TEA FACTSHEET

THE COST OF TAXING ENERGY

A Carbon Tax Means Higher Utility Bills And Higher Gas Prices For American Families

The Biden administration has expressed support for a carbon pricing or carbon tax mechanism. "'We cannot solve the climate crisis without effective carbon pricing,' Yellen said in response to a question about her views on an economy-wide price on carbon as an efficient mechanism to decrease emissions. 'The President supports an enforcement mechanism that requires polluters to bear the full cost of the carbon pollution they are emitting. I am deeply engaged on this issue and, if confirmed, will continually discuss my views and thinking with the President and our entire team,' she added. Yellen also affirmed support for sharing revenue raised through carbon pricing with American families to address the impact of moving toward a clean energy economy on lower-income households." (Lisa Street, "UPDATE: US Senate confirms Janet Yellen as Treasury Secretary," IHS Markit, 1/26/21)

According to the Tax Policy Center, "A tax of $40 per ton would add about 36 cents to the price of a gallon of gasoline, for example, or about 2 cents to the average price of a kilowatt-hour of electricity." "A carbon tax would increase the price of burning fossil fuels and any resulting goods or services. A tax of $40 per ton would add about 36 cents to the price of a gallon of gasoline, for example, or about 2 cents to the average price of a kilowatt-hour of electricity (Marron, Toder, and Austin 2015)." ("What is a carbon tax?," The Tax Policy Center, Accessed 4/9/21)

"Higher energy prices would raise costs for industry and households, resulting in lower profits, wages, and consumption." ("What is a carbon tax?," The Tax Policy Center, Accessed 4/9/21)

"Because low-income households consume a more energy-intensive basket of goods than wealthier households do, a carbon tax would be regressive; it would cost poorer households a higher share of their income than wealthier households." "The impact of a carbon tax would differ among economic groups depending on the extent of energy price changes and on regional energy production and consumption patterns. Clearly, a carbon tax would fall more heavily on workers and investors in carbon-intensive industries as well as on regions that depend heavily on carbon-intensive fuels, particularly coal. The distributional impact of a carbon tax would depend on the extent to which businesses could pass higher energy costs to their customers. If demand for goods is less 'elastic' (that is, responds less) to price changes

than the supply of goods, then consumers will bear more of the carbon tax burden than investors and workers. Because low-income households consume a more energy-intensive basket of goods than wealthier households do, a carbon tax would be regressive; it would cost poorer households a higher share of their income than wealthier households (Marron, Toder, and Austin 2015)." ("What is a carbon tax?," The Tax Policy Center, Accessed 4/9/21)

"A carbon tax of $20 per ton would account for about 0.8 percent of pretax income for households in the lowest income quintile, as compared to 0.5 percent for the highest income quintile." "A carbon tax of $20 per ton would account for about 0.8 percent of pretax income for households in the lowest income quintile, as compared to 0.5 percent for the highest income quintile. The environmental benefits from reduced emissions would be shared by people around the world. Combatting climate change thus poses a fundamental collective action problem. US reductions will be most valuable if they are accompanied by comparable reductions in other nations." ("What is a carbon tax?," The Tax Policy Center, Accessed 4/9/21)

The Biden Administration Has Even Suggested Taxing Americans On The Number Of Miles They Drive

Pete Buttigieg, Biden's Transporation Secretary, has suggested a vehicle mileage tax "which would tax travelers based on the distance of the journey instead of on how much gasoline they consume." "A vehicle mileage tax could be on the table in talks about how to finance the White House's expected multi-trillion-dollar infrastructure proposal, according to Transportation Secretary Pete Buttigieg. Buttigieg, who spoke with CNBC's Kayla Tausche on Friday, also contended that President Joe Biden's forthcoming plans to rebuild the nation's roads, bridges and waterways would lead to a net gain for the U.S. taxpayer and not a net outlay. 'When you think about infrastructure, it's a classic example of the kind of investment that has a return on that investment,' he said. 'That's one of many reasons why we think this is so important. This is a jobs vision as much as it is an infrastructure vision, a climate vision and more.' He also weighed in on several potential revenue-generating options to fund the project. He spoke fondly of a mileage levy, which would tax travelers based on the distance of the journey instead of on how much gasoline they consume." (Thomas Franck, "Vehicle mileage tax could be on the table in infrastructure talks, Buttigieg says," CNBC, 3/26/21)

