A Tax Revolt in Reverse

Greening BC's Economy through Smart Green Taxation

May 2010

Executive Summary
Continued leadership on climate change and clean energy is essential for the future prosperity and safety of our province and the world. This requires continued action to phase out our use of fossil fuels, replacing them with clean energy and much greater energy efficiency.

BC's 7% Provincial Sales Tax has for many years included an exemption for fossil fuels used for transport and heating fuel. This exemption will continue when the transition to HST occurs, while exemptions for fossil-fuel reducing items such as bicycles and energy efficiency equipment will cease. As such, it is a major contradiction to the stated goals of all BC's main political parties.

By removing the exemption, BC could receive an additional $500 million a year in income, which could be used to create two new funds: a $300 million-a-year Health Transportation Fund, and a $200 million-a-year Health Buildings Fund. These funds could be used to support programs which would enable people to reduce their travel and heating costs by far more than 7%, reducing energy costs, greenhouse gas emissions and air pollution, and creating many new jobs.

By any rational reckoning, fossil fuels should not enjoy a sales tax exemption. Tax exemptions should go to future technologies such as bicycles, solar panels, home insulation and electric vehicles, not to the past technologies of fossil fuels.

The politics of such a change would require support from the Liberals, NDP and Green Party, in order that it not become a political football.

The Climate and Energy Imperative

> *"The choice we face is not between saving our environment and saving our economy. The nation that lead the world in creating new energy sources will be the nation that leads the 21st century global economy."* - US President Barack Obama.

BC has shown great leadership on climate change, clean energy and air pollution. There are many outstanding contradictions and much that still needs to be done, but the legislated commitments to a 33% reduction in GHG emissions below 2007 by 2020, the carbon tax, the carbon neutral commitments for

governments, schools and hospitals, and the LiveSmart program are all important steps on the road to success.

The sooner we end our dependency on oil, the sooner we can eliminate the risk of a catastrophic oil spill in BC's waters, and a fate similar to that happening in the Gulf of Mexico, following BP's Deepwater Horizon oil rig explosion.

The sooner we end our dependency on oil, the sooner we can also increase our resiliency against the coming shock of peak oil, which even the International Energy Agency says will occur by 2020.

Continued progress requires action and support in many areas, including transport (36% of BC's domestic emissions) and buildings (12%). Finding the financial means and mechanisms to accelerate progress in these areas is one of the greatest challenges facing BC's government.

Smart Green Taxation

No-one likes taxes, but without taxes we cannot fund the important benefits that make life civilized, including schools, healthcare, policing and environmental protection.

Some taxes encourage sound public policy, such as the tax on tobacco. So do some tax breaks, such as BC's PST exemption for bicycles and energy efficiency devices.

Fossil fuel tax exemptions, however, are a relic of the early 20th century. A new century needs a new perspective, with financial incentives for the emerging sustainable energy technologies, not the fossil fueled technologies that are the primary cause of global warming and air pollution.

BC needs carefully planned green fiscal reform to rebalance its economy and reduce its budgetary dependence on income from fossil fuels, while accelerating its commitments to climate action, clean energy, air quality and job creation.

BC's Fossil Fuels Sales Tax Subsidy

For many years, gasoline, ethanol and diesel fuels used in motor vehicles, trains, boats, and aircraft and in home residential heating have been exempt from BC's Provincial Sales Tax, giving them a 7% relative price advantage compared to most other goods. When the HST kicks in July 2010, this exemption will continue. See www.gov.bc.ca/hst/rebates_exemptions.html and www.gov.bc.ca/hst/faq.html.

In 2009-2010, with gas at $1 a litre, BC's carbon tax is 3.5% on the price of a litre of gasoline ($15 per tonne of CO_2) - while the PST exemption is 7%. This creates in effect a 3.5% "negative carbon tax" since the sales tax exemption carries twice the value of the carbon tax. This negativity will decline until 2012, when the carbon tax reaches 7% equivalent (assuming gas at $1 a litre), at which point it will become a 0% carbon tax. This undermines the government's goals and priorities, and will continue to do so as long as the exemption remains in place.

Nova Scotia, Newfoundland, New Brunswick and Quebec all include fossil fuels in their HST. Ontario will do so also, starting in July. Taken together, this means that 68% of Canada's population will be paying the sales tax on transport fuels by July 1st.

