

Note • Bill C-358

Eliminating the Goods and Services Tax in respect of carbon pricing



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Bill C-358¹ proposes to amend the *Excise Tax Act* to eliminate the Goods and Services Tax (GST) in respect of carbon pricing. The Bill would remove the GST that would be paid: a) on any tax, duty or fee imposed under the *Greenhouse Gas Pollution Pricing Act*, such as the fuel charge and the Output-Based Pricing System (OBPS); b) on any provincial levy imposed in respect of carbon pricing, such as the cap-and-trade system in Quebec² or carbon tax in British Columbia.³

PBO estimates that this measure would reduce federal GST revenues by \$486 million in 2023-24, increasing to \$1.015 billion in 2030-31.

Detailed cost of Bill C-358, millions of dollars

Fiscal year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	2030-2031
NL	6	10	12	13	15	17	18	19
PE	1	2	2	2	4	4	4	4
NS	10	17	20	23	30	30	29	30
NB	7	11	12	13	15	16	18	18
QC	77	93	108	121	133	143	152	160
ON	182	220	250	280	313	338	367	389
MB	18	21	24	27	30	31	34	36
SK	29	34	38	42	46	48	52	52
AB	96	113	128	142	152	164	178	187
BC	58	70	79	88	95	102	108	114
YT	1	1	1	1	2	2	2	2
NT	1	1	1	2	2	2	2	2
NU	0	1	1	1	1	1	1	1
Total cost	486	595	677	755	836	897	965	1,015

Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance

(higher revenues or lower spending). The value of “0” means that the cost is not material (that is, less than 500 thousand dollars).

· Totals may not add due to rounding.

Estimation and Projection Method

Based on our interpretation, GST revenue resulting from both direct and indirect costs⁴ of federal and provincial-territorial carbon pricing would be eliminated.

PBO projected the reduction in GST revenues by multiplying final demand greenhouse gas (GHG) emissions for all commodities by a national equivalent carbon price (assuming full pass-through to market prices), and then multiplied these carbon price revenues by the effective GST rates across these commodities.

PBO used an interprovincial input-output model that simulates final demand carbon costs (both direct and indirect) to determine GHG emissions by commodity subject to the GST. The model used data released by Statistics Canada (input-output tables and provincial physical flow accounts for GHG emissions) and Environment Canada (projected sectoral GHG emissions).⁵

The GHG emissions were adjusted to take into account the temporary pause in the federal fuel charge on heating oil, in all jurisdictions where it currently applies, until 2026-27.

For simplicity, we assumed that a national carbon price equivalent to federal carbon pricing was applied in every province and territory given that a province or territory must meet a minimum national stringency standard, even if it chooses to use its own pricing system.⁶

Sources of Uncertainty

We did not examine the (potential) impact of the Bill on federal compensation to provincial governments under Comprehensive Integrated Tax Coordination Agreements. If compensation to provincial governments would be required under these agreements, the cost of this measure would be higher.

Given that the carbon price embedded in non-energy goods and services is not directly observable, there is uncertainty related to the feasibility of removing the GST related to the indirect costs of federal and provincial-territorial carbon pricing.

We assumed that the projected value of an emissions allowance under Quebec’s cap-and-trade system would be equal to the federal carbon price. However, historical data indicate that the price of an emissions allowance could be lower than the federal carbon price.⁷

There is also uncertainty surrounding projected GHG emissions through 2030-31. Projections of GHG emissions from final demand by commodity are sensitive to assumptions regarding the behavioural impact of carbon pricing.

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Data Sources

GHG emissions under carbon pricing by sector and by province

Environment and Climate Change Canada

Supply and Use Tables

Statistics Canada

Physical flows account for GHG emissions

Statistics Canada, [Table 38-10-0097-01](#)

Energy Conversion Tables

Canada Energy Regulator

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¹ [An Act to amend the *Excise Tax Act* \(carbon pollution pricing\)](#).

² For additional information on Quebec's carbon pollution pricing system, consult: [The Carbon Market, a Green Economy Growth Tool](#).

³ For additional information, consult: [British Columbia's Carbon Tax](#).

⁴ Direct costs include the carbon price that households pay for heating and transportation. Indirect costs capture the carbon price that is passed through by firms to the prices of non-energy goods and services that households purchase. Since the GST is generally applied to the retail price of goods and services, there is an incremental impact on GST revenues from carbon pricing for consumption of both energy (heating and transportation) and non-energy goods and services.

⁵ The data sources, methodology and assumptions are described in previous PBO reports. For example, consult PBO's March 2023 report, [A Distributional Analysis of the Federal Fuel Charge under the 2030 Emissions Reduction Plan](#).

⁶ For example, British Columbia applies a carbon tax rate to the purchase and use of fossil fuels, in line with the federal fuel charge.

⁷ For more details on the historical price of an emission allowance in Quebec, consult: [Auction Proceeds Allocated to the Electrification and Climate Change Fund](#).