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# Tax Alert – Canada

## Canada is eliminating consumer carbon tax

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

On 15 March 2025, the *Regulations Amending Schedule 2 to the Greenhouse Gas Pollution Pricing Act and the Fuel Charge Regulations* (SOR/2025-107) were published in a special “extra” edition of the Canada Gazette. These amendments effectively eliminate the fuel charge imposed under Part 1 of the *Greenhouse Gas Pollution Pricing Act* (GGPPA) by reducing fuel charge rates to zero, effective 1 April 2025. As well, fuel charge registration and reporting requirements will not apply after that date.

The Department of Finance also published SOR/2025-108, *Regulations Amending the Output-Based Pricing System Regulations*, in the Canada Gazette on the same date. These regulations make coordinating amendments to the Output-Based Pricing System (OBPS) Regulations that relate to the reduction of the fuel charge rates in Schedule 2 of the GGPPA to zero.

These changes are part of the federal government’s effort to refocus pollution pricing on industrial carbon pricing.

In this Tax Alert, we provide an overview of the current federal carbon pricing pollution system, the amendments contained in SOR/2025-107 and SOR/2025-108, and the resulting impact on the Canada carbon rebate.



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## Background

The Government of Canada imposes a federal carbon pollution pricing system consisting of two components, pursuant to the GGPPA.

Part 1 of the GGPPA levies a charge on the use and consumption of 21 greenhouse gas (GHG) producing fuels. While the charge is payable by fuel producers and distributors, it is generally passed on to consumers. Fuel charge rates are set out in Schedule 2 of the GGPPA and vary by fuel type. For the 2024-25 fuel charge year, rates are determined in accordance with a carbon price of \$80 per tonne of carbon dioxide equivalent emissions (CO<sub>2</sub>e). The carbon price was scheduled to increase to \$95 per tonne of CO<sub>2</sub>e effective 1 April 2025 and to increase by \$15 per tonne on 1 April of each succeeding year until reaching a final carbon price of \$170 per tonne of CO<sub>2</sub>e effective 1 April 2030.

The fuel charge currently applies in the “listed provinces” of Newfoundland and Labrador, Prince Edward Island, Nova Scotia, New Brunswick, Ontario, Manitoba, Saskatchewan and Alberta, as well as the territories of Nunavut and Yukon. The remaining provinces and territories impose their own carbon tax regimes, which have been deemed to meet minimum national standards. As a result, Part 1 of the GGPPA does not apply in these jurisdictions. The province of British Columbia imposes a provincial carbon tax in accordance with the *Carbon Tax Act*, while the Northwest Territories levies a territorial carbon tax under the *Petroleum Products and Carbon Tax Act*. Quebec participates in a cap-and-trade system that links to the system operated by the state of California.

To offset the impact of the fuel charge on consumers, the Government of Canada provides eligible individuals with a refundable tax credit known as the Canada carbon rebate (formerly known as the climate action incentive), which is deemed to be a rebate of fuel charges levied under Part 1 of the GGPPA. The rebate consists of a basic amount as well as a rural bonus for individuals residing outside census metropolitan areas. Payments for a particular taxation year are made in April, July and October of the immediately following year and in January of the second immediately following year.

The federal government also provides a Canada carbon rebate for small businesses, which is a refundable tax credit that returns a portion of fuel charge proceeds to eligible small and medium-sized businesses. For the 2019-20 to 2023-24 fuel charge years, eligible businesses are Canadian-controlled private corporations that have no more than 499 employees throughout Canada in the calendar year in which the fuel charge year begins and that have filed a tax return for the 2023 taxation year by 15 July 2024. The credit is determined on the basis of the number of persons employed by the corporation, the calendar year in which the fuel charge year begins and the designated province in which the fuel charge applies. The 2024 Fall Economic Statement proposed changes for the 2024-25 and later fuel charge years, such as extending the credit to cooperative corporations and to credit unions, as well as changes to the computation of the tax credit.<sup>1</sup>

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<sup>1</sup> For more information, see [EY Tax Alert 2024 Issue No. 63, Federal Fall Economic Statement 2024](#).

Part 2 of the GGPPA provides an OBPS regulatory framework for large industrial emitters. Rather than paying the fuel charge on purchased fuels under Part 1, these industries pay a charge on the amount of GHG emissions they emit above a specified level, which varies by industry. A facility that reduces emissions below its limit may earn additional revenue by selling its surplus credits to other facilities. The federal OBPS currently applies in Manitoba, Prince Edward Island, Yukon and Nunavut. The provinces of Alberta, British Columbia, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario and Quebec operate their own carbon pricing systems for industrial emitters. The Northwest Territories does not have an OBPS for large emitters.

## **Amendments contained in SOR/2025-107**

As noted above, the amendments in SOR/2025-107 effectively eliminate the fuel charge, or consumer carbon tax, by setting the charge rates for all fuel types and combustible waste listed in Schedule 2 of the GGPPA to zero, effective 1 April 2025.

