

TAXES

& THE PATH

TO A GREEN

ECONOMY



Canadians *for*
Tax Fairness

Canadiens pour une fiscalité équitable

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THE PATH TO A GREEN ECONOMY

For as long as the federal government has given its attention to climate change, it has used the tax system to try and incentivize emission reduction and clean production by Canada's private sector. **At the same time, the tax system continues to be used to subsidize the largest source of emissions: the fossil fuel sector.** The 2023 federal budget offered the most ambitious investment in climate action to date, largely by enticing the private sector through tax credits.

Given the scale and uncertainty of the climate crisis, **the federal government will need to reach beyond market-**

oriented tax measures toward direct public investment in key sectors.

Doing so will create more stability for private sector involvement while also generating public value that can be shared more equitably.

For decades, our economic policies have enabled environmental costs to go uncounted while profits are concentrated among a small minority. Climate change and inequality are inextricably linked. Canada needs a just transition to a green and inclusive economy. A careful revision of the tax system is needed to avoid repeating the same mistakes that contributed to our climate and inequality crises. **The right tax measures can help Canada meet its climate goals, grow the economy, and ensure that this time, prosperity is shared among all communities.**



THE COST OF INACTION

Canada's commitment to cut emissions 40-45% by 2030, and achieve net-zero by 2050 is essential to stop climate change before it has truly catastrophic economic, social, and environmental costs.

Economic forecasts show that inaction could reduce Canada's national income by at least \$100 billion annually by 2055.

SPENDING WHAT IT TAKES

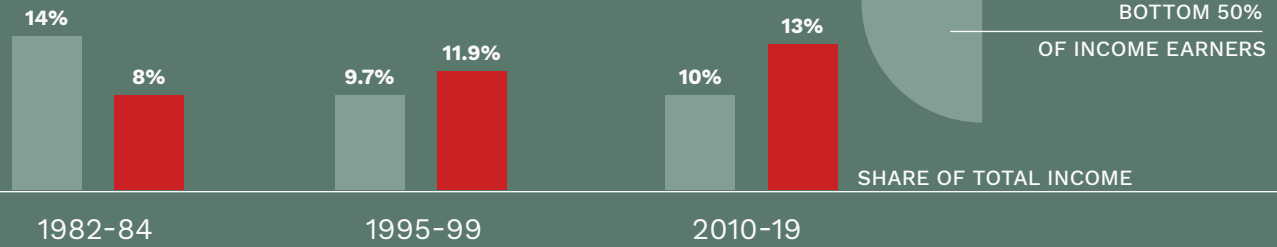
Experts estimate \$30-\$70 billion per year in public funding is needed over the next five years to cover investments in clean electricity generation, improved home and building energy efficiency, support for Indigenous-led climate initiatives, and more. This is less than the amount spent during the COVID-19 pandemic.



THE TWIN CRISIS OF CLIMATE CHANGE AND INEQUALITY

OUR CARBON INTENSIVE ECONOMY LED TO A RISE IN INCOME AND WEALTH INEQUALITY

In the early-1980s, the bottom half of income earners received almost double the income share of the top 1%. **By 1995, the 1% were receiving the larger share.**



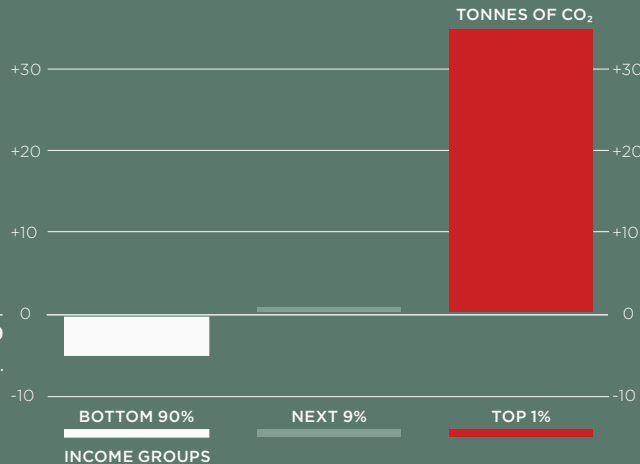
12x THE INCOME
60x THE WEALTH

Wealth inequality is even worse than income inequality. In 2019, the average income of the top 10% was 12 times the average of the bottom 50%. But the top 10% has over 60 times the average wealth of those in the bottom half.



CHANGE IN EMISSIONS PER CAPITA, CANADA, 1990-2019

NOTE: Data from World Inequality Database (wid.com).



