

## Chapter 8

### Finance—Monitoring the Fuel Tax Exemption Program

#### 1.0 MAIN POINTS

Saskatchewan, like other governments, frequently uses tax expenditures to promote specific policy objectives (e.g., social or economic goals) or to encourage desired behaviours without incurring direct costs. Tax expenditures reduce the amount of taxes levied on select individuals and/or corporations. For 2015-16, Saskatchewan expected to levy approximately \$3.9 billion<sup>1</sup> (2014-15: \$3.8 billion) fewer taxes given its various tax expenditure programs. The Ministry of Finance (Ministry) administers most of these programs including the fuel tax exemption program.

Under the fuel tax exemption program, since 1987, certain eligible participants (e.g., farmers, commercial fishers) can purchase fuel tax free for use in specified activities. This program offers tax exemptions to farmers, primary producers of renewable resources, and consumers of heating fuel. For 2015-16, Saskatchewan expected to levy about \$155.8 million<sup>2</sup> (2014-15: \$145.9 million) less fuel tax revenue under this program.

For the 12-month period ended July 31, 2015, the Ministry of Finance had, other than for the following matters, effective processes to monitor whether its fuel tax exemption program is achieving program objectives. Because it has not specifically determined what the fuel tax exemption program is designed to achieve (other than reducing taxes for eligible individuals or corporations), the Ministry does not know whether the fuel tax exemption program is successful and continues to be needed. Because the use of tax expenditures results in lower revenues, the Government, and in turn legislators, must have a clear understanding of what specific tax expenditures are expected to achieve, and know whether they are achieving the intended results.

Also, at July 2015, the Government gave the public limited information on its tax expenditure programs. Determining and making public information on tax expenditure program achievements facilitates scrutiny of these programs.

In addition, Ministry staff must sufficiently and appropriately document tax expenditure program reviews to show they conduct robust program reviews, and to support recommendations made, if any. Without sufficient information, senior management risks making incorrect decisions regarding the results of program reviews.

Furthermore, the Ministry needs to document its key operating procedures, and coordinate its risk assessment activities for the fuel tax exemption program. Such documentation and coordination helps ensure staff is sufficiently aware of and address risks that may affect program delivery in the event of unplanned staff turnover.

<sup>1</sup> Government of Saskatchewan, *Saskatchewan Provincial Budget 15-16*, pp. 62-63.

<sup>2</sup> *Ibid.*, p. 62.



## 2.0 INTRODUCTION

The Minister of Finance (Minister) is responsible for *The Fuel Tax Act, 2000* (Act).<sup>3</sup> The Act imposes a tax on persons importing or purchasing fuel in Saskatchewan (e.g., 15 cents per litre on clear gasoline and clear diesel fuel and nine cents per litre on propane).<sup>4</sup> The Act also allows for certain individuals to purchase tax-exempt fuel.<sup>5</sup>

This chapter describes the results of our audit of the Ministry's processes to monitor whether its fuel tax exemption program (program) is achieving program objectives. See **Glossary** in **Section 5.0** for definition of items in **bold** font.<sup>6</sup>

## 2.1 Tax Expenditures and Saskatchewan's Use of Them

Governments use tax systems to promote and encourage desired behaviours, or social and economic goals (e.g., recycling, saving for retirement, using public transit). They frequently use **tax expenditures** to promote specific policy objectives without incurring direct costs. Tax expenditures are designed to reduce the amount of taxes that individuals and/or corporations would otherwise pay to a government. They provide for tax exemptions, deductions, credits, preferential tax rates, or deferrals to select groups or for specific activities.<sup>7</sup> Use of tax expenditures results in governments levying fewer taxes (i.e., forgoing revenue).

One of the key functions of the Ministry is developing and implementing tax policy on behalf of the Government of Saskatchewan.<sup>8</sup> This includes the Government's use of tax expenditures. In some cases, the Provincial Government chooses to align its tax expenditures with those of the Federal Government (e.g., deductions for registered retirement savings plans). In other cases, it designs its own (e.g., fuel tax exemption).

