

The Honourable James M. Flaherty  
Department of Finance Canada  
140 O'Connor Street  
Ottawa, Ontario K1A 0G5

February 8, 2010

Dear Minister,

RE: 2010 Pre-Budget Consultations

On behalf of the Canadian Employee Relocation Council (CERC) thank you for the opportunity to provide our suggestions as to what steps the Government should take to improve the competitiveness of the Canadian economy and ensure that Canada continues to attract investment and create jobs.

The economic downturn in the past year has resulted in the highest levels of unemployment seen in many years. Many communities such as Windsor, St Catherines, Trois Rivières and Kitchener-Waterloo are experiencing unemployment levels well above the national average. At the same time there are areas of the country where good jobs simply can't be filled. Employers in those regions are missing out on opportunities to expand their markets and take advantage the recovery that is underway.

For example, according to a recent report tracking short term labour needs in the petroleum industry, the Alberta based Petroleum Human Resources Council noted there are shortages in occupations ranging from engineers to trades people, to business and operations support in that industry. Incentives are needed to encourage employees to consider moving from areas of high unemployment to areas where job vacancies exist.

We believe that government can assist Canadian workers who may be considering transfers and relocations to areas where employment opportunities are more favourable. In many cases these relocations are employer sponsored with financial assistance for relocation costs and housing subsidies.

The treatment and taxation of employee relocation benefits and moving expense reimbursements are important considerations for individuals when considering relocation. At the same time employers often incur additional costs in trying to maintain the employee "whole", particularly in those situations where shortcomings in tax policy have resulted in a negative financial burden to the employee.

The changes we are proposing to the Income Tax Act will deliver significant benefit to Canada's economy by reducing the burden on the employment insurance program and improving the supply of labour where it is most needed. At the same time the changes will have a positive impact on government tax revenues. The changes will also serve to strengthen and support the recent initiatives between provincial governments to remove restrictions on labour force mobility across provincial boundaries.

By way of introduction, the Canadian Employee Relocation Council (CERC) is a non-profit organization representing the interests of organizations across Canada involved in the movement of

employees for employment purposes. Our members have told us that they expect income tax policy to be reflective of, and adaptive to, the modern realities of a business climate that is reliant on a more mobile workforce. They expect tax policies to keep pace with economic conditions without imposing additional administrative costs. Many provisions of the Income Tax Act (ITA) and stated limits were designed for a different era and must be updated to reflect the modern challenges of employee mobility.

### **Discretionary Moving Allowances**

Many of our member organizations provide their relocating employees with non accountable moving allowances. These allowances vary in amount but are generally based on a range of between two and six weeks of base salary. These amounts are fully taxable with the exception of an administrative exemption of \$650.

### **Recommendation**

A review of this provision to;

- Increase the administrative exemption from \$650 to \$2,000, or one month of salary
- Permit the allowance to be considered non-taxable where the employee substantiates moving and set up costs in the new location to the employer; and
- Allow the employer a GST credit for the amounts paid as discretionary allowances.

### **Temporary Living Expenses**

Subsection 6(6) of the ITA provides that an employer can provide non taxable travel, board and lodging to an employee on temporary assignment provided certain conditions are met. Many of our members use this provision extensively. However in today's current environment of highly mobile employees this provision does not always provide the relief that it might.

Many of our members relocate employees to remote areas such as Northern Alberta and BC where there are established communities, but with limited infrastructure. These are permanent moves but the employee retains a household in the former work location. There may be many reasons for this but the primary ones are dual income families and the lack of infrastructure and housing for other family members. As a result a new category of employee has arisen over the past few years "the permanent long distance commuter". Due to shortages in the labour pool in these remote areas, companies often provide either allowances or reimbursements for housing and travel in these circumstances to attract employees. As these payments are taxable it greatly increases the cost where the employer grosses up the amounts of the housing allowances.

Although subsection 6(6) does contain a provision to exclude board and lodging for permanent moves this is only available where the work location is remote from any established community. Many of these locations would not qualify for this exemption as they are communities of reasonable size.

The new reality for many employers, particularly in the mining/oil and gas industry, is that their projects at "special work sites" (whether or not that worksite is currently considered a remote location) can last a lot longer than two years, in many cases they cannot entice the necessary talent to relocate their families to those areas on a permanent basis. This situation results in an ongoing and expensive employer liability for grossed-up housing and travel costs between the worksite and the employee's retained principal place of residence for the entire duration of a specific project.

## **Recommendation**

Consider extending the scope of Subsection 6(6) to modify the term of “temporary nature of the employment assignment if the employee is assigned to a “remote” location. These areas could be defined in the Regulations and presumably could be updated periodically to keep up with hardship areas.

Change the definition of "temporary" for this purpose and instead focus more on the nature of the employer's specific project, rather than the existing two-year rule of thumb.

### **1. Issue on definition of an “Eligible Relocation”**

The Income Tax Act (ITA) defines an Eligible Relocation (ER) as, among other things, a move from one place in Canada to another place in Canada. The definition of an ER is relevant in applying a number of relieving provisions for employment benefits in the ITA, specifically;

Section 62 Moving expenses

Sections 6(19) – (23) Eligible Housing Loss and

Section 80.4 and related Section 110(1) (j) - Benefits on Interest free loans and related deduction for a home relocation loan.

Our members are concerned that an “eligible relocation” is only applicable for moves within Canada. Over recent years the number of cross-border and international moves has increased significantly and immigrants to Canada frequently receive these types of supports and benefits. All of these benefits are fully taxable in Canada with no access to the relieving positions noted above.

## **Recommendation**

Consider reviewing these provisions and expanding them so that they would include moves from a location outside Canada to a location within Canada.

Minister, we wish you the very best of success in your deliberations and trust that our input is constructive and helpful to you. We welcome this opportunity to provide our views, and remain available to meet with you or your staff to discuss our recommendations in more detail.

Sincerely,



Stephen Cryne  
President and CEO  
CERC