Since 1990, Canada's emissions have decreased by an average of 3.1 tonnes per person, but not equally. While the bottom 90% reduced their emissions by 4 tonnes per person, the top 1% increased their emissions by 34 tonnes.

THE ROLE OF CORPORATIONS IN INEQUALITY AND CLIMATE CHANGE



Corporations command more and more of the economy. Annual sales of Canadian corporations were 59% greater than Canada's GDP in the 1970s. By the 2010s, sales were 93% greater than GDP. Greater market control increased profit margins. From an average margin of 5.2% in the 1990s, profits rose to 8.8% by the 2010s, and 12.4% in 2021. **Uncontrolled and uncosted GHG emissions have enabled this expansion of profits.**

Research shows larger corporations tend to create more emissions per capita and greater inequality

in terms of who gains economically.

The biggest corporate contributors to historical emissions are those in the fossil fuel sectors, currently some of the largest and most profitable corporations in Canada. Workers in the fossil fuel industry have not received a fair share of the wealth they helped create. Since 2010, fossil fuel sectors have claimed \$1.61 in operating profits for every dollar paid to labour.

In 2022, four of Canada's ten largest non-financial corporations were fossil fuel companies. Over the last

40 years, these fossil fuel companies increased their share of the total assets held by Canada's 100 largest non-financial companies from just 4% to more than 20%.

Fossil fuel companies are five of the 10 largest distributors of profits to shareholders among non-financial corporations, with wealthy individuals receiving a massively outsized portion. The corporate beneficiaries of high emissions extend beyond the fossil fuel companies. In Canada, the most notable beneficiaries are the Big 5 Banks, which are intimately linked to fossil fuels.

Since 2010, fossil fuel corporations have paid out an estimated **\$149 billion** from their high-emissions activities to the highest-emission individuals

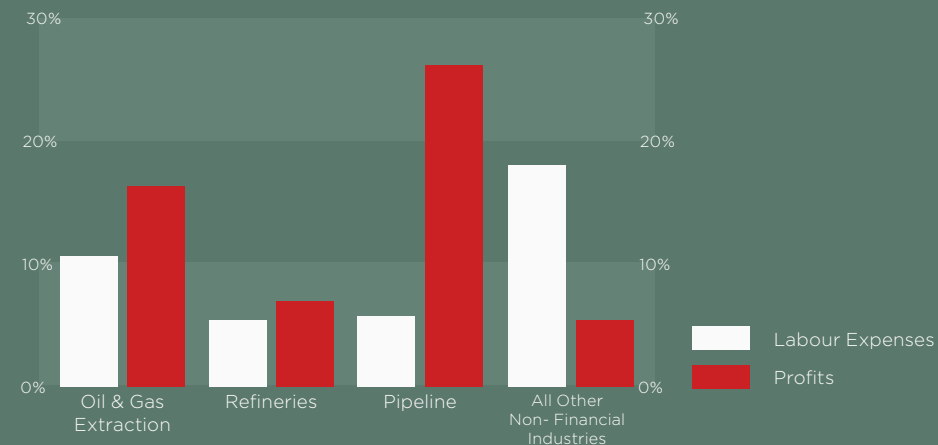


COMPANY	DIVIDENDS	SHARE BUYBACKS	TOTAL TO SHAREHOLDERS
Enbridge	\$51.4	\$2.4	\$53.9
Suncor	\$22.5	\$20.3	\$42.8
TC Energy	\$34.3	\$2.1	\$36.4
Imperial Oil	\$10.3	\$25.5	\$35.7
Canadian Natural Resources	\$20.3	\$11.3	\$31.6

NOTE: Values in billions of CDN\$.

CANADA'S TOP FOSSIL FUEL DISTRIBUTORS OF PROFIT 2000-22

SHARE OF REVENUE GOING TO PROFITS AND LABOUR, 2010-21



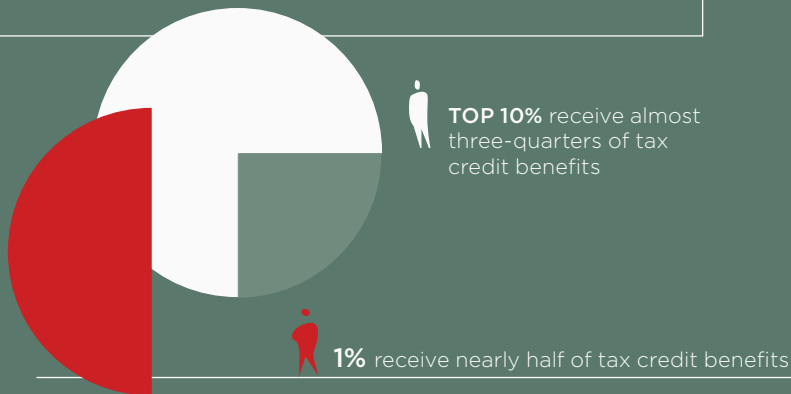
TAXES, INEQUALITY AND CLIMATE CHANGE

PERSONAL INCOME TAX

The federal income tax structure has failed to keep up with the growth of market income inequality. The income tax rate structure remains progressive. However, it is undermined by the **capital gains exclusion** and most **tax credits**.

