TAX EXECUTIVES INSTITUTE, INC.

September 14, 2012

Please Respond To:
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Hon. Shirley Bond
Minister of Justice and
Attorney General and
Minister of Finance
P.O. Box 9048 Stn Prov Govt
Victoria, BC V8W 9E2

Attention: Carbon Tax Review
c/o Tax Policy Branch

Re: *Carbon Tax Review*

Dear Minister Bond:

In its 2012 Budget, the Province of British Columbia announced its intention to undertake "a comprehensive review of the Carbon Tax and its impact on British Columbians. The review will cover all aspects of the carbon tax, including revenue neutrality, and will consider the impact on the competitiveness of B.C. businesses." The Ministry's June 27, 2012, News Release invited stakeholders to submit comments for consideration as the government crafts the 2013 Budget. To assist the Ministry in this effort, Tax Executives Institute recommends improvements to make the Carbon Tax more effective, efficient, and administrable to the benefit of both taxpayers and the Province.

Tax Executives Institute (TEI) is the preeminent association of in-house tax professionals worldwide. The Institute's 7,000 professionals manage the tax affairs of 3,000 of the leading companies across all industry sectors in North America, Europe, and Asia. Canadians constitute 10 percent of TEI's membership, with our Canadian members belonging to chapters in Vancouver, Calgary, Montreal, and Toronto, and they must contend daily with the planning and compliance aspects of Canada's (and British Columbia's) business tax laws. Many of our non-Canadian members work for companies with substantial activities in British Columbia and Canada generally. The comments set forth in this letter reflect the views of the Institute as a whole, but more particularly those of our Canadian constituency.

I. Carbon Tax Background

In 2008, British Columbia became the only jurisdiction in the Pacific Northwest to impose a carbon tax on most sources of energy other than hydro-electric. The B.C. tax, imposed on the volume of fuel purchased, is intended to encourage the reduction of greenhouse gas (GHG) emissions. On June 27, 2012, the Ministry of Environment released its report entitled "Making Progress on B.C.'s Climate Action Plan" (the Report) summarizing the Province's efforts to reduce the carbon footprint of B.C. residents and businesses. The report noted significant progress toward meeting the Province's GHG reduction targets and reviewed the effects of the Province's climate change policies (including the Carbon Tax) on each major sector of the provincial economy.

At the time the Carbon Tax was enacted, several other jurisdictions appeared poised to enact similar measures, but none did. The Report acknowledges the difficulties associated with acting alone in this area:

> The challenge is to find ways to maintain competitiveness while pursuing greater energy efficiency, technology adoption and innovation. This approach can help prevent shifting industrial production to jurisdictions with fewer climate policies, where higher emissions would continue contributing to climate change. What is needed are policies that will help B.C. industry achieve clean, more efficient production.[1]

The Report's concern with the potential negative effects of the Carbon Tax is well placed. Indeed, the Province has provided relief to one industry adversely affected by the Carbon Tax. To help greenhouse vegetable and floriculture growers mitigate their Carbon Tax burden, the B.C. government provided $7.6 million in assistance "to focus on maintaining their competitive edge."[2]

While the goal of GHG reduction is laudable, the Carbon Tax can and should be improved to increase its effectiveness while limiting the associated risks to the provincial economy. TEI urges the B.C. government to implement the following changes to the Carbon Tax to make the tax more effective, fair, and administrable.

II. Recommendations for Improving the Carbon Tax

1. *Incentives and Other Measures To Assist Business in Reducing GHG Emissions — Generally*

The Carbon Tax was designed to be revenue neutral with revenue generated by the tax dedicated to funding income tax reductions and credits for low income individuals and reducing the provincial corporate income tax rate for all businesses (regardless of the taxpayer's fossil fuel use). While TEI appreciates the desire to mitigate price increases caused by the introduction of the Carbon Tax (as has been done with the income tax rate reductions for low income households), the Institute submits that a

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[1] British Columbia Ministry of Environment, Making Progress on B.C.'s Climate Action Plan (2012), at 44, *available at* http://www.env.gov.bc.ca/cas/pdfs/2012-Progress-to-Targets.pdf.

