

DEPARTMENT OF FINANCE DETAILED ACTION PLAN
to the recommendations of the Fossil Fuel Subsidies Report of the Spring 2017 Reports of the Auditor General of Canada

Report Ref. No.	OAG Recommendation	Departmental Response	Description of Final Expected Outcome/Result	Expected Final Completion Date	Key Interim Milestones (Description/Dates)	Responsible Organization/ Point of Contact (Name, Position, Tel #)	<i>Indicator of Achievement</i> (For Committee Use Only)
7.29	To support Canada's G20 commitment to phase out and rationalize inefficient subsidies to the fossil fuel sector, the Department of Finance Canada and Environment and Climate Change Canada should clearly define how the commitment will be interpreted in the context of Canada's national circumstances.	<p>Agreed. The Department of Finance Canada, in supporting government decision making regarding the G20 commitment, has taken a broad and systematic approach. It has clearly defined the scope of potential fossil fuel subsidies in the tax system by consistently identifying and analyzing all federal tax expenditures (tax measures deviating from Canada's baseline tax treatment) that are specific to the production or consumption of fossil fuels (as contrasted with provisions of general application), and that provide preferential treatment to those affected relative to other taxpayers.</p> <p>The Department then analyzed these measures in terms of their efficiency and other relevant aspects, consistent with its usual analytical framework, in order to support government decision making.</p> <p>Environment and Climate Change Canada has developed a plan to examine federal non-tax measures, in collaboration with central agencies and relevant departments and agencies. Part of this work will involve working with departments to interpret the commitment in the context of Canada's national circumstances.</p>	Finance Canada will clarify its definition of how the G20 commitment should be interpreted in the context of Canada's national circumstances (as it relates to tax matters).	Completed with respect to tax matters.	With respect to tax matters, completed.	Andrew Marsland, Senior Assistant Deputy Minister, Department of Finance (613-369-3739)	
7.30	The Department of Finance Canada and Environment and Climate Change Canada should ensure that adverse impacts on the poorest are considered when supporting decisions to phase out and rationalize inefficient fossil fuel subsidies.	Agreed. The reference in the G20 commitment to "providing targeted support for the poorest" and similar references in G20 statements to "the importance of providing those in need with essential energy services" express the intent that where fossil fuel subsidies are provided with the objective of alleviating the impacts of poverty, they	The Department will assess the degree to which any remaining tax subsidy on fossil fuel production could potentially impact international prices and by extension low-income individuals. To the extent that there is evidence of an impact	Winter 2018	Results of internal analysis to be used for internal briefing purposes on an on-going basis.	Andrew Marsland, Senior Assistant Deputy Minister, Department of Finance (613-369-3739)	

		<p>should ideally be replaced by alternative means of support that do not involve subsidizing the use of fossil fuels.</p> <p>Federal tax expenditures that potentially could be considered fossil fuel subsidies are aimed at producers and support the exploration and development of fossil fuels, to a considerable extent to serve export markets. These tax expenditures have no material impact on fossil fuel prices, which are set in international markets. These expenditures are aimed at supporting production rather than alleviating poverty.</p> <p>To the extent it is relevant to federal measures, the Department of Finance Canada and Environment and Climate Change Canada will ensure that adverse impacts on the poorest are considered when supporting government decision making with respect to the G20 commitment.</p>	<p>on prices, this impact will be considered in future work.</p>				
7.54	<p>The Department of Finance Canada should complete an analysis of all tax measures that apply to the fossil fuel sector, including benchmark income tax measures, to support the phase-out and rationalization of inefficient fossil fuel subsidies.</p>	<p>Agreed. As set out in the response to the recommendation at paragraph 7.29, the Department of Finance Canada has consistently taken a broad and systematic approach in identifying federal tax measures that could potentially be considered fossil fuel subsidies. The Department considers all tax measures and annually reviews each tax system change, in order to identify aspects of the tax system that deviate from Canada's baseline tax treatment and that should thus be considered tax expenditures. To identify potential inefficient fossil fuel subsidies, each tax expenditure was reviewed to isolate those that are specific to the production or consumption of fossil fuels and provide preferential treatment to those affected relative to other taxpayers. The Department then rigorously analyzed these tax expenditures in terms of their efficiency and other relevant aspects, such as relevance, effectiveness, equity, simplicity, fiscal implications, and environmental impact, consistent with its usual analytical framework, in order to</p>	<p>The Department will review any key benchmark tax measures that apply specifically to the fossil fuel sector to reassess the Department's position that these measures are appropriately categorized as part of the benchmark.</p>	<p>This is an ongoing process for the duration of the G20 commitment (2025).</p>	<p>The Department will complete a review of the benchmark for tax expenditure measures specific to the fossil fuel sector by the end of 2018, and going forward continue to periodically review the benchmark.</p>	<p>Andrew Marsland, Senior Assistant Deputy Minister, Department of Finance (613-369-3739)</p>	

		<p>support government decision making.</p> <p>Going forward, the Department will continue to provide analysis and advice with respect to any remaining tax expenditures potentially relevant to the G20 commitment.</p>					
7.55	<p>The Department of Finance Canada should develop a plan with timelines that outlines the actions that the Department will take to support the phase-out and rationalization by 2025 of remaining tax measures that are inefficient fossil fuel subsidies.</p>	<p>Agreed. The Department of Finance Canada has, on a timely basis and in accordance with its role, consistently identified federal tax expenditures that support fossil fuels, analyzed them, and developed policy options for consideration by the government.</p> <p>Dating back to before the G20 commitment, Canada has phased out most tax preferences for fossil fuel production, including provisions relating to the resource allowance (Budget 2003); accelerated capital cost allowance for oil sands (Budget 2007); intangible capital expenses for oil sands (Budget 2011); the Atlantic Investment Tax Credit for oil and gas mining (Budget 2012); accelerated capital cost allowance and pre-production development expenses for mines (Budget 2013); and accelerated capital cost allowance for liquefied natural gas facilities (Budget 2016). Most recently, Budget 2017 proposed the rationalization of Canadian exploration expense treatment for oil and gas and the phase-out of the ability of oil and gas producers to reclassify certain development expenses as more favourably treated exploration expenses. As a result of these actions, there is only one remaining federal tax expenditure potentially relevant to the G20 commitment.</p> <p>Going forward, the Department will continue to provide ministers with timely analysis and advice with respect to the G20 commitment.</p>	<p>As noted by the Auditor general the Government has already taken significant actions in response to the G20 commitment.</p> <p>The Department will continue to provide support to the Government in meeting its G20 commitment by 2025.</p>	<p>This is an ongoing process for the duration of the G20 commitment (2025).</p>	<p>The Department will continue to review and assess tax measures and provide the Government with advice to support the Government in meeting the G20 commitment on an on-going basis.</p> <p>Potentially ongoing until 2025.</p>	<p>Andrew Marsland, Senior Assistant Deputy Minister, Department of Finance (613-369-3739)</p>	