

Category

Taxation



Geography/ Location

NS, ON

Municipality Size

Large



Tier

Enabling



Constraints

Equity, Political



Administrative Capacity Required

Low



Fiscal Tool Brief: Climate Action-Related Taxation

A municipal tax mechanism that generates dedicated revenue for climate mitigation, adaptation, and resilience projects.

Climate action-related taxation, or climate levy, refers to the municipal tax mechanisms designed to generate dedicated funding for climate mitigation and adaptation initiatives. Typically structured as a surcharge on existing property tax bills, this levy creates a revenue stream that can only be used for climate-related projects, such as energy efficiency retrofits, green infrastructure, flood resilience measures, and the development of low-carbon transportation systems.

In practice, municipalities can establish the levy through bylaws or budgetary decisions, often after public consultation or council approval. The surcharge is applied as a small percentage or fixed

amount added to annual property taxes, which is then collected alongside regular municipal taxes. This approach provides municipalities with a stable, long-term funding source that is independent of annual budget fluctuations and intergovernmental transfers, allowing for more strategic planning and implementation of climate action initiatives.

The funds raised are directed into a dedicated climate action reserve or fund, ensuring transparency and accountability in how the revenue is allocated. Municipalities may use these funds to directly implement projects, offer grants or incentives to property owners, or leverage them to attract additional funding or investment.

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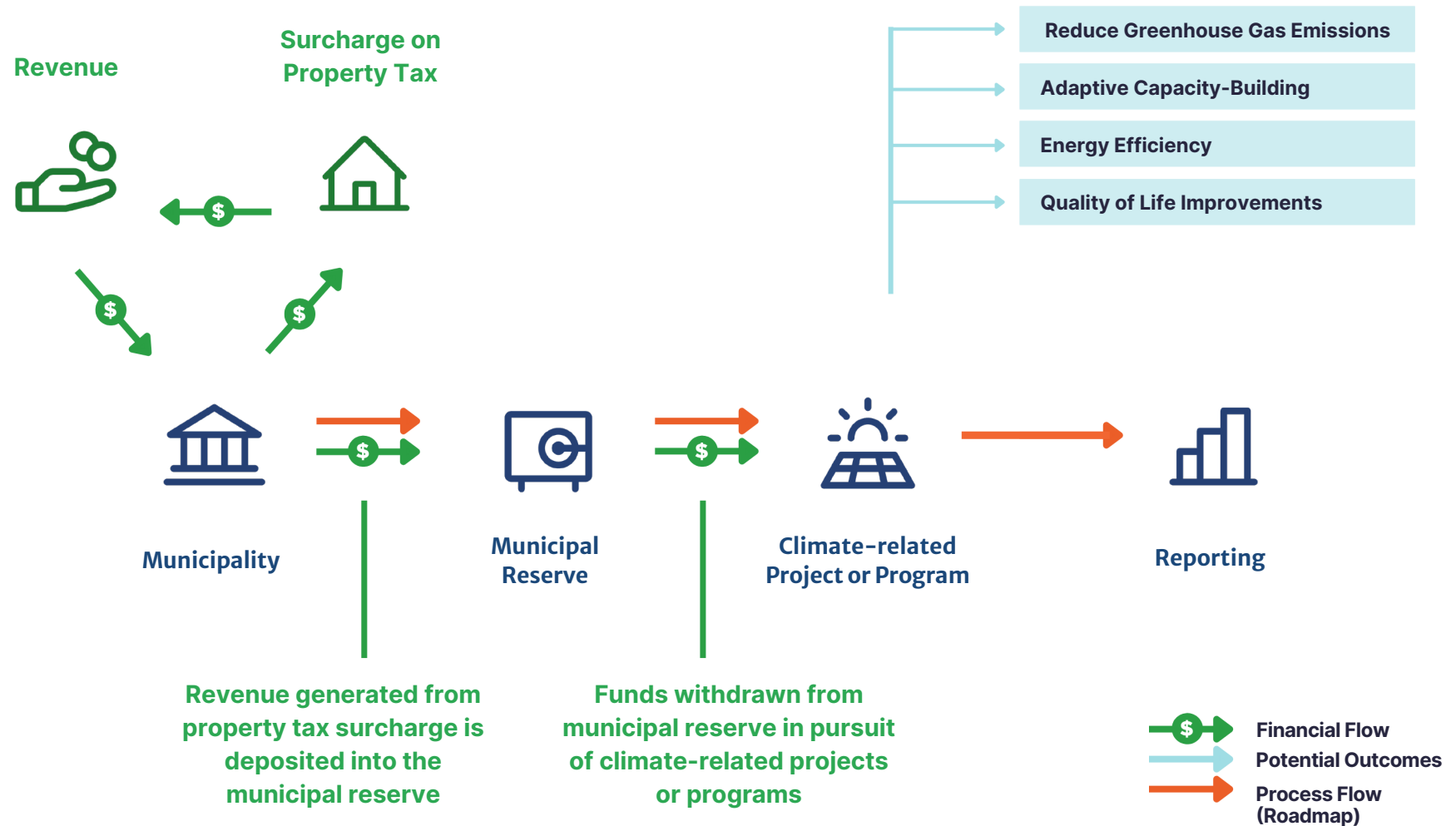