Each year, the Provincial Government forgoes billions of dollars in tax revenues as a result of a wide range of tax expenditures. For example, its estimated tax expenditures for 2015-16 is approximately \$3.9 billion<sup>9</sup> (2014-15: \$3.8 billion). These tax expenditures reduce:

- ▶ Consumption taxes on the purchase of certain goods and/or services (e.g., fuel tax exemptions for farm-use **fuel**, provincial sales tax exemptions on construction services, fertilizer, pesticides and seed, and on basic groceries)
- ▶ Personal (individual) income tax (e.g., deductions for registered retirement savings plan and pension contributions; non-refundable tax credits for dependent children, Canada Pension Plan contributions, and tuition) or corporate income tax (e.g., lower tax rates for small businesses and credits for investing in manufacturing and processing activities)

<sup>3</sup> Order in Council 544/2014 dated October 29, 2014.

<sup>4</sup> [www.finance.gov.sk.ca/taxes/ft](http://www.finance.gov.sk.ca/taxes/ft) (31 August 2015).

<sup>5</sup> *The Fuel Tax Act, 2000*, s.6.

<sup>6</sup> The term is in bold font where it is used for the first time in this chapter.

<sup>7</sup> Government of Saskatchewan, *Saskatchewan Provincial Budget 15-16*, p. 60.

<sup>8</sup> *The Ministry of Finance Regulations, 2007*, s.3(b)(v).

<sup>9</sup> Government of Saskatchewan, *Saskatchewan Provincial Budget 15-16*, pp. 62-63.

## 2.2 Importance of Monitoring Tax Expenditures

While a government's tax expenditures serve important social and economic objectives, risks exist, including:

- › Increased complexity/cost in administration of the tax system
- › Potential creation of distortions in consumer and other economic behavior (e.g., consumers may choose to invest using registered retirement savings plans over other types of investments)
- › Increased compliance costs for businesses responsible for collecting taxes, which may be passed onto consumers<sup>10</sup>

Furthermore, because the use of tax expenditures results in lower revenues (forgone revenues), the government must have a clear understanding of what it expects to achieve from their use. It also must know whether its use of tax expenditures is achieving the intended results.

Regular **evaluation** of tax expenditures is important as the circumstances that led to their development and implementation can change (e.g., economic conditions improved since tax expenditure was initially designed).<sup>11</sup>

## 2.3 Saskatchewan's Fuel Tax Expenditures

Saskatchewan created the current fuel tax exemption program in 1987. In 2015-16, the Ministry estimates it will collect \$544.1 million in fuel tax revenue (2014-15: \$532.4 million)<sup>12</sup> and forgo \$155.8 million (2014-15: \$145.9 million)<sup>13</sup> of fuel tax revenues. It annually spends approximately \$300 thousand administering three fuel tax exemptions:

- › Farm activity exemption (\$121.0 million) – This exemption program allows **farmers** to purchase certain fuel tax free for use in their eligible farming activities. Farmers must apply for a fuel tax exemption permit through the Ministry before being eligible to purchase tax-exempt fuel. Permit holders are exempt from paying fuel tax on **marked diesel fuel** and propane used in their farming activities. Permit holders are also exempt from fuel tax on 80% of their **permit-use gasoline** purchased from **bulk fuel dealers**.<sup>14</sup>
- › Heating fuels exemption (\$33.1 million) – Bulk fuel dealers must identify marked diesel sold for **heating** as heating fuel at the time of sale. Consumers can only purchase heating fuel without an exemption permit when delivered by a bulk dealer into a tank that is used exclusively for heating fuel storage. A consumer is required to have a valid heating fuel permit to buy heating fuel from bulk dealers or from card lock/key lock facilities tax free.<sup>15</sup>

<sup>10</sup> Government of Saskatchewan, *Saskatchewan Provincial Budget 15-16*, p. 61.

<sup>11</sup> Auditor General of Canada, *Spring 2015 Reports of the Auditor General of Canada, Report 3—Tax-Based Expenditures*, (2015), p. 11.

<sup>12</sup> Government of Saskatchewan, *Saskatchewan Provincial Budget 15-16*, p. 78.

<sup>13</sup> *Ibid.*, p. 62.

<sup>14</sup> Ministry of Finance, *Fuel Tax Bulletin 1: General Fuel Tax Information*, (2010), p. 3 "To simplify tax reporting and administration the bulk fuel dealer will show the amount of tax collected as 3 cents per litre."

<sup>15</sup> Ministry of Finance, *Fuel Tax Bulletin 1: General Fuel Tax Information*, (2010), p. 3.



