H.R. 2380: A Revenue–Neutral Approach to Regulating Carbon Emissions

SUMMARY

If Congress is going to regulate carbon dioxide (CO_2) emissions, it should be done honestly and transparently through a revenue-neutral mechanism. For that explicit purpose, H.R 2380 would implement a tax swap, thereby increasing the cost of carbon emissions while providing corresponding tax relief via payroll tax reductions.

HEADING OFF BENEFITS TO SPECIAL INTERESTS

The current proposals in Congress to limit CO_2 emissions include the auctioning of credits that would either be implemented by Wall Street trading or by an action administered by the federal government. *The considerable anticipated sales revenue is likely to be funneled back to special interests supportive of the plan or for unfunded and potentially unnecessary government priorities.* In addition, the crafting of special exemptions or prearranged deals for free credits paves the way for the federal government to choose winners and losers. This plan calls for big government intervention in selecting which industries and companies are winners and losers, while raising energy costs for American taxpayers in order to fund the pet projects of special interests. Only by removing benefits for special interests will Congress be able to have an open and honest debate regarding carbon emissions.

THE NEED FOR REVENUE-NEUTRALITY

If Congress is going to pass the burden of an increase in the cost of carbon emissions to consumers, *an equal reduction in their tax burden should be assigned.* H.R. 2380 includes a straightforward and transparent means of regulating carbon emissions that is **revenue neutral**. Americans will bear the brunt of the imposed costs *and they should have all federal revenue proportionally returned every month through their paychecks.* This tax swap approach is a win-win solution: Americans would benefit from both implied efficiency incentives and a reduction in payroll taxes.

PROVIDING CERTAINTY OF COSTS

The tax-swap approach included in H.R. 2380 will provide future cost certainty to consumers. In contrast, the auctioning and subsequent trading of carbon emissions credits would, by definition, create pricing ambiguity due to the fluctuations inherent in any market. In an auction environment, industries will not have confidence in future prices or future demand, creating volatility in the market place. Family budgets would be subject to fluctuating costs for utilities and other necessities.

INCREASING NATIONAL SECURITY

Whether or not one agrees with assertions that humans are causing climate change, many Americans will agree that our dependence on fossil fuels from hostile nations is jeopardizing national security. Incentives for domestic energy production through renewable and alternative sources will protect the United States from foreign threats.

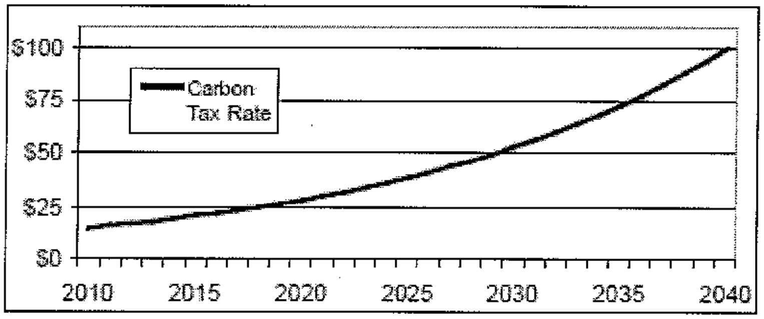
H.R. 2380: *A* ***Revenue–Neutral*** *Approach to Regulating Carbon Emissions*

STEP 1: LOWER TAXES

- Lower the payroll tax for employers and employees by an amount equal to a new cost of emitting carbon dioxide.
- Prospectively increase Social Security benefits to help seniors pay higher energy bills.
- In the first year, payroll taxes can be reduced by more than 10 percent, funded by a carbon tax of $15 per ton that will generate as much as $88.7 billion.
- The Social Security Trust Fund will not be touched; the tax swap is handled in the General Fund of the Treasury.

STEP 2: ATTACH A PRICE TO CARBON

- The proposed carbon tax starts at $15 per ton of CO_2 in 2010 and increases to $100 by 2040, adjusted each year for inflation.
- To provide businesses with certainty and the ability to plan, the bill includes a clear schedule of rates.
- The additional cost of carbon emissions applies to fossil fuels as they enter the economy: at the mine mouth, the oil refinery, and the natural gas pipeline. This upstream application of the cost will make it easy to implement and reduce administrative costs.



STEP 3: ATTACH THE SAME PRICE AT THE BORDER

- In order to accord similar treatments to domestic and imported goods, imported products will be subjected to the same U.S. carbon costs.
- The tax would be removed from goods destined for export from the U.S.
- Consistently applying the same cost to all domestic and imported products will keep this border adjustment in compliance with existing WTO agreements.

IMPACTS ON ENERGY PRICES Short Term Energy Price Impacts of $15 per Metric Ton CO_2				
Unit		Price per Unit (2006) ($)	Tax per Unit ($)	Price Change (%)
Gasoline	(gal)	2.57	0.15	5.8
Natural Gas	(MMBtu)	13.34	0.80	6.0
Coal	(MMBtu)	1.70	1.42	83.5

STEP 4: ENSURE REVENUE NEUTRALITY

- H.R. 2380 starts with reducing payroll taxes and sending more money home with the American worker. To preserve that principle, the bill requires a supermajority vote (two-thirds majority in both House and Senate) to overturn revenue neutrality and use revenues from the increased cost of carbon emissions for any other purpose.