

# Carbon Taxation in Canada: Impact of Revenue Recycling

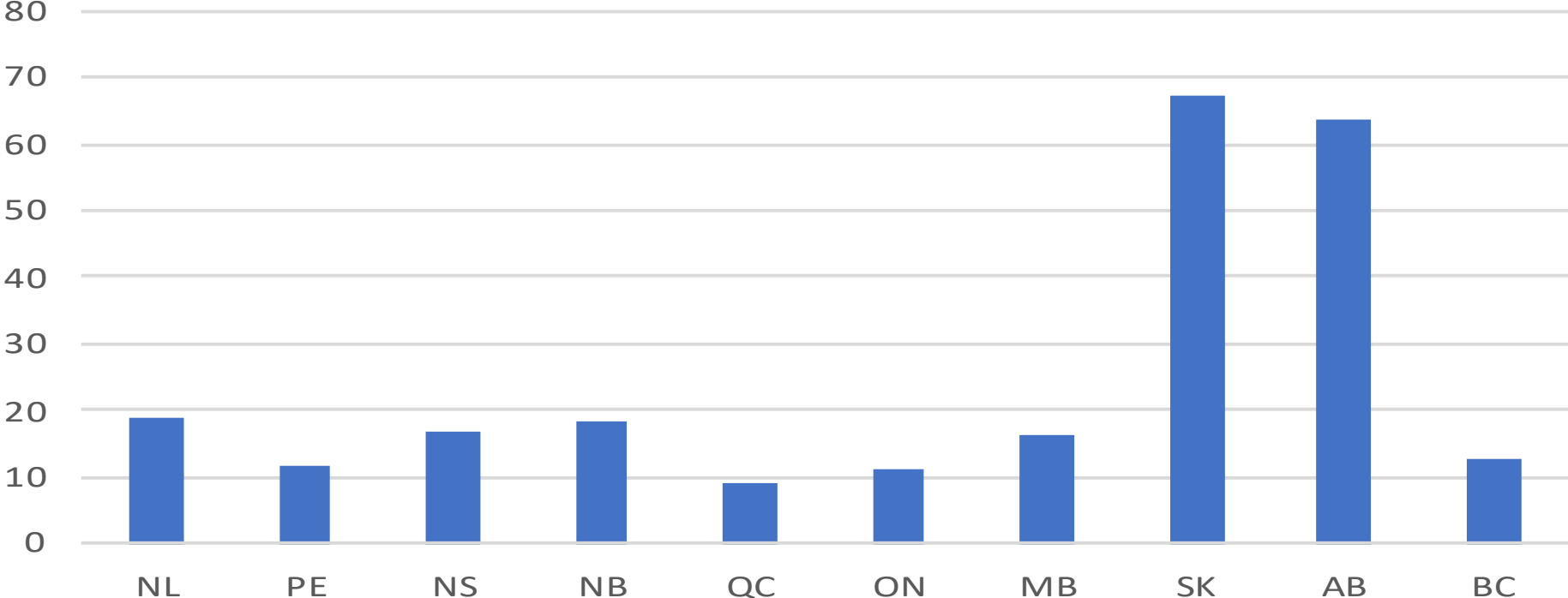
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# Context

- Highly carbon-intensive economy
  - 19 tonnes CO<sub>2</sub>eq/person/yr
  - Growing emissions from fossil fuels exports
- Decentralized federation
  - Provinces *own* the fossil fuels

# Provincial Per Capita GHG Emissions, t/yr



# British Columbia's Carbon Tax

- All combustion emissions, except flights
- \$10/tonne (2008) to \$30/tonne (2012)
- Frozen 2012-2018, now \$40/tonne
  
- Initially revenue-neutral
  - Reduction in business and individual income tax rates
  - Low income tax credit
- >\$30/tonne hypothecated