The excise tax on fuel varies from province to province - see Table 1, which includes the total fuel tax paid by other leading nations, for comparison. The fuel excise tax has been in place for many years, and is used to fund highway improvements and other general government expenditures.

Glen Armstrong, Executive Director of BC's Tax Policy Division, has informed the BCSEA that the PST/HST residential heating fuels exemption costs around BC $200 million a year, and the transport fuels exemption costs around $300 million a year. Under HST, BC's "point-of-sale" rebates will be limited to 5% of the province's estimated GST-base, so removing $500 million in rebates could open the door to restoring the exemptions on some of the PST rebates that are being removed, such as on bicycles.

By any rational reckoning, gasoline and heating oil should not enjoy a 7% sales tax exemption. If we are to create tax exemptions, they should go to future green technologies such as bicycles, solar panels, home insulation, and electric vehicles, not to the past technologies of fossil fuels.

Jurisdiction	Federal Excise Tax (cents/litre)	Provincial Excise Tax (cents/litre)	Sales Tax (%)	Total tax (cents/litre) **	Sales Tax on fuels
USA	-	-	-	*12.0**	-
Yukon	10	6.2	0	16.2	-
Nunavut	10	6.4	0	16.4	-
Alberta	10	9	0	19.0	-
NWT	10	10.7	0	20.7	-
Manitoba	10	11.5	7	21.5	No
BC	10	14.5	7	24.5	No
Saskatchewan	10	15	5	25.0	No
PEI	10	20.9	10	30.9	No
New Brunswick	10	14.5	8	32.5	Yes
Ontario	10	14.7	8	32.7	Yes
Quebec	10	15.2	7.5	32.7	Yes
Nova Scotia	10	15.5	8	33.5	Yes
Newfdland/Lab	10	16.5	8	34.5	Yes
Japan	-	-	-	*64**	-
France	-	-	-	*116**	-
Germany	-	-	-	*122**	-
UK	-	-	-	*131**	-

Table 1: Comparative tax rates on gasoline
* International Energy Agency data
** Assumes gas at $1.00/litre

It makes no sense to subsidize the primary cause of air pollution and climate change, while setting goals to reduce BC's greenhouse gas emissions by 33% by 2020, and to ensure that BC "leads the world in sustainable environmental management, with the best air quality … bar none." (Your BC Government www.gov.bc.ca/yourbc/environment)

The HST is disliked by 80% of BC's population, but by July 1st 2010 it will be a fact. If former Premier Bill Vander Zalm's Petition Initiative to revoke the HST wins, and the PST is restored, heating and transport fuels will revert to their existing PST break, *but the contradiction and the need for change will remain.*

Whether the exemption is in the PST or the HST, we ask, "Can anyone seriously support retaining such a subsidy on fossil fuels? Is it the right thing to do?" It would certainly appear to contradict the stated policy priorities of all three major political parties in BC.

If we manage it wisely, this can create a huge opportunity, by removing the 7% sales tax exemption on heating and transport fuels and using 100% of the revenues to create:

North America's best Healthy Buildings Fund
and
North America's best Healthy Transportation Fund

The purpose of these Funds would be to provide opportunities for BC residents to offset the 7% tax increase through a variety of means. The Funds would be designed in such a way that by choosing to use one or more of the Fund's programs, you could save more than the tax increase would cost you.

The funds would be designed with a special emphasis on the needs of low-income people. The impact would be less significant for businesses since they would be able to reclaim the HST through input tax

credits (unless the PST is restored). Government departments would face increased costs for fuel that would need to be accommodated through fuel-saving measures, encouraging GHG emissions reductions.

Under this proposal, the 7% sales tax on transport and heating fuels would not be revenue neutral, like the carbon tax. 100% of its revenues would be allocated to consumer-beneficial programs that would reduce costs for people using transport and heating fuels.

