Budget 2019 Recommendations

Reducing GHG emissions in transportation
Protecting charities' freedom of expression

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Pre-Budget Consultations in Advance of the 2019 Budget

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This submission identifies key areas for adjustment in federal tax policy to improve alignment with Canada's climate target under the Paris Agreement to reduce GHG emissions by at least 30% below 2005 levels by 2030 – improving the effectiveness of the federal tax on fuel inefficient vehicles and removing the gasoline and diesel tax differential in Canada. These fiscal measures will further support policies announced in the Pan-Canadian Framework on Clean Growth and Climate Change (PCF) by reducing GHG emissions from the transportation sector in Canada. The proposed fiscal measures will also be complementary to the federal carbon pricing system, ensuring coherent fiscal policies with regards to carbon pollution. Équiterre presents additional recommendations to support implementation of the forthcoming Pan-Canadian Zero Emission Vehicles Strategy. Finally, Équiterre recommends Budget 2019 implement the long awaited legislative changes to modernize the laws and regulations under which charities operate, including with respect to political activities of charities.

RECOMMENDATION 1: Redesign the federal tax on fuel inefficient vehicles
Apply the federal excise tax on fuel inefficient vehicles to all cars and SUVs minivans and pick-up trucks that receive a CO2 rating below 5 and base the rate of the tax on the CO2 rating and retail vehicle purchase price, with those with the worst rating (1) and highest retail prices facing the highest taxes.

RECOMMENDATION 2: Address the Diesel-Gasoline Tax differential

RECOMMENDATION 3: Provide a temporary federal purchase incentive for ZEV starting in 2019 to spur demand for ZEV across Canada, leading up to the implementation of a national ZEV mandate in 2021.

RECOMMENDATION 4: Provide federal fiscal incentives, though the corporate income tax system, for companies to electrify their fleet of vehicles and install ZEV charging infrastructure at workplaces, retail locations across Canada.

RECOMMENDATION 5: Implement the recommendations made by the Consultation Panel on the Political Activities of Charities. Immediately begin the process aimed at modernizing the laws and regulations under which charities, non-profits, and social enterprises, implementing those legislative changes in the Budget Implementation Act 2019.

About: Équiterre – changing the world, one step at a time

With more than 180,000 supporters, 22,000 paying members and 1,430 media hits (in 2017), Équiterre is the most influential environmental organization in Quebec and one of the most respected environmental non-governmental organization (ENGOs) in Canada. For over 25 years, through actions and projects involving research, awareness-raising, education, behavioural change, mobilization and consultation, Équiterre has mobilized individuals, civil society groups, businesses, public institutions, municipalities and researchers to influence environmental and climate change practices and policies in Quebec and Canada.

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1. Aligning Canada's fiscal policy to reduce GHG emissions from transportation in Canada

Supporting the Pan-Canadian Framework on Clean Growth and Climate Change

Canada has committed to reducing GHG emissions by at least 30% below 2005 levels by 2030 under the Paris Agreement. The transportation sector in Canada represents 23% of Canada's GHG emissions. To reach this climate target, the Pan-Canadian Framework on Clean Growth and Climate Change (the climate plan) committed Canada to shifting to lower emitting modes of transport, use cleaners fuels, setting emission standards and improving efficiency and putting more zero emission vehicles on the road. However, certain existing federal fiscal measures, such as Canada's Green Levy and the federal excise tax on diesel fuel, are currently counter to achieving these objectives. Moreover, the federal government remains silent when it comes to using fiscal tools to encourage sales of zero emission vehicles in Canada. Budget 2019 presents a critical window of opportunity to rectify this situation and ensure federal fiscal policies align with the climate plan's commitments with respect to transportation.

GHG emissions from transportation currently represent a quarter of Canada's GHG emissions. This includes road transport, both passenger vehicles and heavy-duty vehicles, marine transport, rail and aviation. From 1990 to 2010, transportation emissions (mostly from road transportation) grew staggeringly, by 49 Mt (41%), contributing substantially to overall national emissions growth. With respect to passenger vehicles only, 2 million new vehicles are added on our roads every year, with Canadian consumer preferring high-emitting vehicles such as pick-up trucks and SUVs, as those represent over 30% of new vehicles sold annually.

Current climate plan policies in transportation in Canada and relatively low proposed carbon prices across Canada (in the range of $10 to $35/tonne) are insufficient to induce all of the key changes that are needed to achieve Canada's GHG targets in 2030, particularly in the personal transportation sector. Individual and company choices in driving behaviour and vehicle purchase are key drivers of emissions growth in Canada. Without immediate fiscal incentives, Canada will continue to be 'locked in' an ever growing fleet of high-emitting gasoline vehicles for years to come. Fiscal measures have a critical role to play in changing those trends.

Current Federal Taxation of Fuel Inefficient Vehicles

The Government of Canada currently places an excise tax on the purchase of a few classes of the most inefficient vehicles on Canadian roads, known as the "the Green levy". Thus far, the tax appears to have little influence on Canadians' vehicle purchasing decisions, as too few vehicles are covered, the tax is based on fuel efficiency instead of CO2 emissions, and there is limited awareness of the tax and its role in achieving climate change goals. The 'polluter pays' principle requires that a vehicle's purchase price internalize the relative carbon pollution of each type of vehicle.

