Center on Budget and Policy Priorities

FACT SHEET

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The full report can be viewed at
http://www.cbpp.org/10-25-07climate.htm

HOW A "CLIMATE REBATE" WOULD WORK

Policies that restrict greenhouse-gas emissions will significantly raise the price of fossil-fuel energy products. That's necessary to encourage energy efficiency and greater use of clean energy sources, but it will pose serious challenges for low- and moderate-income households. Even a modest 15 percent reduction in greenhouse-gas emissions would cost the poorest fifth of Americans an average of $750 a year per household. These households have average annual incomes of only about $13,000.

The Center on Budget and Policy Priorities has designed a "climate rebate" that would offset the impact of higher energy-related prices on low- and moderate-income consumers. *A climate rebate returns to consumers the purchasing power they would lose due to the higher prices, thus avoiding substantial hardship.* And a rebate can be delivered without creating large new programs or bureaucracies. Here's how it would work.

The basics: Each month, a climate rebate would be delivered to very low-income households through the Electronic Benefit Transfer (EBT) systems — which are essentially debit cards — that states already use to provide food stamps and other forms of assistance to low-income families, the elderly, and others.

At the same time, low- and moderate-income working families would receive a climate rebate in the form of a higher Earned Income Tax Credit (EITC). Any household filing for an EITC on its federal tax return would automatically receive a climate rebate as part of its tax refund for that year.

Who would be eligible? The EBT form of the rebate would automatically be provided to the millions of households that receive food stamps or the low-income subsidy for the Medicare prescription drug benefit. Households that are financially eligible for these programs but don't participate in them could apply for the climate rebate through their state human services agency. The EITC form of the rebate would go to anyone who is eligible for the EITC and files a federal tax return.

KEY FINDINGS

- Policies to restrict greenhouse-gas emissions will raise the prices of many energy-related products; even a modest 15 percent reduction in emissions will cost the poorest fifth of Americans an average of $750 a year per household.
- "Climate rebates" can shield low-income consumers from higher prices and thereby avoid deepening poverty.
- Very low-income consumers could be issued climate rebates through the Electronic Benefit Transfer (EBT) systems that states already have in place.
- Low- and moderate-income working families could be issued a climate rebate as part of an expanded Earned Income Tax Credit.
- Together, these two approaches could automatically deliver climate rebates to 75 percent of households in the bottom fifth of the income scale, at very low administrative costs. The remaining 25 percent could sign up directly for the rebate.

See the last page for state-by-state estimates of households served.

How much would the rebate be worth? The rebate would be set annually by the Energy Information Administration and would equal the loss in purchasing power that the average household in the bottom fifth of the population would experience due to the effects of higher prices for home energy, gasoline, food, and other goods and services resulting from the emissions cap. Larger families would receive larger rebates.

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The dollar amount of the rebate would go up over time, as the emissions cap tightened and energy prices rose.

How many people would get rebates? The EBT/EITC approach would generally make assistance available to the approximately 60 million Americans in the "bottom quintile" (the lowest-income 20 percent of the population). For a family of three, these are households with incomes below $27,000. *About three-fourths of these households would be helped automatically, with no need for additional outreach*, because they already receive food stamps, the EITC or the Medicare low-income drug subsidy.

More than 20 million Americans in the next-to-bottom quintile would also receive rebates, which would phase down at the same income levels as the EITC. In 2007, the EITC completely phased out at about $40,000 for a married couple with two children, and $15,000 for workers without children.

How could the rebates be paid for? Climate-change policies can generate more than enough revenue to pay for the rebates. The rebates described here would cost only about 14 percent of the total value of the emissions allowances in a cap-and-trade system (or 14 percent of the revenues generated by a carbon tax). Of this 14 percent, one percent should be used to boost funding for the Low-Income Home Energy Assistance Program (LIHEAP) and the Weatherization Assistance Program, particularly for families facing above-average energy costs.

Would low-income people still have an incentive to conserve energy? Absolutely. They would still face higher prices for energy-related products, and would therefore have a strong incentive to conserve and seek out energy efficiency improvements. The idea is not to have utility bills go down, but rather to prevent a loss in purchasing power, which leads to the best of both worlds — incentives to conserve remain but families are protected against poverty and hardship.

Why are rebates more effective than relying on utility company programs or LIHEAP? Relying on utility companies to assist their low-income customers is particularly ill-advised. Utility companies generally don't know their customers' incomes, so they can't easily identify which ones have low incomes. Also, reducing utility bills won't help households cope with increases in other energy-related costs, such as gasoline, food, or rents (when utilities are built into the rent, as they are for about 20 percent of low-income households). In fact, *less than half* of the impact of climate-change policies stems from higher home energy costs.

