

Chapter 17

Finance—Monitoring the Fuel Tax Exemption Program

1.0 MAIN POINTS

Tax expenditures (exemptions) reduce the amount of taxes levied on select individuals and/or corporations. Because tax expenditures result in lower revenues for the Government, legislators must have a clear understanding of what specific tax expenditures (like the fuel tax exemption program) are expected to achieve, and whether they are achieving the intended results. For 2022–23, the Ministry of Finance expects to levy about \$139.1 million less fuel tax revenue because of its fuel tax exemption program.

By August 2022, the Ministry made some progress toward implementing the four remaining recommendations we initially made in our 2016 audit of its processes to monitor whether the fuel tax exemption program is achieving its program objectives. The Ministry documented key assumptions used to estimate tax expenditures in the Provincial Budget.

The Ministry has yet to sufficiently set out how it plans to measure and analyze the success of the fuel tax exemption program, and periodically publish the achievements of the program.

Having sufficient, measurable program objectives and strong processes to evaluate and report on the achievements of the fuel tax exemption program is key to enable Ministry management and legislators to make informed decisions about the program.

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 behaviours, without incurring direct costs.

Tax expenditures reduce the amount of taxes that select individuals or corporations pay to the government through exemptions, deductions, tax credits, preferential tax rates, or deferrals.¹ These tax expenditures provide assistance to a variety of individuals and businesses, including farmers, families, senior citizens and small businesses.² Tax expenditures result in less revenue for governments. The Ministry of Finance develops and implements tax policy for the Government of Saskatchewan, including the Government's use 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 whether these expenditures are

¹ Examples of tax expenditures include exemptions for basic groceries and reading materials from provincial sales tax, deductions for registered retirement savings plan contributions for personal income tax, and credits for investing in manufacturing and processing activities for corporate income tax.

² Government of Saskatchewan, *Saskatchewan Provincial Budget 22–23*, p. 64.



achieving the intended result. **Figure 1** shows the actual or estimated amount of revenue forgone because of tax expenditures for the last four years.

Figure 1—Value of Tax Expenditures

	2019 Actual	2020 Revised ^A	2021 Revised ^A	2022 Estimate
All Tax Expenditures	\$3.7 billion	\$3.7 billion	\$4.0 billion	\$4.1 billion
Fuel Tax Exemption Program	\$122.9 million	\$130.4 million	\$133.5 million	\$139.1 million

Source: Government of Saskatchewan, *Saskatchewan Provincial Budget 22–23*, pp. 66–67.

^A The Ministry updates its actual amounts each year as new or additional information becomes available.

The Ministry of Finance administers most of the Government’s tax expenditure programs, including the fuel tax exemption program.

The fuel tax exemption program has not changed substantially since established in 1987.

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 (e.g., commercial fishers, trappers, and loggers) and consumers of heating fuel. The program allows those permit holders to purchase fuel tax-free for use in specified activities (e.g., to operate machinery used in farming operations).³

In 2022–23, the Ministry estimates it will collect \$507.9 million (2021–22 actual: \$497.9 million) in fuel tax revenues and forego \$139.1 million (2021–22: \$133.5 million) of fuel tax revenues as a result of providing the program.^{4,5}

2.2 Focus of Follow-Up Audit

This chapter describes our second follow-up audit of management’s actions on the 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 had, other than for the areas of six recommendations, effective processes to monitor whether its fuel tax exemption program is achieving program objectives.⁶

Our *2019 Report – Volume 1*, Chapter 24, concluded that by January 31, 2019, the Ministry implemented two of the six recommendations we made in the original audit.⁷

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. Ministry management agreed with the criteria in the original audit.

³ The Minister of Finance is responsible for *The Fuel Tax and Road Use Charge Act*. 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.

⁴ Government of Saskatchewan, *Saskatchewan Provincial Budget 22–23*, p. 84.

⁵ *Ibid.*, p. 66.

⁶ *2016 Report – Volume 1*, Chapter 8, pp. 69–83.

⁷ *2019 Report – Volume 1*, Chapter 24, pp. 257–262.

