Canadian Energy Pipeline Association
Association canadienne de pipelines d'énergie

May 30, 2012

Expert Panel on Tax
Room 105-617 Government Street
Victoria, BC V8W 9V8
ExpertPanel@gov.bc.ca

Dear Expert Panel on Tax,

Re: British Columbia Tax Competitiveness

The Canadian Energy Pipeline Association (CEPA) supports the announcement by the British Columbia government to appoint an Expert Panel on Tax to provide analysis and recommendations to the province on business tax competitiveness and administrative improvements to streamline the provincial sales tax.

CEPA companies transport 97 percent of Canada's daily natural gas and onshore crude oil from producing regions to markets throughout North America. CEPA's member companies currently operate more than 100,000 km of pipelines, transporting oil and natural gas that contribute $55 billion to the Canadian economy each year. These energy highways are essential for heating homes, generating electrical power, and meeting the needs of North American consumers for a secure reliable supply of energy. CEPA is dedicated to ensuring a strong and viable transmission pipeline industry in Canada in a manner that emphasizes public safety and pipeline integrity, social and environmental stewardship, and cost competitiveness.

Our members are invested in British Columbia. In 2011, CEPA members collectively:

- Paid $156 million in property taxes, $47 million in carbon tax , $10 million in motor fuel tax and $39 million in corporate taxes; and
- Operate more than 8,000 kilometres of pipelines

CEPA and its member companies have been strong advocates of a taxation system that balances the principles of competitiveness, fairness and simplicity. We have examined the three areas that the Panel will be providing analysis and recommendations on. Given sensitivities to reductions in provincial revenues, our recommendations focus on improvements that can be made with little or no effect on overall tax revenue.

Our recommendations stem from our industry's unique position in the energy value chain, where we build and operate energy infrastructure across international, provincial and state line and have experience working within complex multi-jurisdictional frameworks.

For ease of reference, we have grouped our recommendations into the three categories that the Expert Panel is focusing on:

1. Business Tax Competitiveness
2. Administrative Improvements to Streamline the Provincial Sales Tax
3. Guidelines

RECOMMENDATIONS

1. Business Tax Competitiveness

a. Corporate Tax

Budget 2012 notes a "temporary one-point increase in the general corporate income tax rate to 11 per cent, effective April 1, 2014". While it is noted that this requirement to implement this tax measure will be re-evaluated in next year's budget, CEPA members are concerned that this announcement may impact BC's competitiveness relative to other jurisdictions.

Recommendation: CEPA encourages the government to maintain the competitive corporate tax rate (of 10 per cent) to continue to enhance Canada's overall competitiveness.

b. Carbon Tax

On July 1, 2008 BC introduced the carbon tax. The Ministry of Finance states on its website that "A carbon tax is usually defined as a tax based on greenhouse gas emissions (GHG) generated from burning fossil fuels." It also states that "The carbon tax applies to the purchase or use of fossil fuels within the province." The government also implies that it wants to simplify administration and cost of the collection and compliance with the registration.

In practice, our members have found this a difficult tax to administer with burdensome documentation requirements to obtain refunds/exemptions where fuels are purchased in the province and exported for sale/use outside of the province. In addition, while we understand and support the goals of the tax to limit harmful emissions from the burning of fossil fuels within the province of BC, considerations around the imposition and administration of this tax may impact the choice of where our members operate since neighboring jurisdictions do not have a comparable tax.

Recommendation: CEPA supports the Budget 2012 announcement, "over the next year, the government will undertake a comprehensive review of the revenue-neutral carbon tax. CEPA would encourage that BC administer the Carbon Tax Act in that spirit to permit a streamlined process for exempting or refunding carbon tax when it is not applicable and to consider the impact of the tax on BC's competiveness with other jurisdictions.

The BC government taxes fuel used in stationary marketable pipeline compressors twice resulting in an uncompetitive burden on pipelines. The fuel is taxed under the Motor Fuel Act and a second time under the Carbon Tax Act. The double taxation burden on pipelines in BC far exceeds the comparable taxation of compressor fuel in other provinces. Fuel used in compressors is not taxed in Alberta and not subject to fuel tax in Ontario for example. Compressor fuel is taxed in Saskatchewan, Manitoba and Quebec. However, the tax burden on natural gas used in compressors in BC is seven to fifteen times that in Saskatchewan, Manitoba and Quebec.

Recommendation: BC should re-examine its policy on the onerous tax burden it places on compressor fuel.

2. Administrative Improvements to Streamline the Provincials Sales Tax

a. PST Exemptions

With the re-introduction of the PST on April 1, 2013 there is transition uncertainty for companies. CEPA members would encourage the BC government to simplify certain exemptions such as the Production, Manufacturing and Equipment exemption to ensure companies remain competitive with other jurisdictions.

Recommendation: Maintain the previous PST exemptions and simplify burdensome exemptions.

3. Guidelines

a. Property Tax

CEPA members are a significant contributor of property taxes in BC. In 2007, CEPA commissioned an independent study on property taxation in BC that provided decision makers with a clear understanding of:

- The financial impact of the property tax on the owners of energy pipelines and facility assets in British Columbia and shippers that use the energy pipeline system;
- The impact of property taxes on British Columbia's competitiveness for energy pipeline and oil and gas investment in British Columbia;
- Information and analysis on the impact of all costs, including all other taxes and royalty initiatives, on the competitiveness of the energy pipeline sector in BC.
- Options to improve the competitiveness of British Columbia's property tax regime for energy pipelines and oil and gas investment.

