

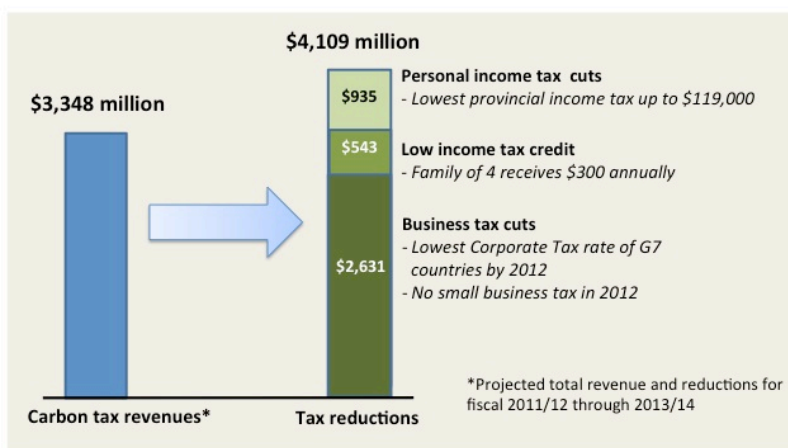
## Revenue-neutral carbon pricing in Washington State

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One of the most successful climate policies in the world is the [revenue-neutral carbon tax in British Columbia](#). Created in 2008 by a right-of-center government, BC's carbon tax is revenue-neutral, meaning that all the money generated is returned to taxpayers in the form of rebates on personal and corporate income taxes; there is also an offset for low-income households.



### Revenue neutral



**Details:** BC's carbon tax started at \$10 per ton of CO<sub>2</sub> and peaks in July 2012 at \$30 per ton. It applies to fossil fuel CO<sub>2</sub> (but not out-of-province jet fuel or imported electricity).

### Policy outline for Washington State

**Carbon tax rate:** A tax of \$30 per metric ton of CO<sub>2</sub> on all fossil fuels purchased for combustion in the state and (if feasible) the carbon content of imported electricity. This tax would amount to about \$0.30/gallon of gasoline or diesel; about \$0.03/kWh of electricity from coal; and about \$0.015/kWh of electricity from natural gas.

**Climate benefit:** Fossil fuel combustion accounts for about 85% of the 100 million metric tons of annual greenhouse gas emissions in [Washington](#).

**Revenue generation:** Assuming a 10% reduction in emissions, a tax of \$30/ton CO<sub>2</sub> would initially generate as much as \$4.6 billion per biennium (\$2.3 billion per year).

## Revenue recycling options for a \$2.3 billion/year carbon tax

**Revenue generation:** Assuming a 10% reduction in emissions, a tax of \$30/ton CO<sub>2</sub> would initially generate as much as \$4.6 billion per biennium (**\$2.3 billion per year**). As in BC, revenue reductions could be established as flexible tax rebates rather than fixed reductions; this allows the rebates to go up or down based on carbon tax receipts and helps to ensure revenue neutrality.

Here are some big revenue recycling targets, with most data from [Tax Statistics 2011](#):

- 1) State sales tax: \$7.2 billion/year.** The state rate is 6.5%, with [city and county levies](#) bringing the total up to as much as 9.5%. Carbon taxes and sales taxes are both regressive, meaning that their burden is greater for lower-income households.
- 2) B&O (business) tax: \$3.0 billion/year.** The major rate categories are manufacturing and wholesaling: 0.484% of gross receipts; retailing: 0.471%; and services: 1.8%.
- 3) State property tax: \$1.9 billion/year.** The state rate is \$2.06 per \$1000 of market value. The state portion is about 1/4 of [total property taxes](#) in the state. Reducing the property tax would provide direct benefits to homeowners and business (the [Gates Tax Structure Study Commission](#) estimates that 42% of the incidence of property taxes falls on business) and indirect benefits to renters and consumers.

Here are some smaller revenue options:

- 4) Small business B&O tax credit:** \$36-\$65 million per year could be used to double or triple this tax credit, according to the Economic Opportunity Institute.
- 5) High-tech tax credits:** A high-tech B&O tax credit (\$23m/year) and a high-tech sales tax exemption (\$166m/year) are slated to expire in 2015. ([More info.](#)) Extending these tax credits is a top priority of the [Washington Technology Industry Association](#).
- 6) Working Families Rebate:** \$70-\$140 million per year could be used to provide up to \$500-\$1000 a year for about 400,000 low-income working households in Washington State, according to the [Washington Budget & Policy Center](#). The Working Families Rebate was created by the state in 2008 but never funded; it is modeled after similar programs that exist in [22 other states](#). Like most of these programs, the Working Families Rebate is a bump-up of the federal [Earned Income Tax Credit](#). (The \$70 million and \$140 million figures represent bump-ups of 10% and 20%, respectively.) Since Washington has no state income tax, the Working Families Rebate is officially organized as a sales tax rebate or exemption.