

A Proposal for a U.S. Carbon Tax Swap:

An Equitable Tax Reform to
Address Global Climate Change

A Hamilton Project Paper

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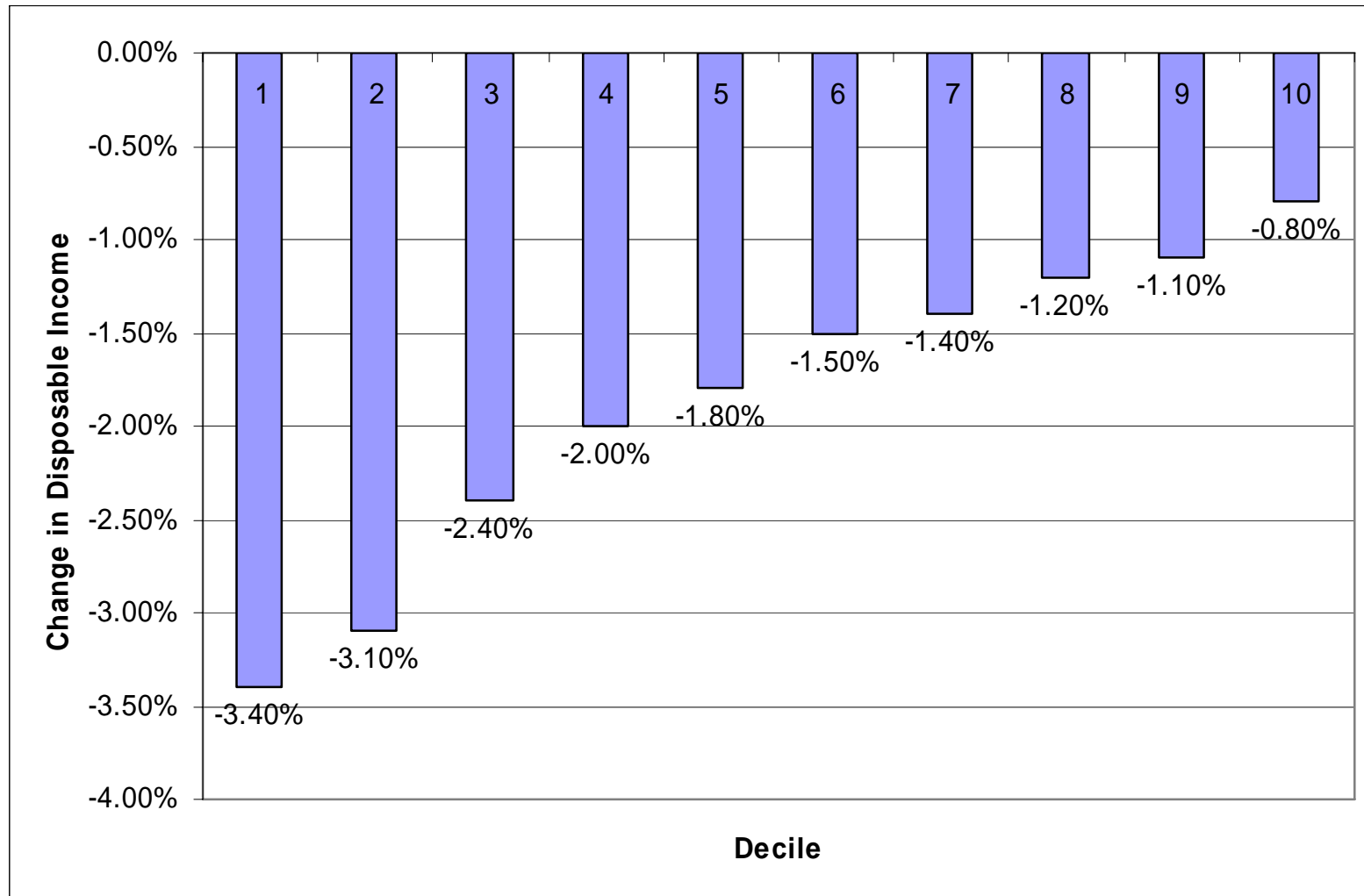
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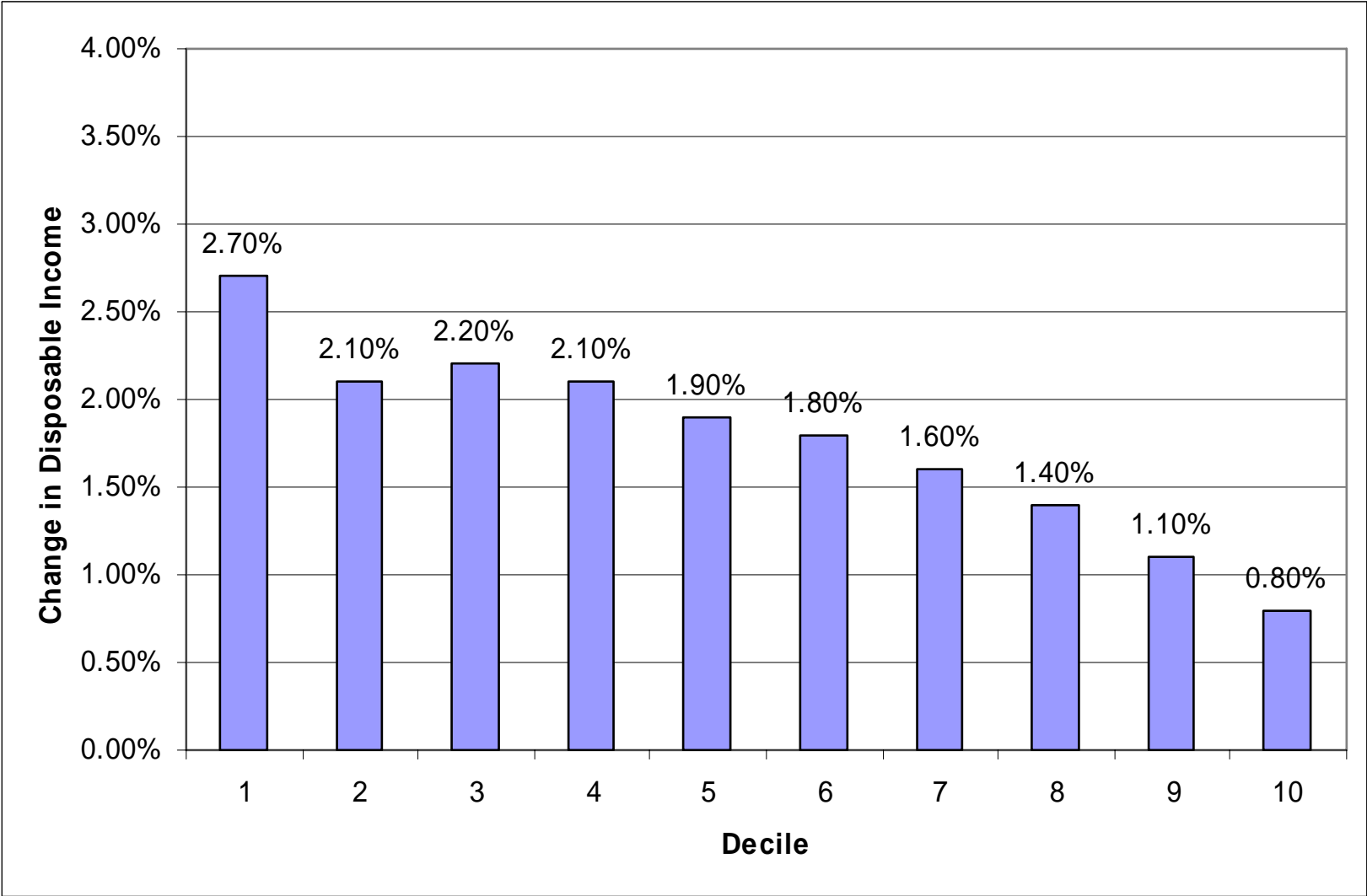
Carbon Tax Proposal

- An upstream tax on carbon content of fossil fuels and other GHGs at an initial rate of \$15 per metric ton of CO₂ equivalent.
- A rebate of the tax for sequestered GHGs as well as credits for approved sequestration activities.
- An environmental earned income tax credit linked to payroll taxes.