The Government's Argument

In defense of the subsidy, the government argues that "It is not necessary to apply another tax, the HST, to gasoline and diesel because they will continue to be subject to motor fuel taxes, which raise revenue for highway development and maintenance, and to British Columbia's carbon tax which is specifically designed to send a consistent long term price signal to consumers so that they will make the choices required to reduce their fossil fuel use and emissions." (See www.gov.bc.ca/hst/faq.html)

In the next paragraph, however, the government admits that "the historical volatility of gas prices … has blunted the price signal for consumers and resulted in less conservation than required to meet government's targets" … and hence the value of the carbon tax, "specifically designed to provide a consistent long term price signal to consumers so that they will make the choices required to reduce their fossil fuel use and emissions."

The reality, however, is that the 7% sales tax exemption is twice as large as the carbon tax, and is neutralizing its price signal entirely.

The Definition of Success

Success for this proposal would be an announcement in the February 2011 or February 2012 Budget that the 7% PST/HST exemption on heating and transport fuels was being ended, and that the resulting $500 million in annual income would support the creation of a Healthy Transportation Fund and a Healthy Buildings Fund, as outlined below.

It is essential that both programs enable low-income people in particular to offset the 7% price increases, either by means of a simple annual cheque, similar to the GST rebate, or by using one or more of the funded programs to reduce their costs of transport and home heating.

Success would also see a commitment by the NDP and the Green Party that they supported the move, and would not restore the exemption if they came to power in May 2013.

To achieve this, it will be necessary to build a broad platform of support among social, environmental and industry groups, so that all of BC's political parties can see that however much some members of the public might complain, the continued subsidy on heating and transportation fuels can not be justified. The logic behind ending the exemption remains, whether or not the petition to revoke the HST is successful.

Using the 7% Sales Tax on Transport Fuels to Create a $300 million a year Healthy Transportation Fund

Goal: To design a program that would invest $300 million a year to help BC vehicle drivers get where they need to go while saving fuel, reducing air pollution, and reducing greenhouse gas emissions, with a special emphasis on people on lower incomes who would be proportionally more affected by the 7% price rise resulting from end of the transport fuels sales tax exemption.

The programs listed below suggest possible ways of spending $300 million a year to enable BC's citizens to travel more sustainably while saving more than 7% on their transport costs. The final design of such a Fund would require detailed analysis, including the impact of the programs on the cost of travel, air pollution, greenhouse gas reduction, and job creation.

Working assumptions:

(a) The programs need to support many motorists, primarily at the low end of the income spectrum, enabling them to reduce their travel costs by 15-50% if they so choose.
(b) They need to encourage Electric Vehicle take-up, while recognizing that this may initially only reach 1% of affected motorists.
(c) The programs to be funded and the funding allocations would remain flexible to allow reallocation based on program uptake, program results and changing priorities. Program results would be monitored and reviewed annually to support maximum effectiveness and efficiency of program delivery.

	Program Summary *(For program details see below)*	***$ Million per year***
1. Pedestrian	Municipal grants for improved pedestrian environments	25
2. Fuel-saving driving	Fuel-saving driver education. Eco-driving habits can reduce fuel costs and GHG emissions by up to 30%. Relevant to all drivers, including commercial and truckers	5
3. Cycling & Electric bikes	Tax credits for the purchase of bicycle and electric bikes; grants for safety training and other initiatives	15
4. Cycle Lanes	Municipal grants for new cycle routes, lanes and facilities	50
5. Transit/LRT	Municipal grants for reduced fares, improved shelters, electronic info, etc	35
6. Transit/LRT	Municipal grants for investment in increased services	100
7. Ridesharing & Carsharing	Grants to create a top-notch province-wide ridesharing program, and Carsharing Club start up and expansion grants	5
8. Electric Vehicles	Grants for EV Conversion Clubs, and grants towards the purchase of new or converted electric vehicles	15
9. Electric Vehicle infrastructure	Municipal grants for EV preparation, including fast-charging stations	15
10. Teleconferencing	Grants for rural videoconferencing facilities, to reduce travel needs	5
Management	10% spread through each program, and for integrated marketing	30
Total		300

Healthy Transportation Fund Programs
Evidence must be provided in all funding applications that the new funding is additional to existing programs, and may not be used to free up existing budgets for other purposes.

1. Pedestrian. This $25 million/year program would provide municipal grants to finance pedestrian infrastructure improvements including sidewalk upgrades, pedestrian crossings, walking audits, Safe

Routes to School and Walking School Bus initiatives. The development of a local 10-year pedestrian sustainability plan is required during Year One as a pre-requisite for further funding.

