



PROOF POSITIVE

THE MECHANICS AND IMPACTS

OF BRITISH COLUMBIA'S CARBON TAX

In 2008, British Columbia announced a bold new climate policy: North America's first revenue-neutral tax on carbon pollution.

How does British Columbia look today, six years later? The provincial economy enjoys stronger economic performance than the Canadian average. Carbon pollution is down. The carbon tax now funds more than a billion dollars a year in other tax cuts, resulting in one of Canada's lowest corporate tax rates. Meanwhile, the party that introduced the tax has won both of the two elections held since the policy took effect.



"Today, British Columbia and Vancouver have among the lowest income tax rates in Canada, their economies are growing, and their greenhouse-gas-per-capita rates are among the lowest in North America. 'Renewable energy and clean tech companies are choosing to invest in Vancouver precisely because we are ahead of the curve with a carbon tax,' said Mayor Gregor Robertson. The carbon tax is bolstering Vancouver's pursuit of a clean, green future."

Source: World Bank Group, "What Does Carbon Pricing Success Look Like? Ask These Leaders," September 18, 2014

HOW IT HAPPENED

- British Columbia announced the carbon tax in the province's 2008 annual budget.
- The tax became the centrepiece of a suite of climate policies the province had rolled out since announcing a plan for tackling carbon pollution in 2007.
- The policy aligned with the business community's preferences: the private sector asked the government to design approaches to reducing carbon pollution that were administratively simple, economy-wide, and revenue-neutral.
- The policy tapped into a public appetite for climate action, but the tax would not have happened without the personal leadership of the province's then-premier, Gordon Campbell, who made tackling climate change a priority for his centre-right government.



HOW IT WORKS

The tax started at CAD \$10 per metric tonne of carbon dioxide-equivalent in 2008 and ramped up by \$5 each year to reach \$30 a tonne by 2012. In 2008, that meant a 2.4 cents / litre (USD\$.09/gallon) increase in the price of gasoline. By 2012, the tax increased gas prices by 6.7 cents per litre (\$0.25/gallon).

The tax covers nearly all emissions from burning fossil fuels in British Columbia—a total of over 70 percent of the province's carbon pollution.

The tax does not raise new revenues for the province. Instead, the government mandated that every dollar of carbon tax revenue collected must be returned to British Columbia's taxpayers and businesses through tax cuts. (In practice, British Columbia's tax cuts have actually more than cancelled out the revenues collected from the carbon tax, making it slightly "revenue negative" for the government.)

British Columbia's government built a targeted tax credit for low-income citizens into the policy design, in order to shield low-income earners from potential adverse impacts of the carbon tax.

While the province has made some adjustments to its carbon tax over the years, each of the core policy elements outlined above remains in place today.

"[I]ntroducing the taxes incrementally over time can allow households and businesses to make smooth, efficient adjustments. The implementation of British Columbia's carbon tax is as near as we have to a textbook case, with wide coverage across sectors and a steady increase in the rate."

Source: OECD Secretary-General Angel Gurría in a speech delivered October 9, 2013

WHO PAYS, AND HOW?

The government wanted an approach that was both comprehensive and simple to administer, to ensure the policy would add the minimum of new bureaucracy. As a result, British Columbia decided to piggyback the administration of the carbon tax on top of an existing fuel tax paid by fuel wholesalers (fuel importers or domestic producers). Wholesalers pass the tax on to retailers, who pass it on to consumers—who see it itemized on their receipts at the pump. This approach means that the province only collects the tax directly from a limited number of companies. Regular taxpayers and most businesses don't have any new forms to fill out.

"[M]ost Business Council members support the concept of pricing GHG emissions as part of a longer-term strategy to move to a lower carbon economy....In more specific terms, the Business Council generally supports a number of carbon tax design criteria: the broad application of carbon pricing across the economy, periodic reviews of the tax in light of developments in other jurisdictions, and ensuring that any increases in the tax come in small, predictable increments."

Source: Business Council of British Columbia, Submission on the Provincial Carbon Tax, September 5, 2012

HOW DOES REVENUE NEUTRALITY WORK?

- In 2012, after five years of scheduled increases, the tax reached a rate of \$30 a tonne.
- At that tax rate, British Columbia's government collects more than a billion dollars a year in carbon taxes.
- Every year, the government estimates its expected carbon tax revenues for the next three years, and enacts an equal or greater package of tax cuts.
- In fact, by law, the Finance Minister is required to take a 15 percent pay cut if the tax is not revenue-neutral for the government.

