

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 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 about \$750 a year per household. These households have average annual incomes of only about \$15,000. Middle-income households would feel the squeeze as well.

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 many middle-income consumers. *A climate rebate returns to consumers the purchasing power they would lose due to the higher prices, thus avoiding significant hardship.*

The basics: Low- and middle-income working families (up to an income limit that Congress would set) would receive a rebate in the form of a climate or energy tax credit. If possible, the credit would be provided in paychecks throughout the year, through adjustments to employer tax withholding. (Otherwise, it would be provided annually when households file their tax returns.) The credit would be “refundable” — working households that do not earn enough to owe income tax would be among those who would qualify.

People receiving Social Security, Supplemental Security Income, or veterans’ benefits would receive their rebates as payments from the Social Security Administration or Department of Veterans Affairs.

Very low-income households would receive rebates 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.

Who would be eligible? The EBT form of the rebate would automatically be provided to households that receive food stamps. Households that are eligible for food stamps but don’t receive them could apply for the rebate through their state human services agency. People who are subject to payroll tax withholding and file a tax return, and are below the income limit Congress sets for the rebate, would receive their rebate through the tax system. Others would receive their rebates from the federal agencies that administer Social Security, SSI, or veterans’ benefits. Coordination mechanisms would ensure that those who receive benefits through more than one of these programs or who both file taxes and receive one of these benefits are not overcompensated.

KEY FINDINGS

- “Climate rebates” can shield low- and middle-income consumers from the higher energy-related prices they will face as a result of restrictions on greenhouse-gas emissions.
- Three existing tax and benefit mechanisms would be used to deliver the rebate. (1) Low- and middle-income working families would be issued a rebate through a tax credit. (2) People receiving Social Security, SSI, or veterans’ benefits would receive their rebates directly from the agency administering those benefits. (3) Very low-income consumers could be issued climate rebates through states’ Electronic Benefit Transfer systems.
- Together, these approaches could deliver climate rebates automatically to 95 percent of households in the bottom fifth of the income spectrum and 98 percent of households in the next two income quintiles, *without* new bureaucratic structures and with low administrative costs.

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 a specified part of the income scale (such as the middle fifth of the population) would experience due to higher prices for home energy, gasoline, food, and other goods and services resulting from the emissions cap. Larger families would receive larger rebates. 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? This proposal would automatically reach about 95 percent of households in the bottom fifth of the income scale because they already file an income tax return and have earnings, receive Social Security, SSI, or veterans' benefits, or already participate in the Food Stamp Program. It would also reach more than 98 percent of households in the next two income quintiles automatically. And it would reach these households efficiently, with no new bureaucratic structures and low administrative costs.

How could the rebates be paid for? Climate policies can generate more than enough revenue to pay for the rebates. The cost depends on the size of the rebates and the income limits applied to them. For example, a rebate that reaches a substantial majority of the population and equals the loss in purchasing power for the average household in the middle fifth of the income spectrum would cost about 55 or 60 percent of the total value of emissions allowances under a cap-and-trade system. Variants can be designed that cost less or more. We also recommend that about 1 percent of the allowance value be used to boost funding for the Low-Income Home Energy Assistance Program (LIHEAP) and weatherization assistance, particularly for families that face above-average increases in energy costs.

Would consumers still have an incentive to conserve energy? Absolutely. They would 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 hold down utility bills artificially, but rather to prevent a loss in consumers' overall purchasing power. This would lead to the best of both worlds — incentives to conserve would remain, while families' budgets would be protected.

Why are rebates more effective than relying on utility companies or LIHEAP? An alternative approach to consumer relief — providing billions of dollars to utility companies to artificially suppress increases in electric and gas bills that would otherwise occur under an emissions cap — is ill-advised. Over half of the increase in costs that consumers would face under an emissions cap would be for energy-related costs *other than* home utilities (such as gasoline and goods and services with energy inputs). So keeping households' utility bills down would still leave vulnerable consumers facing a large hit on their budgets. In addition, artificially suppressing utility bills would undercut incentives to reduce electricity use; this would lead to larger increases in prices for other energy products, since the use of other forms of energy would have to decline even more to meet the emissions cap.

Finally, under most proposals to channel consumer relief through utility companies, the companies could use the funds for their business and corporate customers as well as for families, and for efficiency investments as well as consumer relief. Strong and effective regulation and oversight would be essential to ensure that an adequate share of the funds reached low- and middle-income consumers and did not get soaked up, for example, in overhead and profits. Yet the uneven quality of state regulation raises concerns about how well this would be done in some parts of the country.

Relying solely on LIHEAP to deliver consumer relief also would be unwise. The program has a limited reach; it serves only about one in six 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 with above-average energy costs.