

Potential Uses for Carbon Tax Revenue

- Cut personal income tax and payroll taxes
- Cut (and reform) corporate income tax
- Reduce budget deficit
- Fund additional government spending

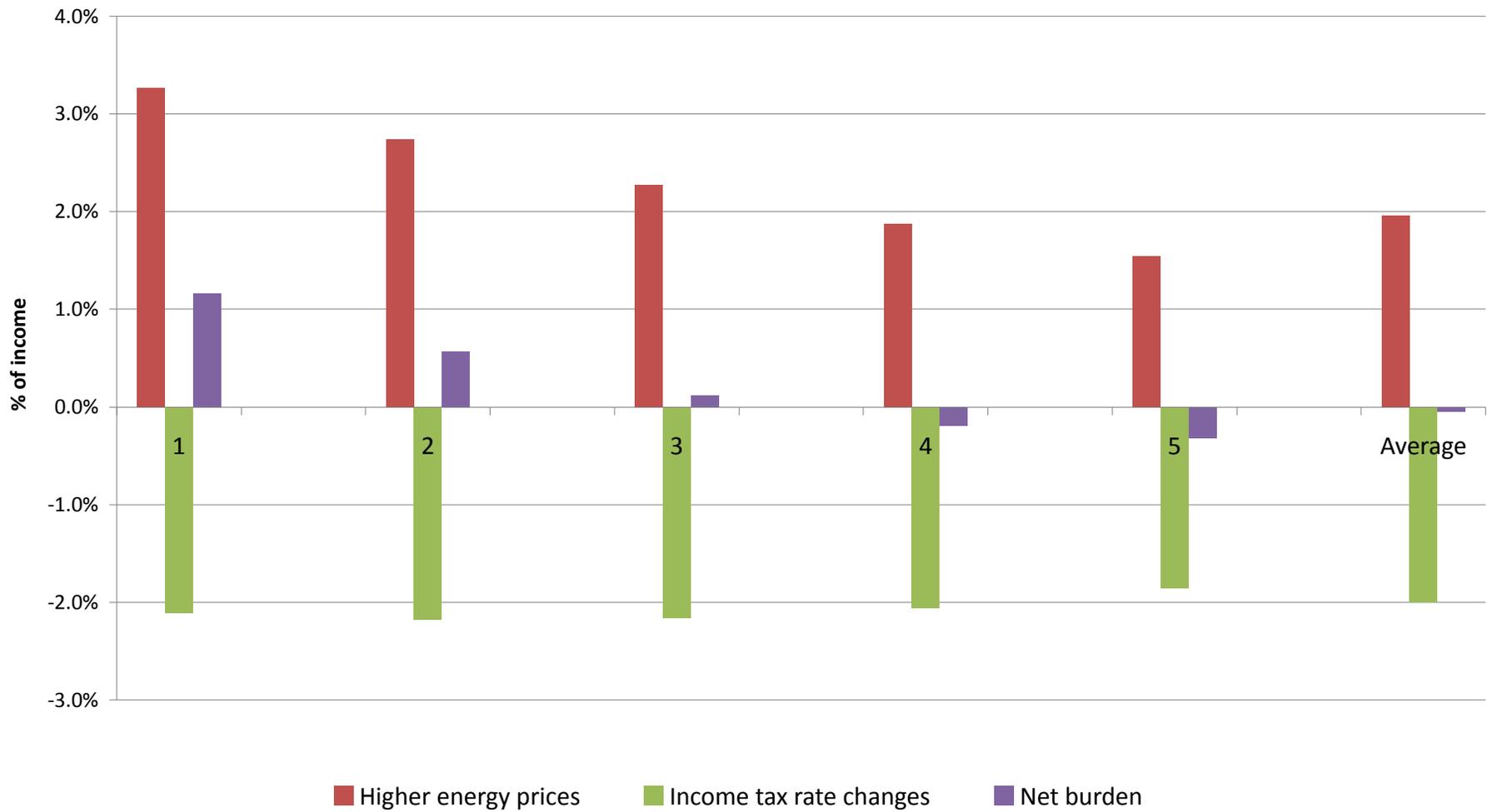
Personal Income Tax & Payroll Tax Cuts

