

# Carbon Tax Shifting

## How will a carbon tax affect Canadian families?

The Green Party's vision for Canada includes a variety of measures designed to make taxation greener while at the same time help seniors, low-income Canadians and stay-at-home parents. The most significant policy innovation in the Green Party's platform is to transform how taxes are collected in Canada through what is called a "Carbon Tax Shifting." In essence, the Green Party believes that carbon emissions, along with other pollutants, should be taxed. The windfall will be used to decrease payroll taxes, allow income splitting, support seniors and help low-income Canadians.

While the price of carbon intensive items like gasoline, electricity and heating fuel will rise with a carbon tax, other taxes will fall to compensate. As a result, the overall effect of the Green Party's carbon tax shift will generally be neutral. But with carbon taxed more heavily, Canadians can reduce the taxes they pay by switching to fuels that are less carbon intensive and by taking measures to increase energy efficiency in other areas. When Canadians act to reduce the amount of carbon tax they pay, they will simultaneously help to fight climate change by reducing Canada's greenhouse gas emissions.

As part of the Carbon Tax Holiday, made possible by tax shifting, the income tax rate for Canadians earning less than \$37,000 per year would remain at 15 per cent. To ease payroll taxes, the Employment Insurance rate paid by employers would fall from 1.73 per cent down to 1.15 per cent and the Canada Pension Plan amount would fall from 4.95 per cent to 3.30 per cent. Income splitting would apply, allowing families to split the larger income between two adults for taxation purposes.

The following data reviews how the Green Party's Green Tax Shift would affect typical Canadian families. All figures are on an annual basis.

### **Middle Class Canadian Family**

	Solidly Middle Class Family
Income Earner 1	\$ 35,000
Income Earner 2	\$ 30,000
Household Income	\$ 65,000
Province	British Columbia
Location	Urban
Number of Adults	2
Number of Children	1
<b>Carbon Tax Impact</b>	
Gasoline	\$470
Electricity	\$29
Home Heating	\$513
Other Items	\$261
<b>Total</b>	<b>\$1,274</b>
<b>Taxation Changes</b>	
Payroll Tax Changes	-\$1,332
Income Splitting	\$0
Guaranteed Income Supplement for Seniors	\$0
GST increase to 6%	\$230
Incomes under \$20,000 not taxed	\$0
Carbon Tax Rebate	\$0
<b>Total Tax Changes</b>	<b>-\$1,101</b>
<b>Total Impact</b>	<b>\$172</b>
<b>Total Impact as % of Household Income</b>	<b>0.3%</b>

The family above represents the average Canadian family with average family income and average spending patterns. While this British Columbia family will find that the costs of gasoline, electricity, home heating and other prices increase, it will also see a significant reduction in payroll taxes that more than makes up for increased costs elsewhere. The average Canadian family will be no better or worse off after the Green Party's carbon tax shift. The significant difference will be that this family has an opportunity to reap greater tax gains by making low-carbon choices.

## Upper Middle Class Families

	Upper middle class family	Upper middle class family	Upper middle class family
Income Earner 1	\$ 140,000	\$ 70,000	\$ 140,000
Income Earner 2	\$ -	\$ 70,000	\$ -
Household Income	\$ 140,000	\$ 140,000	\$ 140,000
Province	Ontario	British Columbia	Alberta
Location	Urban	Urban	Urban
Number of Adults	2	2	2
Number of Children	2	2	2
<b>Carbon Tax Impact</b>			
Gasoline	\$400	\$400	\$400
Electricity	\$170	\$44	\$727
Home Heating	\$513	\$585	\$585
Other Items	\$562	\$562	\$562
<b>Total</b>	<b>\$1,645</b>	<b>\$1,590</b>	<b>\$2,273</b>
<b>Taxation Changes</b>			
Payroll Tax Changes	\$920	-\$1,840	\$920
Income Splitting	-\$4,757	\$0	-\$4,757
Guaranteed Income Supplement for Seniors	\$0	\$0	\$0
GST increase to 6%	\$485	\$473	\$485
Incomes under \$20,000 not taxed	\$0	\$0	\$0
Carbon Tax Rebate	\$0	\$0	\$0
<b>Total Tax Changes</b>	<b>-\$3,352</b>	<b>-\$1,367</b>	<b>-\$3,352</b>
<b>Total Impact</b>	<b>-\$1,707</b>	<b>\$223</b>	<b>-\$1,079</b>
<b>Total Impact as % of Household Income</b>	<b>-1.2%</b>	<b>0.2%</b>	<b>-0.8%</b>

