

[DISCUSSION DRAFT]

MARCH 16, 2009

111TH CONGRESS
1ST SESSION

H. R. _____

To amend the Internal Revenue Code of 1986 to reduce social security payroll taxes and to reduce the reliance of the United States economy on carbon-based energy sources.

IN THE HOUSE OF REPRESENTATIVES

Mr. INGLIS of South Carolina introduced the following bill; which was referred to the Committee on _____

A BILL

To amend the Internal Revenue Code of 1986 to reduce social security payroll taxes and to reduce the reliance of the United States economy on carbon-based energy sources.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Raise Wages, Cut Car-
5 bon Act of 2009”.

1 **SEC. 2. REDUCTION OF SOCIAL SECURITY TAXES; TAX ON**
2 **COMBUSTIBLE FOSSIL FUELS.**

3 (a) IN GENERAL.—Chapter 38 of the Internal Rev-
4 enue Code of 1986 (relating to environmental taxes) is
5 amended by adding at the end thereof the following new
6 subchapter:

7 **“Subchapter E—Reduction of Social Security**
8 **Taxes; Tax on Combustible Fossil Fuels**

“PART I. CARBON TAX REVENUES TO OFFSET SOCIAL SECURITY TAXES.

“PART II. TAX ON COMBUSTIBLE FOSSIL FUELS.

“PART III. TAX ON CERTAIN ADDITIONAL IMPORTED SUBSTANCES.

“PART IV. SUPERMAJORITY REQUIRED TO CHANGE REVENUE NEUTRALITY

9 **“PART I—CARBON TAX REVENUES TO OFFSET**
10 **SOCIAL SECURITY TAXES**

“Sec. 4691. Disposition of revenues.

11 **“SEC. 4691. DISPOSITION OF REVENUES.**

12 “(a) AMOUNTS APPROPRIATED TO SOCIAL SECURITY
13 TRUST FUNDS.—

14 “(1) IN GENERAL.—There are hereby appro-
15 priated to the social security trust funds an amount
16 equal to the net revenues received in the Treasury
17 from the taxes imposed by parts II and III.

18 “(2) ALLOCATION AMONG FUNDS.—Amounts
19 shall be appropriated to such funds under paragraph
20 (1) in the same proportions as amounts would (but
21 for this subchapter) be appropriated to such funds

1 under the Social Security Act and the Railroad Re-
2 tirement Act of 1974.

3 “(b) REDUCTION IN SOCIAL SECURITY TAXES.—

4 “(1) IN GENERAL.—The rate of each social se-
5 curity tax for each calendar year (determined with-
6 out regard to this section) shall be reduced by the
7 number of percentage points equal to—

8 “(A) such rate, multiplied by

9 “(B) the reduction percentage determined
10 by the Secretary for such year.

11 “(2) REDUCTION PERCENTAGE.—The reduction
12 percentage determined by the Secretary under para-
13 graph (1) for any calendar year shall be the highest
14 percentage which the Secretary estimates will result
15 in deposits into each trust fund equal to the amount
16 which would (without regard to this section) be ap-
17 propriated to each trust fund for such year on ac-
18 count of social security taxes.

19 “(c) INCREASE IN PAYMENTS TO SOCIAL SECURITY
20 RECIPIENTS FOR 2010 TO OFFSET COST OF CARBON TAX
21 BEFORE TAX REFLECTED IN COST-OF-LIVING ADJUST-
22 MENTS.—The Secretary shall notify the Managing Trust-
23 ee of the Federal Old-Age and Survivors Insurance Trust
24 Fund established under section 201 of the Social Security
25 Act to increase the payments to which an individual is en-

1 titled under section 205(i) of such Act for 2010 by the
2 average cost of the taxes imposed by parts II and III
3 which is borne by individuals who are so entitled by reason
4 of price increases in the costs of products and services.