[2] *Id*. at 42.

portion of the proceeds of the Carbon Tax should be focused on programs providing incentives to make "green" investments in alternative fuel sources, methods for capturing GHG emissions, or other projects to reduce the release of GHG into the environment. That balanced approach comports with research confirming that the "recycling" of environmental tax revenues (*i.e.*, using incentives such as investment tax credits and accelerated depreciation allowances) enhances the positive effects of the tax.[3]

Thus, TEI urges the Government of British Columbia to dedicate a portion of the revenues generated by the Carbon Tax to programs that encourage investment by businesses in clean technologies. These programs would provide a direct link between the Carbon Tax and efforts by industry to reduce GHG emissions. Examples of these incentives include investment tax credits for purchases of machinery and equipment powered by alternative fuels, PST exemptions, accelerated depreciation, Carbon Tax allowances, and other specifically targeted measures designed to encourage capital investments in cleaner technologies.

2. *Natural Gas Issues*

> "Natural gas is a climate solution. B.C.'s natural gas is a bridging fuel that will contribute to global reductions in greenhouse gas emissions as we move into the future of clean, greener energy alternatives. As the cleanest burning fossil fuel, natural gas can reduce emissions through fuel switching in vehicles, and internationally as efforts to reduce use of coal-fired electricity increases use of natural gas." (Report, at 8.)

Eliminating or reducing the Carbon Tax on natural gas would be consistent with the objectives specifically mentioned in the Report by creating an incentive to shift away from higher GHG fuels such as coal, gasoline, and diesel. Doing so would also put the Province in line with nearby jurisdictions that do not impose an additional tax on natural gas. This would promote investment in manufacturing and processing facilities in B.C. that could be converted to rely more on natural gas as a fuel source, particularly those facilities with high energy inputs.[4]

British Columbia's abundant supply of natural gas could also be used to reduce GHG emissions in other countries. The Report notes that the Province is in a key position to supply natural gas to the Asian market and thereby greatly contribute to reductions in global GHG emissions. In order to facilitate the expansion of natural gas production and export, the Report suggests the use of carbon capture and sequestration techniques as well as clean-energy liquid natural gas (LNG) facilities. Both approaches would require large capital investments that could be made more attractive by providing investment tax credits against the Carbon Tax or income tax.

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[3] *See e.g.*, Ross McKitrick, *Double Dividend Environmental Taxation and Canadian Carbon Emissions Control*, 4 Canadian Public Policy 420 (1997); Elena Simonova and Rock Lefebvre, *Carbon Revenue Recycling – Opportunities and Challenges, CGA Issue in Focus* 9 (September 2009) (published by Certified General Accountants Association of Canada); and Stephen W. Bownman and Nancy D. Olewiler, *Tax Policy in Canada, Chapter 10: Environmental Taxation* 10:12 (2012) (published by Canadian Tax Foundation).

[4] The declining cost of natural gas means that currently the Carbon Tax represents nearly 50 percent of the total price for natural gas purchases. (Currently, the Carbon Tax on natural gas is $1.49 per gigajoule (GJ) and the cost of natural gas in the Vancouver area is approximately $3.00/GJ.) With B.C.'s natural gas reserves located adjoining Alberta, the cost of the Carbon Tax alone may prompt large consumers to locate their facilities and operations in Alberta, where the cost of natural gas is significantly less expensive on an after tax basis.

3. Transportation Issues

The transportation sector is a heavy user of fossil fuels that produce GHG emissions. Personal, industrial, and commercial transportation represented a combined 37 percent of GHG emissions in 2010. Of that total, 11 percent is attributable to heavy duty trucks. Because industrial and commercial vehicles remain in use for many years, investment decisions in this sector will affect GHG emissions levels far into the future.

The Province does offer some limited programs to encourage individuals and businesses to purchase more efficient clean energy vehicles although the funding for those programs does not come from the Carbon Tax. For example, the GHG Reduction Clean Energy Regulation (the GHG Regulation) permits a public utility to fund and administer a program that subsidizes the purchase of more expensive new trucks equipped with engines that use natural gas instead of diesel. This regulation also authorizes utilities to invest in natural gas fueling infrastructure necessary to support those trucks.

