

DISCUSSION

The Carbon Tax

The carbon tax applies broadly to all fossil fuels such as gasoline, diesel, coal, propane, home heating fuel and natural gas. The tax starts at \$10 per tonne on July 1, 2008 and increases by \$5 each year to \$30 per tonne in 2012. The tax on gasoline begins at 2.4 cents a litre on July 1, 2008 and rises to 7.2 cents by 2012. The stated goal of the *Act* is to reduce carbon emissions by 33% from 2007 levels by 2020.

The carbon tax is to encourage a reduction in the use of fossil fuels and related emissions. It is hoped that individuals and businesses will reduce usage, increase energy efficiency and substitute alternative technologies. The Province has stated that this tax regime is to be revenue neutral. A plan is required to be tabled each year in the legislature demonstrating how revenue raised will be returned to taxpayers through tax credits and reductions of other taxes. None of the carbon tax revenue is to be used for expenditure programs.

The City's approach to carbon and emission reductions is to be embodied in its Sustainability Charter process that includes identification of the appropriate role for Surrey in promoting sustainability in three key realms of local government influence including:

- **Municipal operations:** such as civic buildings, vehicles, facilities and infrastructure;
- **Municipal jurisdiction:** including land use planning, building permit approval, development permits, local transportation networks, etc.; and
- **Municipal influence:** in relation to other levels of government, the private sector, provincial highways, rail and water transport, industry standards, building codes and infrastructure programs.

Tax Neutrality and Municipal Finance Impact

To achieve tax neutrality, the Province is initially planning to adjust personal and business tax rates and provide tax credits to residents of B.C. Beginning July 1, 2008 a new climate action tax credit will provide B.C. residents tax credits of \$100 per adult and \$30 per child. Further tax adjustments to achieve revenue neutrality include reducing the bottom two personal income tax rates by 2% in 2008 and 5% in 2009. The general corporate tax rate is reduced to 11% from 12% in 2008 and the small business tax rate is reduced to 3.5% from 4.5%.

The City's Department of Finance and Technology has estimated the financial impact of the carbon tax on the City as documented in Appendix "A" to this report. It ranges from \$155,528 in 2009 to \$342,117 in 2012. Currently, the Provincial government has not announced any plan for making the tax revenue neutral to local governments. The *Act* does however allow the B.C. Cabinet to issue a regulation under Section 84(1) to refund the carbon tax to "a person or class of persons". This provides the Province with the authority to refund carbon taxes to the municipal sector and accomplish tax neutrality.

CONCLUSION

- Based on the Premier's stated objective for the Carbon tax to be revenue neutral and the impact on local government's ability to provide necessary local services cost effectively, it is recommended that Council authorize the Mayor to apply to the Minister of Finance for the issuance of a regulation under Section 84(1) of the *Act* to refund carbon taxes paid by Surrey in relation to its on-going municipal operations to achieve the *Act's* stated goal of revenue neutrality.

CRAIG MacFARLANE
City Solicitor

CM:mlg
Attach.

APPENDIX "A"

**City of Surrey
Carbon Tax Impact**

		01-Jul-08	01-Jul-09	01-Jul-10	01-Jul-11	01-Jul-12
<u>Gasoline</u>	(1)	17,423	43,594	61,017	78,440	95,863
<u>Light Fuel Oil</u> (Diesel)	(2)	11,078	27,695	38,772	49,850	60,928
<u>Natural Gas</u> (for Bldg's)	(3)	33,696	84,239	117,934	151,630	185,326
Annual Impact		\$ 62,197	\$ 155,528	\$ 217,723	\$ 279,920	\$ 342,117

(1) Gasoling purchases in bulk only. Does not include purchases made directly at service stations.

(2) Diesel purchases in bulk only. Does not include purchases made directly at service stations.

(3) Natural Gas as supplied by Terasen for the heating of buildings and swimming pools. Does not include natural gas purchased for vehicles.

(4) Lubricants, propane and vehicle natural gas are outstanding.