



House of Representatives
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**THE TRIPLE WIN:
ENERGY SECURITY, THE ECONOMY AND POLLUTION
H.R. 2380, THE "CUT AND SWAP" PROPOSAL**

THE CHALLENGE

The economic downturn calls for action to stimulate the economy, such as reducing the amount of taxes taken out of each paycheck.

Our ongoing dependence on foreign oil from hostile nations also calls for action to reduce that dependence and move to fuels of the future.

Even if you disagree with the science of climate change, everyone agrees that less carbon in the atmosphere would not hurt us. By reducing payroll taxes (employer pays 6.2%, employee pays 6.2% on the first \$106,800 of income) and taxing carbon dioxide (something we want less of), we can turn an environmental fix into a decisive, economy-expanding national security fix.

Here's a plan, proposed by U.S. Rep. Bob Inglis (SC-4). Similar concepts have been advanced by voices across the political spectrum – from President Reagan's economics advisor Dr. Arthur Laffer to Vice President Al Gore:

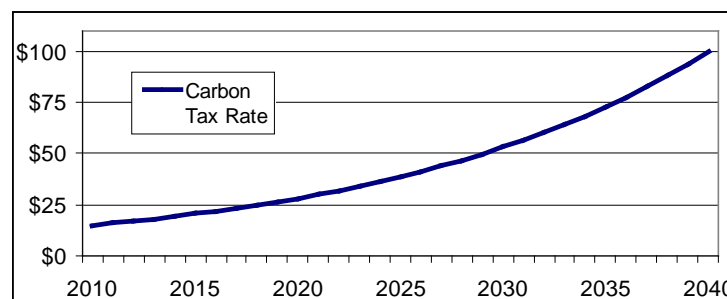
STEP 1: LOWER TAXES ON LABOR

- Lower the payroll tax for employers and employees by an amount equal to a new tax on carbon dioxide.
- Prospectively increase Social Security benefits to help seniors pay higher energy bills.

In the first year, payroll taxes can be reduced by more than 10%, funded by a carbon tax of \$15 per ton that will generate as much as \$88.7 billion. The Social Security Trust Fund will not be touched; the swap is handled in the General Fund of the Treasury.

STEP 2: ATTACH A PRICE TO POLLUTION

- The proposed tax starts at \$15 per ton of CO₂ in 2010 and increases to \$100 by 2040, adjusted each year for inflation.
- To provide businesses certainty and the ability to plan, the bill includes a clear schedule of rates.
- The tax applies to fossil fuels as they enter the economy: at the mine mouth, the oil refinery and the natural gas pipeline. This upstream application of the tax will make it easy to implement and reduce administrative costs.



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STEP 3: ATTACH THE SAME PRICE AT THE BORDER

- In order to accord similar tax treatments to domestic and imported goods, imported products will be subjected to the same U.S. tax.
- As provided in the Constitution, the tax would be removed from goods destined for export from the U.S. Exporters would qualify for a rebate for the portion of their cost attributable to the tax.
- Consistently applying the same tax to all domestic and imported products will keep this border adjustment in compliance with existing WTO agreements.

STEP 4: ENSURE REVENUE NEUTRALITY

This bill starts with reducing payroll taxes and sending more money home with the American worker. To preserve that principle, the bill requires a Supermajority vote (2/3 votes in both House and Senate) to overturn revenue-neutrality and use tax revenue for any other purpose.

IMPACTS ON ENERGY PRICES

Short Term Energy Price Impacts of \$15 per metric ton CO₂ tax					
		Unit	Price per Unit (2006) (\$)	Tax per Unit (\$)	Price Change (%)
	Gasoline	gal	2.57	0.15	5.8
	Natural Gas	MMBtu	13.34	0.80	6.0
	Coal	MMBtu	1.70	1.42	83.5

The tax will encourage energy consumers to replace carbon-intensive forms of energy with low- and no-carbon energy alternatives. Increasing demand for clean energy technologies will improve our environment, reduce our dependence on the politically volatile oil-producing regions of the world, and stimulate our home-grown innovation economy.

IMPACTS ON ECONOMY

With a commitment to reduce labor costs and internalize the cost of carbon in fuels, market forces will unleash innovation because of known costs and predictable returns for new technology. “New energy jobs” would emerge from anticipation of cost competitive energy alternatives.

The “Cut and Swap” proposal also leverages the double dividend, pursuing an increase in economic efficiency by reducing taxes on something we want more of (labor and income) and taxing something we want less of (carbon dioxide).