

**THE PROVINCIAL FUEL TAX SHOULD BE
INCREASED, NOT DECREASED**

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TRENDS IN OTHER JURISDICTIONS

Examples:

- Many states in the U.S. have increased the state gas tax in recent years to fund and maintain roads. For the few where a decrease has occurred, it has been in States with the highest gas tax rates and the decrease has been marginal, well below the decrease planned for Ontario
- Carbon pricing (or gas tax increases) is gaining momentum globally.
- In British Columbia – the carbon tax in 2018 rose to 7.78 cents per litre on motor fuel, and 8.95 cents on diesel fuel.

WHY SHOULD THE RATE BE INCREASED?

Fiscal sustainability:

- Roads and public transit are large tax funded expenditures in municipal and provincial budgets.
- The gas tax is a benefits based tax if funds are earmarked.
- Benefit taxes have a number of advantages vis-à-vis other taxes:
 - Fair
 - Efficient in the allocation of resources
 - Accountable
 - Transparent
 - Generally more politically acceptable

WHY? (CONT.D)

- Provincial rates were set 26 years ago (1992) and have not changed:
 - 14.7 cents per litre on gasoline;
 - 14.3 cents per litre on diesel fuel.
- Over this time, inflation has increased nearly 60%. In real terms, this has led to a significant decrease in the tax rate
- At the same time, economic activity and incomes have increased in real terms.

WHY? (CONT.D)

To internalize externalities (spillovers) caused by motor vehicles - these include:

- social and economic costs of congestion attributed to the costs of reduced output and accompanying job losses;
- costs of travel delays and unpredictable travel times;
- costs associated with retiming of trips to avoid severe congestion;
- higher vehicle operating costs associated with higher traffic volumes;
- local and global environmental costs of vehicle emissions;
- social and economic costs of more frequent traffic accidents.

WHY? (CONT.D)

Three estimates of externality costs:

- Congestion and shipment delay costs in the GTA – estimated at \$2.2 billion in 2001, rising to more than \$4 billion by 2031 (Tor City Summit).
- For GTHA, congestion cost commuters \$3.3 billion in 2006 and \$2.7 billion in lost output (reduced GDP) (HDR).
- For the 9 largest urban areas in Canada, travel delay costs, additional fuel consumption, and greenhouse gas emissions have been estimated to cost \$3 billion annually (Transport Canada).

WHY? (CONT.D)

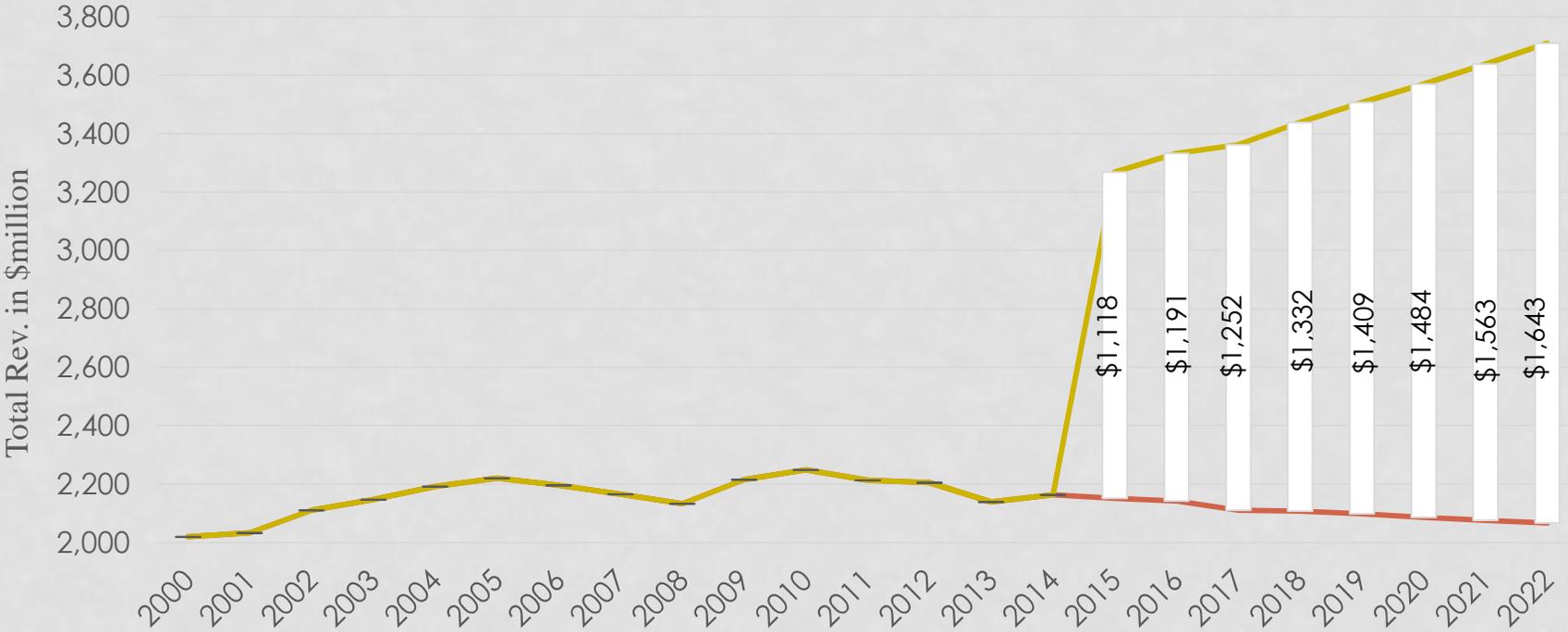
To increase efficiency in resource allocation (benefits) by:

- impacting driving and engine idling, thus lowering congestion and environmental costs;
- providing an incentive to switch to more fuel-efficient cars and public transit;
- assisting in reducing urban sprawl – one Canadian study found that a 1% increase at the pump in the 12 largest Canadian metropolitan areas between 1986 and 2006 caused a 0.32% increase in population living in inner cities and a 1.28% reduction in low-density housing units.

WHAT SHOULD THE TAX RATE BE?

- Ideally, it should be designed to cover the cost of providing roads and transit (fiscal sustainability) plus congestion and its related costs (internalizing externalities).
- In practice and for the short run, the most defensible scenario might be to raise the tax annually by the rate of inflation.
- The following two slides illustrate potential revenue gains from increasing the tax on gasoline and diesel fuel in the short run— from 2015 to 2022.

ESTIMATED PROVINCIAL GASOLINE TAX REVENUE (IN \$MILLIONS) AT THE CURRENT FUEL TAX RATE AND AT AN INDEXED RATE, 2015 TO 2022



ESTIMATED PROVINCIAL DIESEL FUEL TAX REVENUE (IN \$MILLIONS) AT THE CURRENT FUEL TAX RATE AND AT AN INDEXED RATE, 2015 TO 2022



EXTRA REVENUE FROM TAX INCREASE

From an inflation adjusted rate which in 2015 would have been 23 cents on motor fuel and 22 cents on diesel fuel and then, increased by the CPI.

- \$1.7 billion in 2016;
- \$1.8 billion in 2017;
- \$1.9 billion in 2018;
- \$2.0 billion in 2019;
- \$2.1 billion in 2020;
- \$2.2 billion in 2021; and
- \$2.4 billion in 2022.

THANK YOU!

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