

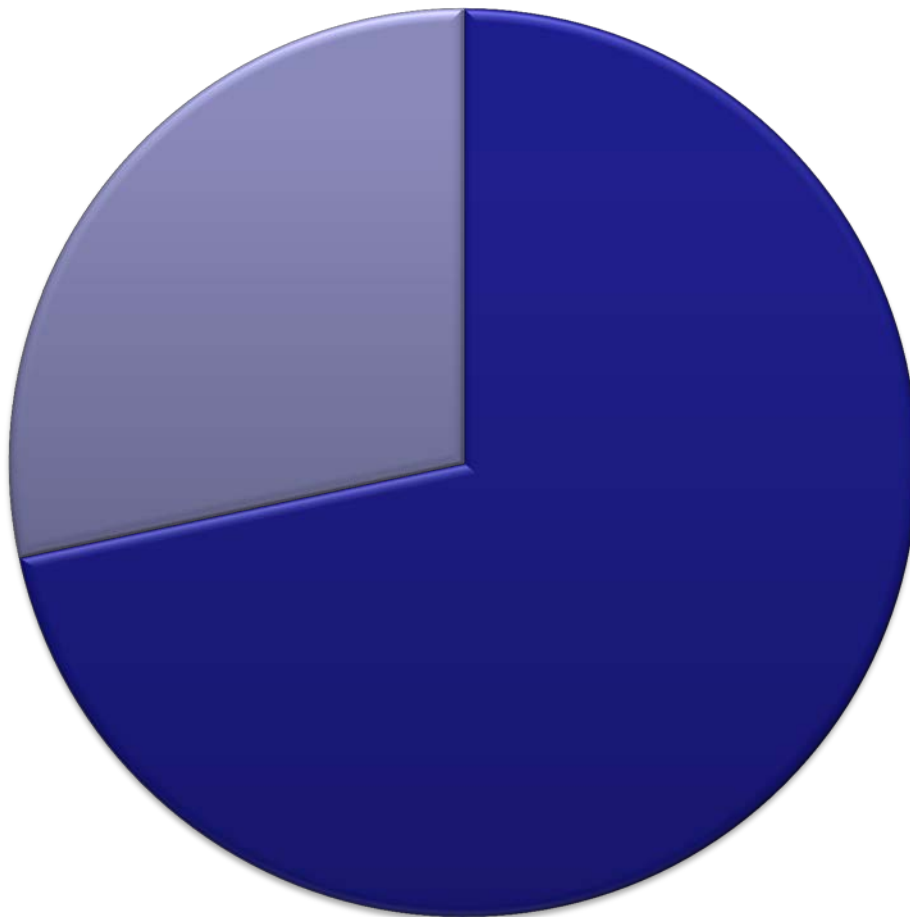
# British Columbia Carbon Tax

## Defining Tax Base and Tax Rates

PMR – Technical Meeting on Carbon Tax  
May 2014

# British Columbia Carbon Tax

## Carbon Tax Coverage



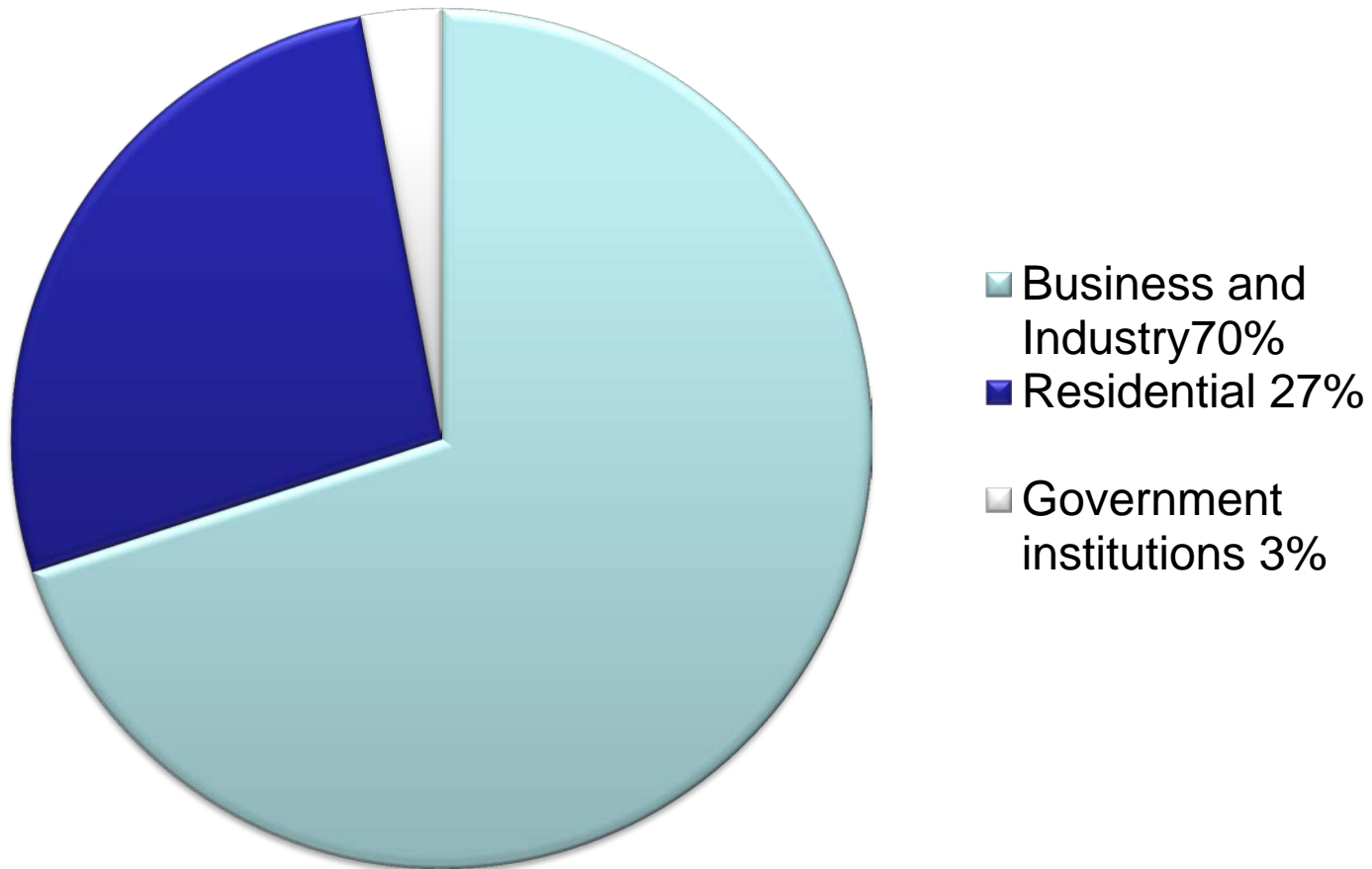
- Emissions from fuel combustion included in carbon tax base approx 72%
- Emissions excluded from carbon tax base approx 28%

Emissions excluded:

- Fugitive Sources 7%
- Industrial process 6%
- Agriculture (non combustion) 3%
- Waste 6%
- Afforestation and Deforestation 6%

