

## Carbon Pricing Plan FAQ

### What is the Office of the Third Party's carbon pricing plan?

- The Office of the Third Party (OTP)'s carbon pricing plan highlights initial actions that the OTP would undertake to support our Island's transition toward a low-carbon economy.
- These actions include the introduction of a carbon price, a carbon pollution dividend to support low- and middle-income Islanders, a small business tax cut, and the continuation of energy efficiency programs delivered by Efficiency PEI.

### How would a price on carbon be structured?

- A carbon price would be placed on all fuels that produce greenhouse gases (GHG) upon combustion, such as gasoline and propane. Some exemptions would apply to agriculture and fisheries operations.
- The price would be set at \$20/tonne of CO<sub>2</sub> emissions in 2019 and would increase by \$10 each subsequent year, reaching \$50 in 2022.
- Revenue collected from a price on carbon will be returned to taxpayers through a quarterly dividend cheque and a small business tax cut. In other words, revenue would not be used for general government spending.

### How will revenue be returned to taxpayers?

- Similar to HST rebates, Island households would receive a quarterly cheque tied to their income rather than their carbon footprint. Households in the four lowest income quintiles will receive a dividend greater than their average household carbon cost.
- Revenue will also be used to support a 0.5% cut to the small business tax rate, above and beyond the small business tax cut already budgeted by government in fiscal 2018-19.

### How will lower-income Islanders be affected?

- The OTP Carbon Pricing Plan divides Islanders into five income quintiles<sup>1</sup> for the purpose of distributing the carbon pollution dividend cheque. They are:
  - Lowest Quintile: <=\$29,475
  - Second Quintile: \$29,476 - \$50,304
  - Third Quintile: \$50,305 - \$73,886
  - Fourth Quintile: \$73,887 - \$110,471
  - Fifth Quintile: >\$110,471
- In general, Islanders in lower- and middle-income quintiles (\$73,886 and lower) would receive a dividend that is greater than their quintile's average household carbon cost. In other words, lower-income Islanders would be better off with carbon pricing than without it. The following are estimated scenarios:

---

<sup>1</sup> Statistics Canada's Survey of Household Spending, 2016.

- **Scenario 1:** Single person household
  - Annual income: \$35,000 (2nd quintile)
  - Estimated carbon cost: \$340
  - Carbon Pollution Dividend: \$906
  - Balance: +\$566
- **Scenario 2:** Two adults, 2 children household
  - Annual income: \$60,000 (=median household income)
  - Estimated carbon cost: \$900
  - Carbon Pollution Dividend: \$906
  - Balance: +\$6
- **Scenario 3:** Two adults, high earners
  - Annual income: \$130,000 (top quintile)
  - Estimated carbon cost: \$1,100
  - Carbon Pollution Dividend: \$0
  - Balance: -\$1,100
- **Scenario 4:** Single parent, 1 child, low income
  - Annual income: \$25,000 (lowest quintile)
  - Estimated carbon cost: \$500
  - Carbon Pollution Dividend: \$906
  - Balance: +\$406

## How will agriculture and fisheries be affected?

- While a carbon price is meant to apply to all or most emissions, it is recognized that some exemptions may be needed. At the moment, agriculture and fisheries operations may be eligible for a marked fuel exemption under the *Gasoline Tax Act* regulations<sup>2</sup>. Our plan would expand these exemptions to the carbon price.

## How will Island businesses be affected?

- Under our plan, we would reduce the small business tax rate by 0.5%. Our plan would provide greater relief for local businesses than the federal backstop, which would be imposed in January 2019 in the absence of a federally approved provincial plan.

## How does a carbon price reduce emissions?

- It changes behaviour. Prices influence behaviour, and by placing a price on carbon emissions, individuals and businesses are given an incentive to reduce their emissions to save money. Through the issuing of a quarterly dividend, consumers have another incentive because when they reduce their carbon footprint they not only lower their costs — they get to keep the carbon dividend.
- A carbon price provides flexibility to Islanders as they choose the options for reducing emissions that best meets their individual circumstances.

---

<sup>2</sup> *Gasoline Tax Act* regulations are available here:

<https://www.princeedwardisland.ca/sites/default/files/legislation/G%2603G-Gasoline%20Tax%20Act%20Regulations.pdf>