

## AMERICA'S ENERGY SECURITY TRUST FUND

In 2005, the US emitted over 6 billion metric tons of carbon dioxide, an increase of 25 million tons over emissions in 2004. The scientific community agrees that carbon dioxide and other greenhouse gas emissions from human activities are influencing changes in the earth's climate. Potential climate changes could have significant economic and environmental implications for coastal communities, public health, agricultural productivity, ecosystems and life as we know it.

Currently, polluters have no incentive to change their behavior and stop contributing to global warming-the America's Energy Security Trust Fund Act gives them one. Those who reduce polluting behaviors by cutting back on activities that lead to greenhouse gas emissions could actually come out ahead by receiving a bigger payroll tax rebate than they contribute to the fund: they would be rewarded for changing their behavior.

How would the America's Energy Security Trust Fund Act work?

This bill would impose a per-unit tax on the carbon dioxide content of fossil fuels beginning at a rate of \$15 per metric ton of CO<sub>2</sub> and increasing by 10% each year, also accounting for inflation. The rate is consistent with the broadly accepted goal of reducing greenhouse gas emissions to 80% below 1990 levels by 2050. The tax would be phased in over a ten year period to allow industries to adapt.

The tax would be assessed on the CO<sub>2</sub> content of these fuels when they enter the economy: at oil refineries, coal processing plants and points of import. Therefore it would be easy to implement and administer-only about 2,000 entities would be taxed.

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Demand for fossil fuels would fall in response to a carbon

tax. As a result, carbon emissions would fall as well, by an estimated 700 million mt of CO<sub>2</sub> (12.1 percent). At the same time, demand for alternative sources of energy would increase, spurring innovation and competition, and would allow producers of alternative energy technologies to achieve economies of scale, which will eventually lower prices of that technology.

The legislation would also:

**Provide Tax Credits for Research and Development of Alternative Energy Technologies** like wind, hydrogen fuel cells, solar and other zero emissions technologies. The first \$10 billion or 1/6 of revenue in the trust fund, whichever is less, would be spent each year to finance tax credits for research and development in alternative energy.

**Provide Transition Assistance for Affected Industries:** 1/12 of the fund's revenues would be dedicated to assistance for employees of industries negatively affected by the resulting shift to clean energy technologies. This would be phased out over 10 years.

**Reduce the burden of payroll taxes on working households.** The remaining funds would be divided equally among all individuals subject to the payroll tax to provide a payroll tax rebate. Seniors and individuals with disabilities, defined based on eligibility for Social Security, would receive the same amount. Because \$727 billion of payroll taxes were collected in 2005, a tax at a rate of \$15 per ton of CO<sub>2</sub> could lower payroll tax burdens by over 10% on average.

For nearly three quarters of all households, payroll taxes are the single largest tax to the federal government. Because the payroll tax is a flat-rate tax up to a payroll limit of \$97,500 it is generally acknowledged to be a regressive tax. Currently, those in the top 1% of the income scale pay only 2% of their income in payroll taxes, while those in the bottom 20% contribute 7.3% of income in payroll taxes. Revenues from a carbon tax could be used to reduce the tax burden on working households, and could have a profound effect on those households with earnings below the median income level. This rebate would benefit workers in the lower-end of the income scale the most.

For more information on America's Security Trust Fund Act, please see the bill text or our question and answer section.

Also, please see this list of carbon tax supporters .