While 100% of employment income is subject to tax only half of capital gains—income from buying and selling assets—is taxed. Capital gains are very unevenly distributed, with almost half going to the top 1%.

Tax credits beyond the basics for age, spouse, etc. primarily benefit those with the highest incomes. Almost three-quarters of the benefit goes to the 10%, with close to half going to the top 1%. Between capital gains exclusion and tax credits, the top 0.01% of incomes—above \$3.9 million—had a lower effective tax rate than the rest of the Top 1% in 2019.



CORPORATE INCOME TAX

Unlike the progressive personal income tax, the corporate income tax is flat. The largest, most profitable corporations are taxed the same as smaller, or less profitable, corporations. This has negative climate consequences because larger firms consume relatively more energy and worsen income inequality.

The flat corporate tax rate benefits fossil fuel corporations, which remain among the largest and most profitable in Canada. Companies in the sector have had the largest operating profits among all non-financial corporations for 13 of the last 20 years, and every year since 2017.

Corporations also benefit from the capital gains exclusion. Notably, the oil and gas extraction sector had capital gains of \$34.2 billion from 2010-2019 and saved an estimated \$4.7 billion due to the tax break.



DEDUCTIONS FOR CAPITAL COSTS.

Capital cost allowances (CCAs) are one of the largest—and most important—types of corporate deductions. CCAs allow corporations to deduct the assumed annual cost of depreciation from productive assets, such as machinery or computing equipment.

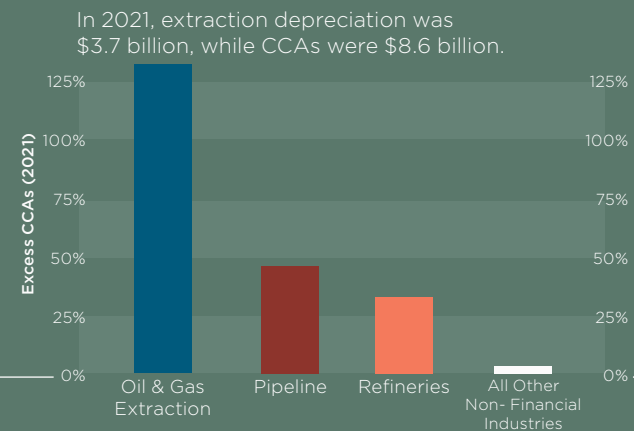
If the value of a sector's CCAs consistently exceeds depreciation values, then the sector's generous deduction rates should be considered a subsidy. Since 2000, extraction companies and refineries have claimed the second and third most generous CCAs.

Extraction CCAs were 71% higher than depreciation, while refinery CCAs were 41% higher. That means the public paid \$20.8 billion through overly-generous CCAs to subsidize fossil fuel investment.



CCA rates determine how much can be deducted annually as an operating expense. For example, a 10% rate means a company can expense \$10 per year over 10 years for an investment of \$100. If the rate is 50%, then the company can expense \$50 per year for two years.

In theory, a company's annual CCAs should match the value of asset depreciation. However, the government has long offered accelerated CCAs as a way to incentivize investment.