Figure 1. Visual representation of how Climate Action-Related Taxation works

Examples

Some Canadian municipalities have explored the use of climate action-related taxation and adopted this mechanism to finance climate-related projects. For example, [Halifax \(NS\)](#) introduced the Climate Action Tax, which applies a fee to residential and commercial property tax bills to support its climate-related projects in the HalifACT plan.¹ The Council approved a dedicated 3% property tax increase, committed for at least a decade. The tax generates about \$18 million annually, creating a reserve to cover upfront climate investments and future debt payments. The tax revenue directly funds initiatives such as bus electrification, energy efficiency retrofits, flood mitigation, emergency preparedness, and resilient infrastructure improvements. Halifax adjusts the tax rate annually,² provides transparent updates on expenditures, and ensures funds are used exclusively for climate-related goals. The success has been credited to strong backing from the finance department, which framed the measures as long-term investments, as well as to widespread community engagement and climate awareness that helped secure public support.³

Peterborough (ON) also introduced a climate action-related taxation in 2020 to fund its climate action. The City added a 0.25% increase on the all-inclusive property tax rate which generates about \$426,400 for the City's Climate Change Reserve annually.⁴ This reserve has already funded several important projects such as the installation of electric vehicle charging infrastructure and improving building energy efficiency. The projects funded through the Climate Change Reserve are reported to council and are featured in the municipality's annual budget book, ensuring that the residents are informed about the climate actions and contributing to the effective use of the taxation mechanism.⁵

Relevance to Advancing Adaptation

Climate action-related taxation plays a critical role in advancing local adaptation by providing a reliable funding stream that municipalities can rely on to protect communities from climate risks. Unlike grant-based or time-limited funding, a dedicated levy ensure that adaptation investments can be sustained across political cycles and budget years. This long-term reliability allows municipalities to plan and implement multi-year adaptation projects such as resilient stormwater systems, green infrastructure networks, and coastal or riverine flood protection measures.

For example, revenues can be directed to the construction and maintenance of flood-resilient culverts, enhanced drainage networks, or permeable pavements that reduce runoff and prevent urban flooding. In addition, climate levies can also finance natural infrastructure initiatives that provide both ecological and social benefits. Wetland restoration, riparian buffer enhancement, urban tree-planting, and soil regeneration projects not only reduce urban heat islands and improve water management but also strengthen biodiversity and carbon sequestration capacities.

By investing in these dual-purpose projects, municipalities can align adaptation with mitigation objectives, making the most efficient use of local revenues. Furthermore, these taxation mechanisms can be used to fund emergency preparedness and community resilience programs, such as early-warning systems, heat-relief shelters, and emergency response training. Targeted spending on these areas reduces vulnerability among high-risk populations—including seniors, low-income households, and renters—who often face the brunt of climate-related disruptions.

If equity considerations are deliberately built into project design, climate levy revenues can support adaptation measures that enhance physical resilience while improving social outcomes; without such safeguards, however, the levy may impose regressive burdens on lower-income households.