The program established pursuant to the GHG Regulation is a step forward in the transition to more efficient and less polluting vehicles. TEI understands, however, that its applicability will likely be limited to heavy duty vehicles operating either on a "return to base" basis or along key transportation corridors. Additionally, the program has the potential to be substantially oversubscribed, which could slow the switch to cleaner burning natural gas.

TEI recommends that the Province use a portion of the Carbon Tax proceeds to provide additional support for businesses investing in vehicles fueled by natural gas and for purchases of other technologies designed to make commercial vehicles more efficient. For example, if the Carbon Tax is not eliminated on natural gas, a temporary exemption could be provided on natural gas sold as fuel for heavy duty trucks.

4. Suggested Changes to Make the Administration of the Carbon Tax More Efficient

When the Carbon Tax was introduced, it created a new compliance burden for businesses subject to the Carbon Tax but in particular those with motor fuel operations in the Province. Currently, motor fuel businesses must include separate line items for Motor Fuel Tax and Carbon Tax on their invoices, maintain separate registration numbers and records, and prepare separate returns and payments for each tax. TEI recommends that for motor fuel products subject to both taxes, the tax base for the Carbon Tax be harmonized with that of the Motor Fuel Tax and the administration of both taxes be combined.

Businesses subject to the Carbon Tax often must maintain multiple registration records and file multiple returns for the operations of a single entity. Further, Carbon Tax returns do not have a consistent due date.[5] TEI urges the Province to amend the Carbon Tax to permit companies to have

[5] Motor Fuel Tax Collectors and Natural Gas or Propane Retail Dealers and Collectors must file their Carbon Tax Collector Returns on the 15th of each month, whereas self-assessment filers and Carbon Tax Collectors who are not licensed as Motor Fuel Tax Collectors file their Carbon Tax returns on the 28th of each month. Those Collectors and Dealers who are required to file Carbon Tax Returns on the 15th are also required to file a separate self-assessment return if they use fuel that they manufactured or imported or purchased in B.C. without being charged the appropriate Carbon Tax. This results in two separate Carbon Tax returns being filed, on the 15th and the 28th.

one registration number, file one return, and make one payment for Carbon Tax, with a single due date at the end of the month, consistent with the PST due date.

In addition, each month the Province mails out a unique media number for filing Carbon Tax returns. This is problematic for large companies as it may take many days for the mail to reach the employee charged with Carbon Tax compliance. To make the compliance process more efficient, TEI suggests that the Province allow returns to be filed online and either eliminate the use of a unique media number or provide the number electronically directly to the designated company contact person.

5. Fuel Intensive Industries – Generally

Fuel intensive industries in British Columbia burdened with the Carbon Tax face a disproportionate competitive disadvantage relative to their competitors located in bordering jurisdictions. In Washington State there is no carbon tax and in Alberta the levy is a small fraction of the B.C. tax. The Carbon Tax imposes additional costs on those that create jobs and economic activity in B.C. and hurts their ability to compete with Alberta and Washington State businesses. As noted above, relief was provided for greenhouse vegetable and floriculture growers to mitigate the effect of the Carbon Tax. Similarly, mitigation is needed to preserve the competitiveness of other fuel intensive industries located in British Columbia that are directly competing with imports or in the export market.

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TEI would be pleased to meet with Ministry representatives to discuss these comments and other issues relating to the Carbon Tax.

TEI's comments were prepared under the aegis of the Institute's Canadian Commodity Tax Committee, whose chair is Robert Smith. If you should have any questions about our recommendations, please do not hesitate to call Mr. Smith at 514.832.8198 (or Robert.Smith@mckesson.ca) or Kim N. Berjian, TEI's Vice President for Canadian Affairs, at 403.233.5480 (or Kim.N.Berjian@conocophillips.com).

Respectfully submitted,

Tax Executives Institute

Carita Twinem
International President

cc: Kim N. Berjian, TEI Vice President for Canadian Affairs
Robert Smith, Chair of TEI's Canadian Commodity Tax Committee