

MAKING SENSE OF ALBERTA'S FUEL TAX HOLIDAY AND ELECTRICITY BILL CREDIT

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On March 7, 2022 — in response to rapidly rising energy prices triggered by Russia's invasion of Ukraine on top of inflation already at generational highs — the Government of Alberta [announced](#) it will suspend provincial fuel taxes as of April 1, 2022. In addition, it will provide a \$150 credit on households' electricity bills. What do these policy moves mean for Alberta families? Will they "reverse" the federal carbon tax, as Premier Kenney claimed in the announcement?

We focus on the fuel tax 'holiday' as this is the largest change. The current fuel tax is \$0.13/L on gasoline and diesel, and \$0.04/L on marked (farm) fuel. These fall to zero between April 1 and June 30, with a quarterly review thereafter. Any reintroduction of the tax will depend on the price of West Texas Intermediate remaining below \$90 per barrel, with full reinstatement at \$80 per barrel.

The average Alberta family may save approximately \$130 from suspending the provincial fuel tax in addition to \$150 from the electricity bill credit.

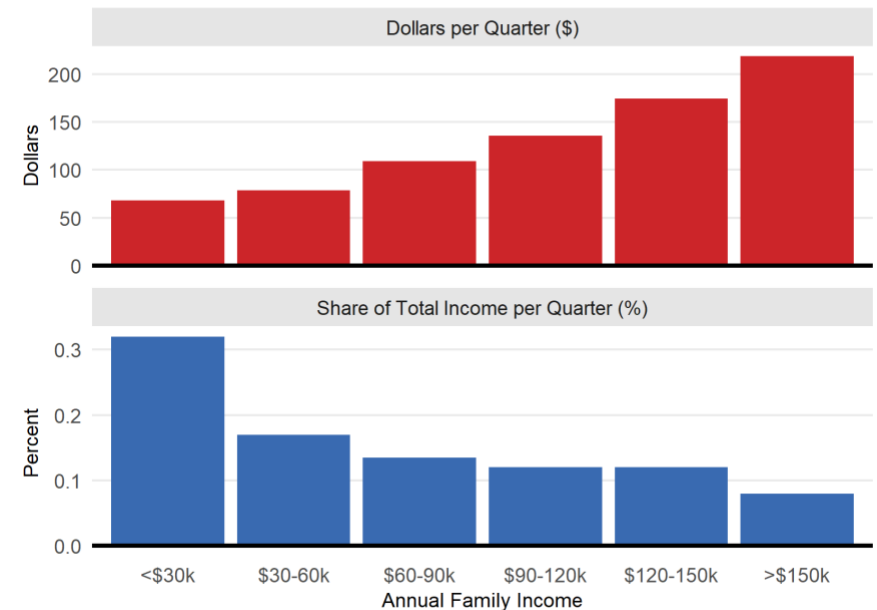
As the figure shows, the value of the holiday depends on families' fuel use. The average household purchases approximately 200 litres of gasoline per month. Businesses use fuel too, which affects the cost of goods and services throughout the economy. We estimate the direct and indirect provincial gasoline tax savings from the holiday range from \$70 per quarter for families earning less than \$30,000 per year, to nearly \$220 for families earning more than \$150,000. These averages do not capture significant differences across households. And although higher income families benefit more, as they purchase more fuel, the holiday can be described as 'progressive' as lower-income families benefit more as a fraction of their income. Families who do not purchase fuel will not benefit from the holiday.

Relative to the carbon tax, [which the government cites as an important motivation](#) behind this policy, the holiday more than offsets it. On April 1, the [federal carbon tax](#) will increase to \$0.1105/L for gasoline (from \$0.0884/L) and to \$0.1341/L (from \$0.1073/L) for diesel. The holiday, however, is not a "reverse carbon tax" for two reasons. First, it is tied to oil prices rather than the federal carbon tax. Second, federal carbon taxes apply to a [wide range of fuels](#) while the provincial holiday applies to only two.

We approximate the fiscal cost of the policy at \$600 million for the first quarter and \$325 million for each additional quarter that the fuel tax is suspended. Relative to the government's rising natural

Value of Alberta's Fuel Tax Holiday for Families (Over 3 Months)

Source: own calculations from Statistics Canada SPSM/D version 29.0



Note: based on averages among households with only one census family

resource revenues, this is modest. High oil prices mean significant increases in those revenues; each \$1 increase in the price of a barrel of oil yields \$125 million per quarter. Choosing the fuel tax holiday comes with important opportunity costs — this money might be routed elsewhere. For perspective, support for post-secondary institutions' operations was reduced \$400 million in [2021/22](#) compared to [2018/19](#).

The fuel tax holiday is one of several policy options for supporting families strained by rising energy prices. One alternative is providing direct cash transfers: Jason bucks instead of [Ralph bucks](#). This approach is simple and addresses cost-of-living concerns without changing the tax mix. Another option is income-tested rebates — like the [Notley government's carbon tax rebates](#). These directly address affordability challenges for those in need, targeting relief to those [most impacted by energy price changes](#) and most at risk of losing service. There are important trade-offs to consider in all these policy choices, but affordability is best addressed through direct cash transfers rather than changing the price of fuel itself.