



IF IT MOVES, TAX IT

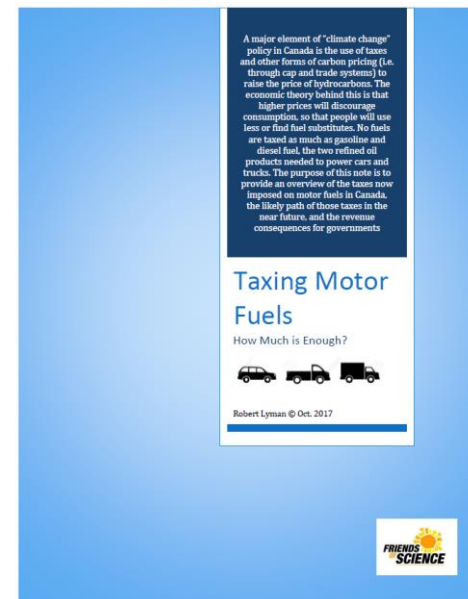


Trends in the Taxation of Canadian Motor Fuels
By Robert Lyman © 2017

+ Purposes

- To show how much gasoline and diesel fuel are already taxed in Canada
- To describe the coming increases due to carbon taxes
- To critique the current climate change policy approach for transportation

This power point is a summary of the more detailed “Taxing Motor Fuels” report



+ Background



- Fuel prices are not fixed by governments in Canada; they rise and fall based on market conditions
- Governments have been imposing large taxes on gasoline and diesel fuel for many years
- The Canadian Taxpayers Foundation has published (May 2017) an excellent summary of how taxes have raised motorists' costs



Fuel Prices and Taxes (per litre)

	Gasoline	Diesel Fuel
Market Price	\$0.75	\$0.73
Tax	\$0.43	\$0.36
Pump Price	\$1.18	\$1.09



Composition of Gasoline Taxes (per litre)



Tax	Rate
Provincial excise tax	\$0.15
Provincial sales tax	\$0.06
Federal excise tax	\$0.10
Federal sales tax	\$0.05
Transit tax	\$0.01
Carbon tax	\$0.04
Tax on tax	\$0.03

+ Points to Note



- Prices and tax rates vary considerably across Canada, with the highest pump prices in Vancouver (\$1.39) and the lowest in Manitoba (\$1.02)
- Only Vancouver, Victoria and Montreal have transit taxes (so far)
- Excise taxes are the largest single component
- In 2017, total taxes paid on gasoline and diesel fuel, not including carbon taxes, will be \$23.6 billion.



Canadian Climate Change Plan



- Federal and provincial governments in Canada have long been committed to greenhouse gas emission reduction targets to guide policy
- The current federal targets are to reduce emissions by 17% below 2005 levels by 2020, by 30% below 2005 levels by 2030, and notionally by 50% below 2005 levels by 2050
- Some provinces (e.g. Ontario and Quebec) aim to reduce emissions by 80% or more by 2050.



Consequences of Current Policy Approach



- Every target has been missed; they serve as unattainable goals that allow environmental ENGOs to bring more political pressure
- By focusing on the quantities, governments ignore the costs of specific measures
- The current emphasis is on regulations and large subsidies to various green industries with no objective standard as to whether costs exceed benefits.

+ Carbon Taxes



- Carbon taxes are potentially desirable as an approach to emissions reduction, but only when:
 - They replace regulations, programs and subsidies
 - The taxes are set at a level that reflects the social benefits of emissions reduction, not higher
 - All the revenues are recycled back into the economy through reductions in other broadly-based taxes
 - They do not place Canadian firms at a competitive disadvantage internationally



Social Benefits of Emissions Reduction



- Theory: If Canada reduces emissions by one tonne, the world benefits (unless other countries simply increase their emissions)
- Hundreds of studies have attempted to estimate to calculate the social benefit
- The best current estimate (by Richard Tol) is U.S. \$25 (CDN \$31.68) per tonne
- Paying more than that means the costs exceed the benefits



The Coming Wave of Carbon Taxes



Year	Carbon Tax (tonne)	Tax per litre	Annual Cost
2018	\$10	\$0.02	\$39.91
2019	\$20	\$0.05	\$79.81
2020	\$30	\$0.07	\$119.72
2021	\$40	\$0.09	\$159.63
2022	\$50	\$0.11	\$199.53
2050	\$300	\$0.68	\$1,197.20

+ Points to Note

- The federal government is requiring all provinces to impose carbon taxes (or equivalent cap and trade prices) according to a schedule of increases to 2022
- It is certain that taxes will rise after that
- Current government estimates are that to meet the 2050 target would require taxes between \$200 and \$300 per tonne





The Likely Effect of Tax Increases



- Historically, the amount of motor fuel purchased has not been very responsive to price increases
- Typically, a 10% increase in price results in a decrease in purchases of less than 2%
- Over the long term, the decrease may rise to 3% to 8% depending on circumstances (e.g. the availability of alternatives)



Effects of a “Socially Beneficial” Tax Rate



- A U.S.\$25 per tonne carbon tax equates to a CDN 7.3 cents per litre carbon tax on gasoline
- With a current gasoline price of CDN \$1.18 per litre, that amounts to a price increase of 6.2%
- A 6.2% price increase would reduce gasoline consumption by 1.24% (short term) to 5% (long term)
- That is far below the current Canadian targets



How Much Would Higher Carbon Taxes Reduce Consumption?



- A \$50 per tonne tax would reduce gasoline consumption by 1.6% (short term) and 6.4% (long term)
- A \$300 per tonne tax would reduce gasoline consumption by 12% (short term) and 46% (long term)
- However, in Norway, with current fuel prices at CDN \$2.32 per litre (equivalent to a CDN \$496 per tonne tax), oil demand continues to increase



Are More Taxes Needed at All?



- The taxes already on Canadian gasoline are 39 cents per litre, equal to a carbon tax of \$170 per tonne.
- Current emission standards for light duty vehicles will increase the fuel efficiency of new vehicle by 41% from 2010 to 2025 and that of light trucks by 37%
- As older cars are retired from the roads, there will be a significant reduction in emissions
- Adding taxes to regulations means Canadians pay twice.



Conclusion



- No other energy sources are as heavily taxed as motor fuels.
- According to current estimates of the social benefits of emissions reduction, motor fuels are already over-taxed. The costs exceed the benefits.
- Setting quantitative targets, instead of considering costs and benefits, is a deeply flawed policy approach.

+ For more information:

- Note: Many economists and scientists say there are benefits to increased carbon dioxide in terms of crop productivity; slightly warmer climate economically benefits northern countries. To read more on this:

<http://www.prweb.com/releases/2017/10/prweb14772256.htm>

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- This power point and related commentaries and report were contributed by Robert Lyman © 2017.