Accessibility

Municipalities are generally well-positioned to adopt a climate levy from a policy and administrative standpoint because property tax systems already exist in many jurisdictions, and implementation can often proceed through a bylaw or budget decision; in practice, however, uptake is more realistic in municipalities with the fiscal capacity and political support to sustain a new levy.⁶ This makes the instrument relatively straightforward to launch. Moreover, for taxpayers the cost is predictable and generally modest: it is expressed as a small percentage of property tax or a fixed add-on, so households and businesses can see how much the levy will add to their tax bill. Importantly, examples show that municipalities such as the Halifax Regional Municipality adopted the “Climate Action Tax” precisely to build a dedicated fund for adaptation and mitigation, signaling that the tool is accessible in the municipal context.

Although the mechanism is structurally accessible, since municipalities already administer property taxes, the political pathway to approval is far less straightforward. Municipalities are averse to raising taxes or adding levies. Therefore, securing support from the council and the public for any increase in taxation is challenging, particularly given public sensitivity to affordability issues and the perception that property taxes are already high.

Municipalities often face strong pressure to avoid introducing new levies, even modest ones, which makes the practical accessibility of this tool much more limited than the administrative steps might suggest. The very small number of municipalities that have adopted climate levies reflects how difficult it is for councils to justify new charges, even when the administrative apparatus is already in place.

Feasibility

From the implementation side, a climate levy is feasible for municipalities because it leverages existing tax-administration infrastructure. Unlike creating an entirely new tax collection mechanism, municipalities that collect property taxes already have billing systems, assessment data, and tax accounts. Thus, adding a surcharge or dedicated line within the existing property tax bill is much less resource intensive. Politically, its feasibility increases if the levy is accompanied by clear communication about how the revenues will be spent and what tangible benefits will accrue to the community. For example, in Halifax the climate action tax has been embedded in the annual operating budget and linked explicitly to the municipality’s climate strategy⁷, which helps build credibility and political viability. Therefore, successful implementation depends less on building new administrative systems than on maintaining transparent governance, modest staff capacity, and sustained public engagement to secure acceptance. In addition, the political feasibility of adopting a new levy remains one of the most significant barriers. Even when staff can demonstrate clear climate benefits, elected officials may be reluctant to endorse any initiative that raises taxes due to concerns about residential backlash, affordability pressures,

and political risk. Therefore, municipalities often put maintaining low tax increases as a priority, which limits their ability to introduce dedicated surcharges, even for urgent climate needs, demonstrating the fact that the uptake across Canada has been limited despite the tool being available across the country.

Risk

There are several risks associated with deploying a climate levy that need careful consideration. First, the levy may face public resistance if property owners perceive it as an added tax burden without visible results. For instance, in Halifax there was debate among councillors about whether to list the climate action tax as a separate line item on tax bills⁸, indicating sensitivities around transparency and public perception on such taxes. Second, there may be a risk of inequity because property tax can be considered as a regressive mechanism and lower-income households may pay disproportionately relative to income.⁹

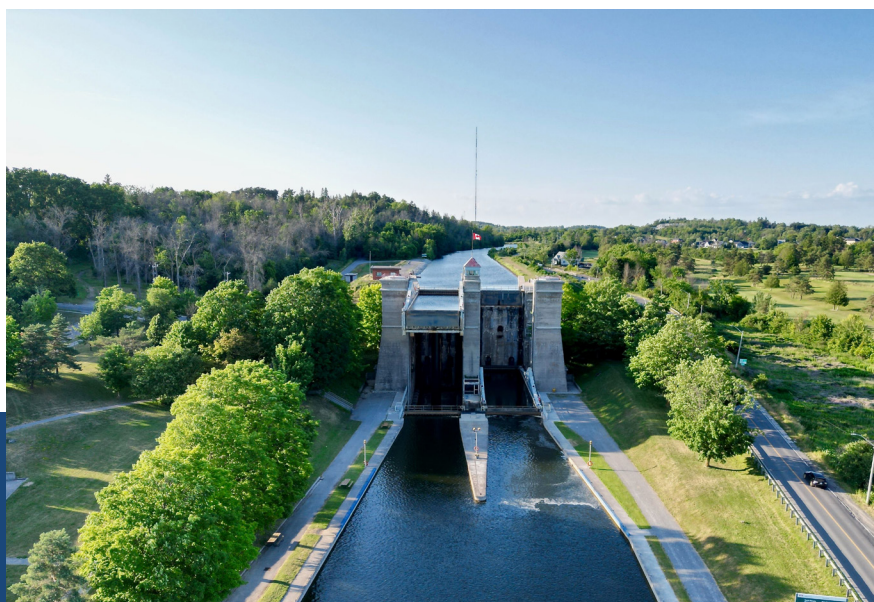
Therefore, a surcharge like the climate action-related taxation could place greater burden on vulnerable households unless mitigated through exemptions or rebates. Additionally, there is the risk that the revenues may be disproportionately spent in ways that favour particular neighbourhoods or property classes, making it difficult to ensure that community benefits are equitably distributed. Finally, the broader risk is that municipalities rely on this tax stream and fail to achieve the outcomes promised, thereby undermining public trust and political support.

