



the
Green
Shift

Building a Canadian Economy
for the 21st Century

Liberal 

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A Message from Stéphane Dion

The Liberal Green Shift plan is as powerful as it is simple: We will cut taxes on those things we all want more of such as income, investment and innovation. And we will shift those taxes to what we all want less of: pollution, greenhouse gas emissions and waste. We need to make polluters pay and put every single penny back into the hands of Canadians.

The Green Shift plan will be good for the environment and good for the economy. Good for the planet and good for your wallet. We need to make real progress in the fight against the climate change crisis, and at the same time make our economy more competitive. While energy prices continue to rise, we need to encourage energy efficiency.

Some have said that nobody would have the courage or the political will to do what we believe is right. We need to do it. We will do it.

What our country needs at this moment is bold leadership. I say it's time to do what is right – not what is easy – for our planet and for our future. We need leadership that will be honest with Canadians, put good ideas on the table, quickly put a price on pollution and bring forward a plan to help Canada succeed in the 21st-century global economy.

I say that we must not miss this opportunity to create green jobs, to fight poverty and to have a much fairer and more progressive tax system.

The Green Shift is a good, bold idea, but it is not a novel idea. It has been implemented in other countries, and British Columbia just initiated it in Canada. In fact, proponents of a green tax shift for the whole of Canada include such diverse groups and individuals as the Conference Board of Canada, environmental leader David Suzuki and the Canadian Council of Chief Executives to name but a few. Something special is happening when we see such a coalition develop. And we Liberals want to be at the head of that parade. Because we agree that, over time, as an appropriate price is put on carbon, emissions will decrease.

I also believe that Canadians are demanding a real cross-Canada plan to put a price on carbon so we can level the playing field between old polluting practices and the new clean and green options that will make Canada competitive going forward. Canadians know that we need to be bold, not blind, to the challenges we are facing today – especially when those challenges include the increasing cost of energy. The environmental and economic challenges of the 21st century can only be solved by bold vision and courageous leadership.

I believe I can offer this leadership to my country. And I believe my party must do so, because others will not.

In the coming weeks and months we Liberals look forward to speaking with Canadians and asking them to join a growing coalition. A coalition that crosses party lines and will move us beyond outdated notions of what it means to be right- or left-wing. A coalition that will cross generational divides, as older generations work to leave to their children a better planet than they inherited, and younger generations unleash their passion and ingenuity against the challenge of climate change.

We will work together, and together we will build a richer, greener, fairer Canada.



Stéphane Dion



Executive Summary

Climate change is the greatest ecological challenge of this generation. The science is clear and we must act now. Tackling climate change is both a moral obligation and an economic opportunity. Canadians want to take action to avoid the worst effects of climate change, and want their country to be a good citizen of the world, leading other countries, not lagging behind. Fighting climate change is also an opportunity that we cannot miss – an opportunity to modernize our economy, to make Canada more competitive and better adapted to the 21st century.

Canadians need to reduce our economy's reliance on polluting fossil fuels and we need to become more energy efficient. Doing so will be good for our economy and the environment: not only will we reduce our greenhouse gas emissions and other sources of pollution, but we will also become more competitive in a carbon-constrained global economy.

A consensus has developed among both environmentalists and economists that the best way to reduce greenhouse gas emissions is to put a price on carbon. The Green Shift, a major part of the Liberal Party's bold plan to address climate change while building a more competitive economy, will shift Canada's tax system away from income and towards pollution. This

shift will be done in a revenue neutral way – putting it in law that every dollar that is raised from carbon pollution will be returned to Canadians in tax cuts. The Auditor General will ensure the Green Shift’s revenue neutrality on an annual basis.

The price will begin immediately at \$10 per tonne of greenhouse gas emissions and steadily rise by an additional \$10 per tonne each year, reaching \$40 per tonne within four years. Since the existing excise tax on gas at the pump is already at the equivalent of \$42 per tonne of carbon, the tax at the pump will not rise. Likewise, because there is already a tax on diesel and aviation fuel of four cents per litre, the tax on these fuels will see no increase in the first year.

By putting a clear, realistic price on emissions of greenhouse gases, this approach will dramatically improve the environment. Our atmosphere should not be treated as a garbage dump, leaving our climate, our ecosystems and our communities to pay the real costs.

The pollution dividend given back to Canadians will be significant. Specifically, Canadians will receive:

- ▶ **Significant, broad-based income tax rate reductions:** Increasing the tax cuts yearly, as the pollution tax revenue rises, by the fourth year of our plan we will have provided major personal income tax reductions:
 - ▶ We will cut the lowest income tax rate to 13.5 per cent from 15 per cent, a 10 per cent reduction.

- ▶ And we will cut the middle class tax rates to 21 per cent from 22 per cent and to 25 per cent from 26 per cent , a five per cent and four per cent reduction respectively.

- ▶ **Make the tax system fairer for low-income Canadians:** To help low-income Canadians in particular, and as part of the Liberal 30/50 Plan to reduce poverty in Canada by 30 per cent and cut child poverty in half within five years, we will reform the tax system to make it fairer to working Canadians.

We will specifically:

1. Introduce a new, universal child tax benefit worth \$350 per child, per year, on top of all existing child benefits. This will provide direct financial assistance to Canadian families whether or not they pay any income taxes.

2. We will replace the Conservatives' regressive, small, poorly designed \$1,000 employment credit with a \$1,850 refundable employment credit targeted at those Canadians who earn less than \$50,000 per year. This will put up to \$250 into the pockets of those working Canadians who need it most.

