Government of
Northwest Territories

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OQ 19-20(1) Carbon Tax Revenues Spent on Climate Change Adaptation

This letter is in follow-up to the Oral Question you raised on February 07, 2024, regarding whether there are specific technical or legislative barriers to instituting a revolving fund which would provide greater transparency and understanding for the public as to how we are investing in climate change alternatives.

There are no specific technical or legislative barriers to establishing a revolving fund for the allocation of carbon tax revenues. However, establishing a revolving fund would require legislation.

The Government of the Yukon uses a special revolving fund to handle its carbon tax revenues received from the Government of Canada and redistribute all revenues received back to residents, businesses, local governments and industry. The revolving fund achieves transparency in demonstrating revenue-neutrality.

Since the Government of the Northwest Territories collects its own carbon tax, a revolving fund would be useful if the intent is to make the carbon tax revenue-neutral similar to the Yukon approach by returning all revenues directly to the economy. However, if the Assembly also wants some of the revenues to be used for specific projects then the current budgeting process provides more flexibility to make these choices.

Through the regular budgeting development process, most of the Northwest Territories carbon tax revenues are targeted towards mitigating the effects of the carbon price on the cost of living and to avoid adding barriers to economic opportunities. The residual carbon tax revenues go into the General Revenue Fund and are allocated based on government priorities, which include investments to reduce greenhouse gas emissions.

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Directing any specific tax revenues to specific program or project expenditures (earmarking) is not recommended for the following reasons:

- Revenues raised through specific taxes do not equal expenditures on specific programs. In some cases, programs with earmarked revenues would still have to be supplemented by other revenues from the Consolidated Revenue Fund. In such cases earmarking revenues is primarily an accounting exercise.

- Earmarking revenues reduces the government's flexibility to allocate its limited fiscal resources. Earmarking revenues removes certain revenues from the GNWT budget allocation process. Too many earmarked revenues could result in government priorities not being addressed in the way elected officials would address them if all revenues were in one fund to be allocated based on current priorities. If an earmarked program is overfunded, it may mean that other government priorities are underfunded.

- Earmarking revenues could pose risks to the programs for which the revenues are used if revenues fall. Revenue instability could make program planning over the medium-term difficult.

- Earmarking revenues for programs could have distortive effects and may not achieve the desired outcomes. For example, if the carbon tax revenue is directed at specific programs to reduce greenhouse gas emissions and the tax itself is successful in reducing emissions, the program funding would decrease if just relies on earmarked carbon tax revenues. While decreasing carbon tax revenues is the intended outcome of the carbon tax, when the decline results from mine closures, the earmarking means the projects funded by mine receipts will disappear.

In short, it is possible to draft legislation to create a revolving fund for carbon tax revenues but such a fund would reduce flexibility in allocating revenues to meet government priorities and could risk losing opportunities to fund other programs that support climate change initiatives such as work done through the NWT Energy Strategy to reducing greenhouse gas emissions in the Northwest Territories.

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c.	Clerk of the Legislative Assembly
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