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Audit of projections relating to Bill C-227 for

**BUILDING AND CONSTRUCTION
TRADES DEPARTMENT, AFL-CIO**

June 23, 2010



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July 8, 2010

AUDITORS' REPORT

To the Canadian Executive Board of
The Building and Construction Trades Department AFL-CIO

The accompanying projections of the cost and savings of implementing Bill C-227 under different scenarios, as presented by the Building and Construction Trades Department, AFL-CIO ("BCTD"), have been prepared using assumptions, including the hypothesis set out in Note 2, with an effective date of June 23, 2010.

Since a hypothesis need not be supported, our procedures with respect to it were limited to evaluating whether it was consistent with the purpose of this projection as described in Note 1. We have also examined the support provided by the BCTD for the other assumptions, and the preparation and presentation of the projections. Our examination was made in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the projections included in this report are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the assumptions and disclosures included in this report. An audit also includes assessing the accounting principals used and significant estimates made by the BCTD, as well as evaluating the overall presentation of the financial projections. We have no responsibility to update this report for events and circumstances occurring after the date of the report.

In our opinion:

- the hypothesis is consistent with the purpose of these projections;
- as at the date of this report, the assumptions developed by the BCTD are suitably supported and consistent with the plans of the BCTD, and provide a reasonable basis for the projections;
- these projections comply with the presentation and disclosure standards established by The Canadian Institute of Chartered Accountants.

Since these projections are based on assumptions regarding future events, actual results will vary from the information presented even if the hypothesis occurs, and the variations may be material. Accordingly, we express no opinion as to whether these projections will be achieved.

A handwritten signature in black ink, appearing to read "TJ Warren".

HENDRY WARREN LLP
Chartered Accountants
Licensed Public Accountants
Ottawa, Ontario

BUILDING AND CONSTRUCTION TRADES DEPARTMENT, AFL-CIO

Bill C-227 Projections

Assumptions effective June 23, 2010

Scenario #1

Canada wide construction industry participation

	Per worker	Total	
Total number of construction industry participants (Note 3)		1,200,000	
Affected workforce (Note 2)		10%	
Number of eligible travelling skilled trades workers		<u>120,000</u>	
Annual eligible travel expenditures (Note 2)	\$ 3,500	420,000,000	
Tax credit (Note 2)	15%	15%	
Total projected implementation cost	<u>(525)</u>	<u>(63,000,000)</u>	A
Projected savings in EI benefits paid per trades worker (Note 3)	1,572	188,640,000	
Marginal federal tax paid on EI benefits (Note 3)	22.00%	346	41,520,000
After tax savings	<u>1,226</u>	<u>147,120,000</u>	B
Average weekly construction earnings (Note 3)	1,050	126,000,000	
Number of weeks unemployed during the year (Note 3)	6	6	
	<u>6,300</u>	<u>756,000,000</u>	
Marginal federal tax rate (Note 3)	22.00%	22.00%	
Additional tax revenue due to employment	<u>1,386</u>	<u>166,320,000</u>	C
Net savings (cost) of implementation	\$ 2,087	250,440,000	(A+B+C)

See Notes 5 and 6 demonstrating the sensitivity to the total projected implementation cost (Line A) and net savings (cost) of implementation (Line A+B+C), respectively, due to changes in percentage participation and annual eligible travel expenditures.

BUILDING AND CONSTRUCTION TRADES DEPARTMENT, AFL-CIO

Bill C-227 Projections

Assumptions effective June 23, 2010

Scenario #2

Adopted in New Brunswick, Newfoundland/Labrador, Nova Scotia, & Prince Edward Island

	Per worker	Total	
Total number of construction industry participants (Note 3)		80,000	
Affected workforce (Note 2)		10%	
Number of eligible travelling skilled trades workers		<u>8,000</u>	
Annual eligible travel expenditures (Note 2)	\$ 3,500	28,000,000	
Tax credit (Note 2)	15%	15%	
Total projected implementation cost	<u>(525)</u>	<u>(4,200,000)</u>	A
Projected savings in EI benefits paid per trades worker (Note 3)	1,572	12,576,000	
Marginal federal tax paid on EI benefits (Note 3)	22.00%	346	
After tax savings	<u>1,226</u>	<u>9,808,000</u>	B
Average weekly construction earnings (Note 3)	1,050	8,400,000	
Number of weeks unemployed during the year (Note 3)	6	6	
	<u>6,300</u>	<u>50,400,000</u>	
Marginal federal tax rate	22.00%	22.00%	
Additional tax revenue due to employment	<u>1,386</u>	<u>11,088,000</u>	C
Net savings (cost) of implementation	\$ 2,087	16,696,000	(A+B+C)

