

The Carbon Tax: Analysis of Six Potential Scenarios

Study conducted by Capital Alpha Partners, LLC and commissioned by the Institute for Energy Research
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Key findings:

1. A carbon tax will not be pro-growth.

Most carbon tax scenarios reduce GDP for the entirety of the 22-year forecast period. Better than break-even economic performance may not be possible unless revenue is devoted entirely to corporate tax relief. A lump-sum rebate results in lost GDP equal to between \$3.76 trillion and \$5.92 trillion over the 22-year forecast period.

2. A carbon tax is not an efficient revenue raiser for tax reform.

Using standard scoring conventions, a carbon tax is likely to only produce net revenue available for tax reform of 32 cents on the dollar.

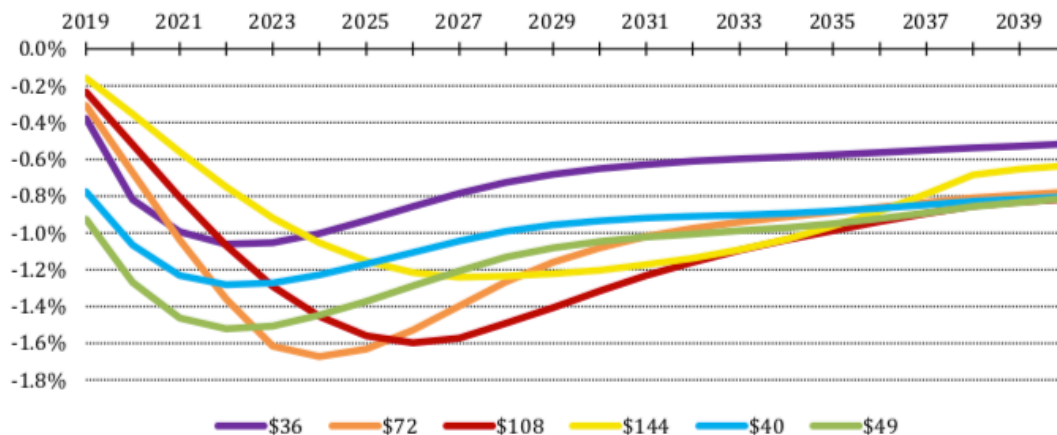
3. No carbon tax modeled is consistent with meeting the long-term U.S. Paris Agreement INDC.

As a standalone policy, consistent with World Bank and IEA estimates, all carbon tax scenarios analyzed are far off the trajectory the Paris Agreement sets for 2040, undermining claims that a tax-for-regulation swap will satisfy emissions commitments.

4. Depressed GDP leads to long-term fiscal challenges, with particular stress on states.

- Persistent reductions in economic performance lead to trillions of dollars in lost GDP, thereby reducing state tax revenues and straining state budgets. The average annual burden on the states and local government during the first 10 years of the tax would range from \$18.9 to \$30.6 billion.

Figure 4.3.4-1: Lump-Sum Rebate: GDP Impact (% Change from Baseline)



Source: Capital Alpha Estimate

Figure 4.3.4-1 shows GDP impacts of revenue recycling through a lump-sum rebate. GDP is reduced relative to the reference case over the entire forecast period.