

Chapter 24

Finance – Monitoring the Fuel Tax Exemption Program

1.0 MAIN POINTS

By January 2019, the Ministry of Finance implemented two of the six recommendations we made in our 2016 audit of processes to monitor whether its fuel tax exemption program is achieving program objectives. The Ministry co-ordinated its risk management activities and documented key operating procedures for the fuel tax exemption program.

In addition, it had partially implemented one other recommendation. The Ministry provided the Legislative Assembly with some additional information on key tax expenditure programs including the actual value of tax exemptions based on available information.

However, the Ministry has not yet set out how it plans to measure the success of each fuel tax exemption program component. In addition, it does not annually give the Legislative Assembly measurable program objectives, or periodically publish the achievements of its key tax expenditure programs. It also does not require staff to separately document its reviews of tax expenditure programs.

Because tax expenditure programs result in lower revenues for the Government, having measurable program objectives and strong processes to evaluate, and report on, its tax expenditure programs' achievements is key to enable management and legislators to make informed decisions about tax expenditures.

2.0 INTRODUCTION

2.1 Background

The Government of Saskatchewan, like other governments, uses tax expenditures to promote specific policy objectives, such as social or economic goals, or to encourage desired behaviors, such as saving for retirement, without incurring direct costs. The Ministry of Finance develops and implements tax policy for the Government of Saskatchewan, including the Government's use of tax expenditures.

Tax expenditures reduce the amount of taxes that select individuals or corporations pay to the government through exemptions, deductions, credits, preferential tax rates, or deferrals.¹ This results in less revenue for governments. **Figure 1** shows, for the last four years, the amount of revenue forgone because of tax expenditures. Because the use of tax expenditures results in lower revenues, the Government must know what it expects to achieve by using tax expenditures, and if they are achieving the intended result.

¹ Government of Saskatchewan, *Saskatchewan Provincial Budget 19-20*, p. 55.

**Figure 1 – Tax Expenditures from 2016 to 2019**

	2016	2017	2018	2019 Estimate
All Tax Expenditures	\$3.3 Billion	\$3.4 Billion	\$3.6 Billion	\$3.7 Billion
Fuel Tax Exemption Program	\$144.1 Million	\$115.7 Million	\$100.4 Million	\$101.3 Million

Source: Government of Saskatchewan, *Saskatchewan Provincial Budget 19-20*, pp. 57-58. Represents fiscal year.

The Ministry of Finance administers many of the Government's tax expenditure programs, including the fuel tax exemption program. The fuel tax exemption program applies to marked diesel fuel purchased by permit holders. Those eligible to become permit holders are: qualified farmers, primary producers of renewable resources (i.e., commercial fishers, trappers, and loggers) and consumers of heating fuel. The program allows those permit holders to purchase tax-reduced fuel for use in specified activities, such as plowing fields.²

The Ministry established the following objectives for the program:

- 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.³
- To provide tax relief to qualified farmers and primary producers for fuel used in farming, commercial fishing, trapping, or logging activities with the understanding that the majority of fuel will be consumed off road.

2.2 Focus of Follow-Up Audit

This chapter describes our first follow-up of management's actions on the six recommendations we made in 2016 about the Ministry's processes to monitor whether its fuel tax exemption program is achieving program objectives. In our *2016 Report – Volume 1*, Chapter 8, we concluded that the Ministry of Finance had, other than for the areas of our six recommendations, effective processes to monitor whether its fuel tax exemption program is achieving program objectives.

To conduct this audit engagement, we followed the standards for assurance engagements published in the *CPA Canada Handbook—Assurance* (CSAE 3001). To evaluate the Ministry's progress toward meeting our recommendations, we used the relevant criteria from the original audit. The Ministry's management agreed with the criteria in the original audit.

In this follow-up audit, we discussed actions taken with Ministry's management, and reviewed the Ministry's documentation related to addressing the areas of our recommendations, including annual budget documents, and procedure documents.

² The Minister of Finance is responsible for *The Fuel Tax Act, 2000*. The Act imposes a tax on persons importing or purchasing fuel in Saskatchewan. The Act also allows for certain individuals to purchase tax-exempt fuel.

³ *2016 Report – Volume 1*, Chapter 8 (p. 74).

3.0 STATUS OF RECOMMENDATIONS

This section sets out each recommendation including the date on which the Standing Committee on Public Accounts agreed to the recommendation, the status of the recommendation at January 31, 2019, and the Ministry's actions up to that date.

3.1 Measurable Program Objective Needed for Fuel Tax Exemptions

We recommended that the Ministry of Finance set out how it plans to measure the success of each component of its fuel tax exemption program. (2016 Report—Volume 1, p. 74, Recommendation 1; Public Accounts Committee agreement September 21, 2017)

Status—Not Implemented

The Ministry has not decided how it plans to measure the success of each component of the fuel tax exemption program. The program's two components are reducing the cost of heating fuel, and providing tax relief to qualified farmers and primary producers.

Since 2016, the Ministry has not changed the objectives identified for the program. The objective for the heating fuel component clearly defines that the program intends to achieve comparable tax treatment for heating sources.

