

## Carbon Tax Report and Plan

As required under Part 2 of the *Carbon Tax Act*, the following tables show the Revenue Neutral Carbon Tax Report for 2011/12 and 2012/13 and the Revenue Neutral Carbon Tax Plan for 2013/14 to 2015/16.

### Material Assumptions and Policy Decisions

In the Report and the Plan the estimates and forecasts of carbon tax revenue and the cost of tax reductions to return revenues to taxpayers are consistent with, and have the same material assumptions and policy decisions underlying them, as the revenue estimates and forecasts prepared for *June Update 2013*. The only material assumption specific to the Revenue Neutral Carbon Tax Report and Plan is that the cost of the revenue reductions due to personal income tax rate cuts increase with

increases in personal income tax revenues for each year.

### Revenue Neutral Carbon Tax Report

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. Table 1, Revenue Neutral Carbon Tax Report for 2011/12 and 2012/13, reports the carbon tax revenues and the cost of the tax reductions for the 2011/12 and 2012/13 fiscal years. For the 2011/12 fiscal year, this report is based on the 2011/12 *Public Accounts* and updates the Report for 2011/12 presented with *Budget 2012*. For the 2012/13 fiscal year, this report is based on preliminary actuals for the fiscal year and updates the Report for 2012/13 presented with *Budget 2013*.

**Table 1 Revenue Neutral Carbon Tax Report 2011/12 and 2012/13**

	2011/12 <sup>1</sup>	Preliminary Actual 2012/13
	\$ millions	
<b>Carbon tax revenue<sup>2</sup></b> .....	<b>959</b>	<b>1,120</b>
<b>Reduction in provincial revenues due to designated measures<sup>3</sup></b>		
<b>Personal tax measures:</b>		
• BC Low Income Climate Action Tax Credit .....	(184)	(195)
• Reduction of 5% in the first two personal income tax rates .....	(220)	(235)
• Northern and Rural Homeowner Benefit of \$200 <sup>4</sup> .....	(66)	(67)
• BC Seniors' Home Renovation Tax Credit .....	-	(27)
• Children's Fitness Credit and Children's Arts Credit .....	-	(9)
• Small business venture capital tax credit budget increased .....	-	(3)
• Training Tax Credit extended - Individuals .....	-	(10)
<b>Total personal tax measures</b> .....	<b>(470)</b>	<b>(546)</b>
<b>Business tax measures:</b>		
• General corporate income tax rate reduced from 12% to 11% effective July 1, 2008, to 10.5% effective January 1, 2010 and to 10% effective January 1, 2011 .....	(381)	(450)
• Small business corporate income tax rate reduced from 4.5% to 3.5% effective July 1, 2008 and to 2.5% effective December 1, 2008 .....	(220)	(261)
• Corporate income tax small business threshold increased from \$400,000 to \$500,000 .....	-	(20)
• Industrial Property Tax Credit of 60% of school property taxes payable by major industry .....	(19)	(22)
• Industrial Property Tax Credit for school property taxes payable by light industry .....	(49)	(46)
• School property taxes reduced by 50% for land classified as "farm" starting in 2011 .....	(2)	(2)
• Interactive digital media tax credit .....	-	(26)
• Training Tax Credit extended - Businesses .....	-	(7)
<b>Total business tax measures</b> .....	<b>(671)</b>	<b>(834)</b>
<b>Total designated revenue measures</b> .....	<b>(1,141)</b>	<b>(1,380)</b>

<sup>1</sup> Based on 2011/12 *Public Accounts*.

<sup>2</sup> The carbon tax applies to fossil fuels and combustibles at rates based on the CO<sub>2</sub> equivalent emission of each particular fuel starting at \$10 per tonne effective July 1, 2008 and increasing by \$5 per tonne each July 1 to \$30 per tonne on July 1, 2012.