- » Primary producers exemption (\$1.7 million) – The design of the primary producers exemption is the same as the farm activity exemption. It allows **primary producers of renewable resources** to purchase certain fuel tax free for use in their eligible commercial fishing, trapping or logging activities.<sup>16</sup>

All fuel purchased for eligible purposes by a permit holder receives the exemption. The more fuel that is purchased, the more revenue the government forgoes. Since 2010, the actual amount of exempt fuel purchased has increased by almost 174 million litres (16.7%) (see **Figure 1**), resulting in forgone revenue increasing by \$22.5 million (16.9%) (see **Figure 2**). The Ministry also recovers approximately \$2.5 million of fuel tax annually from program participants who self-declare personal fuel consumption.

**Figure 1—Volume of Fuel Sold under the Fuel Tax Exemption Program**

Calendar Year	Farm Activity <sup>A</sup>	Heating Fuel	Primary Producers <sup>A</sup>	Total
(millions of litres)				
2015 (estimate)	836.6	368.3	11.6	<b>1,216.5</b>
2014	813.2	352.4	11.4	<b>1,177.0</b>
2013	785.6	336.9	9.3	<b>1,131.8</b>
2012	728.1	298.1	8.2	<b>1,034.4</b>
2011	749.1	293.6	8.5	<b>1,051.2</b>
2010	736.4	298.1	8.2	<b>1,042.7</b>

Source: Ministry of Finance records.

<sup>A</sup>Includes sales of permit-use gasoline and marked diesel.

**Figure 2—Forgone Revenue under the Fuel Tax Exemption Program**

Calendar Year	Farm Activity	Heating Fuel	Primary Producers	Total Actual (unless otherwise stated)	Total Estimate
(in millions)					
2015 (estimate)	\$121.0	\$33.1	\$1.7	<b>\$155.8</b>	<b>\$155.8</b>
2014	117.4	31.7	1.7	<b>150.8</b>	<b>145.9</b>
2013	113.6	30.3	1.4	<b>145.3</b>	<b>134.3</b>
2012	104.3	26.8	1.2	<b>132.3</b>	<b>148.3</b>
2011	107.5	26.4	1.3	<b>135.2</b>	<b>141.0</b>
2010	105.3	26.8	1.2	<b>133.3</b>	<b>125.2</b>

Source: Ministry of Finance records.

Assessing whether the fuel tax exemption program is meeting its objective(s) is important so that the Ministry knows whether it is achieving the program's social and/or economic goals. Also, if these exemptions were not available, the Government would collect significantly more fuel tax revenue that could be available to fund government programs. It is also important to periodically assess whether use of tax exemptions is the most effective and efficient way to meet program objectives. For example, different

<sup>16</sup> Ministry of Finance, *Fuel Tax Bulletin 1: General Fuel Tax Information*, (2010), p. 1.

program designs (e.g., grant program) may also achieve the same objectives while providing more ability to control the total cost of the program.

### 3.0 AUDIT OBJECTIVE, SCOPE, CRITERIA, AND CONCLUSION

The objective of this audit was to assess whether the Ministry of Finance had effective processes, for the 12-month period ended July 31, 2015, to monitor whether its fuel tax exemption program is achieving program objectives.

We did not evaluate the appropriateness of the fuel tax exemption program objectives.

To conduct this audit, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance*. To evaluate the Ministry's processes, we used criteria based on related work, reviews of literature including reports of other auditors, and consultations with management. Management agreed with the criteria (see **Figure 3**). We interviewed Ministry management responsible for the fuel tax exemption program, and reviewed related documentation. We sampled permit applications, renewals, cancellations, and the Ministry's audits to assess whether its processes were operating effectively.

**Figure 3—Audit Criteria**

- 1. Operate program**
  - 1.1 Define measurable program objectives
  - 1.2 Establish policies and procedures for operation of the program consistent with program objectives and legislation
  - 1.3 Set targets to measure performance
  - 1.4 Communicate program information to the public
  - 1.5 Assign qualified staff to oversee program operation
  - 1.6 Identify and mitigate risks to achievement of objectives
- 2. Periodically evaluate program**
  - 2.1 Establish evaluation processes (responsibility, timing, evaluation criteria)
  - 2.2 Track key information for performance measures
  - 2.3 Analyze program effectiveness
  - 2.4 Analyze program efficiency
  - 2.5 Recommend program and legislative changes where required
- 3. Communicate program results**
  - 3.1 Report relevant and timely information on program to senior management
  - 3.2 Provide the Legislative Assembly with relevant and timely information
  - 3.3 Report clear and useful information on the program to the public

We concluded that, for the 12-month period ended July 31, 2015, the Ministry of Finance had, other than for the following areas, effective processes to monitor whether its fuel tax exemption program is achieving program objectives. For the fuel tax exemption program, the Ministry needs to set out how it plans to measure the success of each component of the program, document its key operating procedures, and coordinate its program risk assessment activities and related documentation.

