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Will Massachusetts Enact a Carbon Tax?

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Massachusetts could be the first state in the U.S. to enact an economy-wide carbon tax. In January 2017, two bills were proposed in the Massachusetts legislature that would establish a tax on fossil fuels in Massachusetts with the goal of reducing greenhouse gas (GHG) emissions while returning most or all of the proceeds to consumers and businesses. These bills have picked up some momentum, and with more than 80 legislators co-sponsoring the bills (about 40% of the Massachusetts legislature), there's a real chance that a carbon tax could become law in Massachusetts.

Both bills would impose an initial tax on each ton of CO2 emissions ($10 or $20 per ton), rising to $40 per ton over time. And both bills contain provisions to refund some or all of the tax proceeds to households and businesses. Key provisions of each bill include:

H 1726, *An Act to Promote Green Infrastructure, Reduce Greenhouse Gas Emissions, and Create Jobs*:

- House bill sponsored by Representative Jennifer Benson
- Tax CO2 emissions at $20 per ton, rising $5 a year until it hits $40 per ton.
- Refund 80% of carbon tax revenue to households and businesses, with the aim of offsetting most of the cost increase attributable to the tax. Rebates to consumers and businesses are based on the number of household members or employees. Business that face strong out-of-state competitive pressures would receive higher rebates. Rebates to consumers and businesses are based on the number of household members or employees.
- Establishes a new Green Infrastructure Fund, and raises $200-$300 million each year for that fund, which would be used to help municipalities invest in transportation, climate resiliency, and clean energy projects.

S. 1821, *An Act Combating Climate Change*

- Senate bill sponsored by Senator Mike Barrett
- Tax CO2 emissions at $10 per ton, rising $5 a year until it hits $40 per ton.
- Refund 100% of carbon tax revenue to households and businesses, with additional rebates provided to households in rural areas and to energy-intensive businesses that face strong out-of-state competition. Rebates to other consumers and businesses are based on the number of household members or employees.

The bills would raise the price of fossil fuels in Massachusetts, such as gasoline and heating fuel: for example, the price of gasoline would increase by about 35 cents per gallon. At the same time, the bills aim to offset some—but not necessarily all—of that cost increase through rebate schemes designed to incentivize energy efficiency. These rebate or dividend programs would base the amount of the rebate on household members or employees, and not energy consumption, meaning that very efficient households or businesses could receive a rebate that is higher than the tax they pay, while low-efficiency households or businesses may end up in the red.

These legislative carbon tax proposals are intended to address gaps in current GHG regulations in Massachusetts, which primarily target the electric generating sector. In August, Massachusetts regulators finalized regulations that impose new GHG requirements on the electric energy sector, gas distribution systems, and certain aspects of the transportation sector. The regulations, which were proposed in late 2016, were adopted to help Massachusetts meets its GHG emissions targets under the 2008 Global Warming Solutions Act. But while the new regulations will drive further GHG emissions reductions from the electric generation sector, they will have little impact on emissions related to transportation or residential, commercial, and industrial fuel combustion. With electric generation comprising just 28.2% of GHG emissions in Massachusetts—and transportation accounting for over 30%—regulators and legislators alike are looking towards new mechanisms to drive additional reductions in GHG emissions.

Massachusetts currently imports about $20 billion worth of fossil fuels each year for heating and transportation. Under President Obama, U.S. EPA estimated that the "social cost" of emitting one ton of GHG emissions in 2020 is around $42, although the Trump Administration has ordered the EPA to revisit that somewhat controversial conclusion. It appears that there is growing legislative support for a carbon tax as a mechanism to reduce fossil fuel use—and corresponding GHG emissions—in Massachusetts, with a tax roughly equivalent to the Obama EPA's Social Cost of Carbon. Notably, both Rhode Island and Connecticut also have pending carbon tax proposals that could be "triggered" by action in Massachusetts, effectively creating a "carbon tax block" in the northeast.

But the bills are not without controversy. Certain business sectors concerned about competitiveness and advocates for low-income residents concerned about disproportionate impacts. Nonetheless, the current bills seem to have gained traction in both chambers, and legislators are considering additional mechanisms to protect low-income consumers: for example, Representative Benson is considering a provision that would pay a rebate to low-income families in advance (known as a "pre-fund"), to help provide funds for efficiency upgrades and heating fuel purchases.

Will the legislature adopt a carbon tax in the 2017-2018 session? At this stage, the answer is "maybe." While the legislature is looking for ways to lower GHG emissions, it may be inclined to act with caution on a proposal with far-reaching impacts across the Commonwealth. But these two bills bear watching, especially as Massachusetts and other states seek to reduce GHG emissions and have vowed to uphold the Paris Climate Accord, regardless of what occurs at the federal level.

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