# British Columbia Carbon Tax

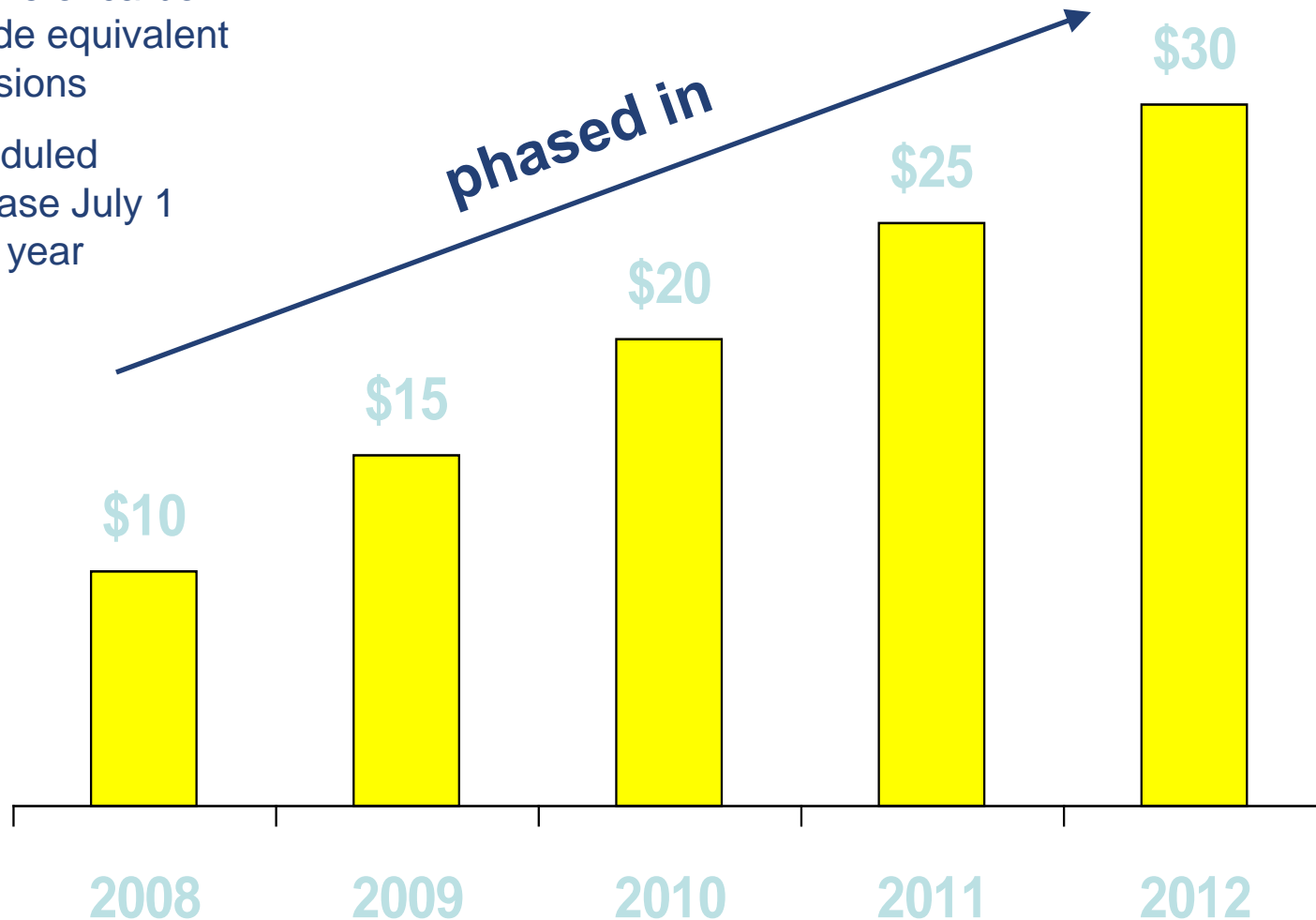
## Business / Residential Tax Payable



# British Columbia Carbon Tax

\$/tonne of carbon dioxide equivalent emissions

Scheduled increase July 1 each year



# British Columbia Carbon Tax

- ❖ Tax Rates based on the carbon dioxide equivalent (CO<sub>2</sub>e) emissions from the combustion of fuels in British Columbia
- ❖ Most tax rates determined using emission factors in Environment Canada's National Inventory Report 2008

# Revenue neutral carbon tax

## 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 <sup>3</sup>	2.85¢cm <sup>3</sup>	3.80¢cm <sup>3</sup>	4.75¢cm <sup>3</sup>	5.70¢cm <sup>3</sup>
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