3. We will enrich the Working Income Tax Benefit, which supplements the earnings of low-income workers, above the level legislated by the Conservatives. We will encourage work by having this benefit available on the first dollar earned, which is \$3,000

sooner than under the Conservative plan. And we will ensure that it benefits more families by phasing it out more slowly.

4. To support lower-income Canadians with disabilities we will make the Disability Tax Credit refundable, ensuring that low-income individuals who are disabled are able to benefit from the Green Shift.

- ▶ **Additional support for Rural and Northern Canadians:** Energy requirements are often higher in rural Canada and in the North, so we will provide specific assistance to rural Canadians to help them adjust to higher fuel prices. In addition to the significant tax measures already described, every rural Canadian tax filer will receive, up front, an annual Green Rural Credit of \$150. This applies to everyone, whether they actually pay taxes or not.

In addition to the Green Rural Credit, for those Canadians who live in Canada's North, we will immediately boost the Northern Residents Deduction (NRD) to a new maximum of \$7,000 per year from just over \$6,000 and index it going forward. This represents an immediate tax savings of nearly \$150 per year and over \$200 per year within four years for those who fully benefit from the NRD.

- ▶ **Broad-based corporate income tax reduction:** We will accelerate and deepen the currently planned corporate tax cuts, reducing the general corporate tax rate by an additional one per cent within four years.

That means the federal corporate tax rate in Canada will be only 14 per cent by the fourth year. This will make Canada one of the most competitive tax jurisdictions in the world, attracting businesses that will be part of a sustainable, green, Canadian economy.

- ▶ **Small business income tax reductions:** In addition to lowering the general corporate tax rate, we will reduce the small business corporate tax rate by an additional one per cent.

Small business is the engine of the Canadian economy and it is Canada's entrepreneurs who will lead the way in the development of new technologies and products for the green economy.

- ▶ **Accelerated Capital Cost Allowance for green technologies:** One of the best ways to generate business investment in green technology in Canada is by offering tax incentives for that investment. The capital cost allowance system determines how much of the cost of a capital asset a business may deduct each year for tax purposes. By accelerating capital cost allowance rates for green investments, businesses will have additional major incentives to go green.
- ▶ **Better Research and Development (R&D) incentives:** The primary tool that the federal government has to stimulate private R&D in Canada is the Science, Research & Experimental Development (SR&ED) Tax credit. Today this credit is not refundable for all companies that are conducting R&D in Canada. We will make the SR&ED Tax credit 25 per cent refundable to spur further innovation in developing the new products that will keep Canada competitive.

This Green Shift is at the heart of the Liberal plan to fight climate change and improve Canada's environment and economy. It complements other Liberal commitments to green our economy, such as the Renewable Power Production Incentive that will more than double the non-emitting energy sources available to Canadians, the \$1 billion Advanced Manufacturing and Prosperity (AMP) Fund that will stimulate green manufacturing, and the major Infrastructure Surplus commitment to upgrade our sustainable infrastructure such as public transit through unanticipated government surpluses. Our plan will also include complementary regulations and incentives to Canadians for home retrofits, energy-efficient appliances and vehicles, low-carbon farm and forestry practices and other ways to help Canadians reduce their environmental footprint, become more energy efficient, and save on their energy costs.

Canadians know there are many things we can do together to improve our environment, our quality of life and our economic strength. Canadians are looking for a partner to help them make that transition. A Liberal government will be that partner.

Introduction

If there is one characteristic that defines Canada, it is our ability to surmount great challenges.

Canadians have built a country that spans a continent, touches three oceans, speaks two official languages, values multiculturalism, offers public health care and protects its citizens through the Charter of Rights and Freedoms. Canada is a marvel and the envy of the world.

Canadians have mobilized in the name of compassion and freedom to fight two world wars, helped build international institutions that reduce conflict and defend human rights, and created the concept of peacekeeping.

Canadians have fostered a society that values both economic prosperity and social justice. And in so doing, we have proven that a high quality of life and compassion for our fellow citizens are not mutually exclusive.

Yet, with the arrival of the 21st century we face new challenges.

The world economy is becoming increasingly competitive; far too many of our children still live in poverty; and our Earth, our environment, our quality of life, are under threat because of man-made climate change.

Just as the Liberal Party helped reconcile the objectives of economic prosperity and social justice, today we believe we can incorporate the new objective of environmental sustainability into everything that we do.

But first, we must recognize the scope of the challenges that we face.

The climate change crisis

The science is clear. Climate change is real; it is man made, and it is the most serious ecological crisis humanity has ever faced.

The United Nations' Nobel Prize-winning Intergovernmental Panel on Climate Change (IPCC) has made the costs of inaction all too clear: rising sea levels, heightened competition for fresh water, extreme weather – from heat waves and droughts to cyclones and flooding – and dozens, if not hundreds, of species pushed into extinction.

Canada, as a northern country with numerous coastal cities, is particularly vulnerable to the effects of climate change. Recently, the government quietly released a report by 145 leading Canadian scientists that warned that Canada's changing climate will lead to everything from increasingly severe storms in Atlantic Canada to retreating glaciers in our North.

There will be hotter summers and poorer air quality in urban Ontario. The Prairies will increasingly struggle with drought, affecting agriculture and potentially causing water rationing in urban areas. And in Northern communities, the impacts are particularly profound: arctic ice is melting, the

permafrost is shifting, entire communities may be displaced, and a traditional way of life is at risk, along with the polar bear and other iconic species.