The list of vehicles actually targeted under the Green levy is very narrow target for this tax. The tax applies mainly to luxury vehicles, performance/racing cars, and large, expensive SUVs. However, it is not set at a high enough level to create an incentive to purchase lower emitting vehicles and has had no impact in shifting consumer purchasing decisions towards more efficient vehicles. The fuel consumption threshold for application of the tax is also too high, with many of the worst performing vehicles in each category not captured and the van, pick-up truck and heavy-duty vehicle categories exempt.

Canadian and international evidence (France, Norway and Chile for example) shows that modest fees and rebates can create meaningful changes in vehicle purchasing decisions. In order to be effective and influence consumers' vehicle purchase decision, the federal excise tax on fuel-inefficient vehicles should be redesigned. Through our recommendations, the tax could shift demand towards lower emitting vehicles, while also helping to grow the market for new vehicle innovations that improve climate, public health and environmental outcomes in Canada.

RECOMMENDATION 1: Redesign the federal tax on fuel inefficient vehicles

Apply the federal excise tax on fuel inefficient vehicles to all cars and SUVs that receive a CO2 rating below 6 (based on NRCan's annual Fuel Consumption Guide). This preserves a range of vehicle choices at a variety of price points that would not be subject to the tax, while extending the coverage of the tax to a greater number of vehicles.

Apply the excise tax to all minivans and pick-up trucks that receive a CO2 rating below 5. The lower threshold reflects the lower level of market choice for consumers in these categories. As technology improves and lower emission choices become available, the threshold could be increased.

Base the rate of the tax on the CO2 rating and retail vehicle purchase price, with those with the worst rating (1) and highest retail prices facing the highest taxes.

RECOMMENDATION 2: Address the Diesel-Gasoline Tax differential
Raising the federal tax rate on diesel fuel to be equivalent to the rate on gasoline has been recommended for a number of years by the Organisation for Economic Co-operation and Development (OECD), and is increasingly being pursued by OECD countries. The current differential in Canada is on average roughly 4-6 cents per litre, despite the fact that diesel has worse environmental performance than gasoline. Closing the tax gap could result in an additional $350-700 million in annual fiscal revenue for the federal government, while reducing GHG emissions by between 0.3 and 2 Mt annually. Raising both diesel and gasoline taxes over time could help bring Canada in line with other OECD countries and further encourage a shift to low-carbon transportation.

Putting more zero-emission vehicles on the road

Transport Minister and Innovation, Science and Economic Development Minister have committed to implementing a Pan-Canadian Zero Emission Vehicle (ZEV) strategy in 2018. At the 2017 International Clean Energy Ministerial meeting in China, Minister Jim Carr committed Canada to a global goal of having EVs achieve 30% of new vehicle sales by 2030.

Other than an initial federal investment of $180 million for ZEV charging and refuelling infrastructure across Canada, the federal has been absent in using its fiscal tools to support electrification of transport in Canada.

The Canada-wide ZEV strategy must include a policy package to address one of the main barrier identified by the ZEV expert advisory group - lack of availability of ZEV on the Canadian market.

Canadian consumers who wish to purchase a ZEV continue to face limited model availability, long waiting list and ill informed dealerships, all factors limiting the adoption of ZEV in Canada.

Quebec, on the other hand has adopted a ZEV mandate, starting in January 2018 and British Columbia is considering a similar mandate. Such provincial ZEV mandates are likely to exacerbate supply and inventory shortages in other Canadian provinces, thus making the case for a coherent national policies to address lack of supply of ZEV across Canada.

Recommendation 3: Provide a temporary federal purchase incentive for ZEV starting in 2019 to spur demand for ZEV across Canada, leading up to the implementation of a national ZEV mandate in 2021.

ZEV mandates, which require a certain percentage of vehicle sales to be zero emissions, have been used in California, 10 other states and Québec to grow ZEV market share. To meet the Clean Energy Ministerial EV30@30 target, Équiterre recommends an initial federal purchase incentive of $6,000 per ZEV over the next two years (excluding luxury ZEV).

Starting on January 1st, 2021, remove the federal purchase incentive and implement a national ZEV mandate, requiring ZEV sales targets in line with Quebec and California to 2030.

Recommendation 4: Provide federal fiscal incentives, though the corporate income tax system, for companies to electrify their fleet of vehicles and install ZEV charging infrastructure at workplaces, public institutions and retail locations across Canada.

2. Protecting charitable organizations' freedom of expression

Political activity reform

During Election 2015, the government committed itself to modernizing the laws governing charities and nonprofits. This was re-iterated in mandate letters to the Ministers of Finance, National Revenue, and Justice who were tasked with carrying out legislative changes to clarify and reform the rules governing political activities by registered charities. This commitment to legislative reform remains unfulfilled.

In 2016, the Minister of National Revenue appointed a Consultation Panel to seek input and make recommendations on this issue. The Panel submitted its report to the Minister in March, 2017. Équiterre strongly supports the recommendations made by the Panel. To date there has been no formal response from the government.

In July, the Ontario Superior Court of Justice struck down the provisions of the *Income Tax Act* that limit charities' political activities, as violating the Charter of Rights and Freedoms. Regardless of whether the federal government appeals the *Canada Without Poverty* decision, the Consultation Panel recommendations represent a well-considered and desirable way forward.

Recommendation 5: Implement the legal and regulatory reform of laws governing charities
That the Ministers of Finance and National Revenue implement the recommendations made by the Consultation Panel on the Political Activities of Charities. There will be no ongoing cost to the government.

That the Government of Canada immediately begin the process aimed at modernizing the laws and regulations under which charities, non-profits, and social enterprises, implementing those legislative changes in the Budget Implementation Act 2019.