ENERGY & ENVIRONMENTAL
POLICY TRENDS

JUNE 2022

THE BENEFITS OF A (TAX) HOLIDAY

On April 1, 2022, the Government of Alberta stopped collecting the provincial fuel tax in an effort to support Albertans dealing with high fuel prices. The "tax holiday" applies to gasoline and diesel and will last until West Texas Intermediate prices fall below $80 US per barrel. A recent Energy & Environmental Policy Trends quantifies how much Alberta families could benefit from the tax holiday and the cost to the Government of Alberta. This note examines how retail fuel prices have historically responded to changes in fuel taxes and assesses how drivers in Alberta are benefitting from the holiday.

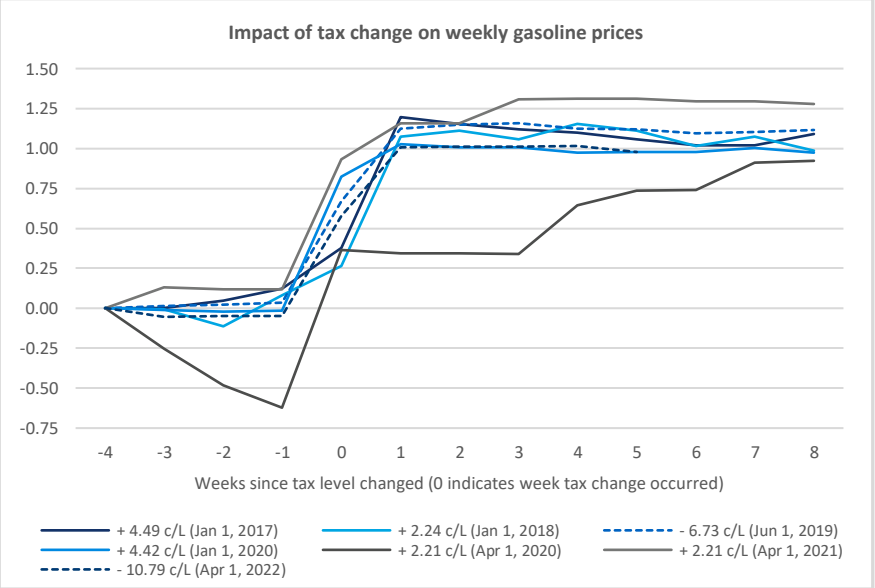
Alberta drivers are enjoying the full benefit of the tax holiday as fuel prices have adjusted by the full amount of the tax change.

An important consideration when evaluating a tax policy change is the impact it will have on prices in the short run versus the long run. Standard economic theory shows that the effect of a tax change on short run prices will depend on the responsiveness of supply and demand (called elasticity) as well as the level of competition in the market. With inelastic demand, short-run prices will change more when taxes change. In the long-run, consumers will pay the full amount of the tax.

Over the past five years, fuel taxes in Alberta have changed several times. A provincial carbon tax was introduced on January 1, 2017, then increased a year later. The provincial carbon tax was repealed on June 1, 2019, and subsequently replaced with the federal carbon tax on January 1, 2020. The federal carbon tax increases every April 1. On April 1, 2022, the federal carbon tax increased by $0.0221/L for gasoline and $0.0268 for diesel and the provincial fuel tax was eliminated ($0.13/L for both gasoline and diesel). The net change in fuel taxes was a $0.1079/L decrease for gasoline and $0.1032/L decrease for diesel.

The figure shows the short run effect of tax changes on fuel prices in Alberta over the past five years. We divide the difference in the tax component of fuel prices before and after the tax change by the size of the tax change to measure the effect of tax changes on fuel prices.(See this Policy Trends for a discussion of the components of fuel prices.) A value of 1.0 means that prices have changed by the same amount as the tax change. Generally, short-run fuel prices adjust by the full amount of the tax change within the first week of the change; with most cases changing by an amount that is greater than the tax change (i.e. values greater than 1.0). The tax change on April 1, 2020, is an exception and its alternative path is likely because it occurred during the early stages of the COVID-19 pandemic when fuel prices dropped dramatically.

To assess how much Alberta drivers are benefitting from the tax holiday, we compare how fuel prices have changed in Alberta and Saskatchewan since April 1, 2022. Saskatchewan, like Alberta, saw an increase in the federal carbon tax but provincial fuel taxes remained the same, with a net increase in fuel taxes instead of a net decrease. In the first week after the tax change, the tax component of fuel prices in Calgary and Edmonton decreased by $0.109/L and $0.11/L respectively. In Regina and Saskatoon they increased by $0.026/L. Taking the difference and dividing it by the amount of the tax holiday ($0.13/L), yields values of 1.04 for Calgary and 1.05 for Edmonton. These values suggest that fuel prices have decreased by more than $0.13/L after the tax holiday. Alberta drivers are receiving the full benefit of the tax holiday.



Sources: own calculations using data from: Natural Resources Canada and the Government of Alberta

UNIVERSITY OF CALGARY | THE SCHOOL OF PUBLIC POLICY

The School of Public Policy
University of Calgary Downtown Campus
906 8th Avenue S.W., 5th Floor
Calgary, Alberta T2P 1H9

Authors: Gregory Galay

Interested in having *Energy & Environmental Policy Trends* delivered to your in-box? Email: sppweb@ucalgary.ca

www.policyschool.ca