The Canadian people want to do more to stop this threat. You can see this eagerness at the grocery store, where more people bring reusable bags with them to shop. You can see it on our roads, where more hybrid cars are being driven. And you can hear it in conversations in our schools and offices, coffee shops, and public places.

Sadly, Stephen Harper - who as Prime Minister has referred to what he terms “so-called greenhouse gases” - has refused to take on the challenge of climate change. Behind a mask of new, politically expedient rhetoric he has unveiled a climate change plan that has been rejected by every expert group that has reviewed it across the entire political spectrum.

Those experts agree that the government’s current regulatory approach is weak, full of loopholes and likely to fall short of even its own modest goals. A report published by the C.D. Howe Institute has shown that through the government’s plan, “[greenhouse gas] emissions are unlikely to fall below current levels before 2020.” They indicate that by not maximizing the use of market forces through proper price signals, the Conservatives are creating new economic distortions and reducing the efficiency of our economy.

Canada must reassert itself as a global environmental leader. We must do our part to fight the climate change crisis, not only to protect our beautiful country and our way of life, but to protect the Earth itself and the millions of people around the world whose very lives are at risk.

“Very strong reductions in carbon emissions are required to reduce the risks of climate change. They are likely to provide benefits well in excess of the costs. Indeed the costs of not acting strongly are likely to be very high.

There are ways to reduce the risks of climate change. With the right incentives, the private sector will respond and can deliver solutions.”

- Nicolas Stern, Chair of Stern Review on Climate Change and former Chief Economist of the World Bank

Canadians know Canada won't meet its obligations under the first phase of the Kyoto Protocol. However, the Kyoto Protocol is an ongoing international effort, and we must build momentum now in order to close that gap in the next phase of the agreement, after 2012. We believe that our target should be to reduce greenhouse gas emissions by 20 per cent below 1990 levels by 2020. This should be increased to at least 25 per cent if other countries take on comparable efforts. This is in line with what the science tells us we need to do. We must achieve absolute greenhouse gas emissions reductions, and we must begin today. Canada cannot solve climate change on its own. Until we take serious action to reduce our own emissions, we will have little credibility on the global stage to ensure other countries are doing their part.

Tackling climate change is both a moral obligation and an economic opportunity. Canadians want to take action to avoid the worst effects of climate change and want their country to be a good citizen of the world, leading other countries, not lagging behind. Fighting climate change is also an opportunity that we cannot miss – an opportunity to modernize our economy, to make Canada more competitive and better adapted to the 21st century.

Canadians need to reduce our economy's reliance on polluting fossil fuels and we need to become more energy efficient. Doing so will be good for our economy and the environment: not only will we reduce our greenhouse gas emissions and other sources of pollution, but also become more competitive in a carbon-constrained global economy. One of the key means to do this is to reform our tax system: to tax pollution while cutting taxes on income, investment and innovation.

The Liberal Party understands both the challenge of climate change and the desire of all Canadians to be part of the solution. It's time for a government policy that reflects that commitment.

A tax system in need of reform

Every hard-earned dollar that is taxed in Canada is a trust between Canadians and their governments. Canadians deserve taxes that are competitive and working to achieve social goals.

As the Canadian and global economies have changed in recent decades, our tax system needs to change with them. That means encouraging behaviour that benefits our society, like hard work and ingenuity, and discouraging behaviour that harms it, like pollution and waste.

Canada already discourages bad outcomes by taxing things that are hazardous to our health. We put taxes on cigarettes and alcohol to encourage people to live healthier lifestyles. To address the growing threat of climate change, it's time we do the same for the health of our planet. It's time we put a tax on pollution.

There is no doubt that taxes have a significant impact on our economy and our society. When individuals and companies pay income taxes they have less money to save. When they have less money to save, they have less money to invest. Investment boosts the competitiveness of our economy and creates jobs, which prepare us for the economy of the future. That's why getting tax policy right is so important for Canada.

By taxing pollution and making polluters pay, businesses will not only be encouraged to reduce the amount of greenhouse gases they emit into the atmosphere, but it will also help stimulate innovation, the key to economic growth.

Canadian families deserve to see larger cheques on payday. And by letting Canadians take more money home on their paycheque, our economy can attract global talent and continue to enrich the Canadian middle class.

We also need to reduce taxes on business investments and job creation. Our economy is facing a high dollar and increased competition from emerging economies like China and India. Our exporting industries used to have a currency advantage; now we need to create new advantages for our economy as a whole.

And we need a tax system that will promote inclusion and will allow more Canadians to use their skills and talents in the workforce. In a competitive global economy of over six billion people, a small country like Canada needs to encourage the economic participation of all our citizens. We need all Canadians to thrive in the workforce and so we need a more effective, progressive and fairer tax system.

There are 3.4 million Canadians living below the poverty line in Canada, including about 800,000 Canadian children. That is over one out of every 10 children. We know that children in poverty suffer from hunger, inadequate housing, chronic health problems, and lower education. We must all do better.

By making their new employment and child tax credits non-refundable, the Conservatives have ensured that only those who earn the most income have the benefit of the tax credits.

The Conservative approach to social policy is a mistake. If Canada is to succeed in the modern, global economy we need all of our citizens to work together. Lower-income Canadians need to be given tax incentives that will help bring them into the middle class.

Liberals understand that we need a tax system that provides income support to lower-income, working Canadians – helping to lift them out of poverty and onto the road to the middle class.

