

Details of the Alberta Carbon Levy Announced

April 22, 2016

The Alberta Budget 2016 announced the implementation of Alberta's Climate Leadership Plan:

- Phasing out coal-fired electricity generation;
- Developing renewable energy;
- Legislating a limit on oil sands emissions; and
- Targeting a 45 per cent reduction in methane gas emissions from the oil and gas sector.

The implementation of the Climate Leadership Plan by Budget 2016 includes preliminary details of a Carbon Levy that will become effective Jan. 1, 2017. The Carbon Levy will initially feature a \$20/tonne price on carbon emissions, rising to \$30/tonne effective Jan. 1, 2018. The Carbon Levy is expected to raise \$2.4 billion annually when fully implemented. Revenues should slowly fall in subsequent years, as Albertans should be incentivized to use less carbon.

Gasoline taxes will increase due to the newly announced Carbon Levy. In early 2015 Alberta had the lowest gasoline taxes in Canada at 9 cents per litre. The rate was increased to 13 cents per litre at the end of March 2016. The Carbon Levy on gasoline, which comes into effect Jan. 1, 2017 at the rate of 4.49 cents per litre, will increase to 6.73 cents per litre so that the combined rate of fuel taxes and the Carbon Levy will increase to 19.7 cents by January 2018.

Budget 2016 indicates that legislation enacting the Carbon Levy will be released in spring 2016. Based on the information contained in the budget, the Carbon Levy will be implemented as a hybrid system. For transportation and other refined fuels, such as gasoline, the Carbon Levy will be administered in a manner similar to existing fuel taxes. For heating fuels, natural gas, coal and other fuels, the Carbon Levy will be remitted by entities higher in the distribution chain, such as producers and importers. This remittance system may be similar to the system imposed by British Columbia's Carbon Tax Act. If a similar approach is taken in Alberta, we expect an increased administrative burden for entities involved in the production, import/export or distribution of fuels. A number of exemptions to the Carbon Levy are listed in Budget 2016, but it is not yet clear how they will be implemented.

The Government expects the Carbon Levy to generate approximately \$9.6 billion over five years, with approximately one third of that amount being returned to Albertans in the form of (i) rebates for low and middle income Albertans and (ii) a reduction of the small business income tax rate from three per cent to two per cent upon the introduction of the Carbon Levy, bringing the combined Federal and Provincial rate to 12.5 per cent. The balance of the revenues generated by the Carbon Levy will be directed towards (i) large scale renewable energy projects, (ii) technology development, (iii) bioenergy initiatives, (iv) green infrastructure such as public transit, and (v) Energy Efficiency Alberta, a new provincial agency that will support energy efficiency and micro-generation initiatives.

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