Also, the Ministry needs to require staff to sufficiently document tax expenditure program reviews. In addition, it needs to give legislators more information about its tax expenditure programs.



## 4.0 KEY FINDINGS AND RECOMMENDATIONS

### 4.1 Fuel Tax Exemption Program Operation

#### 4.1.1 Measurable Program Objectives Needed for Farm Activity and Primary Producers Exemptions

*We expected the Ministry to clearly define, and periodically reassess, measurable objectives for the fuel tax exemption program. To help it assess the effectiveness of the program, the Ministry would set performance measures for each program objective and targets (i.e., expectations) for its key performance measures.*

The Ministry has established two objectives for its fuel tax exemption program:

- ▶ To provide fuel tax relief to qualified farmers and primary producers for fuel used in their farming, commercial fishing, trapping, or logging activities with the understanding that the majority of fuel will be consumed off-road.<sup>17</sup>
- ▶ To reduce the cost of fuel as a heating source, making it comparable with other sources such as natural gas; there is no tax on the purchase of natural gas.<sup>18</sup>

As previously noted, governments use tax systems to promote and encourage desired behaviours, or to meet social and economic goals (i.e., desired outcomes). For the heating fuel tax exemption, the objective above clearly articulates what the program intends to achieve in a measurable way (i.e., parity in the tax treatment of heating sources resulting in comparable costs of heating fuel to other sources such as natural gas).

However, the Ministry has not clearly defined the objective, in a measurable way, for its fuel tax exemptions for farmers and primary producers. The objective for these components (as noted above) does not clearly articulate the intended outcome of the tax exemptions provided to farmers and primary producers (i.e., the social or economic goals or behaviour the exemptions are trying to encourage).

Without well defined, measurable objectives, the Ministry cannot effectively determine whether these components of the program are successful in achieving planned outcomes.

- 1. We recommend that the Ministry of Finance set out how it plans to measure the success of each component of its fuel tax exemption program.**

As later noted in **Section 4.2**, management periodically reassesses the objectives of the fuel tax exemption program.

<sup>17</sup> Ministry of Finance, *Revenue Division – Farm Fuel Program Review*, (2013), p. 4.

<sup>18</sup> Ministry of Finance, *Heating Fuel Program Review*, (2013), p. 1.

Management tracks program activities for both of the objectives previously mentioned. It focuses on outputs (e.g., number of permits issued, number of litres of exempt fuel sold, tax dollars saved by the permit holder), and aspects of its process to assess whether the Ministry operates the program consistent with established practices (e.g., permit holders who fail to file an annual return and declaration<sup>19</sup> or do not meet the qualifying criteria).

Management indicated that it sets targets (i.e., expectations) for some of its activities (e.g., it expects to cancel 100% of permits where holder fails to file a return and declaration or does not meet the qualifying criteria). Also, each year, the Ministry estimates the value of fuel tax expenditures; that is, the extent of revenue the Government expects to forgo for the upcoming year. It bases its estimate on the extent of producers' or consumers' use of fuel and the program.

### 4.1.2 Complete Documentation of Key Operating Procedures Needed

*We expected the Ministry to assign qualified staff to manage operations of the program. It would document and communicate to staff policies and procedures for the day-to-day operations of the program. The established policies and procedures would be consistent with the program's objectives and with relevant legislation. The Ministry would communicate clear guidelines for the program to the public including how to apply for program permits.*

The Ministry communicates clear information to the public on the fuel tax exemption program using its website. The website contains the forms that program users (e.g., farmers and primary producers) use to apply for and/or renew permits, and oil companies and bulk fuel dealers use to apply for applicable licences (e.g., to mark diesel fuel to sell to permit holders). The website also includes a link to periodic communications the Ministry issues about the program (e.g., fuel tax bulletins). These bulletins provide detailed program information including key definitions, rules for use of fuel purchased with a permit, rules for bulk fuel dealers, and information on how to apply for permits.

Ministry staff are responsible for assessing applications, conducting audits, and conducting enforcement activities such as testing fuel from tanks of non-eligible diesel vehicles (e.g., construction equipment) at a farmer's residence. At July 2015, the Ministry had four staff who, as part of their duties, directly administer the fuel tax exemption program. Job descriptions of these staff set out key competencies and experience required. Also, the Ministry provides staff with training on *The Fuel Tax Act, 2000*, *The Fuel Tax Regulations, 2000*, relevant Fuel Tax Bulletins, and processes to complete their duties before they start assessing permit applications, conducting audits, or conducting enforcement activities.