We need a bold, modern reform of our tax system, to tackle climate change effectively, to reduce pollution, and to boost investment, innovation and inclusion. That is precisely what the Liberal plan offers.

The Plan

The Green Shift will shift Canada's tax system away from income and towards pollution in a revenue-neutral way. That means by law, every penny that is raised in pollution taxes will be returned to Canadians through tax cuts.

These tax cuts will allow Canadians to keep more of the money they earn, boost innovation, and make the tax regime more progressive. The Green Shift will not only make our country cleaner and greener, it will also make it fairer.

Putting a national price on pollution

A consensus has developed among both environmentalists and economists that the best way to reduce greenhouse gas emissions is to put a price on carbon.

Currently, there are very few costs to Canadian polluters for the greenhouse gases they dump into our atmosphere, even though we all pay a price for the impact of those emissions. Economists call this an 'externality,' meaning the actions of one person have an impact on people around them. In the case of

Why tax carbon?

Greenhouse gases are gases that trap heat within the atmosphere and thus contribute to climate change.

Carbon dioxide is the primary greenhouse gas emitted by humanity, largely through the burning of fossil fuels.

greenhouse gas emissions, that externality is negative, because the impact of those actions causes all of us harm.

As long as it is free to pollute, it is easy to forget about the impact of that pollution on others. While recent months and years have seen a rise in energy prices due to higher demand from emerging economies, those price changes reflect market conditions, rather than the social costs of pollution. Indeed, many polluters have actually profited from rising energy prices. This must change. It should no longer be free to dump greenhouse gases into our atmosphere. The true cost of that pollution must be built into the decision-making process of every polluter.

A year ago, the Liberal Party introduced the Carbon Budget, a strong cap-and-trade plan to put a price on carbon, boost green investment, and create a carbon market. A Liberal government will work with other jurisdictions, including the United States, to establish a solid cap-and-trade system as stronger carbon markets develop. We will continue to be guided by the principles of the Carbon Budget: absolute emission reductions, increased investment in green technology, and harnessing the power of the market to fight climate change.

However, more than two wasted years of Conservative government, combined with the message of urgency coming from scientists, means that we must put a price on carbon as soon as possible. Since a cap-and-trade system will take several years to build, we will start with a broad-based, revenue neutral carbon tax that can be implemented quickly and simply, that will cover approximately 75 per cent of domestic emissions. This will allow

our economy to immediately begin the needed transition to clean energy, efficiency and low emissions.

There are significant economic advantages to our Green Shift. By putting in place a comprehensive price on carbon alongside effective regulations, we can let the market determine the most cost-effective means of reducing greenhouse gas emissions.

Putting a price on carbon will spur our industry to pollute less, either by using cleaner energy or innovating to become more energy efficient. This will create new demand in Canada for green products and technologies – boosting the development of those products and technologies, which are already in growing demand around the world.

With the Green Shift, Canada will, for the first time, have a clear, meaningful and gradually increasing price on carbon. The Green Budget Coalition¹ has said that carbon pricing of the sort we propose is “the most crucial opportunity” for environmental improvement and that setting this kind of price on pollution “would spur emission reductions throughout the economy.”

With the Green Shift, we will start to see reductions much more quickly than under the weak, loophole-ridden Conservative approach. Cleaner energy choices will be cheaper and dirty choices more expensive. This is the

1 The Green Budget Coalition is a coalition of 19 of Canada’s leading environmental and conservation organizations including the Pembina Institute and the International Institute for Sustainable Development.

best way to change the activities that produce GHG emissions and other pollution.

A growing consensus

Business groups understand the economic opportunity that pricing carbon represents. The Canadian Council of Chief Executives has stated recently that “encouraging businesses and individuals to change behaviour requires appropriate price signals.”

Today, companies that want to introduce clean energy or more efficient solutions to the market are at a serious economic disadvantage to the fossil fuel sector, which does not have to cover the cost of its emissions. The playing field is not level; far from it. Our carbon price will help improve the cost balance between clean energy and carbon intensive fossil fuel.

According to Goldman Sachs, the amount of international capital to be invested in environmental technologies and clean energy has skyrocketed from \$400 billion in 2003 to \$3 trillion in 2006 – more than a seven-fold increase in just three years. Those numbers are only going to grow, and Canada stands to lose if we don’t start fighting for those investment dollars.

The quicker we introduce a price across the economy, the quicker the economy can adjust and start to reduce emissions, and the quicker Canada can do its part to fight the climate change crisis and be a leader in the emerging low-carbon, energy-efficient, global economy.

Finland and Sweden

In 1990, Finland was the first country to enact a carbon tax. Sweden followed in 1991. And others have followed since. In Sweden, it has been projected that carbon dioxide emissions were reduced in 2000 by 20-25 per cent more than would have been the case through other policies.

We can't afford to be left behind while other countries act. California and European Union leaders have begun considering trade sanctions on countries that are laggards on climate change. In the United States, both Barack Obama and John McCain are proponents of decisive efforts to reduce greenhouse gas emissions.

Once the Bush administration is gone, our biggest trading partner will move towards a greener future. For the sake of our economy, we need to be there too. Canada must be a country that encourages our trading partners to put a price on pollution, not a country that sees our trading opportunities threatened by our own inaction. We must also lead by example to encourage developing countries to do their part.

As other countries and jurisdictions move towards carbon pricing, their companies will have a first mover advantage in building their green technologies. In the new global economy, environmental laggards will become economic losers. Canada cannot afford to be one of those countries.

