)	Economic Output (\$ million)
Direct	2,700	\$ 90	\$ 140	\$ 300
Indirect	1,350	\$ 60	\$ 110	\$ 220
Induced	1,400	\$ 60	\$ 100	\$ 200
<i>Total</i>	5,550	\$ 210	\$ 350	\$ 720

Eliminating airport rents in Canada will stimulate passenger traffic growth and traveller expenditures that is expected to generate jobs equivalent to 2,700 direct person years of employment and \$90 million in direct wages. The direct GDP and economic impacts associated with the employment impacts is measured to be \$140 million and \$300 million respectively.

Direct employees will require support from other industries; thereby generating an additional 1,350 indirect person years of employment. Further, the expenditures incurred by those employed directly and indirectly is expected to create additional induced employment equivalent to 1,400 person years.

5. Tax Impacts

This chapter estimates the fiscal impacts associated with the elimination of airport rents. By eliminating airport rents in Canada, the federal government would lose revenues generated from airport rent collection. However, the benefits associated with airport rent elimination, such as passenger traffic growth, increased traveller spending and employment generated, as discussed in previous chapters, will generate new sources of federal tax revenues. This chapter estimates the portion of the foregone airport rent revenues that would be recovered by the positive tax impacts associated with eliminating airport rents in Canada.

5.1 Methodology of Determining Tax Impacts

5.1.1 Taxes Paid by Passengers

As previously discussed, eliminating airport rents will provide savings for passengers which would lead to passenger traffic growth and an increase in traveller spending in Canada. This has an impact on certain sources of tax revenues collected by the federal government, such as GST collected on Airfare, Airport Improvement Fees, Air Transport Security Charges, and Traveller Expenditures.³ The following gives a brief explanation of each source of tax impact.

GST on Airfares

The 6% Goods and Services Tax (GST) applies to all tickets purchased in Canada for flights within the 'taxation area' and includes, therefore, all domestic flights and all transborder flights to the continental United States.⁴ Below are some assumptions made on GST collected on airfares:

- Air services to overseas destinations are zero-rated for GST purposes. Air carriers can apply for input tax credits on GST paid to provide air services.
- GST is levied on all domestic airfares.
- GST is paid by transborder passengers only by transborder passengers who purchase their tickets in Canada. This is assumed to be the Canada outbound portion of transborder travel.
- Connecting passengers are excluded, as GST paid by these travellers is attributed to their originating and terminating airports.

³ Several jurisdictions within Canada have harmonized their provincial sales taxes with the federal GST. Here we deal just with the GST and the federal portion of the HST.

⁴ The Goods and Services Tax is levied under Part IX of the *Excise Tax Act*.

Separating originating from connecting passengers and multiplying by average airfare for each of the domestic, transborder and international sectors (Table 2-2), GST on airfares is estimated to be \$4.6 million.

GST on Airport Improvement Fees

Airport Authorities charge passengers originating their journey at the airport an Airport Improvement Fee (AIF) that is collected for the purpose of funding capital improvements at the airport. In some cases, a small AIF is levied on connecting passengers as well. GST is levied on the AIFs.

To estimate the AIF revenues attributable to the stimulated passengers as a result of eliminating airport rents, we first estimated the stimulated passengers for each airport by applying the percent of stimulated passengers of total passenger traffic for each of the domestic (both connecting and non-connecting), transborder and international sectors. Then we collected data on the 2007 AIF rates for individual rent paying airports (by sector, where applicable). By multiplying 2007 AIF rates by the estimated stimulated passengers by sector, we estimate that the AIF revenues collected from stimulated passengers at the rent paying airports would be nearly \$9.9 million in 2007.

It should be noted that Toronto International Airport is the only airport among the rent paying airports in Canada that charge an AIF rate for connecting flights. This analysis accounts for AIF revenues collected on connecting passengers as well.

Applying the 6% GST rate to these revenues, the GST collected on AIF revenues attributable to the stimulated passengers is estimated to be \$590,000.

GST on Air Transport Security Charges

The 6% GST rate is applied to air transport security charges (ATSC) revenues collected from passengers. ATSC revenues are calculated by multiplying the increase in local passengers with the one-way ATSC rate per passenger for each of the domestic, transborder and international sectors (\$4.67, \$7.94 and \$17.00 respectively). This produces approximately \$170,000 in GST collected on ATSC revenues.

GST on Traveller Expenditures

The 6% GST rate is applied to total traveller expenditures of \$304 million (Section 3.2), yielding nearly \$18.2 million in GST tax revenues collected by the federal government.

5.1.2 Taxes paid by Employees and Employers

It is also possible to estimate some of the taxes paid by employees and employers as a result of the employment generated from the elimination of airport rents. Some of the tax sources estimated are personal income tax, corporate income tax, employment insurance and Canada Pension Plan payments.

Personal Income Tax

Under the *Income Tax Act* federal income tax is paid on taxable income at a rate that increases with taxable income.

Table 5-1: Personal Income Tax Rates For 2007

Federal			
Basic Tax			
Income Range:	\$0 to \$35,000	Tax Rate:	16%
	\$35,001 to \$70,000		22%
	\$70,001 to \$113,804		26%
	Over \$113,804		29%

Because the tax rate is progressive, the tax paid by a group of employees depends on the distribution of income among those employees. Unfortunately, the distribution of income is not known and average incomes must be used.

Each employee is assumed to pay tax as a single tax filer. Average tax rates for different income groups. **Table 5-2** shows the estimated average incomes for employees generated as a result of eliminating airport rents in Canada. Estimated income tax payable is \$10.1 million in federal tax.

