

BRITISH COLUMBIA CARBON TAX

Partnership for Market Readiness Technical Workshop

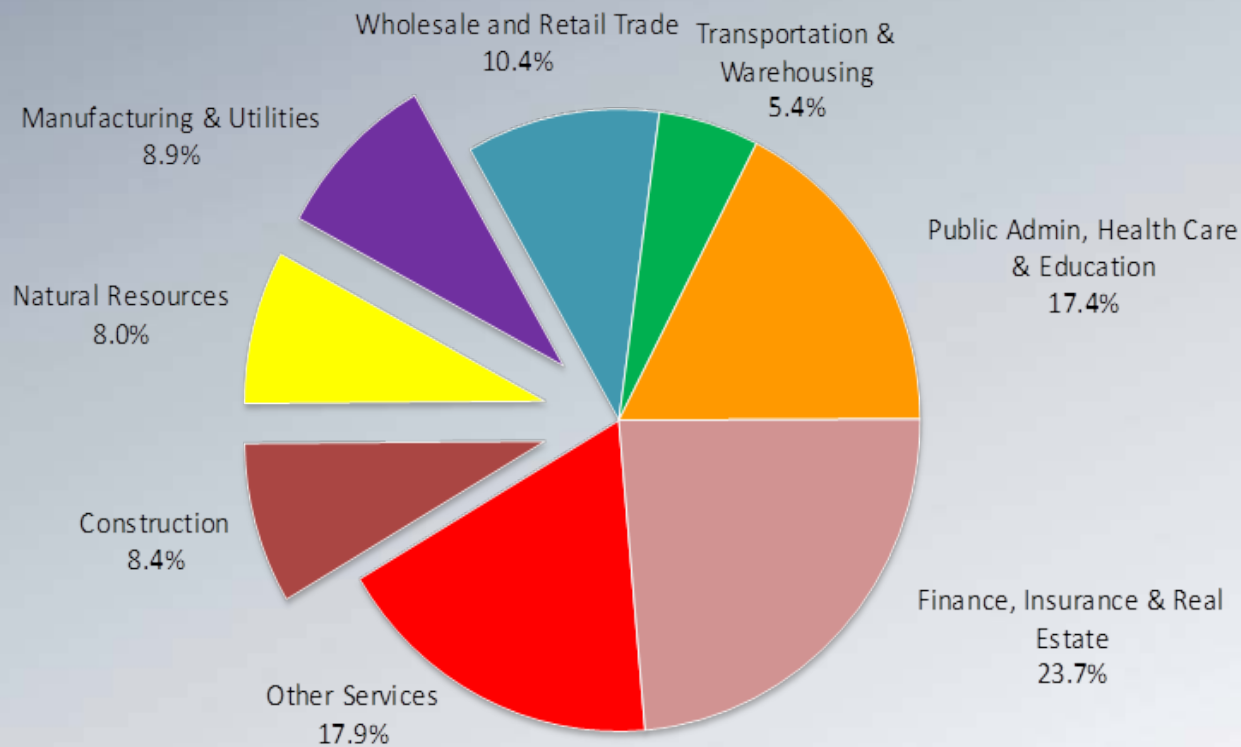
February 2016



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

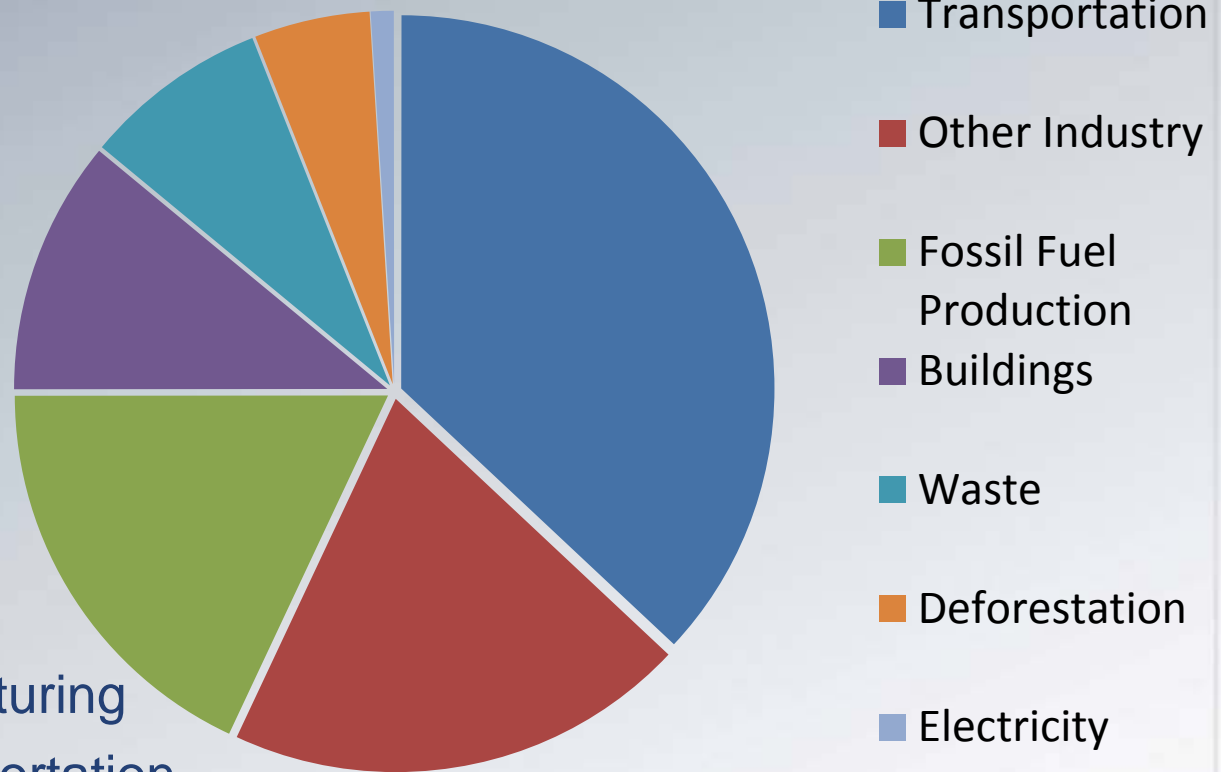
- ❖ Just over \$200 Billion.
- ❖ Budget 2015 - Balanced Budget for third straight year.
- ❖ Triple A credit rating.
- ❖ BC ranked second in economic growth among Canadian provinces in 2014.
- ❖ Between 2007 and 2013 BC's real GDP has grown 9.2 per cent; stronger than the Canadian average.
- ❖ The carbon tax and associated tax reductions are just one small factor in British Columbia's overall economic activity.