5 “(d) DEFINITIONS.—For purposes of this sub-
6 chapter—

7 “(1) SOCIAL SECURITY TAX.—The term ‘social
8 security tax’ means—

9 “(A) the tax imposed by section 3101(a)
10 (and so much of the tax imposed by section
11 3201(a) as is determined by reference to the
12 tax imposed by section 3101(a)),

13 “(B) the tax imposed by section 3111(a)
14 (and so much of the tax imposed by section
15 3221(a) as is determined by reference to the
16 tax imposed by section 3111(a)), and

17 “(C) the tax imposed by section 1401(a)
18 (and so much of the tax imposed by section
19 3211(a) as is determined by reference to the
20 taxes imposed by sections 3101(a) and
21 3111(a)).

22 “(2) SOCIAL SECURITY TRUST FUND.—The
23 term ‘social security trust fund’ means—

1 “(A) the Federal Old-Age and Survivors
2 Insurance Trust Fund established by section
3 202 of the Social Security Act, and

4 “(B) the Social Security Equivalent Ben-
5 efit Account established under section 15A of
6 the Railroad Retirement Act of 1974.

7 “(e) DETERMINATION BASED ON ESTIMATES.—De-
8 termination under subsections (a) and (b) shall be made
9 on the basis of estimates by the Secretary. Proper adjust-
10 ments shall be made to the extent prior estimates were
11 in excess of or less than more accurate amounts.

12 “(f) PUBLICATION OF RATE REDUCTIONS.—Any ad-
13 justment under this section of social security tax rates for
14 any calendar year shall be published in the Federal Reg-
15 ister on or before November 1 of the preceding calendar
16 year.

17 **“PART II—TAX ON COMBUSTIBLE FOSSIL FUELS**

 “Sec. 4692. Imposition of tax.

 “Sec. 4693. Refunds or credits.

 “Sec. 4694. Other definitions and special rules.

18 **“SEC. 4692. IMPOSITION OF TAX.**

19 “(a) IN GENERAL.—There is hereby imposed a tax
20 on any taxable carbon substance sold by the manufacturer,
21 producer, or importer thereof.

22 “(b) AMOUNT OF TAX.—

23 “(1) IN GENERAL.—The amount of tax imposed
24 by subsection (a) on any taxable carbon substance

1 shall be the applicable amount per ton of carbon di-
 2 oxide content of such substance, as determined by
 3 the Secretary in consultation with the Secretary of
 4 Energy.

5 “(2) FRACTIONAL PART OF TON.—In the case
 6 of a fraction of a ton, the tax imposed by subsection
 7 (a) shall be the same fraction of the amount of such
 8 tax imposed on a whole ton.

9 “(3) APPLICABLE AMOUNT.—For purposes of
 10 paragraph (1)—

11 “(A) IN GENERAL.—The applicable
 12 amount for any calendar is the amount deter-
 13 mined under the following table for such year,
 14 as adjusted under subparagraph (B):

“In the case of calendar year—	The applicable amount is—
2010	\$ 15.00
2011	15.98
2012	17.02
2013	18.13
2014	19.32
2015	20.58
2016	21.92
2017	23.35
2018	24.88
2019	26.50
2020	28.23
2021	30.07
2022	32.04
2023	34.13
2024	36.36
2025	38.73
2026	41.26
2027	43.95
2028	46.82
2029	49.88
2030	53.13
2031	56.60
2032	60.30

2033	64.23
2034	68.43
2035	72.89
2036	77.65
2037	82.72
2038	88.12
2039	93.87
2040 or thereafter	100.00

1 “(B) INFLATION ADJUSTMENT.—

2 “ (i) IN GENERAL.—The applicable
 3 amount contained in the table under sub-
 4 paragraph (A) for any calendar year after
 5 2010 shall be increased by an amount
 6 equal to—

7 “ (I) such applicable amount,
 8 multiplied by

9 “ (II) the cost-of-living adjust-
 10 ment determined under section 1(f)(3)
 11 for such calendar year, determined by
 12 substituting ‘calendar year 2009’ for
 13 ‘calendar year 1992’ in subparagraph
 14 (B) thereof.

15 “ (ii) ROUNDING.—Any increase deter-
 16 mined under clause (i) shall be rounded to
 17 the nearest cent.