Buttigieg: "A so-called vehicle-miles-traveled tax or mileage tax, whatever you want to call it, could be a way to do it … [a mileage tax] shows a lot of promise if we believe in that so-called user-pays principle: The idea that part of how we pay for roads is you pay based on how much you drive." "'A so-called vehicle-miles-traveled tax or mileage tax, whatever you want to call it, could be a way to do it,' he said. Democrats have slowly pivoted away from a gasoline tax in favor of a mileage tax amid a simultaneous, climate friendly effort to encourage consumers to drive electric cars. 'I'm hearing a lot of appetite to make sure that there are sustainable funding streams,' the Transportation secretary said. A mileage tax 'shows a lot of promise if we believe in that so-called user-pays principle: The idea that part of how we pay for roads is you pay based on how much you drive.' He added: 'You're hearing a lot of 'maybe' here because all of these things need to be balanced and could be part of the mix.'" (Thomas Franck, "Vehicle mileage tax could be on the table in infrastructure talks, Buttigieg says," CNBC, 3/26/21)

A mileage tax would hit low-income earners hardest: "While the average American spends roughly 13 percent of their income on transportation, that figure jumps to nearly 30 percent for the lowest-earning fifth of the population." "In other words, it may take a while for the VMT tax to make it to prime time. And before it does, VMT proponents will have to reckon with significant equity concerns. Like the gas tax, and like sales taxes in general, a VMT tax would be regressive if applied uniformly across income brackets: It would take a larger percentage of income from low earners than it would take from high earners. That tracks with the way that transportation costs generally are unevenly distributed by income: While the average American spends roughly 13 percent of their income on transportation, that figure jumps to nearly 30 percent for the lowest-earning fifth of the population." (Adam Mahoney, "Here's why Pete Buttigieg's tax on driving isn't ready for prime time," Grist, 3/30/21)

The tax would also disproportionately effect rural and urban communities where distances for services and commutes for workers are often much longer than average. "A VMT tax would also be likely to disadvantage rural communities, as well as communities of color generally. The former lack robust public transportation and also face long commutes to jobs and even essential services: A 2018 report found that rural communities commute nearly twice as long for hospital services compared to urban communities. And in urban areas, low-income workers and people of color frequently face a spatial mismatch between where they live and where jobs are located, making their commute times longer and access to public transportation spottier. A VMT tax could exacerbate this burden." (Adam Mahoney, "Here's why Pete Buttigieg's tax on driving isn't ready for prime time," Grist, 3/30/21)

"The tax could also disadvantage precarious rideshare and delivery workers, especially those who work as independent contractors and therefore will see any new taxes come directly out of their take-home pay." (Adam Mahoney, "Here's why Pete Buttigieg's tax on driving isn't ready for prime time," Grist, 3/30/21)

Biden Calls For Eliminating Fossil Fuel "Subsidies" But Just Replaces Them With "Clean Energy" Subsidies

Biden's "Made in America" tax plan says it will replace "fossil fuel subsidies with incentives for clean energy production." "These include: 1. Raising the corporate income tax rate to 28 percent; 2. Strengthening the global minimum tax for U.S. multinational corporations; 3. Reducing incentives for foreign jurisdictions to maintain ultra-low corporate tax rates by encouraging global adoption of robust minimum taxes; 4. Enacting a 15 percent minimum tax on book income of large companies that report high profits, but have little taxable income; 5. Replacing flawed incentives that reward excess profits from intangible assets with more generous incentives for new research and development; 6. Replacing fossil fuel subsidies with incentives for clean energy production; and 7. Ramping up enforcement to address corporate tax avoidance." ("The Made in America Tax Plan," U.S. Department of Treasury, 4/21)

Biden once again calls for "100 percent carbon-pollution free power by 2035." "All of this will be done while ensuring those facilities meet robust and rigorous standards for worker, public, and environmental safety as well as environmental justice – and all while moving toward 100 percent carbon-pollution free power by 2035." ("FACT SHEET: The American Jobs Plan," The White House, 3/31/21)