<sup>3</sup> Designated measures are measures designated to return carbon tax to taxpayers. Designated measures for 2011/12 are set out in the Carbon Tax Plan presented with *Budget 2011* and designated measures for 2012/13 are set out in the Carbon Tax Plan presented with *Budget 2012*.

<sup>4</sup> Eligible homeowners are those in areas outside the Capital, Greater Vancouver and Fraser Valley regional districts.

Carbon tax revenues for 2011/12 are \$959 million. The tax reductions for 2011/12 are those that were designated in the Revenue Neutral Carbon Tax Plan presented with *Budget 2011*. The personal tax measures are the BC Low Income Climate Action Tax Credit, the five per cent reductions in rates for the first two tax brackets, and the Northern and Rural Homeowner Benefit. The business tax measures are the reductions in the general and small business corporate income tax rates, the industrial school property tax credit and the 50 per cent reduction in school property tax for land classified as “farm”.

The estimated reduction in provincial revenues for 2011/12 as a result of the designated revenue measures is \$470 million for the personal tax measures and \$671 million for the business tax measures, for a total reduction of \$1,141 million. Based on these revenue and tax reduction estimates, revenue neutrality has been met for 2011/12. In fact, the reduction in provincial revenue exceeds the \$959 million in carbon tax revenue by \$182 million.

Carbon tax revenues for 2012/13 are estimated to be \$1,120 million.

The tax reductions shown for the 2012/13 fiscal year are those that were designated in the Revenue Neutral Carbon Tax Plan presented with *Budget 2012*. The personal tax measures are the BC Low Income Climate Action Tax Credit, the five per cent reductions in rates for the first two tax brackets, the BC Seniors’ Home Renovation Tax Credit, the Children’s Fitness Credit and Children’s Arts Credit, the increase in the small business venture capital tax credit, the extension of the training tax credits for individuals, and the Northern and Rural Homeowner Benefit. The business tax measures are the reductions in each of the general and small business corporate income tax rates, the corporate income tax small business threshold increase from \$400,000 to \$500,000, the industrial school property tax credit, the interactive digital media tax credit, the extension of the training tax credit

for businesses, and the 50 per cent reduction in school property tax for land classified as “farm”.

The estimated reduction in provincial revenues for 2012/13 as a result of the designated revenue measures is \$546 million for the personal tax measures and \$834 million for the business tax measures, for a total reduction of \$1,380 million. Based on these revenue and tax reduction estimates, revenue neutrality has been met for 2012/13. In fact, the reduction in provincial revenue exceeds the \$1,120 million in carbon tax revenue by \$260 million. The *Budget 2014* Revenue Neutral Carbon Tax Report for 2012/13 will be based on actual carbon tax revenues for 2012/13 as reported in the 2012/13 *Public Accounts*.

### **Revenue Neutral Carbon Tax Plan**

Table 2, the Revenue Neutral Carbon Tax Plan 2013/14 to 2015/16, shows carbon tax revenue and tax reduction cost estimates for the revenue measures designated as those that return the carbon tax revenues to taxpayers for 2013/14 to 2015/16.

Carbon tax revenues are now forecast to be slightly lower than estimated when *Budget 2013* was prepared.

The three-year fiscal plan for *June Update 2013* assumes that the small business corporate tax rate will be maintained at 2.5 per cent, the general corporate tax rate will be increased to 11 per cent effective April 1, 2013, and the cost of tax measures with sunset dates continue, for purposes of the plan, beyond their expiry dates. The Carbon Tax Plan presented in Table 2 reflects these assumptions.

Similar to the Carbon Tax Plan presented with *Budget 2013*, the Carbon Tax Plan presented in *June Update 2013* for 2013/2014 to 2015/2016 includes the extension and enhancement of the Production Services Tax Credit. This credit was extended in 2009 and enhanced in 2010, as announced in *September Update 2009* and *Budget 2010*, respectively.