The Ministry has some established procedures to guide staff on the program's day-to-day operations. It provides this guidance in various documents and formats. For example, it has detailed procedures for issuing and cancelling permits in its computer system. It uses a flow chart that sets out high-level processes for processing annual

<sup>19</sup> Permit holders must file an annual return and declaration to renew their permit. In doing so, permit holders confirm whether they still meet eligibility criteria and declare the amount of, and pay tax on, exempt fuel they used for personal or non-farm business.





returns and declarations. It maintains a manual on conducting enforcement activities (e.g., testing fuel, issuing tickets).

For permit applications we tested, we found that Ministry staff followed its accepted practice when completing fuel tax application audits; selecting permit holders to audit for appropriate use of exempt fuel; and processing permit applications, renewals, and cancellations. We found that staff were generally familiar with the practices due to low turnover in recent years of staff assigned to this area.

While the Ministry's practice was consistent with the fuel tax exemption program's objectives and with relevant legislation, we found some key procedures were not documented. We found the Ministry had no documented guidance for:

- › Selecting permit applications to conduct further eligibility reviews (i.e., application audits)
- › Reporting on the program to senior management

Although we found the Ministry followed its practices, not documenting procedures increases the risk that the Ministry may not detect significant misuse of permits, or give sufficient information to senior management in the event of staff turnover.

**2. We recommend that the Ministry of Finance document key operating procedures for the fuel tax exemption program.**

### 4.1.3 Coordination of Risk Assessment Activities Needed

*We expected the Ministry to identify and assess risks it may face in achieving the program objectives. It would develop risk mitigation strategies for the key risks it identified.*

We found risk assessments of the program were conducted by more than one area of the Ministry's Revenue Division. Also, the results of risk assessments were not readily shared with staff responsible for administering and managing the program.

- › The Ministry's Revenue Operations Branch (that administers the program) undertook some risk assessment activities as part of evaluation activities. They documented one high-level risk that would prevent it from achieving fuel tax exemption program objectives. This risk was ineligible fuel usage. Staff identified some actions to mitigate this risk (e.g., ongoing program monitoring, assessing the risk of leakage,<sup>20</sup> audits).
- › The Ministry's Revenue Audit Branch, as part of its fuel tax audit<sup>21</sup> selection processes, also assessed risk. This risk assessment included fuel tax expenditure risks in addition to the risk the Revenue Operations Branch noted (e.g., risks related

<sup>20</sup> Leakage refers to ineligible individuals using the exemption or diverting permit-use fuel for ineligible purposes.

<sup>21</sup> The Ministry's Audit Branch completes audits related to fuel tax exemption to determine whether permit holders are using exempt fuel for activities that do not qualify under the program. These audits are different than fuel tax exemption program application audits, which determine whether the applicant is eligible to participate in the program.



to companies that export fuel out of Saskatchewan<sup>22</sup> acquiring fuel tax free and delivering locally). The Branch's risk assessment provided additional detail on risks related to fuel usage (e.g., misuse of marked diesel for commercial purposes, misuse of discounted gasoline). It grouped risks by participants in the exemption program (e.g., farmers, loggers, bulk fuel dealers). Because the primary purpose of this assessment was to assist the Audit Branch in selecting audits, it did not identify key mitigation strategies or share the assessment with staff responsible for administering or managing the program.

Without sufficiently coordinating and sharing the results of risk assessment activities, management may be duplicating efforts in assessing risks. They may not be sufficiently aware of emerging risks or changes in risk exposure. As such, they may not effectively respond to such risks (e.g., revise program, operating policies or procedures). Also, knowledge of program risks could be lost in the event of unplanned staff turnover.