These families are in the upper income range and live in three different provinces: Ontario, British Columbia and Alberta. Each of these families pays different amounts for electricity and home heating, depending on local infrastructure. The British Columbian family has two income earners and, in total, pays very slightly more each year after the Green Party's carbon tax shift. But by choosing to drive less or switch to a more fuel efficient car, a family could easily become a net beneficiary after the carbon tax shift.

Two of these families have one adult member who does not earn an income. These two families benefit from the Green Party's plan to bring in income splitting. By splitting the larger income between two people for taxation purposes, the income tax rate decreases, allowing one adult, for example, to stay home with children, return to school or pursue other activities.

## Rural Canadians

	Low Income Rural Senior	Rural Family	Rural Family
Income Earner 1	\$ 15,000	\$ 30,000	\$ 30,000
Income Earner 2	\$ -	\$ 20,000	\$ 25,000
Household Income	\$ 15,000	\$ 50,000	\$ 55,000
Province	Ontario	Nova Scotia	Quebec
Location	rural	rural	rural
Number of Adults	1	2	2
Number of Children	0	3	3
<b>Carbon Tax Impact</b>			
Gasoline	\$188	\$423	\$550
Electricity	\$68	\$407	\$5
Home Heating	\$137	\$390	\$390
Other Items	\$49	\$201	\$221
<b>Total</b>	<b>\$442</b>	<b>\$1,421</b>	<b>\$1,166</b>
<b>Taxation Changes</b>			
Payroll Tax Changes	\$0	-\$998	-\$922
Income Splitting	\$0	\$0	-\$19
Guaranteed Income Supplement for Seniors	-\$663	\$0	\$0
GST increase to 6%	\$63	\$181	\$198
Incomes under \$20,000 not taxed	-\$572	\$0	\$0
Carbon Tax Rebate	-\$657	-\$509	-\$64
<b>Total Tax Changes</b>	<b>-\$1,829</b>	<b>-\$1,327</b>	<b>-\$807</b>
<b>Total Impact</b>	<b>-\$1,387</b>	<b>\$94</b>	<b>\$358</b>
<b>Total Impact as % of Household Income</b>	<b>-9.2%</b>	<b>0.2%</b>	<b>0.7%</b>

Rural Canadians could be most impacted by a carbon tax due to a lack of public transportation infrastructure and the necessity of cars for transportation. With this in mind, the Green Party has developed a “carbon tax rebate” that mirrors the current GST credit. It is targeted at lower-income Canadians and it is weighted to help rural Canadians offset the higher cost of a carbon tax. Rural Canadians also tend to have lower incomes than their urban counterparts. The Green Party will cut all income taxes for those making less than \$20,000 a year.

A single, rural Ontario senior will experience an increase in the price of gasoline, but he or she will be supported by the Green Party’s carbon tax rebate coupled with a break in income tax. To provide additional support to seniors, the Green Party has also increased the Guaranteed Income Supplement for low income seniors. This Ontario senior will benefit from the GIS increase meaning that overall, such an individual would see a very large positive gain as a result of the Green Party’s carbon tax shift.