As shown in Table 2, revenue from the carbon tax and the cost of the tax reductions are now estimated to be \$1,187 million for 2013/14. Carbon tax revenues are now estimated at \$1,203 million in 2014/15 and

\$1,224 million in 2015/16. This means the Carbon Tax Plan is revenue neutral for all years, with the tax cuts in 2014/2015 and 2015/2016 exceeding the carbon tax revenues by \$132 million and \$221 million, respectively.

**Table 2 Revenue Neutral Carbon Tax Plan 2013/14 to 2015/16**

	Forecast		
	2013/14	2014/15	2015/16
	\$ millions		
<b>Carbon tax revenue</b> <sup>1</sup> .....	<b>1,187</b>	<b>1,203</b>	<b>1,224</b>
<b>Designated revenue measures:</b> <sup>2</sup>			
<b>Personal tax measures:</b>			
• Low income climate action tax credit of \$115.50 per adult plus \$34.50 per child effective July 1, 2011 .....	(194)	(194)	(194)
• Reduction of 5% in the first two personal income tax rates .....	(246)	(264)	(277)
• Northern and Rural Homeowner Benefit of up to \$200 <sup>3</sup> .....	(69)	(71)	(73)
• BC Seniors' Home Renovation Tax Credit .....	(27)	(27)	(27)
• Children's Fitness Credit and Children's Arts Credit .....	(9)	(9)	(9)
• Small business venture capital tax credit budget increased <sup>2</sup> .....	(3)	(3)	(3)
• Training Tax Credit extended – Individuals <sup>2</sup> .....	(20)	(20)	(20)
<b>Total personal tax measures</b> .....	<b>(568)</b>	<b>(588)</b>	<b>(603)</b>
<b>Business tax measures:</b>			
• General corporate income tax rate reduced from 12% to 11% effective July 1, 2008, to 10.5% effective January 1, 2010, to 10% effective January 1, 2011 and increased to 11% effective April 1, 2013 .....	(150)	(187)	(194)
• Small business corporate income tax rate reduced from 4.5% to 3.5% effective July 1, 2008 and to 2.5% effective December 1, 2008 .....	(200)	(212)	(219)
• Corporate income tax small business threshold increased from \$400,000 to \$500,000 .....	(20)	(21)	(21)
• Industrial Property Tax Credit of 60% of school property taxes payable by major industry ...	(23)	(23)	(24)
• Industrial Property Tax Credit for school property taxes payable by light industry partially phased out effective January 1, 2013 and eliminated effective January 1, 2014 .....	(20)	-	-
• School property taxes reduced by 50% for land classified as "farm" .....	(2)	(2)	(2)
• Interactive digital media tax credit <sup>2</sup> .....	(35)	(35)	(35)
• Training Tax Credit extended – Businesses <sup>2</sup> .....	(11)	(11)	(11)
• Scientific Research and Experimental Development Tax Credit <sup>2</sup> .....	-	(98)	(178)
• Film Incentive BC tax credit extended in 2009 and enhanced in 2010 .....	(70)	(70)	(70)
• Production Services Tax Credit extended in 2009 and enhanced in 2010 <sup>4</sup> .....	(88)	(88)	(88)
<b>Total business tax measures</b> .....	<b>(619)</b>	<b>(747)</b>	<b>(842)</b>
<b>Total revenue measures</b> .....	<b>(1,187)</b>	<b>(1,335)</b>	<b>(1,445)</b>

<sup>1</sup> The carbon tax applies to fossil fuels and combustibles at rates based on the CO<sub>2</sub> equivalent emission of each particular fuel at \$30 per tonne.

<sup>2</sup> The Plan assumes that the cost of tax measures with sunset dates continue beyond their expiry dates.

<sup>3</sup> Eligible homeowners are those in areas outside the Capital, Greater Vancouver and Fraser Valley regional districts.

<sup>4</sup> The cost of the extension and enhancement to the Production Services Tax Credit is about \$225 million in 2013/14, \$281 million in 2014/15 and \$291 million in 2015/16. In the table, only a portion of the cost is shown.