

British Columbia Carbon Tax

The government announced that it intends to introduce legislation that, if passed by the Legislature, would impose a broadly-based carbon tax on the purchase and use of fossil fuels in British Columbia, such as gasoline, diesel, natural gas, heating fuel, propane and coal. The carbon tax is also intended to apply to tires when used as fuel.

It is intended that the proposed carbon tax will be revenue neutral. Revenue neutral means the revenues from the carbon tax will be returned to taxpayers through reductions in other provincial taxes.

Associated Tax and Revenue Measures

The government's commitment to be revenue neutral in 2008/09 will be achieved through the following tax measures:

- introduction of a new ongoing low-income Climate Action Tax Credit to help low-income individuals and families with the carbon taxes they pay,
- a 2 % cut to the two lowest provincial personal income tax rates in 2008, and a 5 % cut by 2009,
- a reduction in the general corporate income tax rate from 12 % to 11 %, effective July 1, 2008, and
- a reduction in the small business corporate income tax rate from 4.5 % to 3.5 %, effective July 1, 2008.

In addition to the tax measures outlined above, the government has announced that it will also make a one-time climate action dividend payment of \$100 for each British Columbian who was resident in the province on December 31, 2007. The payment is intended to help British Columbians make lifestyle changes to reduce the cost of fossil fuels. Most British Columbians will receive their one-time payment in June 2008.

If you have questions on the Associated Tax and Revenue Measures, please call Income Taxation Branch at 1 250 387-3332.

Proposed Carbon Tax

The Ministry of Small Business and Revenue will issue more information regarding the carbon tax in advance of the proposed implementation date of July 1, 2008. The following information explains how the tax will apply, if passed by the Legislature.

Who Would Pay the Carbon Tax

The carbon tax will be a consumption tax like the motor fuel tax and provincial sales tax, and will be payable at the time of retail purchase or use of fossil fuels in British Columbia. All businesses, individuals and visitors to British Columbia, who purchase or use fossil fuel in the province, will pay the carbon tax. Fuel producers and manufacturers of fuel in British Columbia, such as oil and gas companies or coal mines, who use their own fuel in the course of their operations, will also pay the carbon tax on the fuel they use.