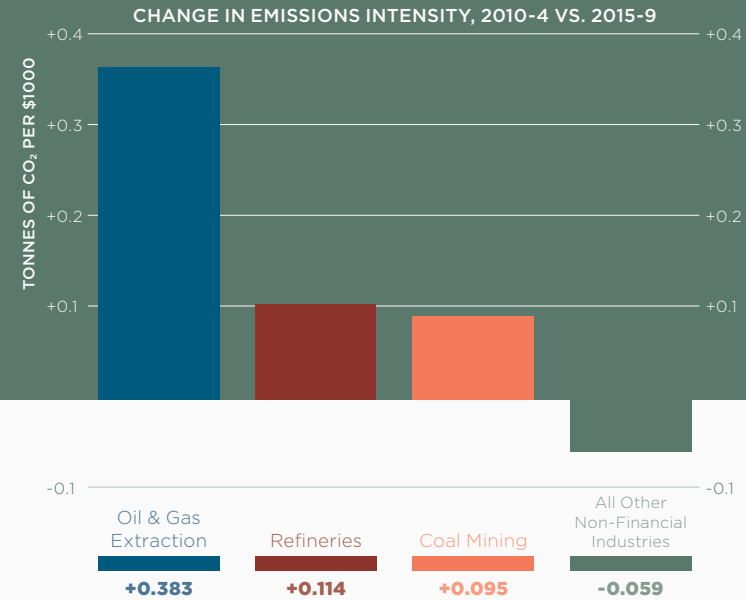
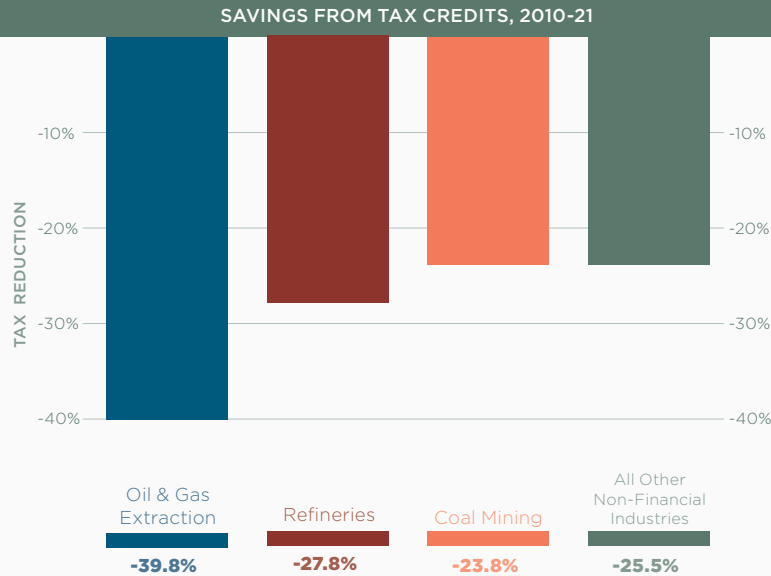
OTHER DEDUCTIONS

The Parliamentary Budget Office analyzed several deductions available to the fossil fuel sector, including exploration expenses, development expenses, and acquisition expenses. From 2015-19 these deductions cost the government \$9.2 billion.



TAX CREDITS

Since 2010, tax credits have reduced the taxes of non-financial corporations by 24%. Fossil fuel sectors have received a disproportionate share of those credits. With only seven percent of the taxable income, fossil fuel sectors claimed 10.1% of the investment tax credit, and 9.1% of other tax credits. Oil and gas extraction companies lowered their taxes by 40%, compared to a 23% reduction for non-fossil fuel industries. The use of tax credits by the fossil fuel sectors cost the public a combined \$20.2 billion from 2010-21.



CHANGE IN EMISSIONS INTENSITY

The federal government purposefully provides a generous deduction rate with accelerated CCAs to incentivise preferred investments, including investments by fossil fuel companies in emissions-reducing equipment. However, there is no evidence accelerated CCAs have induced any climate benefit. **During the 2010s, the oil and gas extraction sector received \$34.3 billion in CCA deductions that exceeded depreciation.** The sector's emissions intensity—emissions per dollar of production—were 27% higher in the second half of the 2010s than in the first half. **In fact, several sectors associated with fossil fuel production had higher emissions intensity in the second half of the decade, while the rest of Canadian industry reduced their emissions intensity by 17%.**

CANADA'S USE OF THE TAX SYSTEM TO TACKLE CLIMATE CHANGE

Canada's market driven approach to climate action through the tax system has had uncertain results and benefited large corporations including those in the fossil fuel sector. Continued subsidies for fossil fuels range in the billions every year.

CARBON PRICING

Canada's carbon pollution pricing system combines a tax on fuels—the fuel levy—with an emissions permit trading system for large or trade vulnerable industries—the Output-Based Pricing System (OBPS). Carbon taxes are typically regressive. However, the fuel tax has a largely progressive impact as lower-income households receive more back in rebate than they typically pay. The results of Canada's OBPS system are less certain. It allows emitters to pay a fraction of the cost of carbon in comparison to the fuel charge, with “free allowances” and a reduced per tonne rate.

