

BRITISH COLUMBIA CARBON TAX

Presentation for State of Connecticut

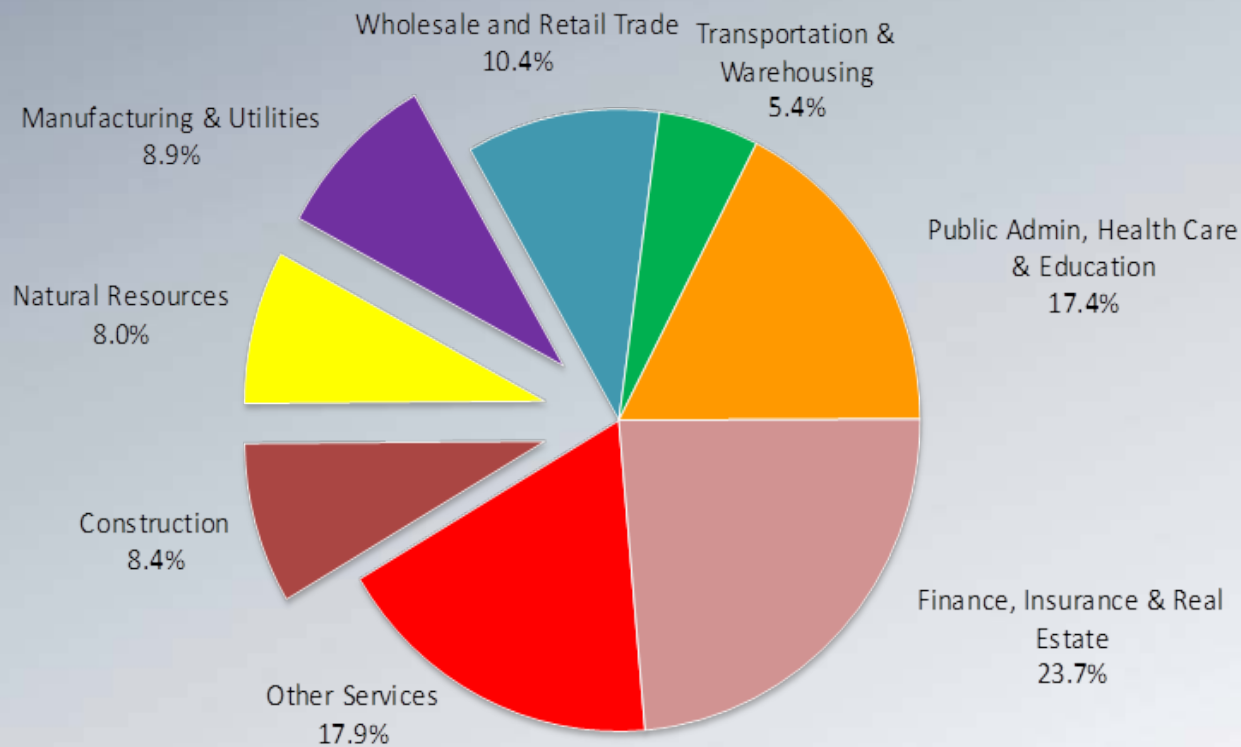
April 2016



Ministry
of Finance

British Columbia's Diversified Economy

Share of BC real GDP at basic prices (chained \$2007) by major industry, 2014



Source: Statistics Canada (may not add to 100 per cent due to rounding)

British Columbia Economy

BC's Economy

- ❖ Just over \$228 Billion.
- ❖ Budget 2016 - Balanced Budget for fourth straight year.
- ❖ Triple A credit rating.
- ❖ BC ranked second in economic growth among Canadian provinces in 2014.
- ❖ Between 2007 and 2014 BC's real GDP has grown 12.4 per cent; stronger than the Canadian average.
- ❖ The carbon tax and associated tax reductions are just one small factor in British Columbia's overall economic activity.

Constitutional Requirements

Constitutional Framework for Taxation

- ❖ British Columbia is a province of Canada.
- ❖ Taxation Power limited to **direct taxation within the province**. (legal determination not economic)
- ❖ To be a direct tax within British Columbia, tax must be levied on a person who is located in BC at the time the tax is payable and must be paid by the end consumer or user of the good being taxed.