The two other scenarios are exemplary of rural, typically larger, families in Nova Scotia and Quebec. Rural families will see increased gasoline costs due to a reliance on vehicles. For the Nova Scotian family, the carbon tax rebate helps to diffuse these costs. In both cases, a significant drop in payroll taxes means that neither family is impacted in a major way. Both families have an opportunity to benefit from other aspects of the Green Party's overall climate plan through energy retrofits, and from better services due to stable funding for municipalities, enhanced and modernized passenger rail and other measures.

### Unemployed Canadian

	Single Unemployed
Income Earner 1	\$ 10,000
Income Earner 2	\$ -
Household Income	\$ 10,000
Province	Ontario
Location	Urban
Number of Adults	1
Number of Children	0
<b>Carbon Tax Impact</b>	
Gasoline	\$0
Electricity	\$57
Home Heating	\$171
Other Items	\$33
<b>Total</b>	<b>\$260</b>
<b>Taxation Changes</b>	
Payroll Tax Changes	-\$165
Income Splitting	\$0
Guaranteed Income Supplement for Seniors	\$0
GST increase to 6%	\$40
Incomes under \$20,000 not taxed	\$0
Carbon Tax Rebate	-\$390
<b>Total Tax Changes</b>	<b>-\$515</b>
<b>Total Impact</b>	<b>-\$255</b>
<b>Total Impact as % of Household Income</b>	<b>-2.6%</b>

This scenario is typical of a Canadian who, while currently unemployed, does make some money at odd jobs. Despite this, the total income is quite low. While such an individual is less likely to drive a car so

would not pay more for gasoline, electricity and heating bills would go up. As a result of this low income, the carbon tax rebate applies, buffering an unemployed individual while searching for work. For any odd jobs worked, payroll taxes are lower, meaning that more of the money earned is taken home by this individual. Overall, the carbon tax shift results in a significant gain for this Canadian.

### Small Business Owner

	Small Business Owner
Income Earner 1	\$ 75,000
Income Earner 2	\$ 40,000
Household Income	\$115,000
Province	Ontario
Location	urban
Number of Adults	2
Number of Children	0
<b>Carbon Tax Impact</b>	
Gasoline	\$360
Electricity	\$113
Home Heating	\$342
Other Items	\$461
<b>Total</b>	<b>\$1,277</b>
<b>Taxation Changes</b>	
Payroll Tax Changes	-\$2,199
Income Splitting	-\$302
Guaranteed Income Supplement for Seniors	\$0
GST increase to 6%	\$388
Incomes under \$20,000 not taxed	\$0
Carbon Tax Rebate	\$0
<b>Total Tax Changes</b>	<b>-\$2,113</b>
<b>Total Impact</b>	<b>-\$836</b>
<b>Total Impact as % of Household Income</b>	<b>-0.7%</b>

Small business owners may be acutely conscious of small changes in the tax code because such changes may affect them very directly. In the case of this small business owner and partner in Ontario, a carbon tax shift will help cut business costs and allow the owner to bring home more income. The Green Party's reduction in payroll taxes is of the most benefit, with income splitting also helping to save money for this family. Smart business owners will quickly realize that the Green Party's carbon shift provides them

with an opportunity to reduce the carbon taxes paid by the business if smart energy choices are made. These choices will simultaneously reduce a business' carbon impact.

## **Conclusion**

As the scenarios in this costing exercise illustrate, the Green Party's carbon tax shift will unavoidably increase fuel prices, but it will also reduce taxation levels in other areas. Most Canadians will not significantly be penalized by the carbon tax shift, nor will they benefit. However, those who will find themselves better off as a result of a carbon tax shift will be lower income or rural Canadians and seniors. In other words, the Green Party's carbon tax shift will help those who need it most.

By shifting government taxes onto carbon intensive industries and off of income and payroll, Canadians will be given more control over how they are taxed. By making smart energy choices – purchasing a hybrid vehicle, performing a home energy audit, using public transportation – Canadians can save money otherwise paid in taxes and at the same time, save our climate from catastrophe by helping to reduce Canada's greenhouse gas emissions.