18 “(c) TAXABLE CARBON SUBSTANCE.—For purposes
 19 of this subchapter, the term ‘taxable carbon substance’
 20 means—

21 “(1) coal (including lignite and peat),

1 “(2) petroleum and any petroleum product (as
2 defined in section 4612(a)(3)), and

3 “(3) natural gas,
4 which is extracted, manufactured, or produced in the
5 United States or entered into the United States for con-
6 sumption, use, or warehousing.

7 “(d) SUBSTANCE TAXED ONLY ONCE.—No tax shall
8 be imposed by subsection (a) with respect to a taxable car-
9 bon substance if the person who would be liable for such
10 tax establishes that a prior tax imposed by such section
11 has been imposed with respect to such substance.

12 **“SEC. 4693. REFUNDS OR CREDITS.**

13 “(a) SEQUESTERED CARBON.—Under regulations
14 prescribed by the Secretary, if a person uses a taxable car-
15 bon substance so that the carbon associated with such sub-
16 stance will not be emitted, then an amount equal to the
17 amount of tax in effect under section 4692(b) with respect
18 to such substance for the calendar year in which such use
19 begins shall be allowed as a credit or refund (without in-
20 terest) to such person in the same manner as if it were
21 an overpayment of tax imposed by section 4692.

22 “(b) PREVIOUSLY TAXED CARBON SUBSTANCES
23 USED TO MAKE ANOTHER TAXABLE CARBON SUB-
24 STANCE.—Under regulations prescribed by the Secretary,
25 if—

1 “(1) a tax under section 4692 was paid with re-
2 spect to any taxable carbon substance, and

3 “(2) such substance was used by any person in
4 the manufacture or production of any other sub-
5 stance which is a taxable carbon substance,
6 then an amount equal to the tax so paid shall be allowed
7 as a credit or refund (without interest) to such person in
8 the same manner as if it were an overpayment of tax im-
9 posed by section 4692. In any case to which this sub-
10 section applies, the amount of any such credit or refund
11 shall not exceed the amount of tax imposed by section
12 4692 on the other taxable fuel manufactured or produced
13 (or which would have been imposed by such subsection on
14 such other fuel but for section 4692(d)).

15 “(c) EXEMPTION FOR EXPORTS.—

16 “(1) TAX-FREE SALES.—

17 “(A) IN GENERAL.—No tax shall be im-
18 posed under subsection (a) on the sale by the
19 manufacturer or producer of any taxable carbon
20 substance for export or for resale by the pur-
21 chaser to a second purchaser for export.

22 “(B) PROOF OF EXPORT REQUIRED.—

23 Rules similar to the rules of section 4221(b)
24 shall apply for purposes of subparagraph (A).

25 “(2) CREDIT OR REFUND.—If—

1 “(A) any person exports—

2 “(i) a taxable carbon substance, or

3 “(ii) any other product any portion of

4 the cost of which is attributable to the use

5 of any taxable carbon substance as an en-

6 ergy source for the manufacture or produc-

7 tion of such product, and

8 “(B) such person establishes to the satis-

9 faction of the Secretary the portion of such cost

10 which is attributable to the tax under section

11 4692,

12 credit or refund (without interest) of such tax shall

13 be allowed or made to such person.

14 “(3) REGULATIONS.—The Secretary shall pre-

15 scribe such regulations as may be necessary to carry

16 out the purposes of this subsection.

17 **“SEC. 4694. OTHER DEFINITIONS AND SPECIAL RULES.**

18 “(a) DEFINITIONS.—For purposes of this sub-

19 chapter—

20 “(1) UNITED STATES.—The term ‘United

21 States’ has the meaning given such term by section

22 4612(a)(4).

23 “(2) IMPORTER.—The term ‘importer’ means

24 the person entering the article for consumption, use,

25 or warehousing.

1 “(3) TON.—The term ‘ton’ means 2,000
2 pounds. In the case of any taxable carbon substance
3 which is a gas, the term ‘ton’ means the amount of
4 such gas in cubic feet which is the equivalent of
5 2,000 pounds on a molecular weight basis.