**3. We recommend that the Ministry of Finance coordinate its risk assessment activities and related documentation for the fuel tax exemption program.**

## 4.2 Fuel Tax Exemption Program Evaluation

### 4.2.1 Evaluation of the Fuel Tax Exemption Program Needs Improvement

*We expected the Ministry to establish and follow a process to evaluate the effectiveness and efficiency of the program. We also expected that it would document detailed program evaluation criteria; these criteria would cover all aspects of the program, be current, and set out factors on which it is collecting information (i.e., measures). The Ministry would involve staff independent of program administration in the evaluation process. The Ministry would analyze and conclude on both program effectiveness and efficiency. It would determine changes to the program or legislation where required.*

The Ministry tracked, throughout the year, the following two measures to monitor its administration of the program, and identify changes in program administration:

- › It tracks the number of reinstated permits (i.e., permits that are cancelled and later re-issued). To renew permits, permit holders must submit a return and declaration form by a specified date each year. The Ministry cancels permits 30 days after the annual renewal deadline. Former permit holders must reapply. Over the past three years, the number of permits reinstated rose from 529 in 2012 to 719 in 2013<sup>23</sup> before decreasing to 620 in 2014.

The Ministry recognizes that processing new applications takes more time than permit renewals. To achieve efficiencies, the Ministry aims to reduce the number of reinstated permits by having more existing permit holders meet renewal deadlines.

<sup>22</sup> Licensed fuel exporters can purchase fuel tax free.

<sup>23</sup> Management indicated that the increase from 2012 to 2013 was due to a change in the deadline to file the annual return.



It tracks the number of program participants filing annual returns electronically. Program participants can file their annual return online through the Ministry's Saskatchewan Electronic Tax Service (SETS)<sup>24</sup> or manually (i.e., paper format). From 2012 to 2014, the number of electronically-filed returns rose each year (2012: 14,702; 2013: 16,181; and 2014: 16,759). To check participants' eligibility criteria and renew permits, SETS interfaces with the Ministry's other computer systems. For returns filed in paper format, the Ministry manually processes the return including manually checking for accuracy and eligibility criteria.

The Ministry recognizes electronic filing is more efficient because it reduces staff time spent on processing renewals. It is encouraging program participants to file electronically.

In addition, the Ministry has a documented process to formally review program effectiveness and efficiency (i.e., program review). The Ministry reviews its programs on an ongoing basis to ensure it delivers programs and services as efficiently and effectively as possible and its programs are aligned with the Government's priorities.<sup>25</sup>

A program review may result in recommendations, if necessary, for changes to the program structure or design including changes where the Ministry must seek changes to the related law (e.g., *The Fuel Tax Act, 2000*).

The Ministry provides staff conducting program reviews with a template. The template sets out key steps and lines of enquiry (questions) for staff to consider during the review. Fully responding to each line of enquiry in the template helps support assessments made during the review. For example, to assess program effectiveness, staff are to consider the following: overall policy objectives of the program, outcomes that the program seeks to accomplish, reach of the program, changes that could improve outcomes or better meet client needs, etc. To assess program efficiency, staff are to consider the following: possible changes to improve services for the same or lower cost, alternative service delivery options, improvements to make the program more cost-effective, etc.

We found that the Ministry's expected timing and documented process to carry out program reviews were reasonable except that the Ministry did not require the program review team to include staff that were not involved in administering the program under review. We found that only staff responsible for administering the fuel tax exemption program took part in a review of this program.

In May 2015, the Ministry revised its program review guidance to require program review teams to include staff other than those involved in administration of the program under review.

In our examination of the report of a fuel tax exemption program review provided to senior management for its review and approval, we noted that the report did not include any recommendations for program changes. The last significant change to the program was in 2012 when the Ministry changed the deadline for permit holders to file their annual return and declaration.

<sup>24</sup> SETS is an online service through which taxpayers can file and pay their tax returns, and view their tax account information.

<sup>25</sup> Government of Saskatchewan, *Saskatchewan Plan for Growth Vision 2020 and Beyond*, (2012) p. 57.

While the fuel tax exemption program review team used the Ministry's standard template to conduct the review, some of the responses to specific questions posed in the Ministry template were insufficient:

- › Responses to some of the questions posed were incomplete (i.e., did not fully answer the question).
- › Responses did not indicate whether outcomes were measurable, how outcomes were monitored, the information that was used to monitor, and whether client feedback was used. These are lines of enquiry included in the template. The template asks for evidence that the program is effectively achieving its goals and objectives. The template includes questions designed to help determine this (e.g., are outcomes measurable, how are outcomes monitored and how frequently, what information is used, and is direct client feedback used).

In addition, we noted that the program review did not specifically indicate whether the program did in fact achieve program objectives (i.e., conclude whether the farmer/primary producer tax exemption achieved its intended outcomes). It could not do so because the objective for this program was not clear or measurable (see **Recommendation 1**).