See Notes 5 and 6 demonstrating the sensitivity to the total projected implementation cost (Line A) and net savings (cost) of implementation (Line A+B+C), respectively, due to changes in percentage participation and annual eligible travel expenditures.

BUILDING AND CONSTRUCTION TRADES DEPARTMENT, AFL-CIO

Bill C-227 Projections

Assumptions effective June 23, 2010

Scenario #3

Adopted in Ontario, Quebec, New Brunswick, Newfoundland/Labrador, Nova Scotia, & Prince Edward Island

	Per worker	Total	
Total number of construction industry participants (Note 3)		750,000	
Affected workforce (Note 2)		10%	
Number of eligible travelling skilled trades workers		75,000	
Annual eligible travel expenditures (Note 2)	\$ 3,500	262,500,000	
Tax credit (Note 2)	15%	15%	
Total projected implementation cost	(525)	(39,375,000)	A
Projected savings in EI benefits paid per trades worker (Note 3)	1,572	117,900,000	
Marginal federal tax paid on EI benefits (Note 3)	22.00%	346	25,950,000
After tax savings	1,226	91,950,000	B
Average weekly construction earnings (Note 3)	\$ 1,050	78,750,000	
Number of weeks unemployed during the year (Note 3)	6	6	
	\$ 6,300	\$ 472,500,000	
Marginal federal tax rate (Note 3)	22.00%	22.00%	
Additional tax revenue due to employment	\$ 1,386	\$ 103,950,000	C
Net savings (cost) of implementation	2,087	156,525,000	(A+B+C)

See Notes 5 and 6 demonstrating the sensitivity to the total projected implementation cost (Line A) and net savings (cost) of implementation (Line A+B+C), respectively, due to changes in percentage participation and annual eligible travel expenditures.

BUILDING AND CONSTRUCTION TRADES DEPARTMENT, AFL-CIO

Bill C-227 Projections

Assumptions effective June 23, 2010

Scenario #4

Adopted in Quebec, New Brunswick, Newfoundland/Labrador, Nova Scotia, & Prince Edward Island

	Per worker	Total	
Total number of construction industry participants (Note 3)		317,000	
Affected workforce (Note 2)		10%	
Number of eligible travelling skilled trades workers		<u>31,700</u>	
Annual eligible travel expenditures (Note 2)	\$ 3,500	110,950,000	
Tax credit (Note 2)	15%	15%	
Total projected implementation cost	<u>(525)</u>	<u>(16,642,500)</u>	A
Projected savings in EI benefits paid per trades worker (Note 3)	1,572	49,832,400	
Marginal federal tax paid on EI benefits (Note 3)	22.00%	346	10,968,200
After tax savings	<u>1,226</u>	<u>38,864,200</u>	B
Average weekly construction earnings (Note 3)	\$ 1,050	33,285,000	
Number of weeks unemployed during the year (Note 3)	6	6	
	<u>\$ 6,300</u>	<u>\$ 199,710,000</u>	
Marginal federal tax rate (Note 3)	22.00%	22.00%	
Additional tax revenue due to employment	<u>\$ 1,386</u>	<u>\$ 43,936,200</u>	C
Net savings (cost) of implementation	2,087	66,157,900	(A+B+C)

See Notes 5 and 6 demonstrating the sensitivity to the total projected implementation cost (Line A) and net savings (cost) of implementation (Line A+B+C), respectively, due to changes in percentage participation and annual eligible travel expenditures.