Repealing the fuel charge would require amendments to the GGPPA; however, subsection 166(4) of the GGPPA grants authority to the Governor in Council to amend fuel charge rates in Schedule 2 by regulation. The intention of a future government may be to repeal portions of the GGPPA. However, Parliament is currently prorogued, and such legislative actions can only be done when Parliament is in session. It is expected that a federal election will be called in the coming days. If an election is called, the “Caretaker Convention” would apply during any campaign period, and the current government would not make any more regulatory changes, subject to certain specific exceptions. Parliament would resume sitting after the election.

A number of consequential changes to the *Fuel Charge Regulations* are also made. As noted above, the fuel charge was scheduled to increase by \$15 per tonne of CO<sub>2</sub>e on 1 April of each year (i.e., the “adjustment day”) until 1 April 2030. Section 38 of the GGPPA requires every person that holds a quantity of a listed fuel in a listed province on an adjustment day to determine their fuel inventories and remit the fuel charge in accordance with the increased rates. Section 3.1 of the *Fuel Charge Regulations* is amended to eliminate all adjustment days after 31 March 2025.

Section 25 of the Fuel Charge Regulations provides that a person responsible for the operation of a covered facility (i.e., a registered emitter) must provide prescribed information to the Minister of the Environment and Climate Change if the person applies to the minister for a determination of whether the facility is subject to a provincial OBPS. The person must also notify the minister if certain changes relating to the facility occur – for example, where a person ceases to be the person responsible for the facility. Amendments to the regulations remove requirements to provide information in respect of such changes after March 2025. Any residual information requirements in section 25 will no longer apply after September 2025.

Any person that was neither registered nor required to register for purposes of Part 1 of the GGPPA on 31 March 2025 is no longer required or permitted to register after that date. All existing registrations under Part 1 will be cancelled effective 1 November 2025.

Fuel charge filing requirements will cease on 1 April 2025, as will any obligations on non-registrants to report and pay the charge. Specifically, a person will not be required to file a return for a reporting period that begins after 31 March 2025 if:

- ▶ No charge becomes payable by the person in that period; or
- ▶ The amount of each charge that becomes payable in the reporting period is zero.

Registrants are still required to file any returns and pay any outstanding amounts for reporting periods prior to 1 April 2025. For the period from 1 March to 31 March 2025, registered persons other than road carriers must file a fuel charge return (Form B400) with the related schedule by 30 April 2025. As registered road carriers report on a quarterly basis, the deadline for filing a return and the related schedule is 30 April 2025 for the period from 1 January to 31 March 2025.<sup>2</sup> Non-registrants must also report and pay any amounts owing for reporting periods prior to 1 April 2025.

In addition, exemption certificates will no longer apply to deliveries of fuel in a listed province on or after 1 April 2025. However, the Canada Revenue Agency (CRA) has indicated that exemption certificates must be kept for six years after the end of the year to which they relate. Similarly, any person that is required to keep records under the GGPPA must retain such records for the same period.<sup>3</sup>

The regulatory impact analysis statement (RIAS) appended to the regulations indicates these changes are the first step towards refocusing the federal carbon pricing system on industrial carbon pricing. To that end, the OBPS in Part 2 of the GGPPA will continue to apply in the provinces and territories where it currently applies.<sup>4</sup>

## **Amendments contained in SOR/2025-108**

SOR/2025-108 contains consequential amendments relating to the changes made to Schedule 2 of the GGPPA.

Covered facilities must track and report emissions from specified emission types, including *on-site transportation emissions*, which are defined as emissions from vehicles and machinery used at a covered facility for on-site transportation and for which the delivery was subject to an exemption under Part 1. This definition ensures that most on-site transportation emissions are covered under the OBPS, while fuel for which the fuel charge was paid is exempt from OBPS compliance.

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<sup>2</sup> For more information, see [Fuel Charge Notice FCN16. Removal of the fuel surcharge.](#)

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

As a result of the effective elimination of the fuel charge, the definition of on-site transportation emissions is amended to ensure that covered facilities under the OBPS must report all on-site transportation emissions.

Industrial facilities that are not mandatory covered facilities under the GGPPA may volunteer to participate in the OBPS, and the Minister of the Environment and Climate Change may designate such facilities as covered facilities. The minister may also cancel the designation of a voluntary facility. The OBPS Regulations are amended to provide that if the minister cancels such a designation in 2025, the compliance period for such facilities will run from 1 January to 31 March 2025.

## **Canada carbon rebate**

With the removal of the fuel charge from Canada's carbon pricing system, the Government of Canada will also terminate the Canada carbon rebate.

The CRA will issue the last rebate payment for individuals starting 22 April 2025. Individuals must file their 2024 income tax returns on or before 2 April 2025 to receive the payment starting 22 April 2025. An eligible individual who files their 2024 return after 2 April 2025 will receive the final rebate payment when their 2024 return is assessed.

Similarly, the RIAS for SOR/2025-107 indicates there will be "no new fuel charge proceeds to return to businesses, including through the Canada Carbon Rebate for Small Businesses." The CRA will provide more information regarding the impact of the elimination of the fuel charge on this rebate as it becomes available.

## **British Columbia**

In a news release dated 14 March 2025, British Columbia announced it is preparing legislation to repeal its provincial carbon tax, as well as legislation to eliminate the tax increase currently scheduled to take effect on 1 April 2025.

The province will continue to enforce a carbon pricing regime applicable to large emitters.

## **Learn more**

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