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B.C.'S CARBON TAX NOT THE 'GOLD STANDARD' IT'S MADE OUT TO BE

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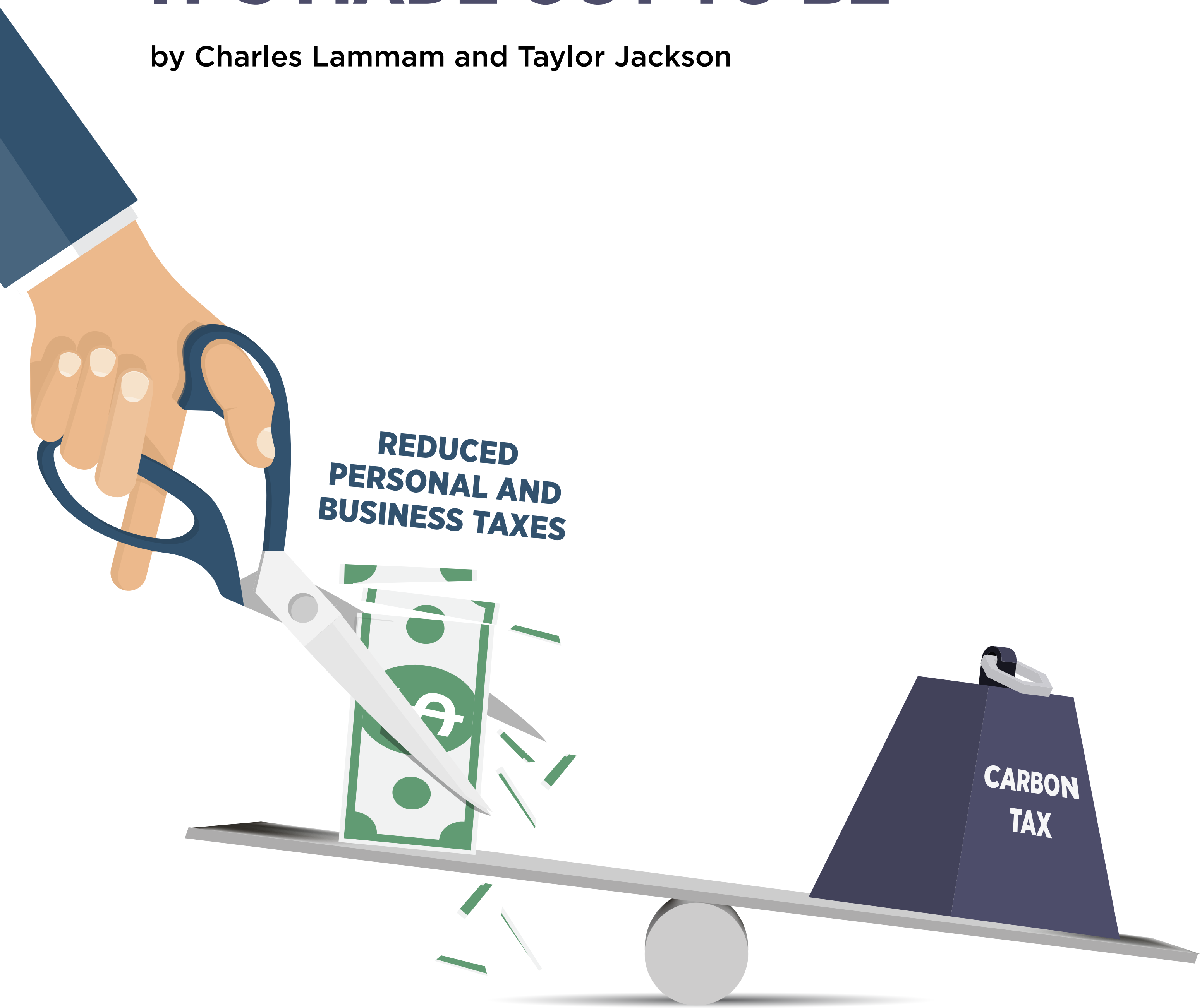

In a major announcement last year, the Trudeau government imposed a policy that will require all provinces to put a price on carbon emissions by 2018. As governments in Canada and elsewhere pursue carbon pricing, British Columbia's carbon tax has received global praise as the gold standard.

Both the United Nations and the World Bank have declared B.C.'s "revenue neutral" carbon tax the model to follow. The OECD called it a "text book" example of how to implement carbon pricing.

Just five years later, as the carbon tax revenue increased, the government no longer provided new tax cuts that sufficiently offset the carbon tax's revenue.

Commentators in Canada and the U.S have similarly hyped B.C.'s carbon tax, arguing it's proof that governments can get carbon policy right.

One of the underlying reasons for all this praise is the alleged revenue neutrality of B.C.'s carbon tax. Revenue neutrality simply means any new revenue from the carbon tax is offset with new tax cuts to ensure there's no net tax increase from the policy.

But there's a fundamental problem with the B.C. model and proponents would do well to temper their enthusiasm. Despite what the government claims, B.C.'s carbon tax is not actually revenue neutral.

Back in 2008/09, when the province first introduced the carbon tax, the B.C. government promised revenue neutrality. And initially it was. To offset the new revenue, the government introduced new cuts to personal and business tax rates and a new tax credit for low-income earners. The value of these new tax reductions was enough to offset all the new revenue generated from the carbon tax.

However, just five years later, as the carbon tax revenue increased, the government no longer provided new tax cuts that sufficiently offset the carbon tax's revenue. In other words, B.C.'s carbon tax ceased being revenue neutral in 2013/14.

This is certainly contrary to what the B.C. government reports in its official documents, which claim that the total value of tax cuts more than offsets carbon tax revenue. The problem is that by 2013/14, the government was no longer solely relying on new tax reductions to offset carbon tax revenue and instead began using pre-existing tax credits to give the appearance of revenue neutrality.

In fact, a number of the tax credits the government now counts as offsets were first introduced in the 1990s—well before their inclusion in the government's revenue neutral calculation.

Once the pre-existing tax reductions are properly removed from the government's revenue neutral calculation, B.C. taxpayers endured a net tax increase of $226 million in 2013/14 and $151 million in 2014/15. Those numbers are based on historical data.

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According to data from the government's own projections, the carbon tax will result in a cumulative $865 million tax increase on British Columbians between 2013/14 and 2018/19. So much for revenue neutrality.

But the problems don't end there.

Like all taxes, a carbon tax imposes economic costs beyond the amount of money the tax raises, as people change their behaviour in ways that reduce economic output. Part of the rationale for a revenue neutral carbon tax is to mitigate this effect by concurrently cutting other taxes that also distort economic activity such as personal and corporate tax rates.

In recent years, however, a much smaller share of B.C.'s carbon tax is being offset by cuts to broad-based tax rates that actually improve incentives and foster economic activity. Specifically, before 2013/14, cuts to B.C.'s general corporate income tax rate and two lowest personal income tax rates totalled, on average, more than 60 per cent of the revenue generated by the carbon tax. From 2013/14 onwards, these tax cuts account for less than 45 per cent of the revenue generated by the carbon tax.

While an increasing share of carbon tax revenue is being offset with targeted tax credits for specific individuals and businesses, these types of tax measures do virtually nothing to mitigate the economic costs of the carbon tax.

B.C.'s carbon tax is evidence that once political realities set in, the textbook theory of a revenue neutral carbon tax unravels. B.C.'s carbon tax is not the "gold standard" it's often made out to be. C

Read the study here ››


Charles Lammam and Taylor Jackson are co-authors of the Fraser Institute study Examining the Revenue Neutrality of British Columbia's Carbon Tax