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CARBON TAX COSTS MORE THAN IT BRINGS IN

Vaunted measures look more revenue negative than neutral

The split means the Liberals could accomplish true revenue neutrality by clawing back some of the tax cuts to business, leaving the relief for individuals completely untouched.

While B.C.'s carbon tax has drawn praise from around the world, the pioneering measure does not come close to meeting the claim of revenue neutrality the B.C. Liberals made for it at the outset.

"Revenue neutrality means that tax reductions must be provided that fully return the estimated revenue from the carbon tax to taxpayers in each fiscal year," to quote the report on the tax in this year's budget documents.

Then a few paragraphs later, the report says what was really happening with the tax and those offsetting reductions in the financial year ending March 31.

"Carbon tax revenues are estimated to be $1,216 million. The estimated reduction in provincial revenues as a result of the designated revenue measures is $1,730 million. In fact, the reduction in provincial revenue exceeds carbon tax revenue by $514 million."

The B.C. Liberals call this revenue neutrality. But given that the net shortfall to the provincial treasury is on the order of half a billion dollars, the carbon tax regime could more accurately be described as revenue negative.

Nor is the most recent financial year an outlier. Since implementation back on July 1, 2008, the offsetting tax cuts have always cost the treasury more than the proceeds from the carbon tax.

For the first eight years — many of them years when the Liberals were holding the line on program spending and hiking other levies to bring the budget into balance — the cumulative shortchanging of the treasury from the carbon tax regime totalled $1.6 billion. The revenue gap is projected to total a further $1.6 billion over the current year and the next two.

Challenged over the persistence of revenue negativity in the legislature earlier this year, Environment Minister Mary Polak explained it as follows: "The way in which the tax operates requires that the Ministry of Finance estimate in advance what revenues they will collect and therefore estimate in advance what tax reductions will be in place. There are strict penalties on them if they get it wrong, and those are financial, so it stands to reason that they err on the side of caution in terms of projecting revenues versus taxes that they need to cut in order to meet their requirements."

But when the balance sheet invariably produces such a big gap year after year, the ministry could surely be more precise in its calculations.

Polak again: "Can there be a different design so that there's a more accurate fit between the estimate of carbon tax revenue and the estimate of taxation that needs to be addressed in terms of reduction? I don't know if Finance is perhaps pursuing that. But I dare say that I'm going to be far less concerned about giving back too much in tax revenue than I would be about collecting too much in tax revenue."

They do it this way because they do it this way and they don't want to do it some other way. As to why that might be the case, the budget documents supply a possible explanation.

At the outset, the tax relief was distributed evenly to individuals and to business. Income tax rates were reduced. Low income residents got a tax credit. There was additional relief for seniors, and homeowners in northern and rural B.C. Business got cuts in corporate, small business and industrial taxes, credits for research and some big-dollar incentives for television and film production.

Back in 2009, the year the Liberals won re-election against the New Democratic Party's ill-advised opposition to the carbon tax, the split on the dollar value of the tax reductions was almost even: 51 per cent to business, 49 per cent to individuals.

But ever since, the balance has been shifting. Business had gained a 60-40 advantage over individuals by the time Christy Clark was chosen premier in 2011. By the time the current three-year budget and fiscal plan is played out in 2018, the tax relief will be going 65 per cent to business, only 35 per cent to individuals.

The split means the Liberals could accomplish true revenue neutrality by clawing back some of the tax cuts to business, leaving the relief for individuals completely untouched.

But there are other possibilities as well.

The Liberals are under pressure to begin increasing the carbon tax when the freeze they imposed in their last election platform expires in 2018. And because the tax at its current level falls well short of the value of the offsetting tax cuts, the government could boost it dramatically without violating their own principle of revenue neutrality.

A 40 per cent increase in the carbon tax — to $42 a tonne of emissions from the current $30 and to 10 cents a litre on gasoline from seven cents — would put carbon tax revenues roughly on par with the offsetting tax reductions.

The increase would bring in another half a billion dollars in provincial revenues at a time when Metro Vancouver is looking for that amount — $50 million a year for each of 10 years — to fund its share of the proposed new transit lines. The province would rightly want something in return. Such as local government agreement to its demand for greater housing density along transit lines to increase the supply and help pay for the cost of construction.

Win-win, as they say, and the change would also restore B.C. to its former position of leadership in taxing carbon emissions.