BUILDING AND CONSTRUCTION TRADES DEPARTMENT, AFL-CIO

Notes to Bill C-227 Projections

Assumptions effective June 23, 2010

1. Purpose

The purpose of these projections is to demonstrate the estimated cost of implementation and estimated net savings of a pilot project undertaken by the Government of Canada. This pilot project would provide tax incentives for the mobility of skilled trades workers in various parts of Canada. It is anticipated this pilot program will be part of Budget 2011. The total projected implementation cost consists of the lost tax revenue from providing the 15% tax credit (Line A). The savings from implementation consists of employment insurance (EI) savings (Line B) and increased tax revenue as a result of increased employment during the year (Line C). The total of these figures (A+B+C) represent the net savings (cost) of implementation. Accordingly, these projections may not be appropriate for other purposes.

2. Summary of hypothesis

Bill C-227, a private member's bill, proposes that the Income Tax Act be amended to allow a taxpayer to claim a tax benefit for amounts expended in the year by the taxpayer incurred in order to secure and maintain employment. The taxpayer must be a qualified tradesperson or an indentured apprentice in a construction activity at a job site located at least 80 kilometres away from the taxpayer's ordinary place of residence. As well, the employee must have been required under the contract of employment to pay those expenses, did not receive from his or her employer an allowance in respect of those expenses, and does not claim those expenses as a deduction for the year under any other provision of the Act.

Within the spirit of Bill C-227, these projections have considered the following hypothesis:

- The tax benefit would be in the form of a tax credit at 15% of any eligible monies spent

- 10% of the construction workforce in any geographic area travels more than 80 kilometres from their ordinary place of residence to obtain employment for six weeks of the year

- \$3,500 is the average annual expense a skilled tradesperson incurs to obtain employment that is not reimbursed by the employer

As these figures are estimates provided by the BCTD and are not supportable, a sensitivity analysis has been provided to demonstrate the effect of changes in the hypothesis, see Notes 5 and 6.

BUILDING AND CONSTRUCTION TRADES DEPARTMENT, AFL-CIO

Notes to Bill C-227 Projections

Assumptions effective June 23, 2010

3. Significant assumptions

The following assumptions have been made consistently throughout the projections and are determined to be adequately supported for the purposes of the projections:

a) The number of participants in the construction industry, as reported by Statistics Canada, April 2010 are:

-Ontario	433,000
-Quebec	237,000
-New Brunswick	28,000
-Nova Scotia	32,000
-Prince Edward Island	5,000
-Newfoundland & Labrador	15,000
-Canada wide	1,200,000

b) The average weekly EI benefit in construction is \$393 as reported in the Monitoring and Assessment Report 2008 provided by the Canada Employment Insurance Commission. The worker draws EI for 4 weeks (\$1,572) during their 6 weeks of unemployment per year;

c) The average weekly earnings in the construction industry was \$1,050 in 2009, as reported by Statistics Canada;

d) The 2010 marginal federal tax rate for income earned between \$40,970 and \$81,941 is 22%;

e) These projections only consider the cost and benefit to the Federal government.

4. Future oriented financial information

Since these projections are based on assumptions regarding future events, actual results will vary from the information presented even if the hypothesis occurs, and the variations may be material.

BUILDING AND CONSTRUCTION TRADES DEPARTMENT, AFL-CIO

Notes to Bill C-227 Projections

Assumptions effective June 23, 2010

5. Sensitivity analysis - projected implementation cost to the Federal government

The following tables demonstrate the sensitivity to the cost of implementation under each scenario due to changes in the hypothesis - participation of 5% to 20% and annual eligible travel expenditures of \$2,500 to \$4,000.

Scenario #1

Canada wide construction industry participation

		Annual eligible travel expenditures			
		\$2,500	\$3,000	\$3,500	\$4,000
% Participation	5%	(22,500,000)	(27,000,000)	(31,500,000)	(36,000,000)
	10%	(45,000,000)	(54,000,000)	(63,000,000)	(72,000,000)
	15%	(67,500,000)	(81,000,000)	(94,500,000)	(108,000,000)
	20%	(90,000,000)	(108,000,000)	(126,000,000)	(144,000,000)

Scenario #2

Adopted in New Brunswick, Newfoundland/Labrador, Nova Scotia, & Prince Edward Island