Instead, the fuel tax exemption program review focused on some of the program's key activities. While these provide information on the extent of use of the program, they provide limited insight as to whether the fuel tax exemption program is achieving what it was designed to achieve.

Use of program staff having significant familiarity with the fuel tax exemption program to carry out the program review may have resulted in the lack of detailed responses to the questions in the program template. Sufficient and appropriate program review documentation is needed so that staff can show they have conducted a robust program review, and to support recommendations made, if any. Without sufficient information, there is a risk that senior management may make incorrect decisions regarding the program.

**4. We recommend that the Ministry of Finance require staff to sufficiently document tax expenditure program reviews to support the results of its reviews.**

The Ministry does not publish the results of its program reviews. While this is not dissimilar to most other provincial governments, the Government of Canada makes the results of its program reviews public.<sup>26</sup>

<sup>26</sup> Government of Canada, Treasury Board of Canada Secretariat, *Standard on Evaluation for the Government of Canada*, (2009), s.6.4.2. Evaluation information on the ongoing relevance and performance of direct program spending is available to Parliament and Canadians to support government accountability for results achieved by policies and programs.



## 4.2.2 Timely Reports Provided to Senior Management

*We expected the Ministry would have documented processes for collecting and reporting data for its performance measures. It would provide senior management with timely reports on the program.*

In addition to program review results discussed in **Section 4.2.1**, the Ministry collects and reports annually to senior management on some of its activities. Senior management receives a report each year that sets out the actual amount of exempt fuel sold (in litres) and tax expenditures (i.e., forgone revenue) for the current and previous 10 years. This information allows identification of year-over-year trends in the use of the exemption.

## 4.3 Communicating Program Results to Legislators and the Public

### 4.3.1 Reporting to the Legislative Assembly and the Public Needs Improvement

*The Organization for Economic Co-operation and Development (OECD) best practice guidelines recommend that legislators be provided with similar information for tax expenditures as for other expenditure programs (e.g., grant programs).<sup>27</sup> We expected the Ministry would provide information to the Legislative Assembly when it makes decisions (e.g., when reviewing proposed legislation changes or reviewing the government's spending and assessing its performance). The Ministry would report clear and useful program information to the public (e.g., program objectives, planned and actual program results, etc.).*

The nature and extent of information the Ministry provides on its tax expenditure programs is not consistent with that provided for spending programs.

For spending programs, the Ministry publishes, as part of the *Provincial Budget*<sup>28</sup> package, current year estimates, prior year's estimates, and prior year's forecasted expenses (actual results are not known at the time of budget preparation). It also publishes, in the annual Summary Financial Statements, actual expenses for the current and prior years.

The Ministry, as part of the *Provincial Budget*, published a listing of each tax expenditure program and current year's estimated value of the tax expenditures.<sup>29</sup> It does not provide a comparative to the prior year or an updated estimate for the current year. The Ministry publishes, in its annual report, the number of farmers who renewed their fuel tax permit online.<sup>30</sup> It does not publish actual revenues forgone for the fuel tax exemption program in the year.

<sup>27</sup> Organization for Economic Co-operation and Development, *Best Practice Guidelines - Off Budget and Tax Expenditures*, (2004), p. 13.

<sup>28</sup> [www.finance.gov.sk.ca/budget2015-16](http://www.finance.gov.sk.ca/budget2015-16) (8 October 2015).

<sup>29</sup> Government of Saskatchewan, *Saskatchewan Provincial Budget 15-16*, pp. 60-62.

<sup>30</sup> *Ministry of Finance Annual Report for 2014-15*, p. 15.

Management indicated that it provides additional information as requested by members of the Legislative Assembly. Legislators did not specifically request additional information during the 12-month period ended July 2015 (our audit period).

We reviewed other governments' public reporting on tax expenditures (e.g., other provinces, Government of Canada, Government of Australia). We found that the Governments of Canada and Australia<sup>31</sup> publish more information on tax expenditures than Saskatchewan. Those jurisdictions provide for each key tax expenditure program:

- › The tax expenditure program objective
- › A description of how the tax expenditure estimates are calculated including key assumptions used (e.g., tax deductions for registered retirement savings plans are calculated at 18% of earned income up to a set maximum)
- › Projected cost estimates for future years (for a similar period as provided for spending programs)
- › Actual value of tax expenditures for the current or prior years
- › Total number of beneficiaries of tax expenditure programs

As the OECD indicates, it is important that legislators subject tax expenditures to similar scrutiny as spending programs. Less rigorous control of tax expenditures than spending programs may create an incentive for governments to use subsidies and transfers in the form of tax expenditures, regardless of the objective considerations that could justify such a choice.<sup>32</sup> Without additional information, legislators may not have a sufficient understanding of tax expenditure programs or be able to effectively scrutinize government decisions.

