

Factsheet 5: Pollution Taxes and the Poor

Pollution taxes are excise taxes, like sales taxes. Therefore they fall most heavily on the poor. Although richer households generate far more pollution and consume far more energy than poorer households, the latter pay a much greater portion of their income for energy. Poorer households inherit the hand-me-downs of society--the used houses, used cars, used refrigerators. Because of improved regulations in the past 20 years, the newest generation of houses and cars and appliances are much more energy efficient than their predecessors.

Poor households spend more than 15 percent of their income on energy while households earning over \$50,000 a year spend less than 3 percent.

A \$50 per ton carbon tax would increase annual taxes by \$359 on a low income household in Minnesota. Assuming 500,000 low income households in Minnesota, the amount generated by a \$50 per ton carbon tax from low income households throughout Minnesota would be \$180 million. The \$200 million used to eliminate state income taxes for lower income households would not be useful for those households that pay no tax.

Impact of a \$50 Per Ton Carbon Tax on Low Income Households

<u>Fuel</u>	<u>Annual Consumption</u>	<u>Additional Tax</u>
Gasoline	655 Gallons	\$98.00
Electricity	7505 kWhs	\$125.00
<u>Natural Gas</u>	<u>160 Mcf</u>	<u>\$133.00</u>
Total	-	\$356.00

Thus we need to find a way to compensate the very poorest members of the community for increasing their cost of living due to pollution taxes.

There are several ways to accomplish this. One way might be to target \$200 million of the revenue generated from pollution taxes to eliminate state income taxes for lower income households. Another way would be to increase the earned income tax credit for low wage earners. Both of these programs would be effective measures to compensate poorer households with taxable income or the working poor.

To reach the non-working as well as working poor, one might invest in dramatically expanding energy conservation programs for the poor. As of 1991 low-income energy efficiency programs in Minnesota were serving about 20,000 homes per year, although by far the largest amount of spending was used for the 10,000 homes served by the weatherization program. At current rates, the weatherization program would need 50 years to serve all low income households. Recently low income energy efficiency programs have found it difficult to even keep up with the increased number of households in need. Moreover, the modest investments per house do not allow contractors to achieve the efficiency levels economically feasible.

Assuming a \$2,000 investment per home, \$100 million from the pollution tax would serve an additional 48,000 homes per year. In addition to existing low income programs, this would allow the entire low income household population to be served within about 7 years. Each household would save \$100-200 per year on heat, electricity and water expenditures.