Bill 42
An Act to Amend the Petroleum Products Tax Act

Plain Language Summary

Prepared by: Department of Finance
June 2019

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This Plain Language Summary of Bill 42 is provided to facilitate review of this Bill which is currently before a Standing Committee of the NWT Legislative Assembly. For clarity, the legislative proposals set out in the Bill and described in this summary may be stated as if they have already been adopted or were in force. It is important to note, however, that the Bill may be amended and has no force or effect unless and until it is passed by the Legislative Assembly, receives Assent, and comes into force.

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English

Si vous voulez ces informations en français, contactez-nous.
French

Kīspin ki nitawihtīn ē nīhīyawihk ōma ācimōwin, tipwāsinān.
Cree

Tłı̨chǫ yatı k'ę̀ę̀. Dı wegodı newǫ dè, gots'o gonede.
Tłı̨chǫ

Ɂerıhtł'ís Dëne Sųłıné yatı t'a huts'elkër xa beyáyatı theɂą ɂat'e, nuwe ts'ën yółtı.
Chipewyan

Edı gondı dehgáh got'ı̨e zhatıé k'ę́ę́ edatł'éh enahddhę nıde naxets'ę́ edahłí.
South Slavey

K'áhshó got'ı̨ne xǝdǝ k'é hederı ɂedı̨htl'é yerınıwę nídé dúle.
North Slavey

Jii gwandak izhii ginjìk vat'atr'ijąhch'uu zhit yinohthan jì', diits'àt ginohkhìi.
Gwich'in

Uvanittuaq ilitchurisukupku Inuvialuktun, ququaqluta.
Inuvialuktun

ᑖᒃᑯᐊ ᑎᑎᕐᒃᑲᐃᑦ ᐱᔪᒪᒍᕕᒋᑦ ᐃᓄᒃᑎᑐᓕᕐᒃᓯᒪᓗᑎᒃ, ᐅᕙᑦᑎᓐᓄᑦ ᐅᖄᓚᔪᓐᓇᖅᑐᑎᑦ.
Inuktitut

Hapkua titiqqat pijumagupkit Inuinnaqtun, uvaptinnut hivajarlutit.
Inuinnaqtun

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Department of Finance

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Bill 42: An Act to Amend the Petroleum Products Tax Act

How does Bill 42: An Act to Amend the Petroleum Products Tax Act fit with the overall approach to carbon pricing?

The proposed Act to Amend the Petroleum Products Tax Act, or Bill 42, provides the legislation necessary to introduce a carbon tax in the Northwest Territories.

The Government of the Northwest Territories (GNWT) committed under the *Pan-Canadian Framework on Clean Growth and Climate Change* to implement carbon pricing in the Northwest Territories. The carbon tax increases the price on carbon and the higher price is expected to encourage residents and businesses to reduce the consumption of fuels that emit greenhouse gases. The federal government has developed an approach where provinces and territories could implement their own approach to carbon pricing (as long as it is consistent with the federal approach) or the federal government would impose their approach (often called the federal backstop) within the jurisdiction.

The GNWT concluded that it would implement its own made in the North approach rather than having the federal government impose their backstop. This was done to allow for carbon pricing to be implemented in a way that would meet the policy objectives, but mitigate to the extent possible the impact of carbon pricing on the cost of living and doing business in the Northwest Territories.

In developing the approach, the GNWT recognized there are already considerable price incentives related to fuel use and that it needed to develop an approach that reflected the realities of the Northwest Territories.

The details of the GNWT approach were released in July 2018. The federal government reviewed and approved the planned approach in September 2018 and Bill 42 and Bill 43, which are needed to implement carbon pricing, were tabled in the NWT Legislative Assembly in March 2019.

Bill 42 amends the *Petroleum Products Tax Act* to impose a carbon tax on petroleum products and natural gas so that the collection and administration of the carbon tax is the same as the current fuel tax. Purchasers are required to pay the carbon tax and vendors and collectors are required to remit the tax to the GNWT in the same way as they currently do for fuel taxes.

The proposed *Act to Amend the Income Tax Act* (Bill 43) provides the means to return carbon tax revenues to NWT residents through the personal income tax system. Overall, rebates and benefits associated with the NWT Carbon Tax are part of the annual budget process.

How will the carbon tax work?

The Northwest Territories Carbon Tax will become effective September 1, 2019 at a rate of $20/tonne of greenhouse gas (GHG) emissions for the various types of fuel (see table). The tax rate will increase annually until 2022 when it will reach $50/tonne. The Northwest Territories Carbon Tax will not apply to aviation fuel.

