

Chapter 18

Finance—Monitoring the Fuel Tax Exemption Program

1.0 MAIN POINTS

Tax expenditures (exemptions) reduce the amount of taxes that select individuals and/or corporations pay, resulting in lower revenues for the Government. Because of these lower revenues, legislators need to clearly understand what tax expenditure programs (such as the fuel tax exemption program) are expected to achieve and whether these programs achieve desired results.

By August 2024, the Ministry of Finance implemented the three remaining recommendations we first made in our 2016 audit of its processes to monitor the fuel tax exemption program.

We found the Ministry documented its detailed review of one tax expenditure program as part of the Provincial Budget, given changes to the program. This provided adequate support for the Ministry's program recommendation to Treasury Board and allowed for informed decisions. We also found the Government reported on the achievements related to this tax expenditure program in a public annual report, promoting government accountability for results achieved by this program.

The Ministry measures the success of its fuel tax exemption program, which applies to marked diesel fuel purchased by permit holders, by publicly reporting how much farmers save annually through the program. The annual Provincial Budget shows the actual or estimated amount of forgone revenue because of the fuel tax exemption program—saving farmers \$114 million in 2023–24 and staying relatively consistent over the past four years.

2.0 INTRODUCTION

2.1 Background

Tax expenditures reduce the amount of taxes that certain individuals or corporations pay to the government through exemptions, deductions, tax credits, preferential tax rates, or deferrals.¹ These tax expenditures assist a variety of individuals and businesses, including farmers, families, seniors, and small businesses.² Tax expenditures result in less revenue for governments. In 2023–24, the Government had about \$4.5 billion in forgone revenue because of tax expenditures.³

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 24–25*, p. 68.

³ *Ibid.*, pp. 70–71.



The Government of Saskatchewan, like other governments, uses tax expenditures to achieve policy objectives, such as certain social or economic goals, or to encourage desired behaviours, without incurring direct costs. 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 achieving the intended result.

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 heating fuel consumers. The program allows those permit holders to purchase fuel tax-free for specified activities (e.g., to operate machinery used in farming operations).⁴ The fuel tax exemption program has not changed substantially since established in 1987.

2.2 Focus of Follow-Up Audit

This chapter describes our third follow-up audit of management's actions on the recommendations we made in 2016.⁵

We concluded the Ministry of Finance had effective processes, except in the areas of our six recommendations, to monitor whether its fuel tax exemption program is achieving program objectives for the 12-month period ended July 31, 2015. By August 2022, the Ministry implemented three of our six recommendations.⁶

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.

To carry out our follow-up audit, we discussed actions taken since the last follow-up audit in 2022 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, 2024, and the Ministry of Finance's actions up to that date.

⁴ 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.

⁵ *2016 Report – Volume 1, Chapter 8*, pp. 69–83.

⁶ *2019 Report – Volume 1, Chapter 24*, pp. 257–262 and *2022 Report – Volume 2, Chapter 17*, pp. 193–197.

3.1 Tax Expenditure Reviews Documented through the Budget Process and Achievements Periodically Reported

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—Implemented

We recommended the Ministry of Finance periodically publish the achievements of its key tax expenditure programs. (2016 Report – Volume 1, p. 79, Recommendation 6; Public Accounts Committee agreement September 21, 2017)

Status—Implemented

The Ministry of Finance reviews tax expenditure programs through the annual Provincial Budget process, and does a more thorough analysis when there are proposed changes to programs or a new program is recommended.

The Ministry develops and implements tax policy for the Government of Saskatchewan, including the Government's use of tax expenditures. It also administers most of the Government's tax expenditure programs, including the fuel tax exemption program.

The Ministry reviews expenditure programs as part of its process to prepare the annual Provincial Budget. The Ministry includes a brief summary of tax expenditure programs in the information it provides to Treasury Board as part of the budget approval process, along with the Ministry's analysis and recommendations on any changes proposed to tax expenditure programs. According to the Ministry, the last time it changed the fuel tax exemption program was 2017–18.

We found the Ministry sufficiently documented the results of its review for one tax expenditure program (Saskatchewan Technology Startup Incentive) examined during the 2024–25 budget preparation process and included detailed analysis and support on intended benefits.⁷ The analysis also included the Ministry's recommendation with regards to the program. Once the tax expenditure was approved by Treasury Board, the Provincial Budget outlined the new tax expenditure program, intended purpose, and impacted parties.

Sufficient review documentation about new or changed tax expenditure programs gives adequate support for Ministry recommendations made and allows for informed decisions.

We found the 2023–24 annual report for Innovation Saskatchewan outlined achievements related to the Saskatchewan Technology Startup Incentive. For example, the annual report outlined the number of investors and technology companies impacted, the extent of private investment, and the number of jobs created by the incentive.

⁷ The Saskatchewan Technology Startup Incentive is designed to encourage investments in early-stage technology startups that bring new products to market and create jobs. The program offers a tax credit to Saskatchewan-based investors who invest in these start-ups.



Providing information on tax expenditure program achievements promotes government accountability for results achieved by those programs.

3.2 Fuel Tax Exemption Program Measures How Much Farmers Saved

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. 79, Recommendation 1; Public Accounts Committee agreement September 21, 2017)

Status—Implemented

The Ministry of Finance measures the success of its fuel tax exemption program by publicly reporting how much farmers save annually through the program.

The Ministry states its objectives for each component of the fuel tax exemption program publicly in the annual Provincial Budget. The objectives 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 tax⁸

See **Figure 1** for a summary of the planned achievements for the fuel tax exemption program outlined by Ministry management. We looked at whether Ministry rationale provided as part of the annual budget process reported information (results) related to the planned achievements for the fuel tax exemption program.

As part of its 2024–25 annual budget process, the Ministry summarized the general purpose of the fuel tax exemption program, the amount of estimated tax relief, fuel tax rates compared to other jurisdictions (e.g., Alberta, Manitoba), and the number of farmers participating in the program.

Figure 1—Planned Achievements for the Fuel Tax Exemption Program

Planned Achievement	Results Reported
Interjurisdictional competitiveness	Fuel tax rate compared to other relevant jurisdictions (e.g., Alberta and Manitoba)
Broad Farmer Uptake	Number of farmers participating in the program and the approximate amount saved per individual as a result of participating in the program
Farmer Savings	Past and projected fuel tax exemption program expenditures

Source: Adapted from information provided by the Ministry of Finance.

⁸ Government of Saskatchewan, *Saskatchewan Provincial Budget 24–25*, p. 68.

In 2023–24, the Ministry collected \$475.3 million in fuel tax revenues and had \$114 million in forgone revenue as a result of the fuel tax exemption program.^{9,10}

Figure 2 shows the actual or estimated amount of forgone revenue because of the fuel tax exemption program for the last four years, indicating the amounts remained relatively consistent. The Ministry of Finance reports these amounts publicly in the annual Provincial Budget.

Figure 2—Value of Fuel Tax Exemption Program Expenditures

	2021 Actual	2022 Revised ^A	2023 Revised ^A	2024 Estimate
Fuel Tax Exemption Program	\$111.1 million	\$110.0 million	\$114.0 million	\$116.7 million

Source: Government of Saskatchewan, *Saskatchewan Provincial Budget 24–25*, pp. 70–71.

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

Publicly reporting actual compared to planned expenditures through the fuel tax exemption program gives legislators insights into how much farmers have saved and how much revenue the Government has forgone each year.

⁹ Government of Saskatchewan Public Accounts, *2023–24 Volume 1*, schedule 14.

¹⁰ Government of Saskatchewan, *Saskatchewan Provincial Budget 24–25*, p. 70.