How the Carbon Tax Would be Collected

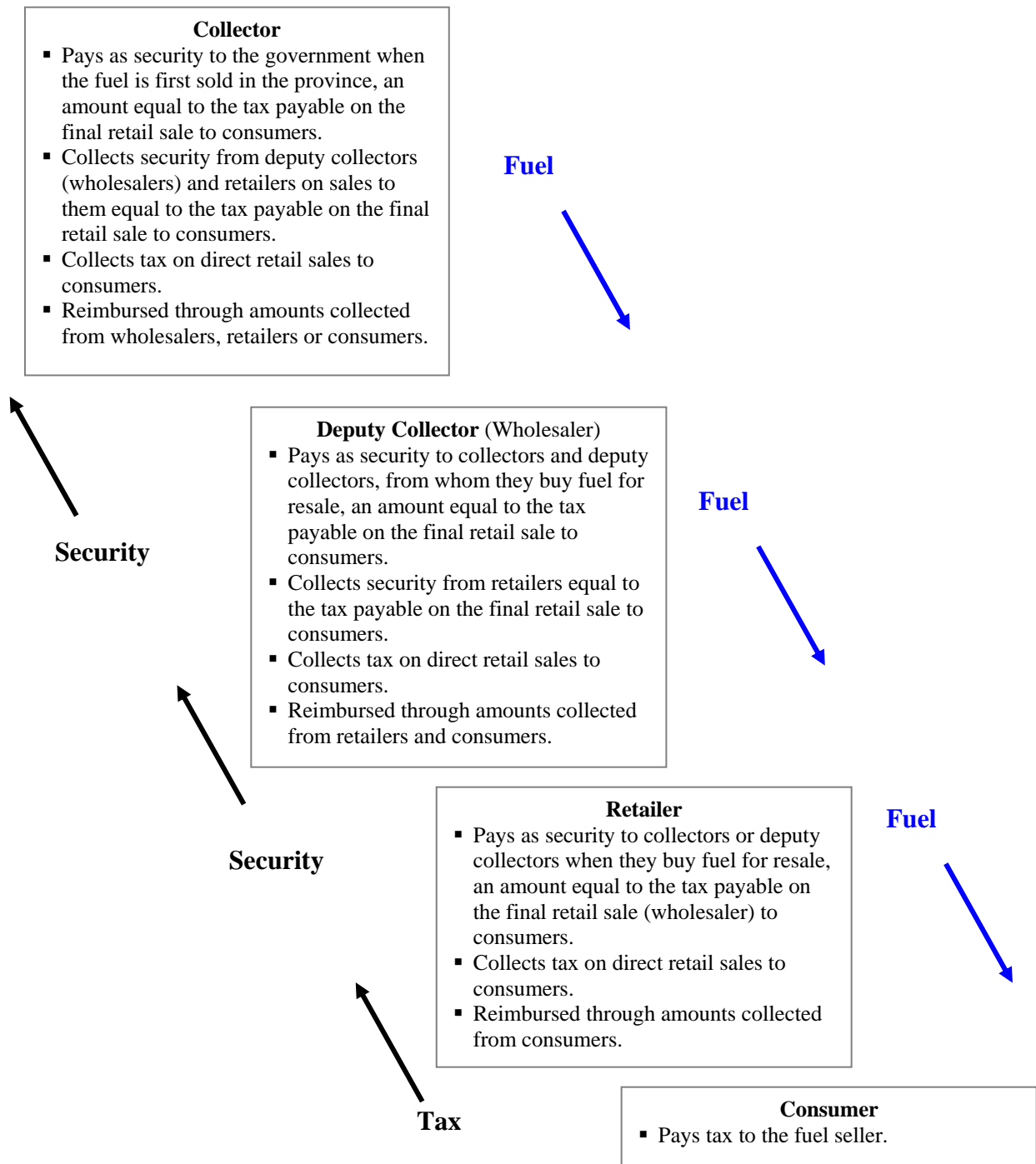
The tax collection and remittance procedures for the carbon tax will operate much like the existing *Motor Fuel Tax Act* collection and remittance procedures, with fuel sellers required to pay a security equal to the tax payable on the final retail sale, and consumers required to pay the tax. Fuel sellers will collect the tax at the time the fuel is sold at retail to the final consumer.

The proposed legislation will require all businesses that make the first sale of fossil fuel in British Columbia to have been appointed collectors.

Collectors will remit security to the government equal to the tax payable on the final retail sale. Collectors will be reimbursed for the amount they paid as security when they collect security from the deputy collector (wholesale dealer) or retail dealer to whom they sell the fuel. The deputy collector or retail dealer will likewise be reimbursed for the amount they paid as security when they collect security from the retail dealer or tax from the consumer to whom they sell the fuel.

In this way, the government reduces the number of businesses that need to file a tax return and remit to government.

The following diagram shows the collection of security and tax on fuel sales through to the end consumer.



The proposed legislation will require all fuel sellers to start collecting the tax on retail sales starting July 1, 2008.

Carbon Tax Rates

The proposed tax rates, effective July 1, 2008, are based on \$10 per tonne of carbon dioxide equivalent (CO₂e) emissions from the combustion of each fuel. CO₂e is the amount of carbon dioxide, methane and nitrous oxide released into the atmosphere, with the non-carbon dioxide emission levels adjusted to a carbon dioxide equivalent basis.

The proposed tax rates will increase over the next four years, based on the dollars per tonne of CO₂e emissions, as set out below:

- July 1, 2009 - \$15 per tonne of CO₂e emissions
- July 1, 2010 - \$20 per tonne of CO₂e emissions
- July 1, 2011 - \$25 per tonne of CO₂e emissions
- July 1, 2012 - \$30 per tonne of CO₂e emissions

The specific tax rates will vary for each type of fuel, depending on the amount of CO₂e released as a result of its combustion. For example, at \$10 per tonne, the tax on gasoline would be 2.41 cents per litre and for diesel, 2.76 cents per litre.