To get there, Biden calls for "a targeted investment tax credit that incentivizes the buildout of at least 20 gigawatts of high-voltage capacity power lines and mobilizes tens of billions in private capital off the sidelines – right away." "Build a more resilient electric transmission system. Through investments in the grid, we can move cheaper, cleaner electricity to where it is needed most. This starts with the creation of a targeted investment tax credit that incentivizes the buildout of at least 20 gigawatts of high-voltage capacity power lines and mobilizes tens of billions in private capital off the sidelines – right away." ("FACT SHEET: The American Jobs Plan," The White House, 3/31/21)

And, "President Biden is proposing a ten-year extension and phase down of an expanded direct-pay investment tax credit and production tax credit for clean energy generation and storage." ("FACT SHEET: The American Jobs Plan," The White House, 3/31/21)

Hiking The Corporate Tax Puts The Burden On Workers, Consumers and Investors—Not Corporations

Biden's Made in America tax plan "implements a series of corporate tax reforms to address profit shifting and offshoring incentives and to level the playing field between domestic and foreign corporations." "The current corporate income tax regime contains incentives for corporations to shift their production and profits overseas. Declining corporate tax revenues hinder the ability of the United States to fund investments in infrastructure, research, technology, and green energy. The Made in America tax plan would fundamentally reorient corporate taxation to reverse this legacy. The Made in America tax plan implements a series of corporate tax reforms to address profit shifting and offshoring incentives and to level the playing field between domestic and foreign corporations." ("The Made in America Tax Plan," U.S. Department of Treasury, 4/21)

The plan hikes the corporate tax rate to 28 percent and replaces "fossil fuel subsidies with incentives for clean energy production." "These include: 1. Raising the corporate income tax rate to 28 percent; 2. Strengthening the global minimum tax for U.S. multinational corporations; 3. Reducing incentives for foreign jurisdictions to maintain ultra-low corporate tax rates by encouraging global adoption of robust minimum taxes; 4. Enacting a 15 percent minimum tax on book income of large companies that report high profits, but have little taxable income; 5. Replacing flawed incentives that reward excess profits from intangible assets with more generous incentives for new research and development; 6. Replacing fossil fuel subsidies with incentives for clean energy production; and 7. Ramping up enforcement to address corporate tax avoidance." ("The Made in America Tax Plan," U.S. Department of Treasury, 4/21)

A 2020 study by Scott R. Baker of Northwestern University, Stephen Teng Sun of City University of Hong Kong, and Constantine Yannelis of the University of Chicago estimated that 31 percent of the cost of an increase in corporate taxes is paid by consumers, 38 percent by workers, and 31 percent by shareholders. "Informed by our empirical estimate, we can gauge the incidence of corporate taxes on consumers by relating the welfare change of consumers induced by a marginal change in the net-of-tax rate to the sum of the welfare changes of consumers, workers, and firm owners. We find that the incidence on consumers, workers, and shareholders is 31 percent, 38 percent, and 31 percent, respectively. This stands

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in sharp contrast to the case where we do not take into account the effect of corporate income tax on product prices; under this assumption, workers and shareholders will bear 42 percent and 58 percent of the tax burden, respectively." (Scott R. Baker, Stephen Teng Sun, and Constantine Yannelis, "Corporate Taxes and Retail Prices," Cato Institute, 7/22/20)

A 2020 study from the Tax Policy Center found investors pay for 80 percent of a corporate tax hike, while workers carry the remaining 20 percent. "The corporate income tax reduces shareholders' after-tax returns, causing them to shift some of their investments out of the corporate sector. Shareholders will shift some investments to noncorporate ("pass-through") businesses and some to foreign businesses not subject to the US corporate income tax. The shift to these other sectors lowers the after-tax return on investments in these sectors. The shifting of investment out of the corporate sector continues until after-tax returns—adjusted for risk—are equalized in the corporate and noncorporate sectors. Thus, the corporate income tax reduces investment returns in all sectors. Shifting investments to foreign businesses also reduces the amount of capital (machines, equipment, structures, etc.) complementing US workers, so their productivity, and therefore their wages and other compensation, fall. In calculating distributional effects, the Urban-Brookings Tax Policy Center (TPC) assumes investment returns (dividends, interest, capital gains, etc.) bear 80 percent of the burden, with wages and other labor income carrying the remaining 20 percent. These assumptions reflect the full, long-term economic consequences of investors responding to changes in the corporate income tax, such as rate changes." ("Who bears the burden of the corporate income tax?," Tax Policy Center, 5/20)