2. Free fuel-saving. It is known that eco-driving habits can reduce driving costs and GHGs. This $5 million/year program would provide funding for a province-wide educational program using TV advertising, local eco-driving challenges and awards, and discounts on real-time fuel efficiency meters. For truckers, a combination of smart driving habits, driver training, onboard software systems and fuel economy indicators can reduce fuel-use by up to 33%. (See Trucks Deliver a Cleaner Tomorrow: www.trucksdeliver.org/pressroom/drive-smart.html, and Solution #47 in *The Climate Challenge* by Guy Dauncey)

3. Cycling & Electric bikes. This $15 million/year program would provide 100% tax credits for the purchase of bicycles, and grants for bicycle safety classes, school cycling programs, Safe Routes to School programs, and Bike to Work Week.

4. Cycling Infrastructure. This $50 million/year program would provide municipal and regional grants for the planning and construction of new cycle routes and lanes, and bike lane maintenance. The development of a 20-year plan to maximize cycling, seeking goals as high as 50% of all commute trips, is required during Year One as a pre-requisite for further funding. The government's current cycling program, BikeBC (www.th.gov.bc.ca/BikeBC) provides $31 million through the Cycling Infrastructure Partnerships Program announced in September 2008, with grants up to $250,000 for local governments. The level of funding proposed here would be 20 times greater than the $3 million promised for cycling in the 2010-2011 provincial budget.

5. Transit/LRT Soft Costs. This $35 million/year program would provide municipal grants for soft service improvement costs such as reduced fares, improved bus shelters, and electronic timetables.

6. Transit/LRT Hard Costs. This $100 million/year program would provide infrastructure grants for hard service improvement costs such as new buses, new bus routes, bus rapid transit, LRT and increased frequency. The development of a 10-year plan to maximize transit-use, seeking goals as high as 25% of all commute trips, is required during Year One as a pre-requisite for further funding for both transit programs. This total of $135 million a year would be in addition to the $173 million that was promised for transit in the 2010-2011 provincial budget.

7a. Ridesharing. This program would provide a $2.5 million/year grant to create and operate a world-class province-wide ridesharing program, integrating existing programs such as the Jack Bell Foundation's Ride Share program and Denman Island's Island Rideshare. Britain's highly successful *lift*Share scheme might be a model. The development of 10-year plans to maximize ride-sharing, seeking a goal of 10% of all commute trips, is required during Year One as a pre-requisite for further funding. To further encourage ride-sharing, queue jumpers, HOV lanes, and other HOV infrastructure improvements may be needed. These may be expensive, and may fall outside the parameters of this program.

7b. Carsharing. This program would provide $2.5 million a year in start up and expansion grants for carsharing clubs. The development of 10-year plans to maximize carsharing across the province is required in Year One as a pre-requisite for further funding.

8. Electric Vehicles. This $15 million/year program would provide grants for EV Conversion Clubs, and $5k grants towards the purchase of the first 1,000 new or converted electric vehicles.

9. EV infrastructure. This $15 million/year program would provide municipal grants for EV infrastructure preparation. The development of a 20-year plan for 100% EV and Plug-in Hybrid EV use by 2030 is required during Year One as a pre-requisite for further funding.

10. Teleconferencing. This $5 million/year program would provide grants to assist with the establishment of rural video-conferencing centres, to reduce the need to travel to meetings.

Using the 7% Sales Tax on Heating Fuels to Create a $200 million a year Healthy Buildings Fund

Goal: To design a program that would invest $200 million a year to help BC residents live in more energy efficient buildings, heated where possible with green energy, with special emphasis on people on lower incomes who would be most affected by the 7% price rise resulting from the inclusion of heating fuels within PST/HST.

Working assumptions:

(a) The program needs to reach 1 million citizens, with particular emphasis on the low end of the income spectrum, as well as price-sensitive businesses, enabling them to reduce their heating costs by up to 20%.

(b) Half the money goes into direct programs targetted at low-income people, and half into long-term programs that affect the entire building stock.

(c) The programs to be funded and the funding allocations would remain flexible to allow reallocation based on program uptake, program results and changing priorities. Program results would be monitored and reviewed annually to support maximum effectiveness and efficiency of program delivery.

