

# Fuel Tax and Gasoline Tax Overview

IFTA, Inc.  
San Antonio, Texas  
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*Quick reference guide only – Refer to actual statutes for precise information.*

# Fuel Tax

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The *Fuel Tax Act* imposes a 14.3 cent per litre tax on middle distillate petroleum fuels such as those used in diesel-powered vehicles. Fuel used in railway equipment is taxed at a lower rate (4.5 cents per litre).

- Fuel tax is **pre-collected** by authorized collectors and importers on all clear fuel received or used in Ontario. (See *Addendum A – for more information on the point of taxation regarding other provinces.*)
- Coloured (red-dyed) fuel is sold without tax for exempt purposes such as
  - heating or cooking
  - generating electricity
  - unlicensed commercial equipment, including farm, construction (including road-building machines), forestry and mining equipment
  - operating commercial marine vehicles
- First Nations individuals who are registered under the *Indian Act* (Canada) and First Nations bands may purchase coloured fuel on reserves for their exclusive use.
- Exemptions are also available for purchases of clear fuel by foreign diplomats, and by visiting armed forces with respect to purchases for their service vehicles.
- Gasoline, methanol, natural and liquefied petroleum gases and other petroleum-based products are not subject to tax under the *Fuel Tax Act* unless they are mixed with clear fuel and placed in the tank of a licensed vehicle.

# Fuel Tax (cont'd)

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**Biodiesel:** As announced in the 2013 Budget, the fuel tax exemption for biodiesel was repealed effective April 1, 2014. The province also committed to consulting with stakeholders on a provincial mandate for greener diesel fuels.

- The exemption was no longer needed to encourage biodiesel consumption in Ontario as a result of the federal government's Renewable Fuels Regulations.
- The federal government has put in place a mandate requiring an average of 2% renewable fuel content in diesel fuel. In this context, renewable fuel includes biodiesel and other forms of renewable fuel such as synthetic diesel.

# Gasoline Tax

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The *Gasoline Tax Act* imposes a 14.7 cent per litre tax on gasoline. The Act also imposes a tax on aviation fuel at a rate of 4.7 cents per litre,<sup>1</sup> and on propane for use in a licensed motor vehicle at a rate of 4.3 cents per litre. The Act applies to all petroleum-based fuels except diesel fuel.

- Gasoline tax is pre-collected by authorized collectors and importers.
- Alternative fuels such as methanol and natural gas are not subject to gasoline tax even when used to generate power in a licensed motor vehicle. (***See Addendum B – for more information on alternative fuels in British Columbia***).
- First Nations individuals who are registered under the Indian Act (Canada) and First Nations bands purchasing gasoline on a reserve for their exclusive use are exempt.
- Exemptions are also available for purchases by foreign diplomats, and by visiting armed forces with respect to purchases of gasoline or aviation fuel for their service vehicles, aircraft and vessels.
- When gasoline is used by business, industry, institutions, farmers or commercial fishermen in equipment that is not licensed and not required to be licensed under the Highway Traffic Act (e.g., in off-road farming equipment), a tax refund may be claimed.

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<sup>1</sup> The 2014 Ontario Budget announced an increase to the tax rate on aviation fuel by 1 ¢/litre effective September 1, 2014, and a 1 ¢/litre increase effective April 1 in each of 2015, 2016 and 2017. Upon full implementation in 2017, the aviation fuel tax rate will be 6.7 ¢/litre.  
September 2015

- The tax on propane does not apply to propane purchased for home heating or cooking.

# Gasoline Tax (cont'd)

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**Ethanol:** As of January 1, 2007, ethanol became taxable under the *Gasoline Tax Act*. To support the production of ethanol in the province, the Ontario government established the 12-year, \$520 million Ontario Ethanol Growth Fund in 2005.

**Gas Tax Program:** Under the provincial Gas Tax Program, municipalities receive two cents per litre of gasoline tax revenues for public transit.

- This program is administered by the Ministry of Transportation and funded through a special purpose account entitled the “Dedicated Funding for Public Transportation”.

