

BACKGROUND

B.C.'S REVENUE-NEUTRAL CARBON TAX

On July 1, 2008, subject to approval by the legislature, British Columbia will begin to phase in a fully revenue-neutral carbon tax with built-in protection for lower income British Columbians.

The purpose of the carbon tax is to encourage individuals and businesses to make more environmentally responsible choices, reducing their use of fossil fuels and related emissions. The tax has the advantage of providing an incentive without favouring one way to reduce emissions over another. Business and individuals can choose to avoid it by reducing usage, increasing efficiency, changing fuels, adopting new technology or any combination of these approaches.

A higher price for higher-carbon choices also makes greener options more commercially viable, thereby encouraging businesses and entrepreneurs to develop innovative solutions that offer consumers and business affordable, lower or no-carbon emission alternatives.

British Columbia's carbon tax is based on the following principles:

Broad-based: The carbon tax will apply to virtually all fossil fuels, including gasoline, diesel, natural gas, coal, propane, and home heating fuel, making it among the broadest and most comprehensive in the world.

Phased in: The carbon tax will be phased in to give individuals, businesses, and industry time to adapt, innovate, and reduce the impact of the tax. The carbon tax starts at a rate based on \$10 per tonne of associated carbon, or carbon-equivalent, emissions and will rise by \$5 a year for the next four years — reaching \$30 per tonne by 2012. This works out to 2.41 cents per litre for gasoline, rising gradually to 7.24 cents a litre by 2012. For diesel and home heating oil, it works out to 2.76 cents per litre, rising to 8.27 cents over the same five-year period.

Protection for lower-income households: To help offset the cost of the carbon tax, lower-income British Columbians will receive an annual Climate Action Credit of \$100 per adult and \$30 per child; the credit will be paid quarterly along with the federal Goods and Services Tax Credit.

Revenue-neutral: The carbon tax will be revenue neutral. Legislation will require a plan to be tabled in the legislature each year, showing how the revenue raised will be returned to taxpayers. All revenue generated by the carbon tax will be returned to individuals and businesses through reductions to other taxes. None of the carbon tax revenue will be used for expenditure programs.

Balanced Budget 2008 sets specific tax reductions for 2008 and 2009, with future rate cuts to be confirmed as the revenue-neutral plan is updated through the annual budget process. The carbon tax is forecast to generate an estimated \$1,849 million over three years. This revenue will be returned through the following tax reductions:

- The bottom two personal income tax rates will be reduced for all British Columbians resulting in a tax cut of 2 per cent in 2008 and 5 per cent in 2009 on the first \$70,000 in earnings — with further reductions expected in 2010 (\$784 million over three years);
- Effective July 1, 2008, the general corporate income tax rate will be reduced to 11 per cent from 12 per cent — with further reductions planned to 10 per cent by 2011 (\$415 million over three years);
- Effective July 1, 2008, the small business tax rate will be reduced to 3.5 per cent from 4.5 per cent — with further reductions planned to 2.5 per cent by 2011 (\$255 million over three years); and
- Beginning July 1, 2008, the new Climate Action Credit will provide lower-income British Columbians a payment of \$100 per adult and \$30 per child per year — increasing by 5 per cent in 2009 and possibly more in future years (\$395 million over three years).

Integrated Approach: The carbon tax is one of several key building blocks to help government reduce B.C.'s greenhouse gas emissions by 33 per cent below 2007 levels by 2020. The carbon tax and complementary measures such as the cap and trade system will be integrated to avoid unfairness or double taxation.

B.C.'S CLIMATE ACTION DIVIDEND

Separate from and in addition to the tax reductions made possible by the revenue-neutral carbon tax, every British Columbia resident will receive a one-time, \$100 Climate Action Dividend to encourage the transition to a greener lifestyle.

It is the government's hope that British Columbians will apply the funds toward purchases that can help reduce their greenhouse gas emissions and, by doing so, also reduce the amount of carbon tax they would otherwise pay.

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For the Finance Minister's speech and more details on *Balanced Budget 2008*, visit www.gov.bc.ca/bcbudget online. Visit the Province's website at www.gov.bc.ca for online information and services.

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