The NWT Carbon Tax will use the administrative structure already in place for territorial fuel taxes. Carbon tax will be added to the price at the point of purchase in the same way as fuel taxes are applied. Current fuel tax collectors will also collect the carbon tax and will remit the revenue to the GNWT in the same way as fuel taxes.

Proposed Carbon Tax Rates by Fuel Type

	Carbon Tax Rate			
Type of Fuel	Effective for the period starting September 1, 2019 and ending June 30, 2020	Effective for the period starting July 1, 2020 and ending June 30, 2021	Effective for the period starting July 1, 2021 and ending June 30, 2022	Effective July 1, 2022 and thereafter
	$20/tonne GHG equivalent	$30/tonne GHG equivalent	$40/tonne GHG equivalent	$50/tonne GHG equivalent
Aviation Gas	exempt	exempt	exempt	exempt
Aviation Jet Fuel	exempt	exempt	exempt	exempt
Butane	$0.035/L	$0.053/L	$0.071/L	$0.089/L
Diesel	$0.055/L	$0.082/L	$0.109/L	$0.137/L
Gasoline	$0.047/L	$0.070/L	$0.094/L	$0.117/L
Naphtha	$0.051/L	$0.077/L	$0.102/L	$0.128/L
Natural Gas	$0.038/m^3	$0.058/m^3	$0.077/m^3	$0.096/m^3
Propane	$0.031/L	$0.046/L	$0.062/L	$0.077/L

The carbon tax will not apply to the following:

- Indians and Indian Bands as defined in the federal *Indian Act* when making purchases or taking delivery of fuels on a reserve in the NWT. This exemption would not apply to those whose *Indian Act* tax exemption cease to exist under self-government agreements;
- Fuel purchased by visiting military forces under the *Visiting Forces Act (Canada)*;
- Fuel use for aviation; and
- Fuel in sealed, pre-packaged containers of ten litres or less.

What will the GNWT do with the carbon tax revenue?

The introduction of the carbon tax, while supporting the GNWT's commitment to reduce its greenhouse gas emissions, will increase costs for residents and businesses. To reduce the carbon tax burden, the proposed Act to Amend the Petroleum Products Tax Act gives the GNWT the ability to rebate carbon tax revenues directly to residents, governments and businesses in the Northwest Territories.

Under the proposed approach, the GNWT will distribute 79% of the revenue in the form of offset rebates and benefits, 20% of the revenue will fund energy initiatives, and 1% will be used for administering the NWT Carbon Tax and offset programs.

Rebate 100% of Carbon Tax on Heating Fuel

Through regulations the GNWT will provide residents, governments and business entities with less than 50,000 tonnes of annual greenhouse gas (GHG) emissions with a rebate for all the carbon tax paid on heating fuel when the fuel is purchased. The invoice will show the carbon tax applied and the immediate rebate of the same amount. This rebate means that carbon tax on heating fuel will not be paid by residents and small business. Industry that emits more 50,000 tonnes of GHG emissions annually will be subject to a different approach to offset the impact of the carbon tax.

Rebating Carbon Tax on Fuel Used to Produce Community Electricity

Power producers such as the Northwest Territories Power Corporation will receive rebates for the carbon tax paid on non-motive diesel purchased for generating electricity for distribution. This means that residents, governments and businesses will not experience increases in electricity costs because of the carbon tax.

Cost of Living Offset Benefit

A Cost of Living Offset (COLO) is provided through proposed amendments to the *Income Tax Act* (Bill 43 An Act to Amend the Income Tax Act) so that the Canada Revenue Agency may administer the COLO on behalf of the GNWT.

The COLO is a tax-free benefit for all NWT residents to mitigate the impact of carbon pricing. The COLO is not income tested and the COLO increases annually as NWT Carbon Tax rates increase. For the first year the COLO will be paid to all eligible residents in October 2019 and April 2020. After the first year, the Canada Revenue Agency will provide the COLO quarterly to NWT residents and their families either through direct deposit or by a cheque on the same schedule as federal GST/HST credit payments.

The annual benefit per person of the non-taxable COLO is estimated as follows:

Carbon Tax at	$20/tonne	$30/tonne	$40/tonne	$50/tonne
Individual aged 18 or over	$104	$156	$208	$260
Child under 18	$120	$180	$240	$300

Large Emitters Rebate and Trust

Large Emitters (50,000 tonnes or more annual GHG emissions) will receive a rebate of 72% of all carbon tax collected and 12% of all carbon tax collected from large emitters will be held in individual accounts that the large emitter will be able to apply to use for investments to reduce its greenhouse gas emissions.