Carbon Tax

Legislative History

- ❖ February 2007, Throne Speech – government announced would consider range of possibilities for tax shift that would encourage reduced carbon consumption.
- ❖ February 2008 – Carbon Tax announced in *Budget 2008*.
- ❖ April to May 2008 – *Carbon Tax Act* enacted by Legislative Assembly.
- ❖ June 2008 – Carbon Tax Regulations made.
- ❖ July 1, 2008 – Carbon Tax implemented.

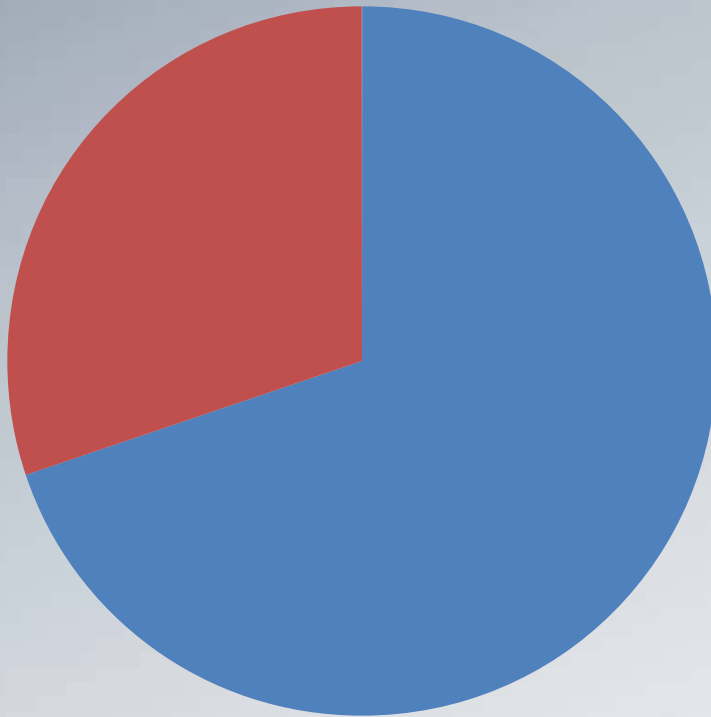
Carbon Tax

BC Carbon Tax Principles

- ❖ Tax shift – all revenues returned to taxpayers through reductions in other taxes.
- ❖ Tax rates started low and increased gradually.
- ❖ Lower income individuals and families protected.
- ❖ Broadest possible base.
- ❖ Integrated with other climate action measures.

Carbon Tax

Carbon Tax Coverage (2015)



Carbon tax applies to approximately 70% of BC emissions

Estimates of Emissions excluded:

Fugitive sources 8%

Industrial process 5%

Agriculture (non-combustion) 4%

Waste 8%

Afforestation and Deforestation 5%

Carbon Tax

Tax Base

❖ Taxed:

Fuels purchased or used in BC by individuals, businesses or industry and tires & peat when combusted in BC for heat or energy.

❖ Not taxed:

- ❖ Wood, biomass, certain biofuels (e.g. 100% Bio-methane).
- ❖ Non-energy emissions from agriculture and waste.
- ❖ Fugitive emissions & non-combustion industrial emissions.

❖ Exemptions

- ❖ Inter-jurisdictional emissions including exports.
- ❖ Constitutional / due to federal legislation (i.e. First Nations).
- ❖ Specific uses of fuel if fuel not combusted (i.e. feedstock).
- ❖ Administrative impracticality (i.e. small containers).
- ❖ Coloured gasoline and coloured diesel used by farmers solely for farm purposes (as of January 1, 2014).