CEPA member properties are primarily classified for assessment/property tax as Utilities (Class 2). Class 2 experienced an increase in the School Tax rate for the 2012 taxation year from 14.1 mills to 14.2 mills. Yet, Major Industry (Class 4), Light Industry (Class 5) and the Business/Other (Class 6) were reduced from 6.6 mills to 6.4 mills. This leaves the Class 2 taxpayers with a School Tax rate that is 122 percent higher than Class 4, 5 or 6. When we account for the Industrial Property Tax Credit benefited by Class 4 and 5, the Class 2 School Tax rate is 455 percent higher than Class 4 or 5.

	Class 2	Class 4	Class 5	Class 6
	Utilities (pipelines)	Major Industry	Light Industry	Business/Other
School Tax Rate for 2012	14.1 to 14.2 mills	6.6 to 6.4 mills		

Recommendation: CEPA members recommend that the School Tax rate for Class 2 be reduced to coincide with the School Tax rates in all other non-residential classes.

In addition to our comments above, CEPA has communicated to the province that we support a linkage between industrial and residential mill rates. This ensures a level of certainty in the direction of future rates and predictability for current pipeline assets and future pipeline projects.

Recommendation: CEPA recommends a linkage between industrial and residential mill rates.

Pipeline projects in other provinces are not assessed/taxed until the entire pipeline project is placed into service for commercial use. In BC, any construction that has been started on the pipeline, including "turning the sod" as at October 31st each year must be reported and taxed beginning January 1st of the following year, regardless if the pipeline project is completed (in-service) or not. This leads to projects being taxed before revenues are generated.

This is a concern that will most likely escalate as pipeline projects continue to be built to support new exploration and production in the province. By way of example, construction of 800 kilometres of pipeline is proposed to be built to the west coast. Construction will likely occur over two to three seasons; making the pipeline company responsible for the property taxes over that period of time, before the pipeline has been placed into service.

Recommendation: CEPA members recommend pipeline projects not be assessed/taxed until the entire pipeline project is placed into service for commercial use.

Budget 2012 stated that the Municipal Port Property Tax Rate cap would be kept at $27.50 per $1000 of assessed property value until 2018, for existing property to assist in diversifying (LNG) projects on the west coast, to access Asian export markets for B.C. natural gas. It also incorporated a $22.50 per $1000 cap for new investment constructed before 2018. CEPA members see this as a positive step in helping new LNG facilities.

With respect to future development of oil and/or refined products exports, the Ports Property Tax Act (PPTA) specifically exempts property that is used to transport crude oil or petroleum fuel products, or products from an industrial production or processing facility from the eligible tax cap. There is a discrepancy between categories of export products.

Recommendation: Exemption be removed for property that is used to transport crude oil or petroleum fuel products, or products from an industrial production or processing facility.

b. Corporate Loss Consolidation

The federal government has taken significant steps to improve the competitiveness of the tax system for Canadian businesses. Unlike many other countries, Canada does not have a formal system to consolidate the tax reporting of corporate groups or to otherwise offset the profits and losses of the members of a corporate group. Currently, the federal tax system taxes corporations on a stand-alone basis, although it is often possible for corporate groups to offset the profits and losses of group members through intra-group transactions and restructurings.

The 2010 federal budget indicated that the federal government is exploring whether new rules for the taxation of corporate groups – such as a more formalized system of loss transfers or some form of consolidated reporting – could improve the functioning of the tax system.

Recommendation: CEPA encourages a cooperative approach between the federal government and the province that will result in a loss-transfer approach for corporations.

CONCLUSIONS

CEPA is a strong advocate of taxation systems that balance the principles of competitiveness, fairness and simplicity. Please do not hesitate to contact me if you require any further information or if I can elaborate on the recommendations provided above. We hope these recommendations provide you with our insight and opportunities for advancing competitiveness in British Columbia.

Sincerely,

Amanda Affonso
Director, Regulatory & Financial

Encl. Appendix: Summary of Recommendations

APPENDIX
Summary of CEPA Recommendations

1. CEPA encourages the government to maintain the competitive corporate tax rate (of 10 per cent) to continue to enhance Canada's overall competitiveness.

2. CEPA supports the Budget 2012 announcement, "over the next year, the government will undertake a comprehensive review of the revenue-neutral carbon tax. CEPA would encourage that BC administer the Carbon Tax Act in that spirit to permit a streamlined process for exempting or refunding carbon tax when it is not applicable and to consider the impact of the tax on BC's competiveness with other jurisdictions.

3. BC should re-examine its policy on the onerous tax burden it places on compressor fuel.

4. Maintain the previous PST exemptions and simplify burdensome exemptions.

5. CEPA members recommend that the School Tax rate for Class 2 be reduced to coincide with the School Tax rates in all other non-residential classes.

6. CEPA recommends a linkage between industrial and residential mill rates.

7. CEPA members recommend pipeline projects not be assessed/taxed until the entire pipeline project is placed into service for commercial use.

8. Exemption be removed for property that is used to transport crude oil or petroleum fuel products, or products from an industrial production or processing facility.

9. CEPA encourages a cooperative approach between the federal government and the province that will result in a loss-transfer approach for corporations.