GNWT Investment in Energy Initiatives

The GNWT plans various investments as part of the overall approach to climate change including energy investments. Part of the carbon tax revenue will be used to support these investments. Individual projects will be identified as part of the annual budget process.

How does the NWT Carbon Tax fit with the overall approach to climate change?

In addition to implementing carbon pricing, the GNWT approach to climate change is largely captured in two other strategic initiatives and their related action plans.

The *2030 NWT Climate Change Strategic Framework* outlines how the territory plans to respond to challenges and opportunities associated with a changing climate, moving towards an economy that is less dependent on fossil fuels and doing its part to contribute to national and international efforts to address climate change. An action plan has been released outlining the initial steps in implementing the overall framework.

The *Northwest Territories 2030 Energy Strategy* sets out the GNWT's long-term approach to supporting secure, affordable and sustainable energy supply and use in the NWT. The goal of this Strategy is to guide the development of affordable and sustainable energy for transportation, heat, and electricity, support energy efficiency and conservation, and promote renewable and alternative energy solutions for the NWT. The *Energy Action Plan* describes a wide series of initiatives related to the strategy. Some of these already being implemented include:

- Construction of the Inuvik Wind Project;
- A new program to support government energy efficiency, renewable and alternative energy projects;
- Planning related to community wind/diesel hybrid projects and expansion of hydro transmission lines;
- Significant enhancements to Arctic Energy Alliance programs related to energy efficiency and incentive rebates, alternative energy technology programs, home energy retrofit programs, energy efficiency and conservation retrofits for NGOs, and commercial energy conservation and efficiency; and
- Investments in retrofits for GNWT assets, NWT Housing Corporation energy efficiency and heating improvements, and hydro asset overhauls by the NWT Power Corporation.

Overall spending on energy initiatives is expected to be over $80 million in 2018-19 and 2019-20.

When the NWT Carbon Tax is fully implemented, what is the expected revenues and spending on the various offset programs?

When fully implemented, the NWT Carbon Tax will be the equivalent of $50/tonne of GHG emissions as described above. The amount of fuel used will impact on revenues but based on recent fuel use and current population statistics the following table describes the expected annual revenue from the NWT Carbon Tax and spending on rebates, benefits and other programs.

It is important to recognize that fuel usage changes annually related to factors like climate and economic activity. Depending on the effectiveness of carbon pricing and the various energy and climate change initiatives, there could also be reductions in the use of fossil fuels.

	Revenue from NWT Carbon Tax ($M)		Expenditures on Rebates & Benefits ($M)
Residents, Small Business & Governments			
Heating Fuel & Propane	$9.5	100% Rebate on Heating Fuel & Propane	$9.5
Non-Motive Diesel for Community Electricity Production	$3.2	Annual Rebate to Electricity Producers	$3.2
Motive Diesel	$10.4	Cost of Living Offsets (COLO) Benefit	$12.0
Gasoline	$6.2		
Large Emitters			
Facility Fuel Use	$25.9	Large Emitter Rebate	$18.7
		Large Emitter Trust Accounts	$3.1
Other Items			
		Investments in Energy Initiatives	$8.0
		NWT Carbon Tax & Benefit Admin.	$0.8
TOTAL	**$55.2**		**$55.2**

How does the GNWT Approach Compare with the Federal Backstop?

The federal government has implemented the federal backstop in provinces that decided not to introduce their own approach. The carbon pricing approach under the federal backstop is largely similar to the Northwest Territories approach, with the exception that aviation fuel is being exempted in the NWT and our approach to large emitters.

There is considerable difference, however, in the approach to offsetting the impacts of carbon pricing. The table below provides a comparison of the impact on various sectors under the GNWT approach and what has been implemented by the federal government.

Information on the federal backstop, the output based pricing system for larger emitters, and the offsets being provided to residents in provinces where it is being implemented is available at https://www.canada.ca/en/environment-climate-change.html. There are variations in the federal approach depending on province.

<table>
<tr><th>GNWT Approach (@$50/tonne)</th><th>Federal Backstop (@$50/tonne)</th></tr>
<tr><td>Residents</td><td></td></tr>
<tr><td>1. Benefits Payment & Rebates

<table>
<tr><td>Cost of Living Offset for Family of Four</td><td>$1,120</td></tr>
<tr><td>100% Rebate of Carbon Tax on Heating Fuel</td><td>$436</td></tr>
<tr><td></td><td>----------</td></tr>
<tr><td>Total Offset</td><td>$1,556</td></tr>
</table>

COLO will be provided quarterly when fully implemented.