-Many ways to cut income & payroll taxes

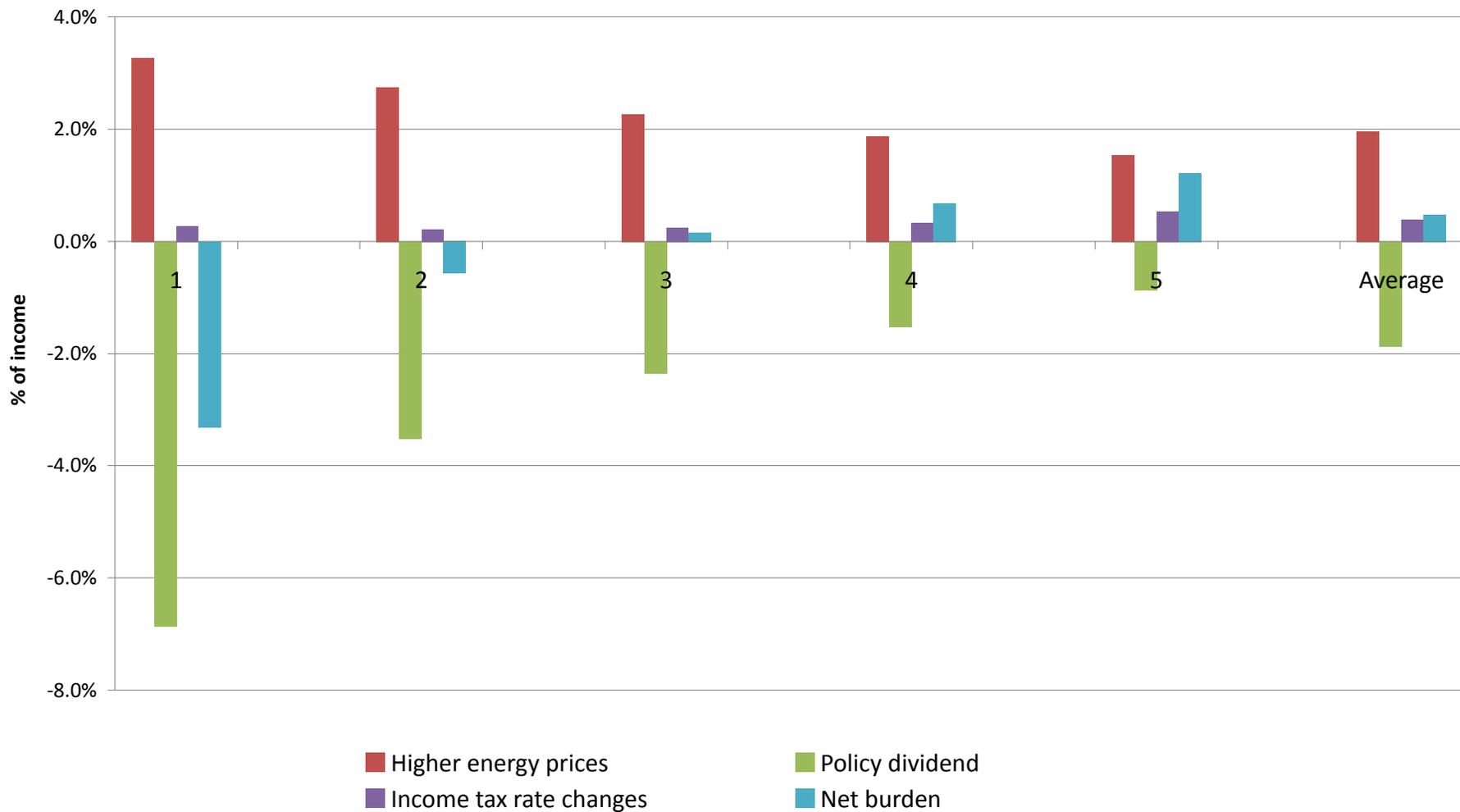
Personal Income Tax & Payroll Tax Cuts

- Many ways to cut income & payroll taxes
- We consider three examples
 - Proportional tax cut
 - “Cap & Dividend”
 - Distribution-neutralizing

