RESIDENTIAL AND CIVIL CONSTRUCTION ALLIANCE OF ONTARIO

RCCAO

Constructing Ontario's Future

The time is right for Ontario to implement dedicated fuel taxes

TORONTO (Marketwired: July 15, 2015) – The Pan Am Games have reignited a cauldron of controversy over the traffic congestion that grips the roads around the Greater Toronto and Hamilton Area (GTHA).

Easing that congestion would benefit the provincial economy and is one of the benefits of introducing an increase to gasoline and diesel fuel taxes, says a report authored by Harry Kitchen, professor emeritus of economics at Trent University, and funded by the Residential and Civil Construction Alliance of Ontario (RCCAO).

The report "A Case for Increasing Provincial Fuel Taxes (on a Temporary Basis)" is a follow-up to one released by Professor Kitchen and RCCAO, which pointed out that factors such as more fuel-efficient and non-fuel vehicles will lead to declining gasoline tax revenues in the future.

"Despite the controversy surrounding any proposed increase to pump prices, there is a strong case to be made to adjust fuel tax rates as these have not changed in 23 years," Kitchen says.

The gasoline tax rate of 14.7 cents per litre and the diesel fuel tax rate of 14.3 cents per litre have not increased since 1992. If an inflation-adjusted rate were implemented by Queen's Park, the new rates would be 23 cents and 22 cents respectively. "These tax rates would then be indexed annually to preserve buying power and, of course, would be dedicated to funding transportation infrastructure," Kitchen says.

If implemented, Kitchen proposes that these provincial fuel taxes would be implemented for only five to seven years. A much-needed revenue stream would be created for both provincial and municipal infrastructure, adding an estimated $14 billion over seven years.

Aside from creating a revenue stream, there are a number of environmental and economic benefits to the proposal:

- Total distance driven would be reduced: higher pump prices tend to reduce unnecessary driving and engine idling;
- An incentive would be created for drivers to switch to more fuel-efficient cars and to use public transit more often;

- Greenhouse gas (GHG) emission costs would be curbed because less fuel would be burned.

‘Moral obligation’

Last week, Ontario hosted a major climate summit to discuss how to reduce GHG emissions, including an announcement by a major retailer to install electric vehicle charging stations at its retail store chain across Canada. Premier Wynne rightly said the climate change action is a “moral obligation.”

“Increasing the province’s gasoline and diesel fuel taxes not only represents a form of carbon pricing but would also provide an economic boost to Ontario’s economy,” says Andy Manahan, executive director of RCCAO.

The April budget earmarked $31.5 billion over the next 10 years through the Moving Ontario Forward plan – a plan which will help to fund public transit in the GTHA and roads, bridges and highways across the rest of Ontario.

So why target fuel taxes now?

Prices at the pump have dropped substantially from a provincial peak of $1.41 last year. As noted, fuel taxes haven’t been raised in 23 years so an increase of about eight cents per litre is essentially treading water. But Kitchen isn’t the only one calling for the tax hikes. Metrolinx and Premier Wynne’s transit panel in 2013 recommended a hike for fuel taxes in separate reports.

“The revenues raised from Kitchen’s proposed tax increases would be dedicated for transportation infrastructure,” Manahan says. “This will have tremendous positive spinoffs. Studies have shown that for every $1 spent on infrastructure, there is a direct economic benefit of between $1.40 and $1.60. The taxes will also help to ease traffic congestion, which is estimated to cost the GTA up to $11 billion a year.”

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