Heating fuel rebate at point of purchase so no direct cost to residents.</td>
<td>1. Benefit Payment

<table>
<tr><td>Climate Action Incentive for Family of Four</td><td>$668</td></tr>
</table>

Delivered annually through personal income tax return. Payment will reduce tax owing or increase refund for individuals.</td></tr>
<tr><td>2. Carbon Tax exemption for Aviation fuel</td><td></td></tr>
<tr><td>3. Electricity rates will not increase as a result of the carbon tax because carbon tax paid on fuel to produce community electricity will be rebated.</td><td></td></tr>
<tr><td>Small Business</td><td></td></tr>
<tr><td>1. 100% Rebate of Carbon tax on Heating Fuel

<table>
<tr><th>Litres of Heating Fuel</th><th>Rebate for Carbon Tax</th></tr>
<tr><td>2,500</td><td>$350</td></tr>
<tr><td>5,000</td><td>$700</td></tr>
<tr><td>10,000</td><td>$1,400</td></tr>
<tr><td>25,000</td><td>$3,500</td></tr>
<tr><td>50,000</td><td>$7,000</td></tr>
<tr><td>75,000</td><td>$10,500</td></tr>
</table>

Value of point of sale rebate will depend on amount of heating fuel purchased.</td>
<td>Federal government released approach to offset carbon tax for Small Business in May 2019. Detail not yet known.

1. Rebate to Small Business for Equipment & Appliances

Direct rebate program to offset 25% to 50% of the costs for small businesses to buy more energy efficient equipment or appliances.

2. Rebates of up to 25% of the eligible costs for retrofits that make the businesses use less energy.</td></tr>
<tr><td>2. Carbon Tax exemption for Aviation fuel. Will benefit most businesses but particularly those with significance dependence on air transportation like tourism and mining exploration.</td><td></td></tr>
<tr><td>3. Electricity rates will not increase as a result of the carbon tax because carbon tax paid on fuel to produce community electricity will be rebated.</td><td></td></tr>
</table>

GNWT Approach (@$50/tonne)	Federal Backstop (@$50/tonne)
Community Governments	
1. 100% Rebate of Carbon Tax on Heating Fuel Community governments will not pay carbon tax on heating fuel for their facilities due to the 100% rebate of carbon tax on heating fuel. The amount of benefit of the rebate of the carbon tax on heating fuel will depend on the size of the community and the number of facilities being heated. According to available community financial statements reporting on heating fuel expenditures the rebate would range from more than $100,000 in Yellowknife, would be in the range of $15,000 to $25,000 in medium size communities, to $1,000 to $2,000 in smaller communities.	1. The federal government has indicated it will provide support to schools, hospitals, colleges and universities, municipalities, not-for-profit organizations and Indigenous communities in provinces using the federal back stop. Details on supports for municipal governments have not been released.
2. Electricity rates will not increase as a result of the carbon tax because carbon tax paid on fuel to produce community electricity will be rebated.	
Large Emitters	
1. Large Emitter Rebate & Trust The GNWT approach treats large emitters in a similar manner as residents and small business by rebating a portion of the carbon tax. Rebate levels have been adjusted since the initial release to make our approach more consistent with the overall federal approach. The GNWT approach is consumption-based. Mines would be rebated 72% of the carbon tax they pay. An additional 12% will be placed in individualized trusts that can be accessed by each operator to make investments that reduce GHG emissions.	1. Output Based Pricing System (OBPS) The federal OBPS is based on emission intensity standards for various large industrial sectors. These standards reflect average emissions per unit of output (e.g. for diamond mines 0.0172 tonnes of GHG/carat). When a facility's emissions exceed those allowed by the emissions-intensity standard for the type of activity, the facility would only be charged the carbon tax on the portion above the standard. Facilities that emit less than the limit for its activity type will receive "surplus credits" from the federal government. These credits could be saved for future use or sold to another participant in the output-based pricing system. Under the federal OBPS, it is possible for some mines to pay no carbon price while others would pay a significant cost. This could be due to factors like ore grade and geographic size of the operation and overall energy efficiency of the operation.

** Information presented here is based on the federal approach for rural communities in New Brunswick which is one of the provinces where the federal back stop is being implemented.*

It should be noted that in the case of Nunavut and Yukon, the federal government was asked to implement the backstop. In these cases, the federal government is providing the revenues to the territorial governments to develop their own offset programs. This, however, has limited their options compared to implementing their own approach.