The Ministry does not publish information on tax expenditure program achievements. Providing information on program achievements to the public facilitates public scrutiny of government decisions and enhances government accountability for results achieved by its programs.

**5. We recommend that the Ministry of Finance annually give the Legislative Assembly the following additional information on key tax expenditure programs:**

- › Measurable program objectives (what the tax expenditure is designed to achieve)
- › Key assumptions used to estimate tax expenditures
- › Actual value of tax expenditures based on available information

**6. We recommend that the Ministry of Finance periodically publish the achievements of its key tax expenditure programs.**

<sup>31</sup> Australia: [www.treasury.gov.au/PublicationsAndMedia/Publications/2015/TES-2014](http://www.treasury.gov.au/PublicationsAndMedia/Publications/2015/TES-2014). Canada: [www.fin.gc.ca/purl/taxexp-eng.asp](http://www.fin.gc.ca/purl/taxexp-eng.asp) (5 October 2015).

<sup>32</sup> Organization for Economic Co-operation and Development, *Best Practice Guidelines – Off Budget and Tax Expenditures*, (2004), p. 14.



## 5.0 GLOSSARY

**Bulk Fuel Dealer** – A vendor who, in the normal course of business, does not dispense fuel directly into the fuel tank of a motor vehicle other than through the use of a cardlock or key-lock facility. (*The Fuel Tax Regulations, 2000*, section 2)

**Evaluation** – A review performed after the implementation of the tax measure where effectiveness, equity, compliance, administration issues, and the efficiency of the means to deliver the government support are examined together to assess the ongoing relevance and performance of the tax measure. (Auditor General of Canada, *Spring 2015 Report of the Auditor General of Canada, Report 3—Tax-based Expenditures*, paragraph 3.56)

**Farmer** – A person who controls and is responsible for the operation of a farm, owns or is the lessee of the farm, and makes an appreciable contribution to the growth and maturity of primary farm products by being actively and directly involved in farming operations. It does not include a person who is the lessor or has entered into any other agreement whereby the person has transferred the farm or an interest in the farm to another person for the purpose of farming it, buys primary farm products solely for the purpose of resale, or holds an interest in the farm solely for investment purposes. (*The Fuel Tax Regulations, 2000*, section 2)

**Fuel** – Any combustible gas or combustible liquid that may be used to generate power by means of an internal combustion or turbine engine, but does not include a prescribed fuel or fuel when used for a prescribed use. Prescribed means prescribed in *The Fuel Tax Regulations, 2000*. (*The Fuel Tax Regulations, 2000*, section 2)

**Heating** – Using fuel in a device that contains a burner to produce an open flame, but does not include using fuel:

- To power an internal combustion engine or turbine engine
- As a means of propulsion
- For regulating temperature in a trailer or container used for the private or commercial transportation of goods
- To produce electricity or to power a compressor or pump
- For fabrication processes such as cutting or welding. (*Saskatchewan Ministry of Finance Information Bulletin – Fuel Tax, General Information, January 2010*)

**Marked Diesel Fuel** – Diesel fuel that has been marked or coloured in accordance with the Act and includes prescribed diesel fuel that has been marked or coloured pursuant to the laws of another jurisdiction. It is marked by adding an approved dye using a mechanical injector system. (*The Fuel Tax Regulations, 2000*, section 2)

**Permit-use Gasoline** – Gasoline and ethanol-blended gasoline purchased by a holder of a fuel tax exemption permit for use by that person in that person's farming operations or in that person's business as a primary producer of renewable resources. (*The Fuel Tax Regulations, 2000*, section 2)

**Primary Producer of Renewable Resources** – A commercial fisher, commercial logger, commercial harvester of peat moss, or commercial trapper. (*The Fuel Tax Regulations, 2000*, section 2)

**Tax Expenditures** – Preferential provisions of the tax law that are only available to certain taxpayers and can include exemptions, deductions, deferrals, and credits that affect the level of tax. They may include special tax rates. They provide tax relief of taxes previously paid or currently

owing and are seen as forgone revenue. (*CPA Canada Canadian public sector accounting standard, PS 3510 – Tax Revenue*)

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