In this follow-up audit, we discussed actions taken since the last follow-up audit in 2019 with Ministry management. We reviewed Ministry documentation related to addressing the areas of our recommendations, including annual budget documents.

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 August 31, 2022, and the Ministry's actions up to that date.

3.1 Providing Improved Public Information on Key Tax Expenditure Programs

We recommended 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—Implemented for key assumptions and actual value.

Intent of recommendation for measurable program objectives covered by **Recommendation 1** in **Section 3.2**.

Since 2019, the Ministry made improvements to the information about tax expenditure programs (e.g., fuel tax program, provincial sales tax [PST] exemptions) included in the Provincial Budget. The Ministry still has yet to determine measurable program objectives for the fuel tax program, which is further described in **Section 3.2**.

Beginning in 2016, the annual Provincial Budget reports actual and estimated annual values of tax expenditures over a four-year period based on available information. For example, for 2022–23, the Ministry expects to levy about \$139.1 million less fuel tax revenue under the fuel tax program.

Starting in 2021, the annual Provincial Budget sufficiently describes the key assumptions used to estimate tax expenditures to enable legislators and the public to easily identify which assumptions are applicable to each of the key tax expenditure programs. For example, the Government's 2022–23 Provincial Budget describes that tax expenditure estimates for PST and fuel tax are derived from historical tax collection and Statistics Canada data on both personal and business consumption patterns, along with assumptions regarding the expected changes in population, retail sales and investment intentions.⁸

⁸ Government of Saskatchewan, *Saskatchewan Provincial Budget 22–23*. p. 65.



The annual Provincial Budget also briefly describes the linkage between Saskatchewan's tax expenditures for personal and corporate income tax to the Federal Government tax expenditures. This gives legislators and the public a source of additional information about tax expenditure programs.

3.2 Measureable Fuel Tax Program Objectives and Subsequent Analysis and Reporting of Results Needed

We recommended 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—Partially Implemented

We recommended 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

We recommended 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—Partially Implemented

Although the Ministry of Finance set out its objectives for the fuel tax exemption program, it has not set quantifiable measures of success for the program. As a result, the Ministry cannot analyze and report on the achievements of the program.

Since 2019, the Ministry more clearly states in the annual Provincial Budget its objectives for each component of the fuel tax exemption program. The objectives of each component of the program include:

- Providing tax relief to key economic sectors and ensuring tax competitiveness with other jurisdictions by providing reduced fuel tax rates to farmers and primary producers
- Ensuring consistent tax treatment with the PST exemption for natural gas used for heating by also exempting heating fuels from the fuel tax⁹

However, because the Ministry has not set out, in a measureable way, what the objective(s) for the fuel tax exemption for farmers and primary producers is intended to achieve, it is not able to adequately determine whether the program has been successful. It has not identified the intended social or economic goal, or the encouraged behaviour of the exemption in a measurable way.

⁹ Government of Saskatchewan, *Saskatchewan Provincial Budget 22–23*, p. 64.

The Ministry should have a clear understanding of what it expects to achieve from its fuel tax exemption program (e.g., percentage of farmers participating in the program, average farmer income compared to other jurisdictions) in order to determine whether the fuel tax exemption program is achieving the desired result.

Since 2016, Ministry staff indicated tax expenditure programs, like the fuel tax program, are reviewed and assessed when preparing the annual Provincial Budget. There is no separate, formal evaluation that helps demonstrate whether the fuel tax program is achieving its intended purpose.

Until the Ministry establishes measurable program objectives for the fuel tax exemption program, it cannot adequately analyze or report on the success of the program.

Presently, the Ministry reports the actual value of tax relief provided through the fuel tax exemption program in the annual Provincial Budget. The Ministry does not compare the actual value to planned (i.e., budget). This measure alone would not provide sufficient information for determining whether the fuel tax exemption program achieved success, but it would provide some information.

Tax expenditures result in lower revenues for the Government. Legislators should subject tax expenditure programs to the same scrutiny as spending programs. Having adequate information on the fuel tax exemption program, such as measurable program objectives and achievements, can result in legislators sufficiently understanding the program and holding the Government accountable to it.