**Dedicated funding to support public transit and transportation infrastructure projects:** Budget 2014 announced 7.5 cents per litre of the existing provincial gasoline tax revenues would be dedicated to these funds.

# Rates and Revenue

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	<b>Tax Rates</b>	<b>Revenue<sup>1</sup></b>
<i>Fuel Tax Act</i>	General diesel: 14.3 ¢/litre Railway diesel: 4.5 ¢/litre Biodiesel: 14.3 ¢/litre	\$740 million
<i>Gasoline Tax Act</i>	Unleaded gasoline: 14.7 ¢/litre Aviation fuel: <sup>2</sup> 4.7 ¢/litre Propane: 4.3 ¢/litre	\$2.4 billion

<sup>1</sup> Public Accounts of Ontario 2014-15.

<sup>2</sup> The 2014 Ontario Budget announced an increase to the tax rate on aviation fuel by 1 ¢/litre effective September 1, 2014, and a 1 ¢/litre increase effective April 1 in each of 2015, 2016 and 2017. Upon full implementation in 2017, the aviation fuel tax rate will be 6.7 ¢/litre – an increase of 4 ¢/litre from the 2.7 ¢/litre rate before these increases.

Prior to the aviation fuel tax rate increase announced in Budget 2014, Ontario's fuel and gasoline tax rates had remained unchanged since 1992.

The *Gasoline Tax Act* and *Fuel Tax Act* are both subject to the *Taxpayer Protection Act, 1999*.

# How Ontario Compares to Other Jurisdictions

Motive Fuels Tax (¢/litre) <sup>1</sup>	Fed.	ON	ON rank <sup>2</sup>	BC <sup>3</sup>	AB	SK	MB	QC <sup>5</sup>	NB	PEI	NS	NL
Diesel	4.0	<b>14.3</b>	3 of 10	15.0 (outside Vancouver/Victoria) <sup>4</sup>	13.0	15.0	14.0	20.2	21.5	20.2	15.4	16.5
Gasoline	10.0	<b>14.7</b>	5 of 10	14.5 (outside Vancouver/Victoria) <sup>4</sup>	13.0	15.0	14.0	19.2 (outside Montreal) <sup>6</sup>	15.5	13.1	15.5	16.5

As of September 2015.

- 1 Excludes sales taxes. Motive fuel prices (incl. provincial fuel and gas taxes and federal excise tax) are subject to the 5% GST, except in ON, NB, NS, NL and PEI where both the provincial portion and the 5% federal portion of the HST apply. In QUE, the QUE sales tax applies in addition to 5% GST.
- 2 Relative to lowest rate amongst provinces.
- 3 BC: These are the taxes imposed under the *Motor Fuel Tax Act*. They do not include tax of 7.67¢/litre for diesel and 6.67 ¢/litre for gasoline imposed under the *Carbon Tax Act*. Total rates including carbon tax are 22.67¢/litre for diesel and 21.17¢/litre for gasoline.
- 4 BC: Different rates apply in the Vancouver area (26¢/litre for diesel fuel and 25.50¢/litre for gasoline, plus carbon tax) and the Victoria area (18.50¢/litre for diesel and 18¢/litre for gasoline, plus carbon tax) where dedicated taxes for transit authorities also apply.
- 5 QC: These rates do not apply in certain regions (e.g., USA / provincial border regions) where reduced rates apply for gasoline and diesel, or for gasoline only.
- 6 QC: Different rates apply to gasoline in the Montreal region (22.2¢/litre) and in the Gaspesie-Iles-de-la-Madeleine administrative region (15.55¢/litre) where dedicated taxes for transit authorities also apply.

September 2015

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# HST on Fuel and Gasoline

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Effective July 1, 2010, fuel and gasoline, which were previously not subject to Ontario's retail sales tax, became subject to the 8% provincial portion of the HST.

- Fuel and gasoline were previously only subject to the federal GST (5%).

The provincial (8%) and federal (5%) portions of the HST apply to the entire pump price, which includes Ontario's fuel tax and gasoline tax and the federal excise tax on fuel and gasoline.