The Liberal Party of Canada will put in place a price on carbon from coast to coast to coast. We will work with provinces such as British Columbia and Quebec that have already moved on carbon pricing, ensuring our system to reduce greenhouse gas emissions is administered fairly, in a way that strengthens our economy.

The Green Shift will be part of a broader environmental plan that we will offer to Canadians in the next election. That plan will include measures to boost renewable energy, to green our manufacturing industry, to help

Case Study: British Columbia

We are seeing leadership in Canada at the provincial level.

In B.C., Gordon Campbell's Liberal government has introduced a broad-based revenue-neutral tax on fossil fuels.

Just as Saskatchewan led Canada in introducing public health care, B.C. is leading Canada in the fight against climate change.

How it works

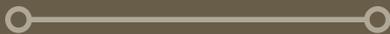
The Green Shift is as simple as it is powerful. We are going to shift Canada's tax system away from income and towards pollution. And we are going to do it in a revenue neutral way – putting it in law that every dollar that is raised in pollution taxes will be returned to Canadians in tax cuts. The Auditor General will ensure the Green Shift's revenue neutrality.



Revenue Neutral

“Revenue neutral” means that the federal government does not increase its revenues through a new tax.

For every dollar raised in taxes there will be a dollar returned to Canadians in tax cuts.



A carbon tax will apply at the wholesale level, across the country, to the full range of fossil fuels including coal, propane, natural gas, oil and diesel – based on their level of carbon emissions.

The price will begin immediately at \$10 per tonne of greenhouse gas emissions and steadily rise by an additional \$10 per tonne each year, reaching \$40 per tonne within four years. Further into the future the price on carbon will continue its gradual rise to reflect the true social costs of pollution.

In the fourth year, there will be total revenue of just over \$15 billion within the Green Shift, all of which will be returned to Canadians in new tax cuts.

The 700 large final emitters (the worst polluters in Canada – mostly heavy industry and power plants) will account for a significant majority of the revenue within the Green Shift.

By starting with a low price that rises predictably over time, both businesses and individuals will have the time that they need to adjust their sources of energy and invest in low emission technologies. Yet by rising to \$40 per tonne, we will have started the transformation toward a greener Canadian economy.

What does \$40 per tonne in additional taxes on fossil fuels mean?

Additional Tax from Green Shift			
	Unit	1st Year	4th Year
Diesel	¢ / Litre	0.0	7.0
Light Fuel Oil	¢ / Litre	2.8	11.3
Heavy Fuel Oil	¢ / Litre	3.1	12.4
Jet Fuel	¢ / Litre	0.0	6.2
Kerosene	¢ / Litre	2.6	10.2
Natural Gas	\$ / GJ	0.5	2.0
Propane	¢ / Litre	1.5	6.1
Coal Canadian Bituminous	\$ / Tonne	21.3	85.1
Coal Sub-Bituminous	\$ / Tonne	17.4	69.7

Cost change comparison examples							
	Unit	Price Jan. 2006	Price June 2008	Increase (cents)	Increase (per cent)	Added tax from Shift in 4 years	Increase from Green Shift
Propane	¢/Litre	66.2	73.0	6.8	10.3%	6.1	8.4%
Gasoline	¢/Litre	94.4	137.2	42.8	45.3%	0.0	0.0%
Diesel	¢/Litre	95.7	144.2	48.5	50.7%	7.0	4.9%
Home Heating Oil	¢/Litre	80.4	137.9	57.5	71.5%	11.3	8.2%

The Table above shows that the cost of fossil fuels has risen significantly since 2006. The table also shows that, while it is true that there will be an increased cost to fossil fuels due to the Green Shift over four years, these are far-outweighed by cost increases that have occurred due to market factors alone since 2006. The Green Shift, while offsetting increased energy costs through other tax measures, aims to align the interests of Canadians as taxpayers with their interests as consumers; our

interest to become more energy efficient and, as much as possible, less addicted to fossil fuels.

Experts agree that the cost of fossil fuels is likely to continue to rise for the long-haul. The era of cheap oil is over. This trend is attributable mostly to the rise in demand from emerging economies. In China and India alone, 50 million people every year reach a middle class standard of living.

We need to act now: fossil fuel dependency must be decreased, and energy efficiency increased. The Green Shift will be a new incentive for us to do just that; to do what is right for the planet and right for our wallet. As consumers dealing with the rising cost of fossil fuels, as citizens determined to reduce our carbon footprint, and as taxpayers wanting to keep more of our hard-earned dollars in our pockets, we will have the same goal – energy efficiency.

- ▶ For your BBQ, in year one the Green Shift will increase the cost of filling your typical 20 lb. propane tank by 24 cents. By year four, the Green Shift will have increased the cost of filling your tank by 95 cents.
- ▶ The average Canadian household using home heating oil purchases approximately 1800 litres per year. The Green Shift, in year one, will increase the cost of home heating oil for that household by \$50 per year or \$4.20 per month. In year four, the Green Shift will increase costs by \$203 per year or \$16.95 per month.
- ▶ The average Canadian household using natural gas purchases approximately 3,000-3,500 m³ of natural gas each year. The Green Shift, in year one, will increase the cost of natural gas for that household from \$57 to \$66.50 per year or \$4.75-\$5.54 per month. In year four, the Green Shift

will increase costs from \$228 to \$266 per year or from \$19 to \$22.16 per month.

- ▶ The Green Shift will not be applied to diesel until the second year, but will implement a pollution tax on diesel rising to seven cents per litre by year four. By the end of year four, the Green Shift will have increased the average freight trucker's total annual operating expenses by less than one per cent or approximately \$1,700 per year.