The following table lists the fossil fuels that are expected to be subject to the carbon tax and the proposed carbon tax rate for each type of fuel.

Carbon Tax Rates by Fuel Type						
	Units for Tax Rates	July 1 2008	July 1 2009	July 1 2010	July 1 2011	July 1 2012
Liquid Fuels						
Gasoline	¢/Litre	2.41	3.62	4.82	6.03	7.24
Diesel	¢/Litre	2.76	4.14	5.52	6.89	8.27
Light Fuel Oil	¢/Litre	2.76	4.14	5.52	6.89	8.27
Heavy Fuel Oil	¢/Litre	3.11	4.67	6.22	7.78	9.33
Aviation Gasoline	¢/Litre	2.45	3.67	4.90	6.12	7.34
Jet Fuel	¢/Litre	2.62	3.93	5.25	6.56	7.87
Kerosene	¢/Litre	2.56	3.84	5.12	6.40	7.68
Gaseous Fuel						
Natural Gas	¢/GJ*	49.88	74.82	99.76	124.70	149.64
Propane	¢/Litre	1.53	2.30	3.06	3.83	4.60
Butane	¢/Litre	1.76	2.65	3.53	4.41	5.29
Ethane	¢/Litre	0.98	1.46	1.95	2.44	2.93
Pentane	¢/Litre	1.76	2.65	3.53	4.41	5.29
Coke Oven Gas	¢/GJ*	42.31	63.47	84.62	105.78	126.93

Carbon Tax Rates by Fuel Type						
Still Gas	¢/GJ*	51.22	76.83	102.44	128.05	153.66
Solid Fuels						
Coal - Canadian Bituminous	\$/Tonne	20.79	31.18	41.58	51.97	62.36
Coal - Sub-Bituminous	\$/Tonne	17.72	26.58	35.44	44.30	53.15
Coal - US Bituminous	\$/Tonne	24.39	36.58	48.78	60.97	73.16
Coke	\$/Tonne	24.87	37.30	49.74	62.17	74.60
Petroleum Coke	¢/Litre	3.67	5.51	7.34	9.18	11.01
Tires - shredded	\$/Tonne	23.91	35.87	47.82	59.78	71.73
Tires - whole tires	\$/Tonne	20.80	31.20	41.60	52.00	62.40

* Gigajoule

What Will Not be Taxed

It is intended that some fuels, or the use of some fuels in certain circumstances, will not be subject to the carbon tax or the tax will be refundable. Examples include:

- biofuels and renewable energy, such as biodiesel, ethanol, biomass, pulping liquor and wood,
- fuel exported from British Columbia for use outside the province,
- fuel purchased in British Columbia by commercial air services:
 - for use on routes that originate, or end in, British Columbia without any intervening stopovers in British Columbia, such as a flight from Vancouver to Hawaii, or
 - for a portion of the fuel used on routes that include intervening stopovers in British Columbia; for example, for a flight from Victoria to Calgary with stopovers in Vancouver and Kamloops, on the portion of fuel not relating to the Victoria to Vancouver and Vancouver to Kamloops trips.
- fuel purchased in British Columbia by commercial marine services:
 - for use by passenger-only cruise ships if used for a route that has a port of call outside of British Columbia, such as a cruise from Vancouver along the Inside Passage that includes a port of call in Alaska,
 - for use by cargo ships or ships that carry both cargo and passengers on routes that originate or end in British Columbia without any intervening ports of call in British Columbia, such as a trip from Prince Rupert to Japan, or
 - for a portion of the fuel used by cargo ships or ships that carry both cargo and passengers on routes that include intervening ports of call in British Columbia; for example, for a trip from Prince Rupert to Japan with a stop in Vancouver, on the portion of fuel not relating to the Prince Rupert to Vancouver trip.