LIHEAP is an important program, but it has a limited reach. It serves only one in seven of those eligible, and is narrowly tied to utility bills. LIHEAP (and weatherization assistance) can, however, play a useful role in supplementing rebates for low-income consumers facing above-average energy costs.

Could the middle class get climate rebates too? If sufficient resources are made available, climate rebates could be extended to the middle class as well. For about half of the total value of the emissions allowances under a cap-and-trade system, for example, one could provide full climate rebates to households in the bottom 60 percent of the income scale, and partial rebates to the next 20 percent; married couples making up to about $100,000 a year (and single filers making up to about $50,000) would get at least a partial rebate. (Under such an approach, the EBT mechanism would still be needed to reach very low-income households who do not file tax returns, but the EITC increase could be replaced with a broader refundable climate change tax credit.) Alternatively, if sufficient resources were available, one could use all of the emissions allowances to issue an equal "climate dividend" to every American.

For a fuller discussion of these issues, see *Designing Climate-Change Legislation that Shields Low-Income Households from Increased Poverty and Hardship*, online at http://www.cbpp.org/10-25-07climate.htm.

TABLE 1:
HOUSEHOLDS THAT WOULD *AUTOMATICALLY* RECEIVE A CLIMATE REBATE, BY STATE

State	EITC Claimants	Households Receiving Food Stamps	Individuals Receiving Medicare Low-Income Drug Subsidy	Total Households Receiving Climate Rebate (estimated unduplicated count)
Alabama	502,914	227,917	223,873	757,000
Alaska	41,578	21,578	14,123	62,000
Arizona	413,730	248,027	151,059	644,000
Arkansas	287,085	158,388	132,230	466,000
California	2,501,510	888,017	1,151,602	3,502,000
Colorado	274,839	107,477	91,305	377,000
Connecticut	172,838	118,524	99,823	317,000
Delaware	59,692	32,441	24,132	92,000
District of Columbia	50,041	47,552	20,548	96,000
Florida	1,631,758	714,471	588,556	2,272,000
Georgia	905,365	402,330	290,386	1,264,000
Hawaii	87,540	47,675	35,081	136,000
Idaho	106,143	39,629	34,904	141,000
Illinois	884,010	591,004	337,857	1,471,000
Indiana	446,347	261,914	169,801	715,000
Iowa	177,348	113,657	82,429	303,000
Kansas	181,348	84,472	67,468	268,000
Kentucky	352,878	282,257	192,758	678,000
Louisiana	494,289	273,545	187,217	775,000
Maine	88,923	85,311	81,512	211,000
Maryland	352,221	162,028	121,704	497,000
Massachusetts	319,973	258,234	243,275	662,000
Michigan	680,765	580,679	268,807	1,260,000
Minnesota	272,171	140,226	125,648	429,000
Mississippi	376,998	185,317	159,999	581,000
Missouri	451,570	310,894	194,923	782,000
Montana	74,627	35,249	25,210	109,000
Nebraska	113,877	52,111	43,748	168,000
Nevada	169,055	64,614	46,858	218,000
New Hampshire	64,012	30,637	31,501	101,000
New Jersey	501,105	206,432	222,898	732,000
New Mexico	199,825	93,092	67,122	289,000
New York	1,527,318	987,397	721,725	2,599,000
North Carolina	788,523	412,073	339,266	1,228,000
North Dakota	40,222	21,684	17,495	64,000
Ohio	815,691	520,328	314,205	1,340,000
Oklahoma	318,879	175,486	122,182	501,000
Oregon	231,934	236,825	95,307	472,000
Pennsylvania	799,335	551,729	394,456	1,434,000
Rhode Island	68,034	39,376	41,081	118,000
South Carolina	439,010	250,282	169,978	687,000
South Dakota	56,415	25,538	21,935	84,000
Tennessee	565,090	406,441	284,669	1,021,000
Texas	2,288,849	962,687	680,572	3,132,000
Utah	145,622	52,750	33,672	183,000
Vermont	38,824	27,279	25,710	74,000
Virginia	503,896	242,149	199,720	754,000
Washington	364,929	297,222	149,135	656,000
West Virginia	146,840	123,654	87,104	298,000
Wisconsin	309,552	172,062	138,303	500,000
Wyoming	33,208	9,631	10,881	43,000
Other Areas	29,085	13,040	9,413	Not Available
United States	**22,747,631**	**12,393,332**	**9,385,166**	**35,562,000**

Source: IRS data for 2005, USDA data on food stamp enrollment for January 2008, and HHS data on Medicare low-income drug subsidy enrollment for January 2008. Estimates of total households automatically receiving climate rebates are based on CBPP estimates of program overlap from Census Bureau data. (Additional households could receive climate rebates by signing up with their state human services agency or filing for the EITC.)