There will be no increase in the gas tax at the pump. Since gas at the pump is already taxed at 10 cents per litre, which is equivalent to \$42 per tonne of greenhouse gas emissions, there will be no increase in the tax on gas over the mandate of a new Liberal government. Likewise, because there is already a tax on diesel and aviation fuel of four cents per litre, the price on these fuels will see no increase in the first year.

For individuals, the primary impact will depend on local energy sources, local weather and energy efficiency of the household. The Green Budget Coalition estimates that for the average family in Canada at a carbon price of \$30 per tonne, there will be an annual increase in direct costs totalling approximately \$270.

However, this estimate assumes an increase in the gas tax at the pump which will not occur under our Green Shift plan. Excluding a gas tax increase while recognizing

that the Liberal plan is to reach \$40 per tonne will reduce the average direct cost to approximately \$250 per household. This implies that in the first year of our plan, with a carbon price of \$10, the average new direct cost that year will be about \$60 per household.

For businesses and other organizations, in addition to heating costs, the primary impacts will be felt through gradually increasing diesel prices and higher costs for industrial practices that require fossil fuels. These impacts will vary across different industries based on their level of pollution.

Price vigilance

Gas price increases are due to many factors, including restricted supply. There is also an increasing international demand on oil supply, as emerging economies such as China and India increase their own rates of consumption.

We also know Canadians are frustrated with spiralling energy costs and the lack of information and justification that often accompanies these increases. Canadians deserve clear and complete information and the provision of such information will make the market place fairer and more transparent. To accomplish this, we will restore the federal Office of Petroleum Price Information to monitor energy price fluctuations and provide clear, current information to Canadians. Work on the creation of this office was started under the previous Liberal government but was shut down by the

Conservative government. The Minister of Natural Resources will be accountable to Parliament for the Office.

Canadians are also concerned about the possibility of anti-competitive behaviour affecting energy prices. To allow for more effective enforcement of the Competition Act, we would examine introducing a dual-track approach to the criminal conspiracy provisions of the act to allow for a civil law regime to work beside the existing criminal law regime. The high criminal burden of proof currently contained in the Act makes properly prosecuting anti-competitive activity or price manipulation extremely difficult. A more reasonable civil standard of proof will make successful prosecution more realistic and will help protect the consumer.

Some ways Canadians can reduce their emissions:

- ▶ **Replace incandescent light bulbs with a compact fluorescent bulb**
- ▶ **Use a programmable thermostat**
- ▶ **Weather-strip your home's doors and windows**
- ▶ **Choose energy efficient appliances**

individual Canadians reduce their environmental footprints, to protect our nature and wildlife, and to make our air and water cleaner.

Even the Conservatives freely admit that their “Turning the Corner Plan” will result in higher heating and electricity costs.

The Conservative plan notes: “Our modelling suggests that Canadians can expect to bear real costs under the Regulatory Framework. For the majority of individual Canadians and for businesses outside the regulated sectors, these costs will be most evident in the form of higher energy prices, particularly with respect to electricity and natural gas (although increased energy conservation and efficiency are expected to limit those increases).”

The Liberal Green Shift is different in that higher energy costs are offset by broad-based, progressive tax cuts.

Smart tax cuts

There is a clear gain for Canada that comes from our Green Shift plan. We are able to harness the power of market forces to move our economy towards a greener future. At the same time, the revenue generated through a carbon tax can be given back to Canadians in a manner that makes Canada's tax system more progressive, more competitive and more rewarding for individuals and companies that succeed.

This ‘double dividend’ means that we can both fight climate change and position our economy to succeed in an increasingly competitive world.

The Liberal tax plan is completely revenue neutral. That means, by law, every dollar raised will be returned to the people of Canada, in the form of smart tax cuts for individuals and companies. As the price on carbon emissions increases from \$10 to \$40 per tonne, the tax cuts will increase as well.

Personal tax reductions

- ▶ **Significant, broad-based income tax rate reductions:** By the fourth year of our plan we will have completed a large personal income tax reduction program.

We will cut the lowest income tax rate to 13.5 per cent from 15 per cent. This means we will cut taxes in the lowest bracket by 10 per cent.

And we will cut the middle class tax rates to 21 per cent from 22 per cent (a 4.5 per cent cut) and to 25 per cent from 26 per cent (a 3.8 per cent cut).

Cutting income tax rates rewards hard work and puts more money into Canadians' pockets.

- ▶ **Make the tax system fairer for low-income Canadians:** Our goal is to help low-income Canadians in particular. As part of the Liberal 30/50 Plan for fighting poverty in Canada, we aim to cut overall poverty by 30 per cent and cut child poverty in half within five years. We will also reform the tax system to make it fairer to working Canadians.

The Conservatives have introduced a number of tax measures that offer little to no benefit for those who need it most: low-income Canadians working to lift themselves into the middle class. We will fix this by:

What are refundable tax credits?

These are credits that can be paid to Canadians even if they do not pay enough income tax to use the credits to reduce their taxes.

The credits are refunded to Canadians if not already applied against income taxes.

