

The Economic Efficiency and Pollution Reduction Act of 1996 (EEPRA)

The Economic Efficiency and Pollution Reduction Act of 1996 (EEPRA) is a \$1.5 billion tax shift. Taxes on pollution are raised by \$1.5 billion a year while taxes on property and payroll fall by an equal amount.

Key Elements of EEPRA:

- A \$50 per ton carbon tax imposed on all fuels and electricity consumed in Minnesota. The tax shift is phased in over 5 years.
- Nuclear electricity is taxed at the same rate as the average for all non-nuclear electricity.
- Renewable fuels like wind, hydroelectricity, ethanol are exempted.
- A reduction of \$750 million in residential and business property taxes.
- A reduction of \$750 million in employer and employee payroll taxes.
- An appropriation of \$80 million for low-income fuel assistance and weatherization programs.
- Businesses are exempted from additional taxes if the net increase in taxes from the tax shift exceeds 1 percent of sales.

Ten Key Questions:

1. Why a tax shift?

Presently we tax activities that we would actually like to encourage, like employment and investment while we undertax or do not tax at all activities we would prefer to discourage, like inefficiency, pollution and the consumption of non-renewable imported fuels. A tax shift that increases the cost of inefficiency while reducing the cost of employment or property, addresses this perverse result of our tax system.

Those who improve their efficiencies or shift to renewable fuels will see their overall tax burden decrease. The more that Minnesotans invest in efficiency and renewables, the less the state is dependent on imported fuels and the more it relies on local contractors and homegrown fuels. Today Minnesota imports over \$2.9 billion in fossil fuels.

2. Why a \$1.5 billion tax shift?

Traditionally taxes are justified solely because we need the money. Pollution taxes, however, can be justified as representing real costs. The Minnesota Department of Public Service submitted estimates to the MN Public Utilities Commission on the real cost of pollution from power plants. Extrapolating these estimates for the same pollution coming from other sources, like space heating and industrial processes and transportation, results in the \$1.5 billion figure. The pollution taxes, in essence, internalize the real cost of burning fossil fuels into the price of those fuels.

The \$1.5 billion tax shift represents about 5 percent of state and local taxes. This represents a significant tax shift without making the state government dependent on pollution taxes.

3. Why a carbon tax?

A carbon tax is easier to administer than taxes on individual pollutants. Equally important, a carbon tax is an excellent surrogate for many kinds of pollution. For example, the single largest source of mercury emissions is coal-fired power plants. Sulfur emissions largely come from burning coal and diesel fuel. Volatile organic compound emissions come from the evaporation of gasoline. Carbon monoxide and carbon dioxide emissions come from burning fossil fuels.

4. What will be the effect of a \$50 per ton carbon tax on fuel prices?

The price of coal and nuclear powered electricity will rise by about 1.2 cents per kWh. The price of gasoline will rise by 13 cents per gallon. The price of natural gas will rise by 15 cents per thousand cubic feet (Mcf). The price of fuel oil will go up by about 13 cents per gallon.

5. What will be the increased cost to a typical household from a \$50 per ton carbon tax?

\$220.

6. What will be the effect of a \$1.5 billion reduction on property and payroll taxes?

If the tax reductions are given on a percentage basis, this would be equivalent to a 7.5 percent reduction for each employee on their Social Security and Medicare payments and a 19 percent reduction in residential property taxes. For a worker earning \$25,000 a year and living in a \$72,000 house, the resulting tax reduction would be about \$280.

7. The state of Minnesota doesn't impose payroll taxes. How can it reduce them?

The employer and employee will pay Social Security and Medicare as they do now. At tax time they will send the state of Minnesota their expenditure statements and the state through a refundable tax credit will reimburse them for a certain percentage.

8. Why is there a tax on nuclear power?

Although nuclear power does not generate carbon emissions, it does generate significant pollution in the form of radioactive wastes, which must be stored and protected for hundreds of years.

9. How will the tax shift affect the state economy?

Initial investigations using state econometric models shows that a payroll tax reduction boosts employment and the Gross State Product while a reduction in property taxes has a marginal effect on the state economy.

10. How will the tax shift affect pollution?

Initial investigations using state econometric and energy models shows that pollution will be reduced by about 3-5 percent from what it otherwise would be when the tax is fully phased in.