Some tax cuts have been very broad—reductions in the large and small business tax rates, reductions in income tax rates—while others are more targeted or directly linked to climate policy. Some examples of the latter tax cuts include:

- A climate action tax credit for low-income British Columbians.
- An annual \$200 benefit for northern and rural homeowners.
- Training tax credits for individuals and businesses.
- Tax credits for the digital media sector and the province's film sector.
- Tax credits for children's fitness and arts programs.

CLEAN TECH RISING

British Columbia is home to a growing clean technology sector, with more than 150 firms in operation in 2012—accounting for 22 percent of Canada’s clean technology presence in a province with 13 percent of Canada’s population.

WHAT DOES IT COVER?

The government levies the tax based on the carbon content of fossil fuels (coal, oil and natural gas) burned in British Columbia.

Some emission sources are not covered by the tax. These include:

- Emissions that will occur outside British Columbia: for example, emissions from inter-jurisdictional aviation and shipping or from fuels exported from the province.
- Emissions that are currently difficult to measure accurately, such as methane emissions from landfills, and
- Non-combustion emissions, like those that result from chemical reactions in certain industrial processes.

“British Columbia has shown the rest of Canada, a country with high carbon emissions per head, that a carbon tax can achieve multiple benefits at minimal cost.”

The Economist, “We have a Winner: British Columbia’s Carbon Tax Woos Skeptics,” July 21, 2011

WHAT WAS THE RESPONSE?

Polling shows that a majority of British Columbians (54 percent) supported the tax when it was introduced, and a majority (52 percent) continue to support it today.

In 2012, public support for the tax reached a high of 64 percent just as the tax reached its maximum level.

The province’s business community was cautiously accepting of the carbon tax when it was introduced. Many companies saw the tax as being less cumbersome than regulations to cut carbon pollution. Businesses also supported the tax’s broad coverage, since their position was (and remains) that it’s important to price emissions from consumers along with those from industrial activity.

TAX POLITICS

British Columbia had a general election in 2009, the year after the carbon tax came into effect. The governing party’s main political opposition, the New Democratic Party, ran on a commitment to “Axe the Tax,” but voters nonetheless re-elected the party that introduced the carbon tax.

In the aftermath of that election, the New Democrats dropped their opposition to the carbon tax, saying that B.C. voters’ clear support for the tax had settled the issue.

British Columbia’s Liberal party—the party that introduced the tax—also won a subsequent election in 2013, after the tax had reached its scheduled maximum rate.

RESPONDING TO PUBLIC AND BUSINESS CONCERNS

The province has made two notable changes to the tax since its introduction:

- Some rural residents—and their municipal leaders—felt penalized by the tax because they see themselves as being more dependent on personal vehicles than city dwellers. In response, the government introduced a rebate for rural and northern residents in 2009.
- Some parts of the agricultural sector felt disadvantaged because their competitors outside British Columbia did not face a tax on emissions. In response, the province introduced tax rebates for greenhouse growers, and on agricultural fuels, in 2012.

“Six years after the policy was instituted, BC’s fuel use is down a whopping 16.1%. Its economic growth has kept pace with the rest of Canada. And its personal and corporate income tax rates are now among the lowest in Canada. In short, the numbers indicate that BC’s carbon tax shift has been a remarkable success, environmentally and economically.”

Stewart Elgie, Chair, Sustainable Prosperity, “Just the Facts, Please: The True Story of How B.C.’s Carbon Tax is Working,” July 9, 2014



RESEARCH AND RESULTS

As one of North America's leading climate policies, British Columbia's carbon tax has been the subject of a significant amount of academic analysis.

Researchers at Sustainable Prosperity, a think tank at the University of Ottawa, found that the carbon tax has been an economic and environmental success story. Their results include:

- While per capita fuel use in the rest of Canada has grown, fuel consumption in British Columbia has dropped since the carbon tax came into effect.
 - Canada's economy as a whole suffered in the 2008 global downturn, but British Columbia's economy has outperformed that of the country overall since the tax came into effect.
- Recent research has also found that:
- British Columbia's carbon tax does not disadvantage low-income residents. Instead, economic modelling suggests the policy is "highly progressive," an effect enhanced by the province's low-income tax credits.
 - There is no evidence that the carbon tax harms the competitiveness of the province's agricultural trade. (Perhaps surprisingly, researchers found that fossil fuel purchases account for just four percent of farm spending in the province.)



References available upon request.

Clean Energy Canada (cleanenergycanada.org) is an energy and climate think tank working to accelerate our nation's transition to clean and renewable energy.

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