1. Introducing a new, universal child tax benefit worth \$350 per child, per year, on top of all existing child benefits. This will provide direct financial assistance to Canadian families whether or not they pay significant income taxes.
2. We will replace the Conservatives' regressive, small, poorly designed \$1,000 employment credit with a \$1,850 refundable employment credit targeted at those Canadians who earn less than \$50,000 per year. This will put up to \$250 back into the pockets of those working Canadians who need it most.
3. We will enrich the Working Income Tax Benefit, which supplements the earnings of low-income workers, above the level legislated by the Conservatives. We will encourage work by having this benefit available on the first dollar earned, which is \$3,000 sooner than the Conservative plan. And we will ensure that it benefits more families by phasing it out more slowly.
4. To support lower-income Canadians with disabilities we will make the Disability Tax Credit refundable, ensuring that low-income individuals who are disabled are able to benefit from the Green Shift.

- ▶ **Additional support for Rural and Northern Canadians:** Energy requirements are simply higher in rural Canada and in the North. Whether we consider the costs of a family farm in Saskatchewan or a gas heater in Nunavut, it is clear that any plan to put a price on carbon must recognize the realities of rural and Northern Canada.

That is why we will provide specific assistance to rural Canadian taxpayers as they adjust to the higher price of carbon. In addition to the significant tax measures already described, every rural Canadian tax filer will receive up front, each year, an annual Green Rural Credit of \$150.

In addition to the Green Rural Credit, for those Canadians who live in Canada's North, we will immediately boost the Northern Residents Deduction (NRD) to a new maximum of \$7,000 per year from just over \$6,000 and index it going forward. This represents an immediate tax savings of nearly \$150 per year and over \$200 per year within four years for those who fully benefit from the NRD.

Additional support

It is important to ensure that lower-income Canadians are able to cope with any potential increase in their energy costs.

In addition to the tax reductions and tax credits within the Green Shift, the Liberal Plan will be offering targeted benefits through the 30/50 plan that will help low-income seniors and low-income families. These measures are part of the Liberal Party's broader election platform to lift Canadians out

Working Income Tax Benefit

In 2005, the Liberal government introduced the Working Income Tax Benefit which supplements the earnings of low-income workers to help make work pay.

The Benefit helps Canadians get over the welfare wall and into the workforce.

of poverty and will be financed from the existing fiscal framework. These include:

Northern Residents Deduction

The Northern Residents Deduction (NRD) is a tax benefit for workers who live in the North.

Those in the most Northern parts of Canada receive the full deduction while those in an ‘intermediate’ northern zone receive half the deduction according to Revenue Canada guidelines.

- ▶ **A boost to the Guaranteed Income Supplement (GIS)**, steadily rising to an additional \$600 per year in the fourth year of our plan. The GIS provides additional money, on top of Old Age Security, to low-income seniors living in Canada.

Estimated annual cost in year four: \$800 million.

- ▶ **A new Guaranteed Family Supplement**, which is a new addition to the Child Tax Benefit. Rising steadily each year, it will provide a maximum of \$1,225 for an estimated 500,000 low-income families with children under 18. The benefit will be paid monthly and included as part of the Child Tax Benefit.

Estimated annual cost in year four: \$482 million.

- ▶ To provide further help to lower-income families with children we will ensure that **all families with incomes up to \$26,000 keep all of the National Child Benefit Supplement** which now is phased out at incomes of approximately \$21,000.

Estimated annual cost in year four: \$350 million.

These benefits will not only mitigate the impact of a carbon tax on low-income Canadians, they will help lift them out of poverty and better enable them to contribute to our society.

Total tax cuts and other benefits in year four of the Green Shift

Singles			
Income	Single Person	1 Child	2 Children
\$ 5,000	\$ 550	\$ 2,182	\$ 2,499
\$ 15,000	\$ 480	\$ 1,866	\$ 2,224
\$ 35,000	\$ 357	\$ 936	\$ 1,628
\$ 50,000	\$ 337	\$ 502	\$ 827
\$ 75,000	\$ 588	\$ 752	\$ 1,077
\$ 100,000	\$ 838	\$ 1,002	\$ 1,327

Couples					
Total Income	Split		No Children	1 Child	2 Children
\$ 10,000	\$ 5,000	\$ 5,000	\$ 797	\$ 2,379	\$ 2,696
\$ 20,000	\$ 10,000	\$ 10,000	\$ 1,158	\$ 2,040	\$ 2,397
\$ 40,000	\$ 20,000	\$ 20,000	\$ 420	\$ 1,159	\$ 1,851
\$ 60,000	\$ 30,000	\$ 30,000	\$ 699	\$ 1,025	\$ 1,350
\$ 80,000	\$ 40,000	\$ 40,000	\$ 729	\$ 1,055	\$ 1,380
\$ 100,000	\$ 50,000	\$ 50,000	\$ 675	\$ 1,000	\$ 1,326

These tables do not include the increase to the GIS for Seniors, the new Green Rural Credit for Rural Canadians or the enhanced NRD for Northern Canadians. To see how big your tax cut will be, go to www.thegreenshift.ca.

Business tax reductions

We will boost the competitiveness of Canada's economy through business tax relief that will stimulate investment and green innovation.

What is an Accelerated Capital Cost Allowance (ACCA)?

A capital-cost allowance is a business tax deduction for the depreciation of capital equipment.

An ACCA provides for an accelerated rate of depreciation on the equipment and so a higher tax deduction.

- ▶ **Broad-based corporate income tax reductions:** We will accelerate and deepen the currently planned corporate tax cuts, reducing the general corporate tax rate by an additional one per cent within four years.

That means the federal corporate tax rate in Canada will be only 14 per cent by the fourth year. This will make Canada one of the most competitive jurisdictions in the world, attracting businesses that will be part of a sustainable, green, Canadian economy.