FOSSIL FUEL SUBSIDIES

The International Monetary Fund estimates Canada's subsidy of fossil fuels to be \$49.4 billion in 2022, including the externalized costs of emissions on health and the environment. While other estimates differ, all calculations conclude that public subsidies for fossil fuels in Canada range in the billions annually. The government recently released a framework for assessing and identifying “inefficient” fossil fuel subsidies. Subsidies that meet a set of criteria will not be considered inefficient, such as those for projects with a “credible plan to achieve net-zero emissions by 2030”. What constitutes a “credible plan” and the enforcement measures to assure compliance are undefined. Also, subsidies are being narrowly defined, excluding other supports such as funding from Export Development Canada, and other government bodies.

ACCELERATED CCAS

The federal government first connected an accelerated CCA with climate change in the 1999 Budget, offering faster deductions for investments in equipment that converted byproducts of fossil fuel production into electricity. In other words, the government subsidized investment in a cost-saving technology for a sector that had collected \$53 billion in profits over the previous decade. It has continued to offer accelerated CCAs as part of its climate efforts with little evidence of positive impacts.

TAX CREDITS

Canada's climate action has historically relied heavily on green tax credits, Budget 2023 dramatically expands the use of credits, committing \$65.5 billion over 10 years to “incentivize” industrial transformation. There are some positive and negative features of these new measures.

POSITIVES

Incentives for decent jobs, and access to the refundable Clean Electricity tax credit for publicly-owned, First Nations owned, and non-profit utilities, which could nurture a renaissance in public energy production.

NEGATIVES

The government's gender-based analysis finds all its climate tax credits to be at least modestly economically regressive. Of particular concern is the CCUS tax credit, which is estimated to cost \$1.1 billion annually, subsidizes a questionable technological solution, and will primarily be collected by the fossil fuel sector.

ENSURING CLIMATE SPENDING BENEFITS ALL CANADIANS:

Without the proper controls, government investments in climate action will inevitably benefit the most powerful corporations and individuals. The pandemic showed how public spending is critical to support Canadians when the private sector cannot or will not, but it also demonstrated how crises and expedited public spending can produce windfall profits for the largest corporations, including oil and gas. Government spending on climate action must clearly assure a reduction in emissions and an equitable distribution of the prosperity gained through new green economic growth. Right now, Canada's use of the tax system for climate action achieves neither goal, while the fossil fuel industry remains heavily subsidized.



POLICY RECOMMENDATIONS

REBALANCE ECONOMIC POWER THROUGH PUBLIC INVESTMENT

Broad progressive tax measures are needed to fund public leadership in the transition to a green economy, ensuring its benefits are shared more fairly.

A wealth tax and full taxation of capital gains should be the central revenue drivers for the government's green investment. Together, these measures would raise \$30 to \$50 billion annually depending on implementation.

Taxing back a minimal portion of the wealth concentrated in both personal and corporate holdings acknowledges who has benefited the most from our carbon intensive economy while shifting needed resources and economic power into public hands.

Additional measures such as a **windfall tax** and taxing corporations with higher profits at a higher rate would add more progressivity and accountability to the tax system.



BALANCE ENVIRONMENTAL ‘CARROTS’ WITH ‘STICKS’:

Other countries are recognizing that we need more than “carrots” for the private sector to take on the challenge of a just transition with collective benefits. Canada too must balance incentives with strong deterrents and penalties.

Create robust and enforceable conditions for climate tax credits. Decent wages and job opportunities for marginalized workers should be a requirement of receiving the credit, as should proof that emission intensity is decreasing as part of a viable and monitored plan to achieve net zero emissions. Recipients of tax credits should be publicly reported.

Provide tax credit funds up-front for qualifying not-for-profit enterprises investing in clean energy generation and distribution in order to further incentivize the creation and growth of community-owned utilities in the burgeoning green economy.

Canada’s carbon pricing system must also be continually strengthened by phasing out free allowances and carbon price breaks for large corporations and moving to a border adjustment system that fairly prices carbon content of all imports and exports, as is being done in the European Union.

END SUPPORTS FOR FOSSIL FUELS

The government provides billions of dollars in public funds for the fossil fuel sector through the tax system, despite its continued growth in emission intensity and high profitability. The government has set a framework for ending “inefficient” subsidies, but must follow with broad and aggressive measures.

Eliminate fossil fuel subsidies now. Publicly disclose which subsidies are deemed “inefficient” and provide an aggressive timeline for their end.

Eliminate all tax advantages received by fossil fuel companies, including generous Capital Cost Allowances.

For more detail on this research and analysis, please see the full report at: <http://taxfairness.ca/taxes-and-climate>