6 “(b) USE TREATED AS SALE.—If any person manu-
7 factures, produces, or imports any taxable carbon sub-
8 stance and uses such substance, then such person shall
9 be liable for tax under section 4692 in the same manner
10 as if such substance were sold by such person.

11 “(c) SPECIAL RULES FOR INVENTORY EX-
12 CHANGES.—

13 “(1) IN GENERAL.—Except as provided in para-
14 graph (2), in any case in which a manufacturer, pro-
15 ducer, or importer of a taxable carbon substance ex-
16 changes such substance as part of an inventory ex-
17 change with another person—

18 “(A) such exchange shall not be treated as
19 a sale, and

20 “(B) such other person shall, for purposes
21 of section 4692, be treated as the manufac-
22 turer, producer, or importer of such substance.

23 “(2) REGISTRATION REQUIREMENT.—Para-
24 graph (1) shall not apply to any inventory exchange
25 unless—

1 “(1) the taxable carbon substances used in the
2 manufacture or production of such product, or

3 “(2) the carbon dioxide emissions attributable
4 to the manufacture or production of such product.

5 “(c) PROCEDURE TO CHALLENGE INFORMATION
6 PROVIDED BY IMPORTER.—The Secretary shall establish
7 a procedure under which interested persons may examine
8 the information provided by an importer for purposes of
9 this section, and bring to the attention of the Secretary
10 any suspected errors in such information.

11 **“SEC. 4696. IMPORTED TAXABLE PRODUCT.**

12 “(a) IN GENERAL.—For purposes of this part, the
13 term ‘imported taxable product’ means any article which,
14 at the time of such article’s sale or use by the importer,
15 is described in the same heading of the Harmonized Tariff
16 Schedule of the United States as a like article produced
17 in a listed industry.

18 “(b) LISTED INDUSTRY.—For purposes of this sec-
19 tion—

20 “(1) IN GENERAL.—Except as provided in para-
21 graph (2), the term ‘listed industry’ means any in-
22 dustry listed by the Administrator as being among
23 the industries which, in the aggregate, account for
24 95 percent of the taxable carbon substances used in
25 the United States. An industry may not be omitted

1 from the list under the preceding sentence if it uses
2 more taxable carbon substances per unit of output
3 than any industry which is so listed.

4 “(2) SPECIAL RULE FOR 2010 THROUGH 2012.—

5 “(A) 2010.—During 2010, the term ‘listed
6 industry’ shall include only the 6 industries on
7 the list under paragraph (1) having the highest
8 average use of taxable carbon substances per
9 unit of output.

10 “(B) 2011 AND 2012.—During 2011 and
11 2012, the term ‘listed industry’ shall include
12 only—

13 “(i) the industries described in sub-
14 paragraph (A), and

15 “(ii)(I) in the case of 2011, the $\frac{1}{3}$ of
16 the remaining industries on such list hav-
17 ing the highest average use of taxable car-
18 bon substances per unit of output, or

19 “(II) in the case of 2012, the $\frac{2}{3}$ of
20 the remaining industries on such list hav-
21 ing the highest average use of taxable car-
22 bon substances per unit of output.

23 “(c) OTHER DEFINITIONS.—For purposes of this
24 part, the terms ‘importer’, ‘taxable carbon substance’, and

1 ‘United States’ have the respective meanings given such
2 terms by part II.

3 **“PART IV—SUPERMAJORITY REQUIRED TO**
4 **CHANGE REVENUE NEUTRALITY**

5 **“SEC. 4697. SUPERMAJORITY REQUIRED.**

6 “ A bill, joint resolution, amendment to a bill or joint
7 resolution, or conference report that increases aggregate
8 revenues under parts II and III greater than the aggre-
9 gate reduction in revenues under part I may not be consid-
10 ered as passed or agreed to by the House of Representa-
11 tives or the Senate unless so determined by a vote of not
12 less than two-thirds of the Members of the House of Rep-
13 resentatives or the Senate (as the case may be) voting,
14 a quorum being present.”.