- ▶ **Small business income tax reductions:** In addition to lowering the general corporate tax rate, we will reduce the small business corporate tax rate by an additional one per cent.

Small business is the engine of the Canadian economy and it is Canada's entrepreneurs who will lead the way in the development of new technologies and products for the green economy.

- ▶ **Accelerated Capital Cost Allowance for green technologies:** One of the best ways to generate business investment in Canada is by offering tax incentives for that investment. The capital cost allowance system determines how much of the cost of a capital asset a business may deduct each year for tax purposes. By accelerating capital cost

allowance rates for green investments, businesses are given incentives to go green.

By the fourth year of our plan, we will invest \$600 million annually to accelerate the capital cost allowance rates for investments in green technologies.

We will help spur innovation throughout Canadian industry by encouraging investment in technologies that significantly reduce greenhouse gas emissions and significantly improve energy efficiency.

- ▶ **Better Research and Development (R&D) incentives:** The primary tool that the federal government has to stimulate private R&D in Canada is the Science, Research & Experimental Development (SR&ED) Tax credit. Today this credit is not refundable, so companies that are not paying taxes in the short-term (with some exceptions) are not rewarded for the innovation.

We will make the SR&ED Tax credit 25 per cent refundable. This will ensure that all companies, not simply those that are earning a profit in the short-term are rewarded for their R&D activities.

Carbon tariff

There are many who argue that putting a price on carbon will disadvantage Canadian-produced goods, compared with other countries that are not taking action to fight climate change. However, it is important to note that

the European Union has been pricing carbon for years and its economy is currently outperforming that of North America.

Canada faces a very real threat from other countries that are increasingly studying whether to impose tariffs on Canadian goods so that their carbon content is taken into account. This threat to our competitiveness comes from failing to act, not from acting. We need to stand with the world's green leaders rather than stand with environmental laggards facing new trade barriers.

We will build carbon pricing into our strategy for international trade, endeavouring where possible to ensure that goods from countries that are not pricing carbon will face a tariff reflective of carbon content. Since the next president of the United States, be he a Republican or Democrat, has already committed to pricing carbon, this will likely not impact our largest trading partner.

Most importantly, Canada will move quickly to put a price on carbon so that its exporters are not boycotted in global markets.

Contingency offset

We will set aside \$1 billion over four years (\$100 million in the first year growing to \$400 million in the fourth year) which will be reserved for tax cuts designed to off-set the impact of the carbon tax on groups such as not-for-profit organizations and charities. This contingency offset will also be used to design tax relief to address unanticipated and unavoidable costs

associated with the new price on carbon for the most vulnerable in society. As part of the Green Shift, every dollar in the contingency offset will be returned in tax relief to Canadians.

Tools for Canadians

The Green Shift is at the heart of the Liberal plan to fight climate change and improve Canada's environment and economy. It complements other Liberal commitments to green our economy, such as the Renewable Power Production Incentive that will more than double the non-emitting energy sources available to Canadians, the \$1 billion AMP Fund that will stimulate green manufacturing, and the major Infrastructure Surplus commitment to upgrade our sustainable infrastructure like public transit through unanticipated government surpluses. Our plan will also include complementary regulations and incentives to Canadians for home retrofits, energy efficient appliances and vehicles, low carbon farm and forestry practices and other ways to help Canadians reduce their environmental footprint, become more energy efficient, and save on energy costs.

Costing

	Year 4 <i>in millions</i>
Total Green Shift Revenue at \$40 per tonne	\$15,342
15% income tax rate cut to 13.5%	\$4,168
22% income tax rate cut to 21%	\$1,905
26% income tax rate cut to 25%	\$602
Broad Based Personal Income Tax Cuts	\$6,675
Improved Working Income Tax Benefit	\$465
Improved Employment Credit & refundable Disability Credit	\$397
Universal Child Tax Benefit	\$2,878
Benefits for Working Families and Canadians	\$3,740
Green Rural Credit	\$749
Higher, indexed Northern Residents Deduction	\$40
Support for Rural and Northern Canadians	\$789
1% cut to general corporate tax rate	\$1,750
1% cut to small business corporate tax rate	\$550
Reduced corporate income tax revenue	\$523
Accelerated Capital Cost Allowance for green investment	\$600
Partial refundability of SR&ED tax credit	\$400
Total Corporate Tax Reductions	\$3,823
Contingency Tax Offset Reserve	\$400
Total Green Shift Expenses	\$15,427

Conclusion

Canada is faced with a choice between clear alternatives.

One choice is the Conservatives – a party that has denied climate change and produced a plan to reduce greenhouse gases that experts do not support. A party that thinks politically convenient talking points, spin and attack ads are a substitute for real action.

The alternative is the Liberal Party of Canada – Stéphane Dion and his team.

Liberals understand that faced with the greatest environmental threat humanity has ever witnessed, and faced with a tax system that needs to do more to reward success and doesn't do a good enough job for middle and low-income Canadians, it's time for action.

Our Green Shift will stimulate our economy, increasing its competitiveness and reduce the income tax burden on individuals, particularly middle and low-income Canadians.

The Green Shift will make it more expensive to pollute in Canada, while lowering the cost of doing business across the rest of the economy, boosting investment and spurring a greener economy.

The Liberal plan is bold, it is achievable, and it will improve Canadians' quality of life.

It is the right thing to do.

We can work together and make it a reality. And in so doing, build a richer, greener, fairer Canada.

thegreenshift.ca

Liberal

