

In Print

Provincial Move to Carbon Tax

by Audrey J. Diamant and Eric Paton

PricewaterhouseCoopers LLP

Reprinted from *Canadian Tax Highlights*

This article provides a brief status report on the move to carbon taxes by Canadian provinces.

Audrey J. Diamant
Eric Paton

audrey.j.diamant@ca.pwc.com
eric.paton@ca.pwc.com

Published in:

Canadian Tax Highlights Vol. 16, No. 7
July 2008

Reproduced with permission of *Canadian Tax Highlights*.

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, Canada, an Ontario limited liability partnership. PricewaterhouseCoopers LLP, Canada, is a member firm of PricewaterhouseCoopers International Limited.

Provincial Move to Carbon Tax

Many jurisdictions are looking at ways to limit or reduce emissions through new taxes and incentives. Quebec was the first Canadian province to implement a carbon tax on energy producers and energy-consuming industries such as mining, steel, and cement; the approximately \$200 million to be generated is earmarked to fund renewable energy sources. The much heralded British Columbia carbon tax, effective July 1, 2008, is the world's first revenue-neutral carbon tax.

The British Columbia carbon tax applies to 19 fuel types (including gasoline, diesel, natural gas, heating fuel, propane, and coal), and 3 types of combustible products (peat and shredded and whole tires) used to produce energy or heat. Every dollar raised will be returned to individuals and businesses through a mix of personal and corporate tax reduction and a \$100 climate action dividend to be paid to every resident of British Columbia. The minister of finance faces a legislated financial penalty if revenue neutrality is not achieved.

The tax is a consumer tax imposed on all businesses and individuals who, in British Columbia, purchase or use fossil fuels or burn combustibles for heat or energy. Designated parties collect the tax using a system of security and reimbursements. The tax rates increase annually until 2012 and vary by fuel type and carbon dioxide emissions released on combustion. The 2008 rates include 49.66 cents per gigajoule for natural gas, 2.34 cents per litre for gasoline, and \$20.77 per tonne for coal. Some fuel sources such as biodiesel, ethanol, biomass, pulping liquor, and wood are not taxed; exemptions are based on (1) the intended use of the fuel, such as non-energy use, feedstock, or purchases for export; (2) the type of business purchasing the fuel, such as certain interjurisdictional businesses, registered air and marine services, and refineries selling to other refineries in British Columbia; (3) the fuel's purchaser, such as on-reserve native Indians, visiting military forces, diplomats and consular corps, and registered consumers; and (4) miscellaneous items such as fuel prepackaged in sealed containers of up to four litres, and some quantities imported in supply tanks for non-commercial use. Any person who produces, manufactures, or imports fuel and combustibles for his or her own use, or who purchases fuel for a taxable purpose, must self-assess tax not otherwise paid. Transitional rules apply for inventory on hand as of July 1, 2008.

Businesses will experience increased compliance in the form of providing security, establishing data collection processes, filing returns, and self-assessing where required. Many Canadian provinces are watching with interest as British Columbia's carbon tax unfolds; the urgency of going green may seem sufficient to outweigh the incremental burden to businesses. However, increases in the world oil price since the carbon tax's announcement may have shifted the populace's primary focus somewhat from the threat of global warming to that of higher fuel costs and may effect a cooling of the carbon tax's reception.

For more information, please contact the authors.