Rooney Carbon Tax Reform Proposal

- Charges fossil fuel producers and large industrial emitters, covering about 85 percent of U.S. greenhouse gas (GHG) emissions, a carbon tax of $30 per metric ton of CO2 equivalent.
- Uses revenue from the carbon tax, to reduce *payroll taxes* for employees and employers, fund R&D for clean energy, and compensate low-income households for increased costs.
- Implements a carbon-based border adjustment to charge imports and rebate exports for greenhouse gas intensive and trade exposed goods to maintain environmental integrity.
- Creates a performance-based moratorium on implementation on new regulations of stationary sources of greenhouse gas emissions like the Clean Power Plan.

This bill will

Cut emissions: Modeling with the E3 model from Resources for the Future indicates such a carbon tax would reduce energy-related carbon pollution by approximately 42 percent by 2030 (against 2005 levels), far outpacing the reductions expected from existing policies.

Reduce payroll taxes: The revenue raised by the carbon tax, as calculated by the E3 model, would be used to reduce the payroll tax burden on working Americans and employers amounting to a nearly 1% cut in the total payroll tax rate.

Improve the business environment: A carbon tax makes regulations for reducing GHG emissions duplicative. The bill creates a 12-year moratorium on the implementation of new regulations offering certainty and simplicity for states and businesses.

Without compromising on

Environmental Performance: The bill has two provisions to ensure that the carbon tax meets its environmental goals. If emissions do not meet minimum reductions, then the carbon price can increase or the regulatory moratorium can be phased out.

The scope of government: Since the tax is levied upstream on fossil fuels, there is minimal administrative burden. The Rooney plan puts carbon on the balance sheet of firms around the country, which keeps decisions about where to best reduce emissions within the private sector, not Washington, D.C.

Jobs: By lowering distortionary payroll taxes, the bill shifts some tax burden away from work and onto pollution. Economic research has shown that reducing payroll tax rates is an effective way to offset *net* labor market impacts of a new carbon tax.

Summary By Section

Title I—Greenhouse Gas Emissions

<u>Section 9901, Part 1:</u> Pricing CO2 emissions in the United States

- Amends Tax code to add tax equal to $30 per metric ton of CO2 equivalent + annual increase of 5% + CPI. Emissions levels from taxed sources, including cumulative levels, to be reported every year. Every 2 years, an automatic $2 per ton increase will occur if emissions reductions are behind goals.
- Defines point of taxation:
    - Coal mine mouth; Refinery output; Natural gas processing plant
    - Owner/operator of certain industrial facilities. Initial list of 20 sectors--including steel, cement, aluminum, glass, semiconductors…--can be modified by EPA.
    - Owner/operator of facility that makes or imports certain products. List includes ethanol, biodiesel, industrial carbonates, urea, soda ash, NOx, ozone-depleting substances. Can be modified by EPA.
    - Owner/operator of facility that burns or imports biomass. Rate of CO2 equivalent to be set by EPA
- Exemption (refund) for sequestering carbon from an emissions source using taxed fuels and non-emissive uses of taxed fuels.
- Credit for state payments—in states that require payment on emissions, the bill allows owner/operators a declining credit. States at 100% credit in year 1, 80% year 2, … down to 0% by year 5.

<u>Section 9901, Part 2:</u> Applying a border adjustment for imports and exports

- Levies an import fee on carbon-intensive imported goods in an amount equal to increased costs paid by comparable US products.
- Provides for a rebate on carbon-intensive exported goods in an amount equal to the carbon tax paid during production.
- Defines a carbon-intensive good as having increased costs in excess of 5 percent of total traded value.

Title II—Carbon Reduced Payroll Tax

- Reduces individual, employer, or self-filing payroll taxes by the reduced carbon rate, which is defined as the percentage of payroll taxes necessary to equal 70 percent of expected carbon tax revenue.
- Appropriates funds equivalent to 70 percent of the carbon tax revenue into the Federal Old-Age and Survivors Trust Fund and the Federal Disability Insurance Trust Fund.

Title III Distribution of Revenues From Taxation of GHG Emissions

Sec. 301: Establishment of Carbon Trust Fund

- 30% CARBON Trust Fund
  - 33% available for State block grants used to offset higher energy costs for low-income households
  - 67% available for climate adaptation, energy efficiency, and advanced R&D programs

Title IV—Amendments to Existing Laws

Sec 401—Installs a moratorium on enforcing Clean Air Act regulations on greenhouse gas emissions from stationary sources covered by the tax. Moratorium starts upon enactment and is maintained for 12 years, unless emissions reductions do not meet targets.