Bill C-38

PBO Update – Temporarily suspending the federal fuel excise tax

This Cost Estimate assesses the budgetary impact of suspending federal fuel excise taxes from April 20, 2026, to January 31, 2027, and reducing federal fuel excise taxes to 50 per cent of the regular rate from February 1, 2027, to March 31, 2027.

On April 14, the government announced it would temporarily suspend federal excise taxes on gasoline, diesel, and aviation fuel from April 20, 2026, to September 7, 2026.

The government subsequently announced on September 2 that it would extend the suspension until January 31, 2027, and reduce federal fuel excise taxes to 50 per cent of the regular rate from February 1, 2027, to March 31, 2027. This cost estimate updates our prior assessment using new fuel consumption estimates from April 20, 2026, to March 31, 2027.

The PBO estimates that the combined measures will cost a total of $4.9 billion in 2026-27, as shown in Table 1. This translates to an average tax savings of $276 per family in Canada, as shown in Table 2. We anticipate that this policy measure would be viewed as an operating outlay rather than a capital investment under the government's Capital Budgeting Framework.

Table 1
Cost in 2026-27 ($ millions)

	Gasoline	Diesel	Aviation	Total Cost
Announcement 1 April 20 to September 7	1,722	473	52	2,247
Announcement 2 September 8 to March 31	2,037	593	66	2,695
Total	3,760	1,065	118	4,943

Note:
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).
Totals may not add due to rounding.

Estimation and Projection Method

The PBO used its Other Excise Tax and Duty model to estimate the cost of the measure. The near-term projection was updated using fuel consumption data from the first quarter of fiscal year 2026-27, to reflect developments since the prior assessment.

For gasoline, historical monthly sales were used to estimate the share of gasoline excise taxes that were collected from April 20 to March 31. The cost of suspending and reducing the excise tax on gasoline is the projected revenue multiplied by the share collected during that period.

For diesel and aviation fuel, the model provides a projection using historical revenues from the Public Accounts. The cost of suspending and reducing the excise tax on diesel and aviation fuel is the projected revenue multiplied by the share of the year that the tax will be suspended or reduced.

The impact on GST revenue was included for gasoline, diesel and aviation fuel.

Distributional Analysis

The PBO estimated tax savings per family and by family income of the combined announcements. The estimated benefit of the measure increases with family income, ranging from $132 per family in the lowest quintile to $468 per family in the highest quintile, as higher-income families tend to consume more fuel (Table 2).

Table 2
Total savings by economic family income quintile

	Lowest Quintile (Up to $41,064)	Second Quintile ($41,065 to $73,038)	Third Quintile ($73,039 to $114,423)	Fourth Quintile ($114,424 to $182,007)	Highest Quintile ($182,008 and up)
Per Family ($)	132	199	251	331	468
Total ($ millions)	473	712	899	1,185	1,675
Share of Total (%)	10	14	18	24	34

Since our first analysis of distributional impacts of the fuel tax suspension, *PBO Assessment of Spring Economic Update: Temporarily suspending the federal fuel excise*

tax, in May 2026, the PBO has changed the statistical unit of the distributional analysis from households to economic families in order to incorporate more recent Statistics Canada data for income quintile ranges.

Economic family refers to a group of two or more persons who live in the same household and are related to each other through biological, couple, adoptive or foster relationships. To avoid excluding individuals, the analysis also includes people not in an economic family as one-person families. While this change does not affect the original estimated cost of the measure, it does marginally change the reported number of statistical units and their average incomes. Table 3 shows the distributional analysis of the Cost Estimate published on May 4, 2026, for households and economic families to illustrate the impact of the change.

Table 3
Comparison of distributional estimates by household and economic family

	Lowest Quintile	Second Quintile	Third Quintile	Fourth Quintile	Highest Quintile
Per Household ($)	59	89	113	149	211
Per Economic Family ($)	57	86	109	143	203

Sources of Uncertainty

The estimates assume that 100 per cent of tax savings are passed on to families. Tax savings captured by corporations could affect the total cost and distributional impacts.

The PBO did not estimate a behavioural impact for gasoline, diesel and aviation fuels that would capture the degree to which individuals would adjust fuel consumption in response to the tax suspension measure.

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Data Sources

Other Excise Tax and Duty Model
Parliamentary Budget Office

Monthly Average Retail Prices for Gasoline
Statistics Canada, Table: 18-10-0001-01

Monthly Retail Automotive Fuel Sales
Statistics Canada, Table: 20-10-0080-01

Monthly Gasoline Sales, 1993-2015
Statistics Canada, Archived

Uses of Gasoline, Diesel, and Aviation fuel
Statistics Canada, Supply and Use Tables, 2022

Household Expenditures by Income Quintile
Statistics Canada, Table: 11-10-0223-01

Total Income by Income Decile
Statistics Canada, Table: 11-10-0192-01

Number of Economic Families
Statistics Canada, Table: 11-10-0237-01

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