British Columbia's Emissions

64 million tonnes CO₂e per year (2013)

- ❖ Interim target of 6% reduction below 2007 levels by 2012 met

- ❖ 95% hydroelectricity
- ❖ No coal-fired electricity
- ❖ Limited heavy manufacturing
- ❖ Largest sector is transportation
- ❖ Growing natural gas sector



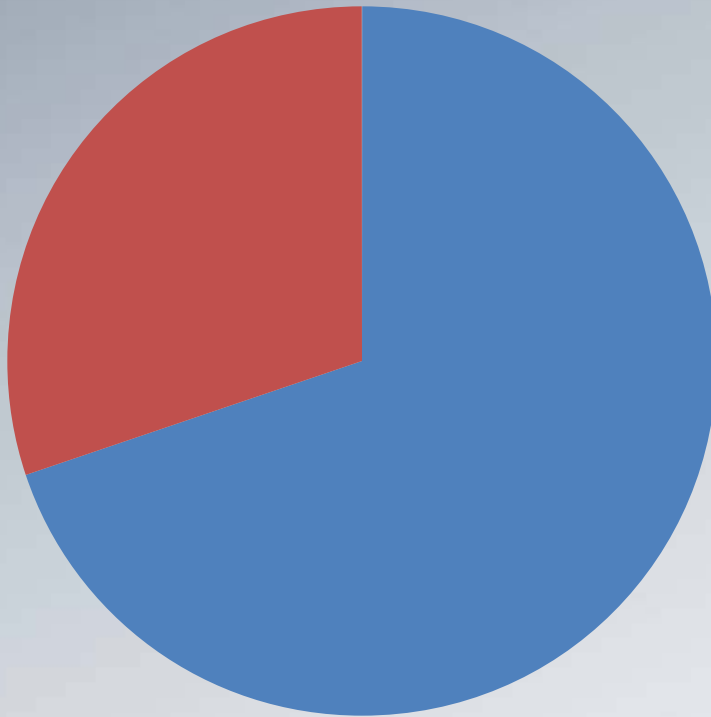
Carbon Tax

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).

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

Determining Tax Rates

- ❖ Tax Rates based on the carbon dioxide equivalent (CO₂e) emissions from fuels in British Columbia.
- ❖ Most tax rates determined using emission factors in Environment Canada's 2005 National Inventory Report (released in 2007).
- ❖ Tax rate for gasoline uses emission factors for light duty gasoline vehicles.
- ❖ Tax rate for light fuel oil (diesel) uses emissions factor heavy duty diesel vehicles.

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



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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.

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Carbon Tax Recycling

- ❖ For the 2015/16 fiscal year, the approximate revenue recycling split is
 - ❖ 36% returned to individuals
 - ❖ 64% 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	2011/12	2012/13	2013/14	2014/15	2015/16
Carbon Tax Revenue	306	542	741	959	1,222	1,240	1,261
Personal Tax Cuts	213	359	391	470	522	553	579
Business Tax Cuts	100	370	474	671	710	892	1042
Total Tax Cuts	313	729	865	1,141	1,232	1,445	1,621

*Figures for 2008/09 to 2013/14 are based on the public accounts

* Figures for 2014/15 and 2015/16 are from the Revenue Neutral Carbon Tax Plan and Report presented in *Budget 2015*.

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).



Carbon Tax

Significant Issues / Challenges

- ❖ Determining tax rates for fuels and combustibles where there was no emissions factor in the National Inventory Report or those emission factors did not accurately reflect emissions in BC.
- ❖ Tax treatment of blends

Next Steps

- ❖ British Columbia currently undertaking public consultations on carbon tax as part of process of developing new Climate Leadership Plan, expected to be released later in 2016.