# British Columbia: Did Tax Cuts build support?

- Business: Yes
  - Revenue-neutral was condition of acceptance
- Voters: No
  - Opposition emerged in rural communities
  - “Axe the tax” campaign by legislative opposition
  - Popularity plummeted
  - Tax cuts didn’t overcome:
    - Low visibility
    - Doesn’t feel like a gift if still paying taxes
- Government reelected *despite* carbon tax
- Support rebounded after 3 yrs



# Alberta Carbon Tax

- 2007 intensity-based carbon price for industry
- 2017 carbon tax extended to households:
  - \$30/tonne in 2018
  - Concern for climate, but also for industry reputation
- Revenues
  - Low income dividends
  - Green spending
  - General revenues



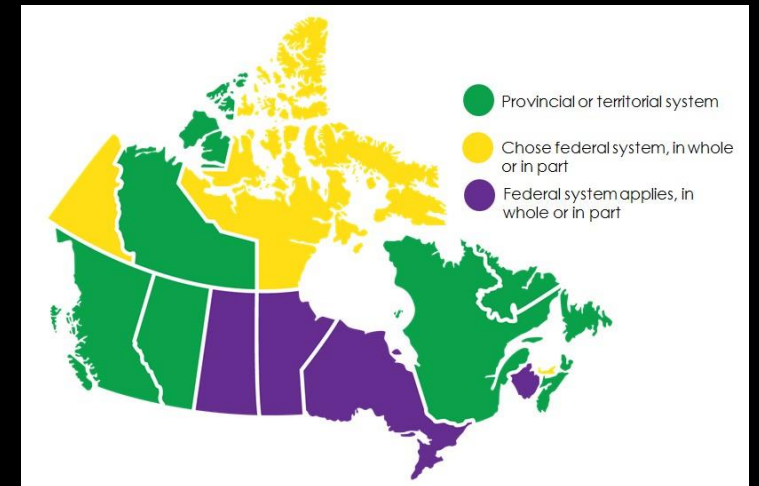
# Alberta Carbon Tax

- Defeat of government 2019
  - Unpopular tax
  - Reunited right
- Bill 1: Repeal of “Job-Killing Carbon Tax”
- Revenue return probably small impact



# Pan-Canadian Carbon Pricing

- 2016: Provincial choice (ETS or tax), federal backstop
  - \$20/tonne CO<sub>2</sub> in 2019, to \$50/tonne in 2022
- Carbon pricing patchwork
  - 5 provincial plans: 2 ETS, 3 taxes
  - 4 provinces with federal tax
  - + AB in 2020?
- Revenue-neutral federal carbon tax
  - Output based subsidies for EITE sectors
  - 90% dividend for households, same province
  - Progressive: >80% households get more back than they pay
- LOTS of conflict, including current election!