Table 5-2: Income Tax Revenues

	Person Years	Average Payroll	Payroll (\$M)	Average Income Tax Rates (%)		Estimated
				Federal	Federal (\$m)	
Air Transportation	460	\$ 57,690.10	\$26.5	14.2%	\$3.8	
Scenic and Sightseeing Transportation	260	\$ 26,534.06	\$6.9	8.8%	\$0.6	
Automotive Equipment Rental and Leasing	39	\$ 50,324.53	\$2.0	13.0%	\$0.3	
Food Services and Drinking Places	911	\$ 24,731.20	\$22.5	8.4%	\$1.9	
Interurban and Rural Bus Transportation	45	\$ 52,356.89	\$2.4	13.3%	\$0.3	
Rail Transportation	78	\$ 67,419.15	\$5.3	15.3%	\$0.8	
Traveller Accommodation	40	\$ 26,534.06	\$1.1	8.8%	\$0.1	
Taxi and Limousine Service	74	\$ 35,000.00	\$2.6	10.4%	\$0.3	
Support Activities for Transportation	30	\$ 51,065.35	\$1.5	13.1%	\$0.2	
Traveller Accommodation	768	\$ 25,975.78	\$20.0	8.7%	\$1.7	
Water Transportation	11	\$ 73,103.14	\$0.8	15.9%	\$0.1	
TOTAL	2,717		\$91.5		\$10.1	

Corporate Income Tax

All corporations are liable to pay federal income tax under the *Income Tax Act*. The tax rate varies by type and size of company.

The calculation of corporate income taxes paid by employers as a result of increased employment due to the elimination of airport rent is described below:

1. To calculate tax liability precisely is very difficult. It requires knowledge of the total tax base. Therefore, an approximate method has been used.
2. In Canada, the federal corporate income tax collected per employee was \$1,956 in 2007.
3. Assuming all companies pay tax at the average rate per employee calculated above, the 2007 corporation income tax liability is estimated to be \$5.3 million toward federal revenues.

Employment Insurance

In 2007, employees in Canada paid employment insurance (EI) premiums equal to 1.80% of earnings up to a maximum of \$720 per year. (Maximum insurable earnings are \$40,000) Employers paid EI premiums equal to 1.4 times employee premiums.

The employee premium rate is applied to total payroll costs for employees earning less than \$40,000 per year. The maximum contribution was used for employees earning more than \$40,000 per year. Estimated employee payments were \$1.4 million in 2007.

The employer rate is applied to the employee payments. Estimated employer payments were \$2.0 million in 2007.

Canada Pension Plan

In 2007, employee contributions for the Canada Pension Plan (CPP) were 4.95% of pensionable earnings. Pensionable earnings are actual earnings less \$3,500, to a maximum of \$40,200. The maximum annual employee contribution is \$1,989.90. The employer contribution is the same as the employee contribution.

The employee contribution rate is applied to average payroll for employees earning less than \$40,200 a year. The maximum contribution was used for employment earning more than the maximum pensionable earnings.

Estimated employer and employee contributions are \$3.9 million each, for a total of \$7.9 million.

5.2 Summary of Tax Contributions

Of the \$280 million in airport rents revenue forgone by the federal government, it is expected that \$50.3 million will be recovered through tax impacts from passenger traffic growth, increased traveller expenditures and employment generated as a result of the elimination of airport rents.

Figure 5-1 below summarises the estimated federal tax impacts associated with the elimination of airport rents in Canada.

Figure 5-1: Summary of Federal Tax Impacts Due to Eliminating Airport Rents in Canada, 2007

SUMMARY OF TAX IMPACT FROM ELIMINATING AIRPORT RENTS - 2007

		Federal	
		Tax	Amount (\$m)
Paid by Passengers		GST on AIF	0.6
		GST on ATSC	0.2
		GST on Airfares	4.6
		GST on Traveller Expenditures	18.2
		Total	23.6
Paid by Employers or Employees		Personal Income Tax	10.1
		Corp. Income Tax	5.3
		EI - Employer	2.0
		EI - Employee	1.4
		CPP - Employer	3.9
		CPP- Employee	3.9
	Total	26.7	
		Grand Total	\$50.3

6. Conclusion

The single negative impact of eliminating airport rents in Canada is the \$280 million in airport rent revenue annually foregone for the federal government. However, this is far outweighed by the positive impacts associated with this change, as shown in **Table 6-1**.

Table 6-1: Summary of Pro's and Con's of the Elimination of Airport Rents

Pro's	Con's
Traffic Impacts: Passenger traffic growth of over 590,000 passengers annually	
Traveller Expenditure Impacts: Increase in airfare and traveller expenditures by \$304 million due to passenger traffic growth	
Economic Impacts: <ul style="list-style-type: none"> • 2,700 direct person years of employment • \$90 million in direct wages • \$140 million in direct GDP • \$300 million in direct economic output 	
Tax Impacts: \$50.3 million in additional tax revenues due to passenger traffic growth, increase in traveller expenditures and employment generated	Reduction in Federal Government Revenues by \$280 million in airport rent collected annually

This report shows that by offering savings to passengers in the form of removing airport rents, this will stimulate traffic demand by an additional 590,000 passengers. Passengers would also incur greater traveller expenditures by some \$304 million.

Both passenger traffic growth and increased traveller spending would have a positive impact on the Canadian economy, generating 2,700 direct person years of employment in air transport and other relevant industries. The direct economic impacts associated with the employment growth is \$90 million in direct wages, \$140 million in direct GDP and \$300 million in direct economic output. Including multiplier impacts (indirect and induced effects), the elimination of airport rents is expected to generate a total of 5,550 person years of employment.

Further, the additional federal tax revenues associated with these impacts on its own already compensate for most of the foregone airport rent revenue, estimated to be \$50.3 million.



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