Clean the Air Carbon Tax Act: Policy Overview (DRAFT April 17, 2019)

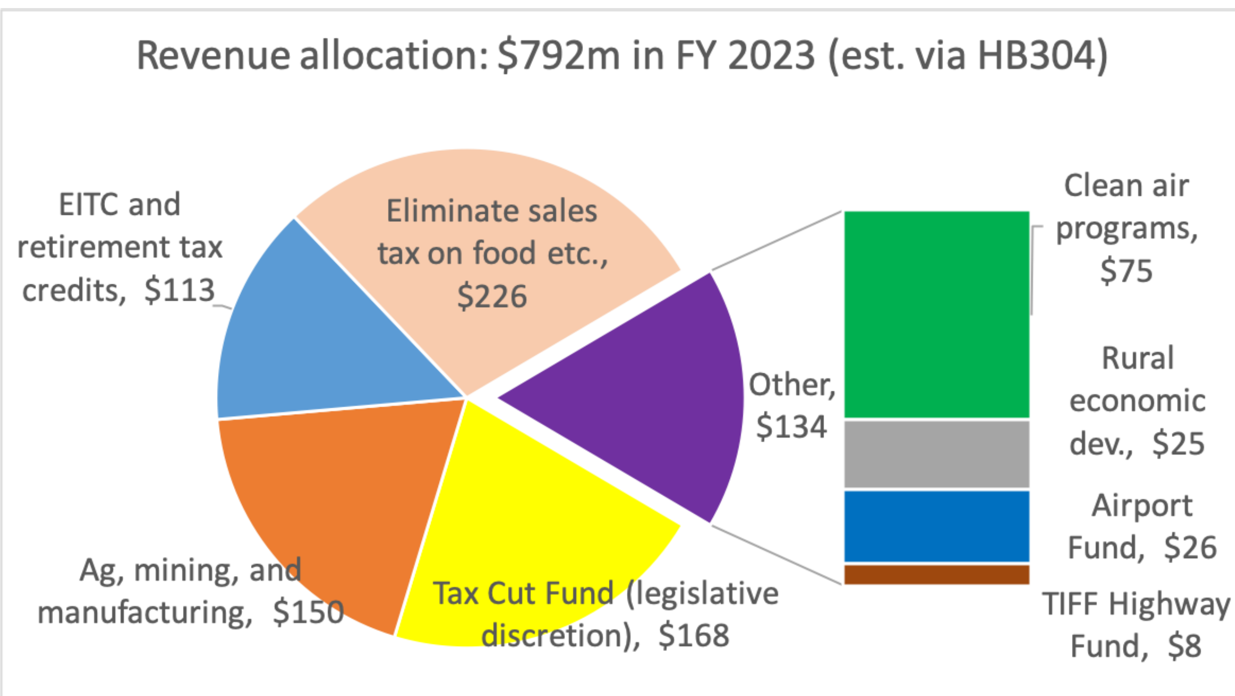
Summary

This proposal includes a modest carbon tax, with 20% of the revenue going to clean up local air pollution and fund rural economic development and 80% of the revenue going to reduce existing taxes, including eliminating the state sales tax on grocery store food.

More details

The carbon tax would start at $11 per metric ton CO2 (about 10 cents per gallon of gasoline, about 0.8 cents per kWh electricity). It would start in 2022, go up slowly over time, and fund:

- **$75 million a year for cleaning up local air pollution** from wood-burning stoves, gas-powered lawnmowers, freight-switcher locomotives, dirty school buses, and more.
- **$25 million a year for rural economic development**.
- Elimination of the **state sales tax on grocery store food** and other regressive sales taxes.
- A 20% match of the federal **Earned Income Tax Credit** for low-income working families.
- An expansion and extension of the **Retirement Tax Credit**.
- A phase-in of the carbon tax rate for agriculture, mining, manufacturing, and other **energy-intensive trade-exposed businesses** to help them stay competitive.
- **Additional tax cuts** if possible, as determined by the state legislature.



Even more details...

Even more details (you asked for it!)

The carbon tax starts at $11 per metric ton CO_2 in 2022 and goes up at 3.5% plus inflation, reaching (in real terms) $15 per ton in 2031, $20 per ton in 2040, etc., up to a maximum of $100 per ton. It applies to motor fuels ($11 per ton is ≈10 cents per gallon), natural gas (≈6 cents per therm), and electricity consumption (≈0.8 cents per kWh, depending on each utility's carbon intensity); for all of these, $11 per ton CO_2 is a bit less than 10% of current retail prices.

The carbon tax also applies to consumption of coal, off-road diesel, and fuel gas by large facilities that emit more than 10,000 tons of CO_2 (e.g., refineries and steel mills, but not power plants because electricity is taxed as described above). To help them stay competitive, agriculture, mining, and manufacturing companies have a reduced carbon tax rate: 10% of the rate described above in year 1, 15% in year 2, etc., and then 50% in years 9 and beyond.

Most of the revenue from the carbon tax would go into a Carbon Emissions Fund, except that federal regulations essentially require taxes on jet fuel to go into an Airport Fund. (Also, as required by Utah's constitution, the carbon tax on motor fuels goes into the Highway Fund, but a roughly equivalent amount of the sales tax money currently going to highways is put into the Carbon Emissions Fund instead, the net impact on the Highway Fund being slightly positive.)

This Carbon Emissions Fund revenue is directed to:

- Transfers to the General Fund to make up the lost revenue from eliminating the state sales tax on grocery store food (and the state sales tax on electricity and heating fuels, which is eliminated to partially cushion the price impact of the carbon tax while still giving utilities an incentive to fuel-switch).
- Transfers to the Education Fund to make up the lost revenue from the 20% match of the federal Earned Income Tax Credit and from the Retirement Tax Credit (which is expanded from a maximum of $450 per person to $650 per person, with eligibility extended by 10 years, i.e., from born-before-1953 to born-before-1963). The reduced carbon tax rate for manufacturing etc. is also technically included here (as a rebate).
- Annual spending of $75m on improving air quality ($60m to DEQ for a Clean Air Grant Program and $15m to the CARROT program—Clean Air, Retrofit, and Replacement of Off-road Technology—for school buses, industrial vehicles, and lawn equipment) and $25m on rural development through the Governor's Office of Economic Development. The $60m for DEQ is to be spent on bringing the state into compliance with the Clean Air Act, and that money goes away if and when the state accomplishes that goal.

Any remaining revenue goes into a Tax Refund Restricted Account that the legislature can only use to "lower state taxes, especially for low- and middle-income households and for energy-intensive trade-exposed businesses."