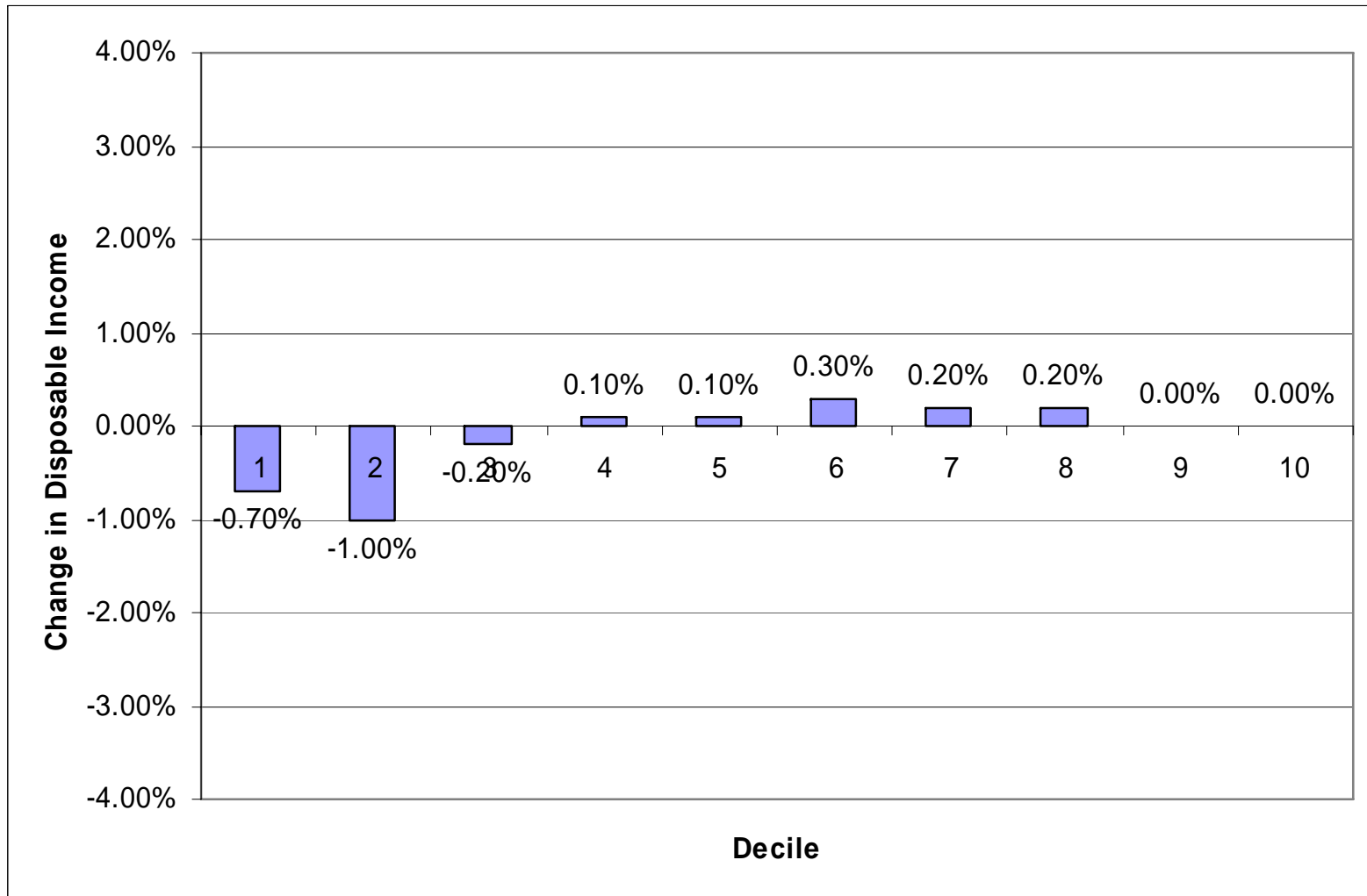
Impact of Carbon Tax on Income



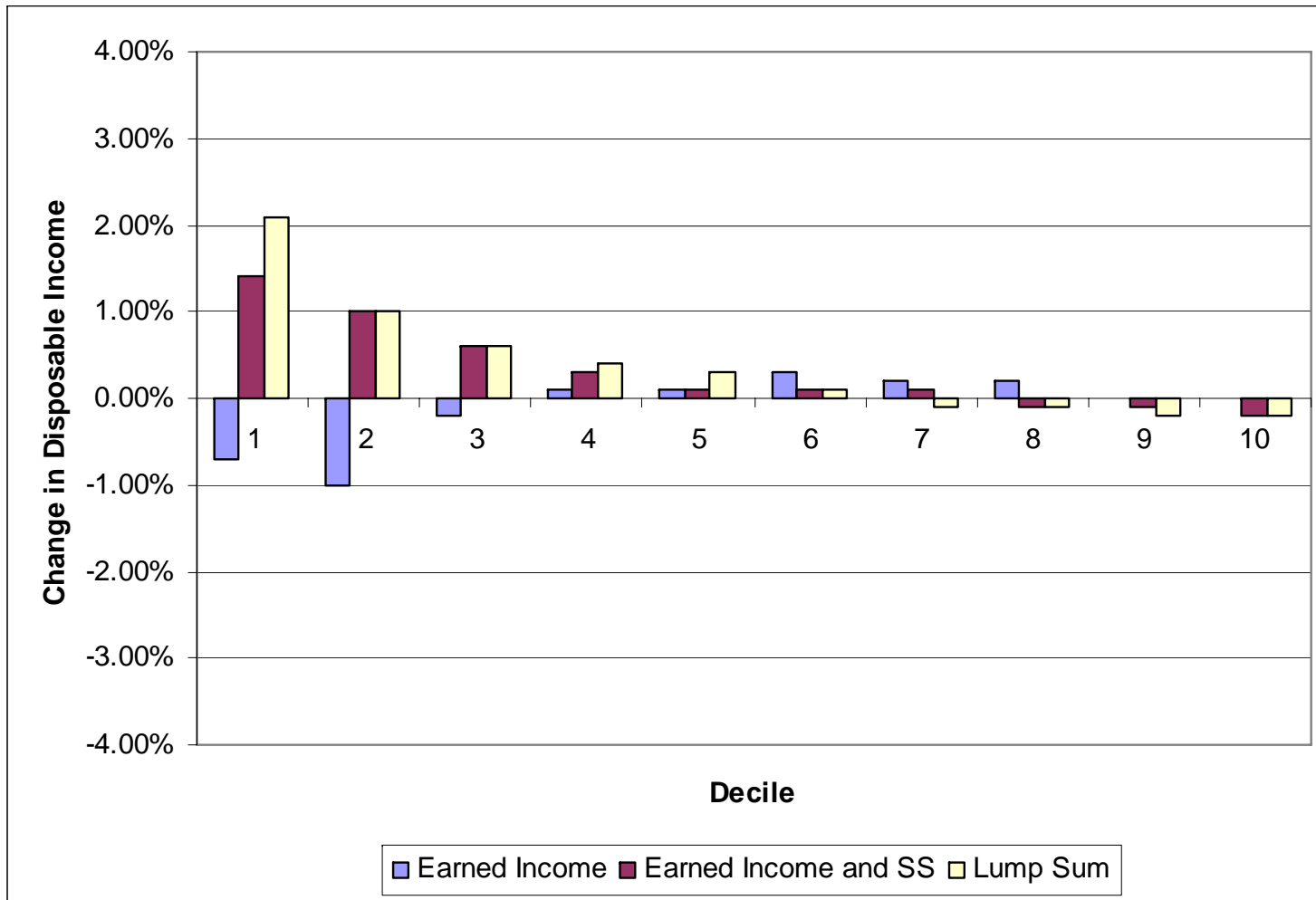
Impact of Tax Credit on Income



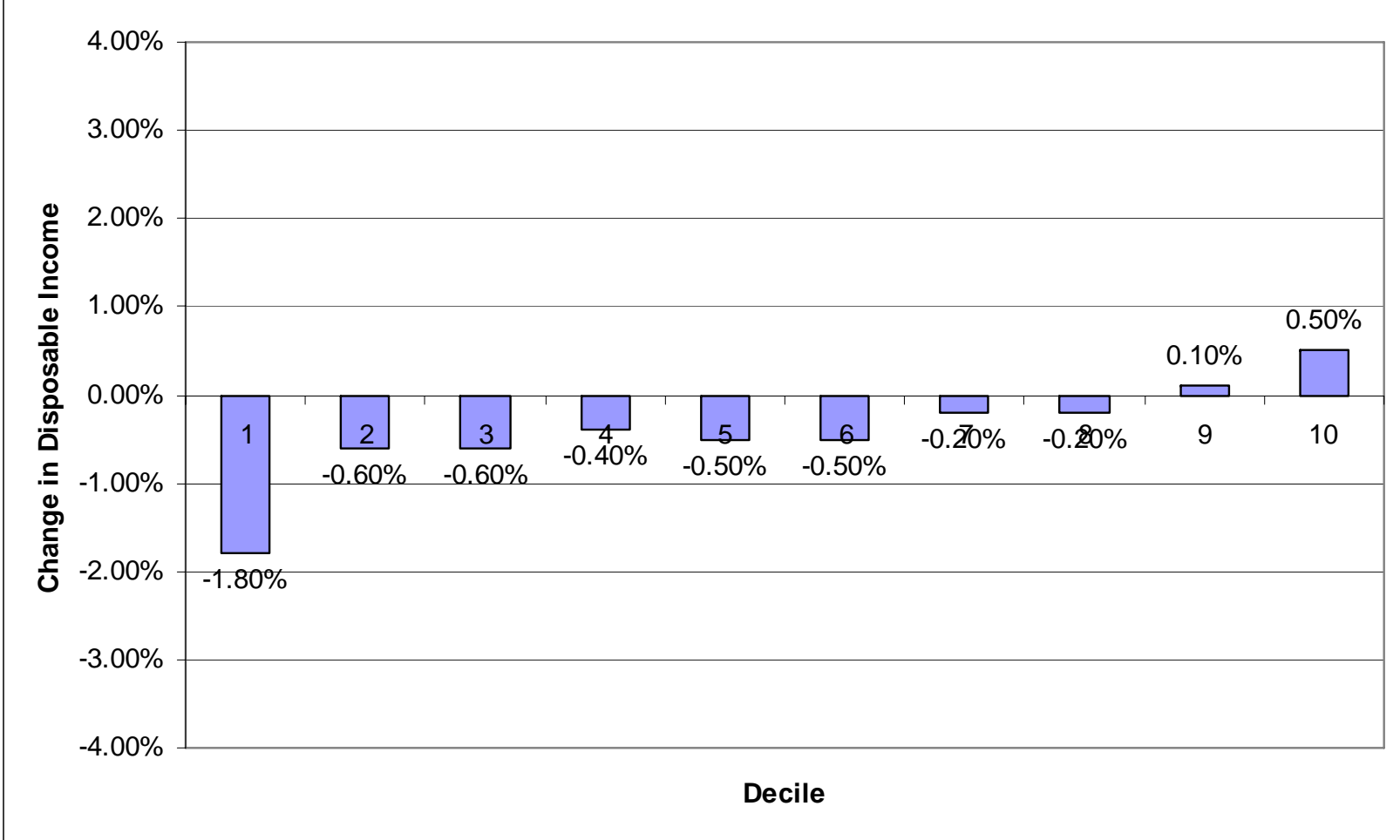
Net Impact



Alternative Rebate Options



Grandfathered Cap and Trade



Key Points

- Tax revenue provides fiscal flexibility that is lost with free distribution of permits.
- A carbon tax swap is an example of a shift in the composition of the tax system.
- This proposal provides distributional neutrality.
- Shifting public sentiment towards carbon pricing.