15 (b) CLERICAL AMENDMENT.—The table of sub-
16 chapters for chapter 38 of such Code is amended by add-
17 ing at the end the following new item:

“SUBCHAPTER F. REDUCTION OF SOCIAL SECURITY TAXES; TAX ON CARBON
DIOXIDE CONTENT OF CERTAIN SUBSTANCES”.

18 (c) EFFECTIVE DATE.—The amendments made by
19 this section shall take effect on January 1, 2010.



House of Representatives
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**EXPLANATORY NOTES TO ACCOMPANY
THE RAISE WAGES, CUT CARBON ACT OF 2009**

INCIDENCE OF TAX ON COAL

The tax on coal under Section 4692 should be calculated assuming that coal is combusted in the most efficient manner. For example, the most efficient lignite combustion cannot combust all carbon present. Therefore, the combustion rate of the most efficient lignite boilers would be used as a baseline to determine the CO₂ emissions of those grades of coal. For more information, see forthcoming white paper on Upstream vs. Downstream Application of Carbon Tax.

Taxing based on most efficient burning should ensure that 100% of possible carbon emissions are taken into account for each grade of coal, as well as provide a disincentive for less-efficient technology. At the same time, energy producers would not be penalized for CO₂ they could not possibly be emitting.

INCIDENCE OF TAX ON PETROLEUM

The tax on petroleum under Section 4692 should fall on refined products after they leave the refinery at an appropriate point of taxation. This will enable taxation based on the grade of the refined product, and will eliminate taxes on the heavier petroleum molecules that will not be combusted.

EXPORTS FROM PETROLEUM REFINERIES

The USE TREATED AS SALE provision Sec. 4694 (b) implies that carbon emissions generated from refineries during the refinery process would also be taxed, and would be refunded for exports. We are seeking feedback about the most efficient mechanism to account for these emissions and account for trade competitiveness concerns.

SEQUESTRATION REBATE

The refund or credit under Section 4693(a) should be applied to any non-emissive form of fuel use. Refunds or credits are available for a variety of activities, including carbon sequestration and storage and fuels used as a feedstock in industrial processes (including polymer resins, other plastics, chemicals, etc.).

SEQUESTERED CARBON ALREADY ACCOUNTED FOR AT EXPORT

The export adjustment (Section 4693(c)(2)) should be reserved for the portion of the cost attributable to combusted fuels. Any exporter that uses a combustible fuel as a feedstock should use Section 4693(a) to claim a credit or refund for the non-emitted CO₂.

APPLYING THE CARBON TAX TO IMPORTS

The border adjustment for imported goods (Sections 4695-4696) is consistent with the destination principle, applying a tax of equal value to imports as to like domestic goods.

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APPLYING THE CARBON TAX TO IMPORTS (CONT'D)

We assume that the default case will be importers that do not supply any information, in which case they would be taxed at the same rate as the average of US industries, according to Sec. 4695 (b) (2). Though not specified in the bill because of questions of jurisdiction and process, we propose that EPA would work with ITC to determine the rates according to headings in the Harmonized Tariff Schedule.

Importers will have the option to supply emissions information to diminish their tax liability if their production methods are cleaner than the average domestic producer, according to Sec. 4695 (b) (1).

For a detailed treatment, see forthcoming white paper on Border Adjustments.

PROVISION TO CHALLENGE IMPORTER INFORMATION

In order to keep importers honest about their emissions data, interested persons will be able to examine the information provided by an importer and point out any errors in the data or calculations. This provision is designed to enhance quality control of import data by harnessing the private sector; this is not meant to serve as a trade barrier to block goods from entry.

PRESERVING REVENUE NEUTRALITY

The Raise Wages, Cut Carbon Act of 2009 leverages the double dividend, pursuing an increase in economic efficiency by reducing taxes on something we want more of (income) and taxing something we want less of (carbon). If tax revenue is diverted to other programs, we will lose the economic efficiency of the tax reduction and put downward pressure on our economy. The Super Majority provision is essential to gain bi-partisan support and ensure that the tax is successful at reducing emissions without causing substantial harm to the economy.