However, the Ministry has not set out, in a measurable way, what the objective for the fuel tax exemption for farmers and primary producers is intended to achieve other than tax relief, in general. It has not identified the intended social or economic goal, or the encouraged behaviour in a measurable way.

The Government must have a clear understanding of what it expects to achieve from each component of these exemptions to determine whether the fuel tax exemption program is achieving the desired result. This includes creating clearly defined objectives and setting performance measures for each objective to allow it to monitor the success of the program.

3.2 Better Communication of Tax Expenditure Results but Further Improvement Needed

We recommended 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*

(2016 Report—Volume 1, p. 81, Recommendation 5; Public Accounts Committee agreement September 21, 2017)

Status—Partially Implemented



We recommended that the Ministry of Finance periodically publish the achievements of its key tax expenditure programs. (2016 Report—Volume 1,

p. 81, Recommendation 6; Public Accounts Committee agreement September 21, 2017)

Status—Not Implemented

Since 2016, the Ministry has improved the information it provides about tax expenditure programs in the *Provincial Budget* but further improvements are needed.

Since 2016, the annual *Provincial Budget* includes the annual value of tax expenditures based on available information for multiple years. For example, the 2019-20 *Provincial Budget* included, for 2016 to 2019, amounts for each tax expenditure (e.g., fuel tax exemptions for farm activities, provincial sales tax exemptions for basic groceries and personal income tax exemptions for registered retirement savings plan contributions).⁴

The annual *Provincial Budget* also includes high-level key assumptions used to estimate tax expenditures. For example, the 2019-20 *Provincial Budget* describes various data sources used to estimate tax expenditures by applying assumptions regarding the expected changes in population, employment and income, retail sales and investment intentions.⁵ However, it does not give legislators and the public sufficient information to enable them to easily identify which assumptions are applicable to each of the key tax expenditure programs.

The annual *Provincial Budget* briefly describes the linkage between Saskatchewan's tax expenditures for personal and corporate income tax to the Government of Canada's tax expenditures. It gives legislators and the public a source of additional information.

The annual *Provincial Budget* continues to include a statement that tax expenditures can achieve a number of objectives, such as enhancing the fairness of the tax system or promoting certain types of economic activity.⁶ However, it does not give information on measurable program objectives for tax expenditures that the Ministry administers (e.g., exemptions on provincial sales tax and fuel tax).

Until the Ministry establishes measurable program objectives for each of the key tax expenditure programs it administers, it cannot report on the achievements of these programs.

Because tax expenditures result in lower revenues for the Government, legislators should subject tax expenditure programs to the same scrutiny as spending programs. However, having inadequate information on tax expenditure programs, such as measurable program objectives and achievements, can result in legislators insufficiently understanding the programs, and limiting their ability to keep the Government accountable for those programs.

⁴ Government of Saskatchewan, *Saskatchewan Provincial Budget 19-20*, pp. 57-58.

⁵ *Ibid.*, p. 56.

⁶ *Ibid.*, p. 55.

3.3 Periodic Review of Tax Expenditure Programs Needed

We recommended that the Ministry of Finance require staff to sufficiently document tax expenditure program reviews to support the result of its reviews. (2016 Report—Volume 1, p. 79, Recommendation 4; Public Accounts Committee agreement September 21, 2017)

Status—Not Implemented

The Ministry does not require staff to separately document its reviews of tax expenditure programs. Rather, in practice, the Ministry integrates these assessments into various documents when preparing and discussing the annual *Provincial Budget* with Treasury Board.

In 2016, the Ministry determined that tax expenditure programs would no longer be subject to the Ministry's formal program review process as it determined that reviewing these types of programs on a fixed cycle was not appropriate. Instead, tax expenditure programs are now periodically reviewed when preparing the annual *Provincial Budget*.

Maintaining distinct documentation of periodic reviews helps demonstrate whether these programs achieved what they were designed to achieve.

3.4 Risk Management Activities Co-ordinated

We recommended that the Ministry of Finance co-ordinate its risk assessment activities and related documentation for the fuel tax exemption program. (2016 Report—Volume 1, p. 77, Recommendation 3; Public Accounts Committee agreement September 21, 2017)

Status—Implemented

The Ministry documented its process to co-ordinate its risk management activities for the fuel tax exemption program.

It outlined the objectives and responsibilities for each of its branches involved in administering and managing the fuel tax exemption program. For example, the Ministry's Revenue Operations Branch focuses on managing risk related to program eligibility, while the Ministry's Audit Branch focuses on managing risk related to permit holders inappropriately using fuel obtained with their permit. The two branches met on a bi-weekly basis, as well as emailed each other to keep up to date on risk management activities.

3.5 Key Operating Procedures Documented

We recommended that the Ministry of Finance document key operating procedures for the fuel tax exemption program. (2016 Report—Volume 1, p. 76, Recommendation 2; Public Accounts Committee agreement September 21, 2017)

Status—Implemented



The Ministry documented key operating procedures for the fuel tax exemption program. For example, it documented procedures for selecting permit applications in order to conduct further eligibility reviews, and for reporting on the program to senior management.