To reduce these risks, municipalities can pair the levy with clear communication, transparency measures, and explicit equity safeguards such as rebates, exemptions, or phased implementation, although these measures are not inherent to the tool itself. Public resistance can be addressed by regularly reporting how funds are allocated and highlighting visible project outcomes. Concerns about regressivity can be mitigated through income-based rebates, phased-in rate increases, or targeted exemptions for low-income households and older adults. Transparent governance, such as communicating annual climate levy reports internally and externally, reporting on where investments are made, and involving community advisory groups, helps ensure benefits are distributed fairly across neighbourhoods. Finally, tying the levy to measurable adaptation and mitigation targets, with progress publicly tracked, helps maintain public trust and demonstrates that revenues are producing meaningful results.

Scalability

The climate levy mechanism is structurally scalable across municipalities because property tax systems are widely used in Canada, although practical scalability is strongest in larger municipalities that can absorb political risk and generate meaningful revenues. This means that once the policy design and implementation model are tested in one municipality such as Halifax or Peterborough, it can be adapted by others. For example, Peterborough instituted a 0.25% increase to its all-inclusive property tax rate to fund its climate change reserve, generating about \$426,400 annually.¹⁰

While the mechanism is structurally scalable, its real-world application has been limited because implementation depends on local political willingness to raise taxes, public tolerance for new charges, and sufficient fiscal capacity to make the levy worthwhile. Political resistance to increasing the tax burden on residents is a major constraint, particularly in contexts where affordability concerns are high and public tolerance for new taxes is low. The fact that only a few municipalities, such as Halifax and Peterborough, have implemented a dedicated climate levy suggests that this tool, despite being available for decades, faces significant barriers to widespread adoption. These constraints highlight that the levy's scalability depends not only on administrative feasibility, but also on local political dynamics, public willingness, and municipal capacity to ensure the successful implementation of this mechanism.



Evaluation Matrix

Scoring: High = +1 | Medium = 0 | Low = -1

Criterion	Rating	Score	Key Evidence	Assessment
Effectiveness & Performance	High	+1	Generates dedicated, stable revenue stream for adaptation projects	Provides predictable long-term funding that can be directed to adaptation infrastructure and programs.
Economic Efficiency	High	+1	Uses existing property tax system and billing infrastructure	It is administratively efficient because it builds on existing municipal tax and billing systems.
Equity & Fairness	Low	-1	Broad-based property tax surcharge; affordability concerns noted	The levy can create regressive burdens and has a weak link between who pays and who benefits.
Political Acceptability	Low	-1	Strong resistance to new taxes; limited uptake across municipalities	Adoption is politically sensitive because new taxes are often unpopular with taxpayers and elected officials.
Feasibility (Admin/Legal)	High	+1	Municipal authority to adjust property taxes via bylaws	Municipalities generally have clear authority and a straightforward implementation pathway.
Coherence (Portfolio Fit)	High	+1	Integrates with municipal budgeting and reserve funds	It fits well with existing municipal finance structures and long-term capital planning.

Best Use Context

Most effective in municipalities with strong fiscal capacity, climate leadership, and sufficient public support for new revenue measures. It is best suited to jurisdictions seeking stable, long-term adaptation.

Context Factor	Relevance	Notes
Municipal Size	High	Larger municipalities better able to absorb political risk and generate meaningful revenue.
Administrative Capacity Required	Low	Minimal additional capacity needed due to existing tax infrastructure.
Development Pressure	Low	Not dependent on growth; functions regardless of developmental conditions.
Climate Risk Targeting	Medium	Revenue is flexible but not inherently risk-targeted.
Fiscal Flexibility Required	Medium	Requires political willingness to increase taxes.

Recommended Citation

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