ENVIRONMENTAL TAX SHIFTING
CONSULTATION SUMMARY

Green Economy Secretariat

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I. INTRODUCTION

In early 1999, the province of British Columbia launched the Green Economy Initiative, which aims to: stimulate the growth of environmental businesses that restore, preserve or enhance the environment; motivate other businesses to enhance their competitiveness through environmental innovation and leadership; and foster attitudinal and behavioural changes leading to a sustainable future.

These goals are pursued through various program areas such as environmental technologies, green buildings, ethanol development, eco-tourism, and environmental tax shifting. In order to gauge the public’s interest in environmental tax shifting, the province initiated a consultation process to hear the public's views. This paper is a summary of the ideas and concerns that were raised during that consultation process.

II. BACKGROUND

In June of 1999, the provincial government commissioned a background paper on environmental tax shifting, which was intended to increase public awareness of the concept and promote a public discussion of it in B.C. “Environmental Tax Shift: A Discussion Paper for British Columbians” was written by three researchers from Simon Fraser University: Amy Taylor, Mark Jaccard and Nancy Olewiler. It was publicly released in November 1999.

The objectives of the paper were to (1) explain the principles of environmental tax shifting and (2) identify potential options for environmental tax shifting in British Columbia. It did not recommend which environmental tax shifts would be best for British Columbia.

Beginning in January 2000, provincial representatives and the report authors, through the Green Economy Initiative, attended environmental tax shift forums held by interested public, business, labour, and environmental groups. The purpose of the community consultation was threefold: to introduce the concept of environmental tax shifting; to learn whether people are interested in government pursuing environmental tax shifting; and to identify possible environmental tax shift pilot projects for B.C.

In the 2000 budget, the government announced three focused tax shift pilot projects that would allow the province to gain experience with tax shifting and build public understanding of the concept.

The provincial government also posted the discussion paper and a survey on the Web to elicit feedback from website visitors. Both are available at www.fin.gov.bc.ca/tbs/gts.htm. The government has been collecting data from the survey since the release of the paper in November 1999. In the following sections, ideas and concerns that arose from both the survey and the consultation process are presented.
What is Environmental Tax Shifting?

Environmental tax shifting involves levying environmental taxes and “recycling” the revenue from the environmental taxes. The revenue can be recycled as rebates, to those who pay the taxes for example, or as reductions in already existing taxes and charges. The key motivation for environmental tax shifting is that the production, consumption and disposal of many goods and services cause environmental impacts which are not incorporated into the prices of those goods and services. Environmental taxes reflect, to a certain degree, the damages caused by the production and consumption of goods and services. Thus, when environmental taxes are placed on goods and services that have environmental costs associated with them, consumers and producers face both the financial and environmental costs of the goods and services they consume. By using the revenue from the environmental taxes to finance reductions in already existing taxes and charges, the total amount of taxes paid by society will remain unchanged. Furthermore, when the revenue from the environmental taxes is used to reduce existing taxes or charges that create disincentives to hiring workers or to domestic investment, additional positive impacts on the economy may be realized.

III. CONSULTATION OUTCOMES

A) General Support for Environmental Tax Shifting

Broad support for the environmental tax shift concept was echoed throughout the consultation process. Businesses, labour, environmental groups and members of the public generally supported the idea of “polluter-pay” and believe that environmental tax shifting is a concept that “makes sense”.

The website survey results indicate general support for environmental tax shifting, with strong support for the following statements:¹

- “Environmental costs should be included in the price of goods and services”.
- “Government should move taxes away from productive activities, such as jobs and investment, and towards activities that waste natural resources or cause pollution.”