# Illustrative Price Breakdown

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	(cents/litre)	<b>Diesel</b>	<b>Gasoline (regular unleaded)</b>
Crude, Manufacturing, and Retailing Costs		70.5	65.1
Federal Excise Tax		4.0	10.0
Ontario Tax		14.3	14.7
Base Price		88.8	89.8
HST		11.6	11.7
<b>Retail Pump Price*</b>		<b>100.4</b>	<b>101.5</b>

\* Average Ontario Prices as of September 28, 2015. Source: Ontario Ministry of Energy  
 Note: Retail pump prices are a mix of full-serve and self-serve prices and include all applicable taxes.

# Changes to Fuel and Gasoline Tax Rates: 1985 - Present

Year	Gasoline		Fuel	
	Ontario Gasoline Tax (¢/litre)		Ontario Fuel Tax (¢/litre)	Federal Excise Tax (¢/litre)
	Unleaded	Leaded		
1985	8.4*	8.0*	3.5	9.3*
1986	8.3	8.3	3.5	9.9
1987	8.3	8.3	Jan 1 - 4.5 Feb 19 - 5.5	
1988	9.3	12.3	6.5	
1989	10.3	13.3	7.5**	10.9
1990	11.3	14.3	8.5**	
1991	13	16	8.5**	12.6
1992-1994	14.7	17.7	8.5**	14.3
1995-present	14.7	17.7	10**	14.3
				4.0

Notes: Effective January 1, 1991, 7% federal GST. GST rate of 6% effective July 1, 2006. GST rate of 5% effective January 1, 2008. HST rate of 13% effective July 1, 2010.

\* *Ad valorem* tax based on 20% of taxable price per litre.

\*\* Add 1.0 ¢/litre to excise tax rate for leaded gasoline.

September 2015

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# Addendum A

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## POINT OF TAXATION IN CANADA

Under Canada's constitution the provinces may only impose a direct tax (i.e. a tax that is imposed on the person who is ultimately intended to bear the burden of the tax). Accordingly, as a matter of law, tax is imposed on a person who purchases gasoline or diesel for his or her own consumption or use. However, the provinces and territories have developed a "pre-collection" method of collecting tax.

### FOR EXAMPLE:

PROVINCE	POINT OF TAXATION
British Columbia	<ul style="list-style-type: none"><li>• System of security payments; tax is collected from the first person to sell the fuel after the fuel is manufactured in British Columbia or imported in British Columbia</li></ul>
Ontario	<ul style="list-style-type: none"><li>• Take an amount on account of tax; fuel tax is pre-collected by authorized collectors and importers on all clear fuel received or used in Ontario</li></ul>
Alberta and Saskatchewan	<ul style="list-style-type: none"><li>• Pre-collection system; collectors report and remit tax on gasoline and diesel lifted from the rack at the primary terminal (with some exemptions).</li></ul>

With respect to the federal level, the government collects an excise tax that is generally reported and remitted by the manufacturer at the time of delivery of gasoline, diesel and aviation fuel/gasoline. There are some exemptions based on

September 2015

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licensing requirements, such as a person who blends fuels can purchase fuel exempt of Federal Excise Tax, or a wholesaler, licensed under the Excise Tax Act can purchase fuel exempt of tax.

# Addendum B

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## TREATMENT OF ALTERNATIVE FUELS IN BRITISH COLUMBIA

British Columbia offers differing tax treatment for fuels other than gasoline or diesel that are used to propel motor vehicles that produce fewer emissions than gasoline or diesel.

<b>Fuel Type</b>	<b>Motor Fuel Tax Act</b>	<b>Carbon Tax Act</b>
Hydrogen	Exempt when purchased for use in fuel-cell vehicles, except hydrogen that is produced by electrolysis using coal-generated electricity, unless carbon capture and storage or another process is used to contain the carbon dioxide emitted	Not taxable.
Methanol Blend	Exempt when alcohol based blend of gasoline or diesel fuel contains at least 85% methanol.	Methanol portion at 3.27¢/litre Gasoline portion at regular rate of 6.67¢/litre
Natural Gas	Exempt when purchased for use in an internal combustion engine of a motor vehicle	5.7¢/m <sup>3</sup> or \$1.4898 per gigajoule