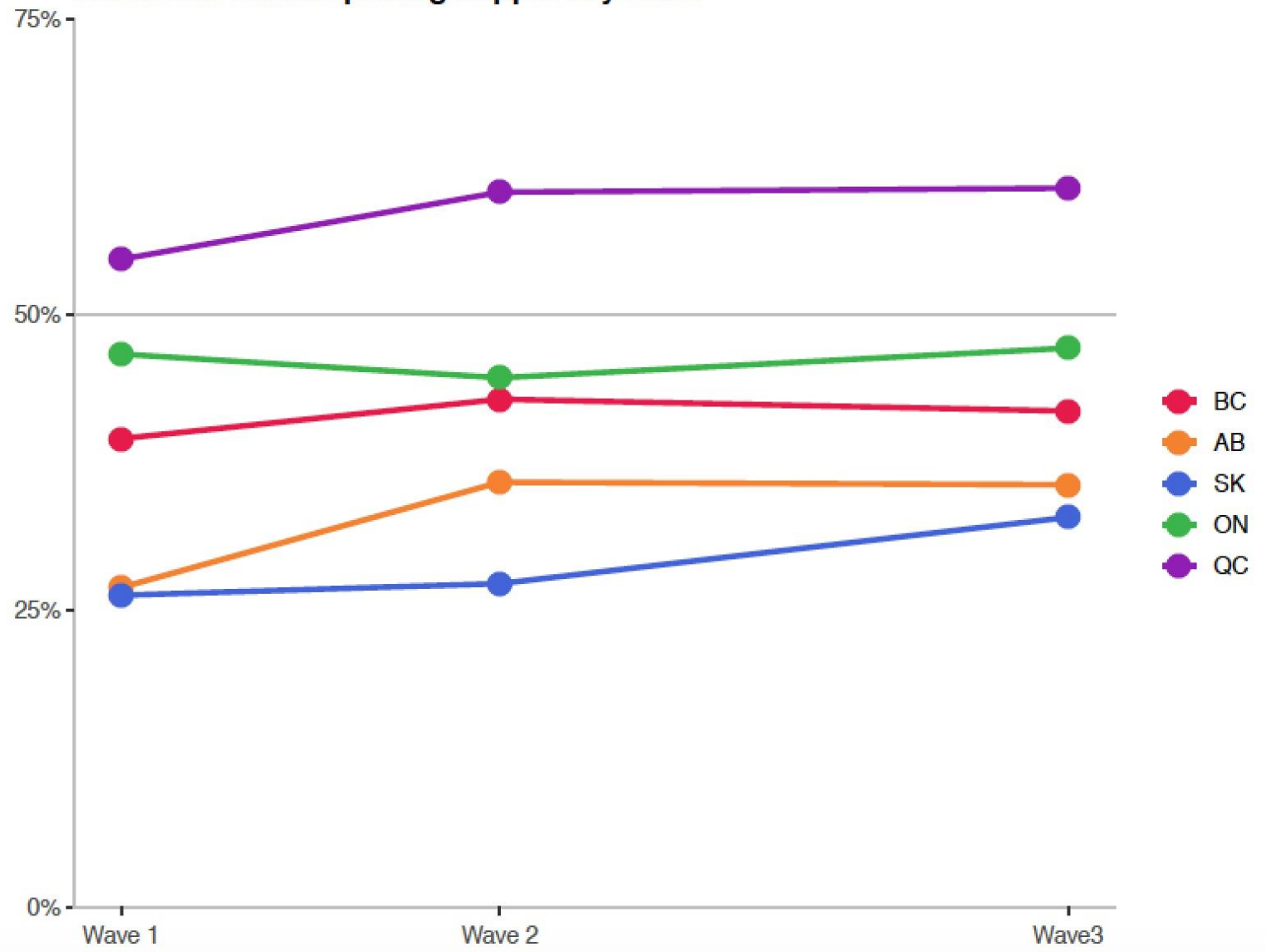
# Panel Survey (Mildenberger, Lachapelle, Harrison)

- 5 provinces
  - 2 provincial carbon taxes: BC, AB
  - 1 own ETS: QC
  - 2 fed carbon tax: SK, ON
- 4 waves:
  - After announcement (February)
  - After fed tax applied (April)
  - After dividends received (June)
  - After election (to come in November)

# % who know whether fed/prov tax

	Wave 1	Wave 2	Wave 3
Provincial price (BC, QC)	41%	46%	47%
Fed price (SK, ON)	43%	67%	67%
Alberta	64%	73%	41%

Provincial carbon pricing support by wave



# Support for Carbon Pricing (wave 3)

	Saskatchewan	Ontario
Conservative	11%	21%
Liberal	57%	77%
NDP	50%	51%
Unlikely to vote	18%	27%

# Inattentive Voters Underestimate Tax Credits

	Saskatchewan	Ontario
Mean reported household dividend (all respondents)	\$268	\$149
Mean reported household dividend (aware of dividend)	\$314	\$198
Estimated mean household dividend	~\$530	~\$270

# Findings from Canadian Cases

- BC income tax cuts mattered for industry, probably not voters
- AB: blowing into a hurricane
- Canada
  - Voters are not well informed
  - In that context, partisan messages prevail (even over economic interest)
  - Household dividend seems to have had modest impact
    - Low visibility in income tax return
  - BUT no decline (as in BC)
  - If tax survives, dividend may lock-in