# British Columbia 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)
- Specified Non-combustion uses of fuel (i.e. feedstock)
- Administrative impracticality (i.e. small containers)

# British Columbia Carbon Tax

## Use of Carbon Tax Revenues

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# British Columbia 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 1<sup>st</sup> 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

# British Columbia Carbon Tax

<b>\$ millions</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
<b>Carbon Tax Revenue</b>	<b>741</b>	<b>959</b>	<b>1,120</b>	<b>1,212</b>	<b>1,228</b>	<b>1,248</b>	<b>1,271</b>
Personal Tax Cuts	391	470	546	522	550	560	565
Business Tax Cuts	474	671	834	710	886	1,004	1,061
<b>Total Tax Cuts</b>	<b>865</b>	<b>1,141</b>	<b>1,380</b>	<b>1,232</b>	<b>1,436</b>	<b>1,564</b>	<b>1,626</b>

\*Figures for 2010/11 are from the Revenue Neutral Carbon Tax Report presented in *Budget 2012*

\*Figures for 2011/12 are from the Revenue Neutral Carbon Tax Report presented in *Budget 2013*.

\*Figures for 2012/13 and 2013/14 are from the Revenue Neutral Carbon Tax Report presented in *Budget 2014*

\*Figures for 2014/15 to 2016/17 are from the Revenue Neutral Carbon Tax Plan presented in *Budget 2014*.

# British Columbia Carbon Tax

For the 2014/15 fiscal year, the approximate revenue recycling split is

- ❖ 38% returned to individuals
- ❖ 62% 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

# British Columbia Carbon Tax

## Low Income Climate Action Tax Credit

- ❖ Refundable tax credit paid quarterly
- ❖ Introduced at \$105 per adult and \$31.50 per child
- ❖ Increased 10% July 1, 2011 to 115.50 per adult and \$34.50 per child
- ❖ Net income threshold is indexed to inflation and is reduced by 2% of net income over threshold
- ❖ For 2013 taxation year (paid in 2014) threshold are
  - ❖ Single Individual \$32,219 (credit fully phased out at over \$35,000)
  - ❖ Family \$37,589 (credit fully phased out for family with 2 adults and 2 children at over \$50,000)
- ❖ Approximately 1 million British Columbians eligible for at least partial credit and the estimated cost of the credit for 2014/15 is \$194 million

# British Columbia Carbon Tax

## Challenges of Carbon Tax Implementation

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# British Columbia Carbon Tax

## Constitutional Framework for Taxation

- ❖ British Columbia is a province of Canada and has different taxation powers than the federal government.
- ❖ Taxation power limited to direct taxation within the province.
- ❖ To be a direct tax within British Columbia, carbon tax must be levied on a person located in BC at the time the tax is payable and must be paid by the end consumer or user of fuels and combustibles.

# British Columbia 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

# British Columbia 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 with security scheme. (Security equal to the tax is paid to government at top of supply chain and security flows through the supply chain until tax is collected from final consumers)
- 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



# British Columbia Carbon Tax

## Special classes of taxpayers

### Registered consumers

- Interjurisdictional railways
- Interjurisdictional commercial airlines flying only inter-jurisdictionally OR
- Business that used more than 50% of the fuel purchased in the previous fiscal year for an exempt use (e.g. as feedstock).

### Registered air and marine services

- A commercial airline or commercial marine service that provides some domestic service in BC but at least 50% of its flights/trips are inter-jurisdictional.

### Benefit:

- ❖ Exempt from purchase tax at the time of purchase
- ❖ self assess the tax payable – resulting in a reduced number of refund claims filed.

# British Columbia 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
- ❖ Potential Tax Avoidance Issues with solvents. Lubricants, pesticides and similar products that contain fuel but that are not generally combusted as fuel.
- ❖ Emergence of fuel recycling, where new fuel is produced from the collection and processing of discarded fuels, at a point in the supply chain outside the traditional point fuel where is manufactured in British Columbia
- ❖ As additional exemptions are added, coverage of the tax is reduced and complexity of administration increases