



TaxNewsFlash

Canada

Prepare for Carbon Price Changes on April 1, 2025

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Many businesses face changes to their tax and reporting obligations once the federal consumer carbon price is eliminated effective April 1, 2025. Although the federal government has indicated that it intends to continue with the industrial carbon pricing, the federal fuel charge (FFC) will cease to apply and provinces and territories will no longer be required to have a consumer-facing carbon price in place as of that same day. As a result, the FFC no longer applies to various fuel products and combustible waste, and related filing obligations are also eliminated, effective April 1, 2025.

In light of these changes, these affected businesses may want to review their systems, agreements and invoicing processes to determine any required actions related to the elimination of the FFC. These businesses should also consider the impact on their reporting obligations, including on their FFC registration requirements, their FFC returns for reporting periods that begin after March 31, 2025 and certain non-registrant obligations. As a result of the elimination of the FFC, certain provinces and territories have also announced consequential changes to effectively remove or cancel their carbon pricing measures.

Background

On March 15, 2025, the federal government published regulations to effectively eliminate the FFC effective April 1, 2025. The FFC is a component of the federal carbon pollution pricing system, also known as the federal backstop system. This system, which was originally introduced in 2018, generally applies in provinces and territories that do not have their own carbon pricing systems that meet certain federal standards. The federal carbon pollution pricing system includes two components: one component applies fuel charges upon the delivery, importation or use of various types of fuels and combustible

waste, while the other component is a pricing system for industrial facilities that emit greenhouse gases above a certain threshold and is known as the Output-Based Pricing System (OBPS).

To eliminate the FFC, the federal government issued and finalized related regulatory amendments that reduce the charge rates for all types of fuels and combustible waste to zero effective April 1, 2025. The regulatory amendments include FFC rate changes and other consequential measures that impact both the FFC and the OBPS.

While these changes effectively eliminate the FFC component of the federal backstop system, the OBPS component will continue to apply in the jurisdictions where it currently applies, subject to the consequential changes made as a result of the elimination of the FFC.

One or both components of the federal backstop system can apply to a particular province or territory. Prior to April 1, 2025, the FFC applied in Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, Nunavut and Yukon ("listed provinces"). The federal OBPS, as amended, will continue to apply in Manitoba, Prince Edward Island, Yukon and Nunavut.

Changes for businesses with previous FFC obligations

Cancelling FFC registration

Businesses who would have otherwise been required to or permitted to register for the FFC after March 31 will no longer be required or permitted to register after that date. As for affected businesses that were registered for FFC prior to April 1, 2025, the regulatory amendments confirm that their registration under these rules will be cancelled on November 1, 2025.

Under the FFC rules, affected businesses operating in provinces and territories subject to the FFC were either required or permitted to register. Affected businesses included fuel distributors, importers, emitters, certain fuel users or users of combustible waste, as well as air, marine, rail or road carriers.

KPMG observations

Based on the regulatory amendments, and additional guidance published by the CRA, it appears that registrants and affected non-registrants will have their fuel charge accounts automatically cancelled effective November 1, 2025, without any action required. However, businesses should follow any related updates to ensure they follow any new processes and rules that may be announced closer to the effective date.

Changes to FFC filing and reporting obligations

Registered businesses are not required to file a FFC return for any reporting periods that begin after March 31, 2025, provided no positive amount of FFC becomes payable in that period. In addition, non-registrants will not be required to report and pay FFC effective April 1, 2025.

The elimination of the FFC effective April 1, 2025 does not affect obligations for reporting periods prior to this date. Affected businesses that have any outstanding FFC returns and amounts owing for reporting periods prior to April 1, 2025 must still meet these obligations. In addition, affected businesses can continue to claim any rebates to which they are entitled.

KPMG observations

Businesses should ensure they have fulfilled all their filing and other reporting obligations under the FFC rules taking into account the regulatory amendments. Businesses are still subject to examination, assessments and reassessments after April 1, 2025. Businesses must retain records for a period of six years after the end of the year to which they relate. This includes exemption certificates that apply in respect of fuel deliveries in a listed province prior to April 1, 2025. Exemption certificates no longer apply in respect fuel deliveries on or after this date.

Canada Carbon Rebate for Small Businesses and for farmers

Eligible small- and medium-sized businesses will receive one last payment of the Canada Carbon Rebate for Small Businesses. As part of the federal system on pricing carbon pollution, a portion of the FFC proceeds were returned to eligible small- and medium-sized businesses in the form of a refundable tax credit. Finance has noted that the payment for 2024-25 fuel charge year will be the final payment under the program.

With the elimination of the FFC on April 1, 2025, the Return of Fuel Charge Proceeds to Farmers Tax Credit in respect to the 2024-25 fuel charge year will also be the final credit for eligible farming businesses.

Provincial carbon pricing

With the elimination of the FFC, British Columbia has announced that it will introduce legislation to stop the provincial carbon tax rate increase scheduled for April 1, 2025 as well as to eliminate the provincial carbon tax effective April 1, 2025.

In addition, the Northwest Territories has announced the removal of its carbon tax for all consumers except large emitters on April 1, 2025 by way of an at-source carbon tax rebate, until such time as the tax is repealed.

Saskatchewan announced on March 27, 2025 that it plans to pause the industrial carbon tax rate under its OBPS program effective April 1, 2025.

Changes for individuals

Canada Carbon Rebate

In addition, Finance has advised that eligible individuals who file their 2024 income tax return will receive their final Canada Carbon Rebate payment starting April 22, 2025. Similar to the Canada Carbon Rebate for Small Businesses, proceeds from the FFC were returned to eligible individuals in the form of Canada Carbon Rebate payments.

We can help

Your KPMG adviser can help you assess the effect of these new developments. For more details, contact your KPMG adviser.

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