		Annual eligible travel expenditures			
		\$2,500	\$3,000	\$3,500	\$4,000
% Participation	5%	(1,500,000)	(1,800,000)	(2,100,000)	(2,400,000)
	10%	(3,000,000)	(3,600,000)	(4,200,000)	(4,800,000)
	15%	(4,500,000)	(5,400,000)	(6,300,000)	(7,200,000)
	20%	(6,000,000)	(7,200,000)	(8,400,000)	(9,600,000)

Scenario #3

Adopted in Ontario, Quebec, New Brunswick, Newfoundland/Labrador, Nova Scotia, & Prince Edward Island

		Annual eligible travel expenditures			
		\$2,500	\$3,000	\$3,500	\$4,000
% Participation	5%	(14,062,500)	(16,875,000)	(19,687,500)	(22,500,000)
	10%	(28,125,000)	(33,750,000)	(39,375,000)	(45,000,000)
	15%	(42,187,500)	(50,625,000)	(59,062,500)	(67,500,000)
	20%	(56,250,000)	(67,500,000)	(78,750,000)	(90,000,000)

Scenario #4

Adopted in Quebec, New Brunswick, Newfoundland/Labrador, Nova Scotia, & Prince Edward Island

		Annual eligible travel expenditures			
		\$2,500	\$3,000	\$3,500	\$4,000
% Participation	5%	(5,943,750)	(7,132,500)	(8,321,250)	(9,510,000)
	10%	(11,887,500)	(14,265,000)	(16,642,500)	(19,020,000)
	15%	(17,831,250)	(21,397,500)	(24,963,750)	(28,530,000)
	20%	(23,775,000)	(28,530,000)	(33,285,000)	(38,040,000)

BUILDING AND CONSTRUCTION TRADES DEPARTMENT, AFL-CIO

Notes to Bill C-227 Projections

Assumptions effective June 23, 2010

6. Sensitivity analysis - net savings (cost) to the Federal government

The following tables demonstrate the sensitivity to the net savings (cost) of implementation under each scenario due to changes in the hypothesis - participation of 5% to 20% and annual eligible travel expenditures of \$2,500 to \$4,000.

Scenario #1

Canada wide construction industry participation

		Annual eligible travel expenditures			
		\$2,500	\$3,000	\$3,500	\$4,000
% Participation	5%	134,220,000	129,720,000	125,220,000	120,720,000
	10%	268,440,000	259,440,000	250,440,000	241,440,000
	15%	402,660,000	389,160,000	375,660,000	362,160,000
	20%	536,880,000	518,880,000	500,880,000	482,880,000

Scenario #2

Adopted in New Brunswick, Newfoundland/Labrador, Nova Scotia, & Prince Edward Island

		Annual eligible travel expenditures			
		\$2,500	\$3,000	\$3,500	\$4,000
% Participation	5%	8,948,000	8,648,000	8,348,000	8,048,000
	10%	17,896,000	17,296,000	16,696,000	16,096,000
	15%	26,844,000	25,944,000	25,044,000	24,144,000
	20%	35,792,000	34,592,000	33,392,000	32,192,000

Scenario #3

Adopted in Ontario, Quebec, New Brunswick, Newfoundland/Labrador, Nova Scotia, & Prince Edward Island

		Annual eligible travel expenditures			
		\$2,500	\$3,000	\$3,500	\$4,000
% Participation	5%	83,887,500	81,075,000	78,262,500	75,450,000
	10%	167,775,000	162,150,000	156,525,000	150,900,000
	15%	251,662,500	243,225,000	234,787,500	226,350,000
	20%	335,550,000	324,300,000	313,050,000	301,800,000

Scenario #4

Adopted in Quebec, New Brunswick, Newfoundland/Labrador, Nova Scotia, & Prince Edward Island

		Annual eligible travel expenditures			
		\$2,500	\$3,000	\$3,500	\$4,000
% Participation	5%	35,456,450	34,267,700	33,078,950	31,890,200
	10%	70,912,900	68,535,400	66,157,900	63,780,400
	15%	106,369,350	102,803,100	99,236,850	95,670,600
	20%	141,825,800	137,070,800	132,315,800	127,560,800