



January 30, 2025

KIERON TESTART
MLA, RANGE LAKE**Oral Question 423-20(1) Carbon Tax**

This letter is in response to the Oral Question you raised on November 1, 2024 regarding the Carbon Tax Annual Report and the increase in net revenues for the 2023-24 fiscal year in comparison to prior fiscal years. During our exchange, I committed to providing an explanation of the factors contributing to the increase in net carbon tax revenues in this year's report.

As detailed in Tables 3 and 4 of the 2023-24 NWT Carbon Tax Report, the reason that net 2023-24 carbon tax revenues were higher than in 2019-20 to 2022-23 was mainly because:

- Consumption increases in diesel fuel, natural gas and propane,
- Effective April 1, 2023, carbon tax rates increased by \$15 a tonne of greenhouse gas emission equivalents, and
- Effective April 1, 2023, carbon tax point of sale rebates on heating fuel for non-large emitters were eliminated.

The territorial carbon tax applies to all Northwest Territories fuel consumers, together with offsets and rebates to mitigate the effect of the carbon tax on residents and the economy. Before April 1, 2023, carbon tax was not paid on heating fuel (diesel, propane, natural gas) because a rebate was applied at the point of sale by all but large emitters. The carbon tax point of sale rebate resulted in a significant reduction in carbon tax collected.

To comply with the revised federal carbon pricing benchmark requirements, as of April 1, 2023, the GNWT was no longer allowed to offer a carbon tax rebate for heating fuels. This resulted in the carbon tax being applied to heating fuels, which significantly increased the carbon tax revenues remaining after all carbon tax offsets are removed.

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In response to this change, corresponding increases were made in the quarterly tax-free Cost of Living Offset (COLO) amounts for all Northwest Territories residents. In addition, annual community government revenue sharing grants were implemented starting in the 2024-25 fiscal year. The enhanced COLO amounts offset the loss of carbon tax relief for the average household, however, businesses and industry must pay more carbon tax as a result of the new federal requirements, which increased the amount of revenues the GNWT received.

2024-25 net carbon tax revenues to the GNWT are expected to be lower than 2023-24 because a three-year carbon tax exemption on diesel heating fuel for all consumers except large emitters was introduced on April 1, 2024. This temporary tax measure mirrors the federal three-year carbon tax pause on home heating oil implemented by the federal government in November 2023.

The GNWT does not have a policy that ensures that carbon tax revenue is revenue neutral. Net revenues are included in general revenues and allocated based on GNWT spending priorities, which includes greenhouse gas emission reducing projects.



Caroline Wawzonek
Minister of Finance

- c. Clerk of the Legislative Assembly
Director, Legislative Affairs and House Planning