A number of print and broadcast media stories on environmental tax shifting followed the release of the discussion paper. Some excerpts from media coverage demonstrating support for the tax shift concept include:

CBC-TV Broadcast One, Tuesday March 28, 2000: “Green Taxes”

“ A better way would be not necessarily taxes as a punishment, but as an incentive to reduce something else, maybe a tax break.” (member of the public)

¹ Note: No percentages are given here as the number of respondents to the survey and the nature of a website feedback form do not allow for statistically significant results to be derived.
Monday Magazine, Thursday February 3, 2000: “The Other Tax Revolt”
“Jock Finlayson, an economist with the Business Council of B.C., says he sees ‘theoretical justification’ for tax shifting, and is watching with interest to see how the idea plays out. ‘I actually think the B.C. government should be commended — and I don’t say this very often — for having taken this step’, says Finlayson. ‘It clearly is going to be on the agenda in Canada and the US, and there’s no use sticking our heads in the sand about this’.”

Monday Magazine, Thursday February 3, 2000: “The Other Tax Revolt”
“The president of the Greater Victoria Chamber of Commerce is even more enthusiastic, calling the tax shift concept an economic ‘win-win’. Robert Wickson’s take on industries whose products don’t tell the ecological truth is aggressively entrepreneurial: ‘Here are the costs you are imposing on society. We are now imposing that cost on you. That seems to me to be an incentive to reduce those costs on society’.”

The Vancouver Sun, Dec. 28, 1999, "Making Polluters Pay Benefits the Rest of Us"
"By shifting taxes towards those who harm the environment, the B.C. government could afford to provide tax relief for others." (editorial)

Times Colonist, November 24, 1999, “Green Tax is worth a try”
"(Tax shifting) is worth looking at, because the reality is that B.C.'s resources are not infinite, and we must develop a new type of eco-friendly, sustainable economy over the next century or so. That's not an option, and it's good that the government is beginning to experiment with new approaches now, rather than later when it may be too late." (editorial)

B) The Four Most Common Concerns

While demonstrating general support for the concept of environmental tax shifting, the consultations also revealed that British Columbians are concerned with the details of its implementation, and precisely how it would affect businesses, industries and individuals in B.C. As expressed by one consultation participant, “the devil is in the detail.” Four concerns in particular have been echoed throughout the consultation process: skepticism towards governments regarding taxes; impacts on competitiveness; impacts on low-income earners; and regional equity concerns. Each of these concerns are discussed briefly in the sections that follow.

1. Revenue-Neutrality

Some participants were concerned that environmental tax shifting would be a way for the provincial government to raise tax revenues, or “just another tax grab,” and they believe they already pay too many taxes overall. There is significant skepticism that all the revenue from the environmental taxes will indeed be recycled as rebates or reductions in existing taxes. Participants felt that all tax shifting pilot projects should be transparent, clearly indicate exactly where the revenues will be recycled, and be demonstrably revenue-neutral.
2. B.C.'s Competitive Position

If implemented, environmental tax shifting would change the cost of doing business in B.C. The nature of that change depends on what environmental taxes are introduced, how the revenue from the environmental taxes is recycled, and what transition strategies are pursued in conjunction with environmental tax shifting. Some businesses may be more competitive and others less so as a result of environmental tax shifting. Some may not be affected at all.

The consultation process revealed significant concern for the impact of environmental tax shifting on the competitiveness of businesses in B.C. Members of the public, labour and business alike raised the possibility that businesses would leave B.C. in search of lower taxes either in other provinces or other countries. There was concern that B.C. would not be able to attract new businesses due to the environmental taxes. Many participants recommended that the provincial government work with other provinces and the federal government to implement tax shifting on a national or international scale.

3. Impact on low-income earners

Some tax shifting options impact low-income earners more than high-income earners. As was the case with impacts on competition, the impact on low-income earners depends on what environmental taxes are implemented, how the revenue from the environmental taxes is recycled and what, if any, transition strategies are pursued in conjunction with environmental tax shifting. Participants throughout the consultation process expressed concern about potential impacts on low-income earners, and wanted assurance that tax shifting initiatives would be structured to ensure they are not regressive.