- fuel that is brought into the province in the supply tank of an aircraft or ship that is used in the operation of the aircraft or ship,
- fuel used as feedstock in the production of other products, such as petrochemicals or plastics,
- up to 182 litres of fuel brought into British Columbia in the supply tank of most motor vehicles, other than large commercial vehicles,
- certain fuel packaged and sold in small sealed containers,
- fuel purchased on-reserve by First Nations purchasers who qualify as Indians or bands under section 87 of the *Indian Act* (Canada), and
- fuel purchased by visiting forces and members of the Diplomatic and Consular Corps.

Appointment of Collectors

Persons who make the first sale of fuel in the province will need to be appointed collectors. There will be a transition period until December 31, 2008 to allow people time to apply and be appointed as collectors.

Fuel producers and importers who are currently appointed collectors under the *Motor Fuel Tax Act* may be automatically appointed collectors under the new legislation for the transitional period, provided they are in compliance with both Acts.

During the transition period, fuel sellers who are not currently appointed collectors under the *Motor Fuel Tax Act*, but who would need to be appointed under the proposed legislation, will still be required to pay security to the government and meet the other obligations of collectors.

Payment of Security

Collectors will be required to remit security to the government on the 15th day of the month following the reporting period in which the fuel is first sold in the province.

The first return and remittance by large collectors will be due August 15, 2008, for fuel sold in July 2008.

More information about the payment of security will be provided when available.

Annual Inventory

Beginning on July 1, 2008, if you are a collector, deputy collector or retail dealer and have inventory in your possession on which you have paid security, you will be required to calculate and report that inventory when the tax rate changes, and remit the additional security to the government.

Businesses that are required to calculate and report their inventory will be entitled to an allowance of \$250.

More information about the calculation and reporting of inventory will be provided when available.

Self-Assessing Carbon Tax

Businesses

Fuel producers and manufacturers of fuel in British Columbia, such as oil and gas companies, or coal mines and fuel importers, that use their own fuel in the course of their operations, will have to self-assess and pay tax on that fuel.

Self-assessed tax will be payable on the 15th day of the month following the date the fuel was used.

Commercial motor carriers subject to the International Fuel Tax Agreement will report and remit tax on the use of fuels subject to the carbon tax, on the same return as they report and remit tax under the *Motor Fuel Tax Act*.

Registered Consumers

Certain eligible businesses that operate in multiple jurisdictions, such as airlines, marine shipping companies, railways, oil and gas companies, and other consumers who purchase or manufacture large volumes of fuel for their own use, and use a significant portion of that fuel outside British Columbia, may be certified as registered consumers.

Subject to certain conditions, registered consumers may be permitted to purchase fuel without paying tax at the time it would otherwise be payable. These registered consumers will be required to self-assess the tax and file tax returns on the 15th day of the month following the date the fuel was used in British Columbia.

Persons who are currently certified as registered consumers under the *Motor Fuel Tax Act* may automatically be considered as registered consumers under the new legislation during the transition period, provided they are in compliance with both Acts.

More information about who will be eligible to apply to be a registered consumer and the terms and conditions of registration will be provided when available.

Administration

The proposed legislation will have similar provisions to the *Motor Fuel Tax Act* and other provincial consumption statutes with respect to refunds, audit and inspections, assessments, penalties for failure to remit tax or security, appeals, recovery of amounts owing and offences.

It is expected the proposed Act will contain transitional provisions to address various matters, including long-term contracts entered into before February 19, 2008.

For further information on the administration of the carbon tax, please see the Frequently Asked Questions on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/Carbon_Tax/carbon_tax.htm

The information in this notice is for your convenience and guidance and is not a replacement for the proposed legislation. If the legislation passed by the Legislature differs from the information provided in this notice, the legislation will prevail.

Further Information

If you have any questions regarding the administration of the proposed tax or your potential obligations under the proposed Act, please call us at 604 660-4524 in Vancouver or toll-free at 1 877 388-4440 or e-mail your questions to CTBTaxQuestions@gov.bc.ca

For a broad overview of the government's climate action initiatives, see the Ministry of Finance Budget Website at www.bcbudget.gov.bc.ca/2008