(d) Legislation to allow Pay-As-You-Save loans (PAYS) attached to utility bills and Property Assessed Clean Energy (PACE) financing attached to the property title is recommended to facilitate loan-take-up and repayment. (See www.pacenow.org)

(e) Legislation to require building energy labeling, point-of-sale building upgrades, solar-ready buildings, and a 10% green heat requirement for new buildings would facilitate more rapid uptake.

	Program Summary *(For program details see below)*	***$ Million per year***
1. Energy-Saving Information	Easy how-to information, workshops and website for D-I-Y draft-proofing, caulking, insulation	5
2. Insulation	50% reduced cost for the entire province; free for everyone over 70 or receiving a GST rebate	50
3. LiveSmart	Expansion of the revived LiveSmart program, with variety of grants for energy efficiency upgrades, heat pumps and green heat	50
4. Energy Efficiency Loan Fund	Once started, the fund could be financed by banks and credit unions	48
5. Zero interest loans	Zero interest loans targetted at low income people, plus 2% below prime loans for others, and tax deductibility of retrofit costs.	20
6. Solar Hot Water	Incentive grants for homes and businesses	2
7. First Nations	Grants enabling bands to hire energy efficiency trainers and facilitators	5
Management	10% spread through each program, and for integrated marketing	20
Total		200

Healthy Buildings Fund Programs

Evidence must be provided for all funding applications that the Sales Tax funding is additional to existing programs, and may not be used to free up existing budgets for other purposes. These programs would help achieve the larger goal of retrofitting BC's entire building stock by 2030, while generating a large number of new jobs.

1. Quick Fix Energy-Saving Workshops. This $5 million/year program would provide grants for widespread public education about do-it-yourself draft-proofing, caulking, insulation, and other quick energy-saving measures, and free home energy assessments for anyone receiving a GST rebate. Grants would be available for a single province-wide integrated initiative, and for local workshops, courses, contests, neighbourhood programs, and municipal initiatives.

2. Insulation. This $50 million/year program would provide a 50% subsidy for all insulation installed in BC, and free insulation for anyone over 70 or receiving a GST rebate, payable after installation to prevent cross-border leakage. The actual cost would be based on an estimate of the value of the BC insulation market from the British Columbia Insulation Contractors Association.

3. LiveSmart. This $100 million/year program would finance a major expansion of the successful LiveSmart program, providing a variety of grants for energy efficiency upgrades, heat pumps and green heat installations. Legislation to allow Pay-As-You-Save (PAYS) loans attached to utility bills and Property Assessed Clean Energy (PACE) loans attached to the property title would facilitate the acceleration of energy retrofits. This would be in addition to the $35 million the government recently committed to restore LiveSmart over three years, enabling a four-fold expansion of the program. This would create a many new skilled trades jobs, as well as reducing people's home energy bills.

4. Energy Efficiency Loan Fund. The creation of an easily accessed fund is essential if energy upgrades are to happen on the scale needed. Once started, the fund could be financed by banks and credit unions, but it would need start-up capital to enable it to get started, demonstrate returns, and build investor confidence. In Year One, $48 million is proposed to launch the Fund.

5. Zero and Low-Interest Loans. This $20 million/year program would finance the availability of 0% interest loans from the Energy Efficiency Loan Fund targetted for people on low incomes receiving GST rebates, and 2% below prime loans for everyone else, plus 100% tax deductibility for anyone earning $50k or less, 50% for others. The detailed costs for this program have not been worked out, nor the annual cost of supporting 0% interest loans for 10-15 years.

6. Solar Hot Water. This $2 million/year program would provide incentive grants to home-owners, landlords, co-ops and businesses, plus marketing, training, inspection and monitoring.

7. First Nations. This $5 million/year program would provide direct grants to enable band councils or First Nations energy organizations to hire energy efficiency trainers and facilitators with a view to implementing draft-proofing, caulking, insulation, and other quick energy-saving measures, and to design long-term buildings efficiency upgrade plans making use of PAYS, PACE, INAC loan-repayment financing, and the Energy Efficiency Loan Fund.

The BC Sustainable Energy Association is an engaged network of citizens, businesses and governments working together to put innovative sustainable energy solutions into practice today.

For details of our many projects and activities see www.bcsea.org