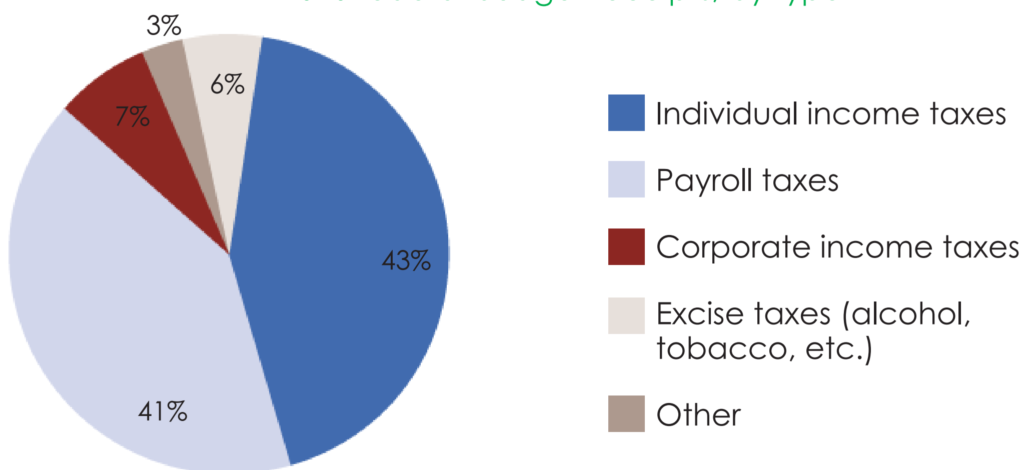
Environmental taxes: A primer

Taxes have an impact on almost every facet of our lives. Tax laws influence where we live, what we eat, how we treat wildlife, what crops we plant and how rapidly we cut down forests. Taxes affect our lives just as powerfully as safety regulations and environmental laws do, but they receive far less attention. By consciously weaving a set of tax laws that match our society's values, we can more consistently uphold those values.

2010 federal budget receipts, by type



Source: 2011 US Statistical Abstract/ US Office of Management and Budget

As illustrated by the chart above, while individual and payroll taxes comprise over 80 percent of federal budget revenues, corporations contribute a pittance — only 7 percent. In 2008, the Government Accountability Office found that a staggering two-thirds of major U.S. companies paid no federal income taxes from 1998 to 2005. In 2011, when the Tax Justice Network surveyed 12 big U.S. companies, including Exxon, American Electric Power and Wells Fargo, they found that by taking advantage of copious tax loopholes, these firms actually paid *negative* taxes of 1.5 percent.

Another striking aspect about the above chart is that there is no slice of the pie that represents taxes paid by companies for their pollution. In fact, some laws appear designed to give extra assistance, not punishment, to those who deplete or pollute natural resources. For example, the Volumetric Ethanol Excise Tax (VEETC) provides $6 billion in tax breaks to oil companies and agribusiness to produce corn ethanol — a biofuel that is both pesticide and greenhouse gas intensive. Our Green Scissors report identifies more than $200 billion in spending and tax breaks that benefit corporate polluters — that's $200 billion that could be spent to meet critical societal needs such as protecting the elderly, children and the environment.

Well-placed taxes

For years people have focused on ways to reduce taxes, but what they have failed to recognize is that what gets taxed is at least as important as how much they get taxed.

With 80 percent of our federal taxes falling on the backs of individuals and the payroll, and only 7 percent coming from companies, we have a badly placed tax load. It's no wonder that in this arrangement, working families feel the pinch. Taxing pollution, such as

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greenhouse gas pollution, on the other hand, can not only be an important solution to our nation's revenue problems, but it can also dissuade environmentally harmful behavior.

Making polluters pay: the carbon tax solution

Negative "externalities" are side effects that occur when a person or company conducts economic activity that harms others, but does not pay or compensate for that harm. For example, when a company emits greenhouse gases, we all pay the price in terms of climate change impacts — from more severe storms to disruptions in agricultural production. This is called the "social cost of carbon." The Stockholm Environment Institute came up with a monetary figure for this, and estimated that every ton of carbon dioxide released into the atmosphere, can (in worst case scenarios) cause up to $893 in economic damage. The "polluter pays" principle holds that a polluter (not the tax-paying public) should bear the costs of its pollution. The "polluter pays" idea is as American as apple pie — our traditions of fairness, individual accountability, and caring for others go hand in hand with this principle.

A carbon tax is certainly a good way to get polluters to "internalize" the social cost of carbon, but how effective would it be in reducing greenhouse gas emissions? Economists at the Carbon Tax Center estimate that by taxing fossil fuels (which account for the vast majority of U.S. greenhouse gas emissions) at a rate of $12.50, and increasing the tax each year, a carbon tax could bring down greenhouse gas emissions by around 40 percent by 2025. As carbon prices increase, companies and consumers will start developing cleaner technologies, making investments and choosing products that are less carbon-intensive. While Friends of the Earth believes that standards and regulations are also needed to control greenhouse gases, putting a price on carbon is a critical and complementary measure.

The double dividend

A central tenet of environmental economics is that the price of being green should be cheap, and the price of being dirty should be expensive. Ecological tax shifting offers the promise of reducing things we don't want, like pollution, at the same time we increase things we do want, like green energy. This is called the "double dividend." By taxing carbon dioxide, for example, we can provide more financial support to renewable energy, mass transit and other environmental priorities.

While a carbon tax would drive up the costs of using dirty energy, it would also impact low income people the hardest. T o combat this we should use all or most of the tax revenues to protect low and middle income families. If not all of the revenue is used for this purpose, the remaining money could be invested in climate priorities such as adaptation, international climate finance and energy efficiency and clean technology.

Jurisdictions that have imposed carbon taxes have used the revenues for various purposes: the City of Boulder, CO and the San Francisco Bay Area Air Quality Management District have funded climate mitigation programs; Norway and Sweden used their carbon revenue to fund the general treasury; while the United Kingdom and the Canadian province of British Columbia used it to pay for tax decreases elsewhere.

How we choose to use this revenue is up to us, but the time has come to seriously consider how taxing carbon and other kinds of pollution can help us address environmental crises.

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