4. Regional Equity

The final most common concern was that of regional equity. Specifically, people expressed concern for the impact of environmental taxes on rural areas of the province. People in rural B.C. do not always have the same alternatives that people in more urban areas do, such as access to public transit. Similarly, owning a four-wheel drive vehicle, although not necessary for commuting into and around Vancouver, may be more of a necessity in rural B.C. where geographic and climatic conditions are more severe. Regional participants recommend that tax shifting initiatives should be equitable to all regions of British Columbia.
C) Other Concerns and Questions

Several other concerns and questions were identified during the consultation process. These were not expressed as consistently as those already outlined; thus they are only listed below and not described in detail.

- What is the best way to recycle the revenue, and how will government decide; what are government's criteria for selecting tax shifts?
- The administrative costs of implementing several pilot projects could be significant.
- Are environmental taxes the best way to achieve environmental objectives?
- It can be difficult to design and implement environmental taxes in a way that is consistent with other environmental objectives.
- Are environmental taxes a concern with respect to international trade agreements like NAFTA?

D) Comments and Suggestions Related to Pursuing Environmental Tax Shifting

In addition to expressing their concerns, participants made numerous comments and suggestions on pursuing environmental tax shifting in B.C. These fall into three broad categories: opportunities and timing, design, and implementation. They are summarized in the following tables.

<table>
<thead>
<tr>
<th>Opportunities and Timing for Environmental Tax Shifting</th>
<th>Take advantage of rapid change in technologies that may provide tax shift opportunities i.e. tax shift possibilities related to fuel cell development.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Take advantage of already existing environmental commitments or targets (for example, Kyoto or waste reduction targets) as opportunities for implementing environmental tax shifting.</td>
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<tr>
<td></td>
<td>Tax shifting can be a useful tool for attracting “green” businesses and industries to B.C.</td>
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<tr>
<td></td>
<td>Tax shifting can be a useful tool for fostering research, development and investments in new and innovative technologies.</td>
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<td></td>
<td>Tax shifts that occur within a sector are more acceptable to industry.</td>
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<td></td>
<td>A good starting point for pursuing environmental tax shifting might be to correct perverse incentives (tax structures that inadvertently encourage polluting activities) that are present in the current tax regime.</td>
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<td></td>
<td>The federal Minister of the Environment, the Honourable David Anderson, has indicated an interest in environmental tax shifting.</td>
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</tbody>
</table>
The government needs to be held accountable for revenue raised from the environmental taxes.

The revenue recycling needs to be completely transparent so people know how much revenue is generated and where it is used.

The progressiveness of the tax system in B.C. should not be compromised.

Before environmental tax shifting is implemented, those who will be responsible for paying the taxes should be consulted to ensure that environmental and social objectives are satisfied by the tax shift.

The revenue from the environmental taxes should be recycled promptly.

A combination of policies should be implemented to achieve environmental objectives and ease transition to environmental tax shifting. For example, blue box and composting programs should be implemented in combination with environmental taxes on solid waste.

Environmental tax shifting should be implemented in combination with education programs for businesses, industry and public. The education program should cover the environmental problems the tax shift is intended to address, ways to decrease environmental taxes, and improve the environment and also the details of the policy (the incentives and penalties built into the tax shift policy).

Implementing environmental tax shifting should involve coordination and cooperation between levels of government.

Any pilot projects that are implemented should be monitored very closely and the success or failure of the project gauged accordingly.

Some of the revenue from the environmental taxes should be used for environmental protection and improvement.

IV. CONCLUSION

Over the last five months, the provincial government, as part of the Green Economy Initiative, attended environmental tax shift forums held by interested public, business, labour, and environmental groups. The purpose of the consultations was to: introduce the concept of environmental tax shifting; learn whether people are interested in the provincial government pursuing environmental tax shifting; and to identify possible pilot projects for implementation in the province. The meetings revealed general support for tax shifting as a concept, although a number of concerns were also expressed. As well, participants made suggestions and comments on how to pursue environmental tax shifting in B.C.

The province will seek to work with the federal government to identify national tax shift opportunities while continuing to pursue targeted consultations on provincial tax shifting pilot projects in the coming months. Our goal is to develop tax shift initiatives that are designed to address specific environmental problems such as climate change while helping to make B.C.’s economy more competitive in the “cleaner and greener” global economy of the 21st century.