Carbon Tax

\$/tonne of
carbon dioxide
equivalent
emissions

Implemented
July 1, 2008

Increase July 1
each year

Rates frozen
at \$30/tonne
Until 2018



Carbon Tax

Specific Tax Rates

Fuel type	Rate July 1 08	Rate July 1 09	Rate July 1 10	Rate July 1 11	Rate July 1 12
Aviation fuel	2.46¢/L	3.69¢/L	4.92¢/L	6.15¢/L	7.38¢/L
gasoline	2.34¢/L	3.51¢/L	4.45¢/L	5.56¢/L	6.67¢/L
Heavy fuel oil	3.15¢/L	4.73¢/L	6.30¢/L	7.88¢/L	9.45¢/L
Jet fuel	2.61¢/L	3.92¢/L	5.22¢/L	6.53¢/L	7.83¢/L
Diesel	2.69¢/L	4.04¢/L	5.11¢/L	6.39¢/L	7.67¢/L
Natural gas	1.90¢cm ³	2.85¢cm ³	3.80¢cm ³	4.75¢cm ³	5.70¢cm ³
propane	1.54¢/L	2.31¢/L	3.08¢/L	3.85¢/L	4.62¢/L
Coal (HH)	20.77\$/t	31.16\$/t	41.54\$/t	51.93\$/t	62.31\$/t
Coal (LH)	17.77\$/t	26.66\$/t	35.54\$/t	44.43\$/t	53.31\$/t
Shredded tires	23.91\$/t	35.87\$/t	47.82\$/t	59.78\$/t	71.73\$/t
peat	10.22\$/t	15.33\$/t	20.44\$/t	25.55\$/t	30.66\$/t

Carbon Tax

Neutrality:

- ❖ All carbon tax revenue must be returned to taxpayers through tax cuts for each fiscal year.

Carbon Tax Plans:

- ❖ Required by law.
- ❖ Prepared annually for next 3 fiscal years.
- ❖ Legislation to implement measures for 1st year of plan must be introduced within 120 days.

Carbon Tax Reports:

- ❖ Required by law.
- ❖ Prepared annually for 2 previous fiscal years.
- ❖ Reconciliation with actual carbon tax revenues.

Carbon Tax

Carbon Tax Recycling

- ❖ For the 2016/17 fiscal year, the approximate revenue recycling split is:
 - ❖ 35% returned to individuals
 - ❖ 65% returned to business
- ❖ Individuals pay approximately 27% of carbon tax revenues
- ❖ Business pays approximately 70% of carbon tax revenues
- ❖ Government institutions pay approximately 3% of carbon tax revenues
- ❖ Initially recycling returned approximately 64% of carbon tax revenues to individuals and 34% to business.
- ❖ Initial over recycling to individuals to enhance public acceptability of the carbon tax.

Carbon Tax

\$ Millions	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Carbon Tax Revenue	306	542	741	959	1,120	1,222	1,198	1,216	1,234
Personal Tax Cuts	213	359	391	470	546	522	565	579	601
Business Tax Cuts	100	370	474	671	834	710	959	1,151	1,132
Total Tax Cuts	313	729	865	1,141	1,380	1,232	1,524	1,730	1,733

* Figures for 2008/09 to 2014/15 are based on the public accounts

* Figures for 2015/16 and 2016/17 are from the Revenue Neutral Carbon Tax Plan and Report presented in *Budget 2016*.

Carbon Tax

Relief Outside Carbon Tax Recycling

Government has provided specific targeted relief from carbon tax costs outside the framework of the carbon tax and carbon tax recycling.

- ❖ 100% grants to Local Governments signed on to BC Climate Action Charter committing to be carbon neutral.
- ❖ 100% grants to School Boards –required to be carbon neutral as part of Carbon Neutral Government.
- ❖ Partial grants to qualifying commercial greenhouse growers on natural gas and propane used for heating and CO₂ production.
- ❖ Temporary conditional grants to BC cement producers if they meet or beat new emissions intensity benchmarks, e.g. transition to cleaner fuels.

Carbon Tax

Administration

Minimize administration and compliance burden

- ❖ Tax imposed on final consumer of fuels or user of tires or peat for heat or energy. (Constitutional requirement for direct tax)
- ❖ Except for natural gas, administered like motor fuel tax: security payable by manufacturers or importers, wholesale dealers and retail dealers.
- ❖ Natural gas, administered like retail sales tax: exempt when purchased for resale (i.e. no security payable).
- ❖ Special classes of taxpayers to reduce administrative and compliance burden (generally exempt at time of purchase and self assess tax payable – resulting in a reduced number of refund claims filed).