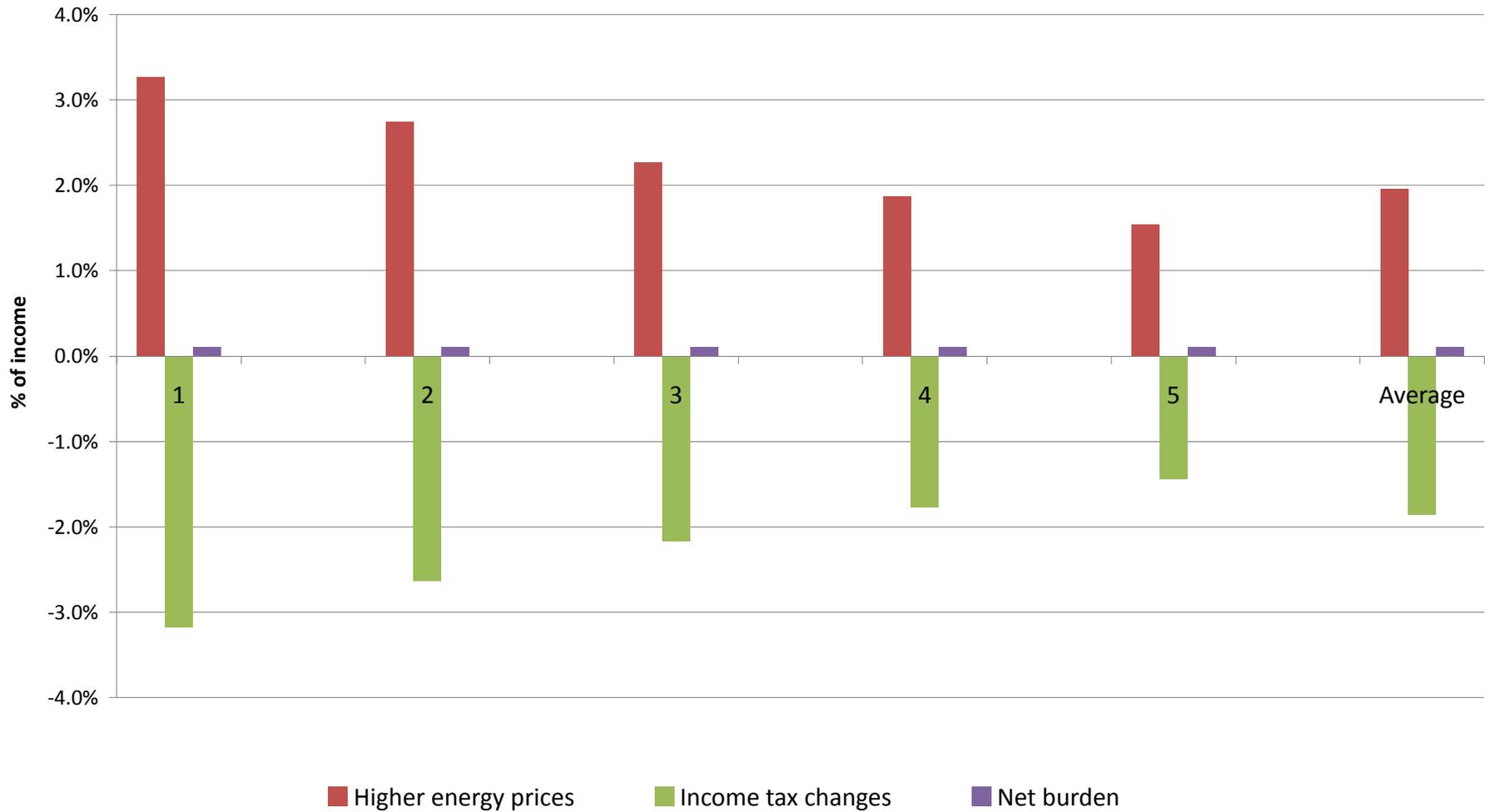
Components of Net Burden by Consumption Quintile, Carbon Tax with Proportional Tax Cut



Components of Net Burden by Consumption Quintile, Carbon Tax with Cap & Dividend



Components of Net Burden by Consumption Quintile, Distribution-Neutralizing Tax Change



Policy Tradeoffs

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- More progressive tax cuts are also more costly
- Net economic cost:
 - Proportional tax cut: -\$3.9 billion/year
 - Distribution-neutralizing: \$9.9 billion/year
 - “Cap & Dividend”: \$46.4 billion/year

Corporate Income Tax Reform

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- But this will also be more regressive than using revenue for personal or payroll tax cuts

Reducing Budget Deficits

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- Efficiency and distributional effects depend on what future tax increases we avoid
- Efficiency gains from reducing deficit are probably larger than gains from tax cuts now

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 - infrastructure, research, education

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- Tradeoff between efficiency and distribution
- Economic gain from cutting deficit probably larger than from cutting taxes now
- Gain or loss from new spending varies widely