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The Carbon Tax

There has been a lot of passionate debate over the 'carbon tax' from all sides of politics. Like any proposed significant change to our tax system, this debate has, at times, included misinformation, one-sided views, hysteria and generally created a lot of confusion.

This summary attempts to explain exactly how this proposed tax package was originally intended to operate.

How does it work?

In its basic form, the 'Carbon Tax' package works as follows:

1. A price of $23 per tonne of Carbon Dioxide (CO^2) generated, is being levied on a small number (approx 500) of large companies who currently emit large quantities of CO^2. From 1 July 2012, these 500 companies will be required to purchase 'carbon permits' from the government based on the amount of CO^2 they emit.

2. These large companies will pass this tax onto their customers, who will in turn pass the increased cost onto *their* customers, and so on until eventually the end consumer bears the cost through increased prices for goods and services they purchase.

3. To offset these increased prices to consumers, the government proposed to lower personal income tax and increase welfare benefits.

4. The government will provide various targeted spending packages to shield certain industries from negative effects of the new tax, invest in new technologies, assist households become more energy efficient and promote carbon farming and biodiversity initiatives.

5. A number of new government bodies were set up to oversee and advise on this new system.

The main goal of the system is to reduce CO^2 emissions. This system is designed to achieve this result by providing an incentive for large companies to invest in cleaner energy sources. It is currently cheaper to produce energy from so called 'dirty' sources such as coal, natural gas etc. than cleaner alternatives such as wind, solar etc. By adding an additional cost to dirty sources of power, it is expected that large businesses will seek cleaner fuel sources.

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Example: Assume an electricity company can produce each unit of power for $100 by burning coal which releases one tonne of CO^2 into the atmosphere, or for $120 by using solar power which has zero emissions. Currently, this power station will choose coal as the added cost of switching to solar would not be economical. If an added cost of $23 per tonne of CO^2 were added however, suddenly using coal becomes less attractive at a total cost of $123 per unit of power compared to solar at $120. This company could get a competitive advantage by switching to solar power.

Putting a price on CO^2

- The initial price placed on a tonne of CO^2 emissions is $23 which commenced from 1 July 2012.
- This price was to rise by 2.5% per year to $24.15 from 1 July 2013, to $25.40 from 1 July 2014. Returning to Government, Rudd proposed to replace this scheme, with an Emissions Trading Scheme (ETS) from 1 July 2015.
- Under an ETS, the market would set the price per tonne of CO^2 emissions, though a floor and ceiling price will apply.
- A new government body known as the Climate Change Authority (CCA) was setup to establish annual emission targets. A clean energy regulator was to administer the scheme.
- Emissions caps i.e. a limit on the number of carbon permits available to be purchased, were to be set in the 2014-15 federal budget based on recommendations from the CCA.
- The primary emissions reduction target is a reduction of total emissions from 2000 levels of 5% by 2020 and by 80% by 2050.
- Companies were to be able to purchase up to 50% of their permits from credible international carbon markets and up to 5% from the government's Carbon Farming Initiative which enables land owners to generate carbon offsets though carbon sequestration projects.
- Expected revenue from the sale of permits was as follows:
    - 2012/13 - $7.74 billion
    - 2013/14 - $8.14 billion
    - 2014/15 - $8.59 billion
- The transport industry will face an effective tax rise through the reduction in fuel tax credits and an increase in aviation fuel excise. Light commercial and household transport will be exempt. Additional revenue over 4 years from changes to fuel taxes was expected to be $2.79 billion.

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Passing on the cost

- The approximately 500 large companies who were to end up needing to purchase permits will come predominantly from the electricity production, mining, manufacturing and metal smelting industries.
- The agriculture industry is exempt from the package.
- Emissions Intensive Trade Exposed (EITE) Industries who compete with overseas suppliers not subject to a carbon tax will receive shelter from the package through the issue of free permits. These free permits will be issued in separate categories including:
    - 94.5% free permits for the emissions intense industries which compete with foreign markets such as steel (including BlueScope Steel), aluminium smelting, flat glass making, zinc smelting and paper products.
    - 66% free permits for lower emission industries such as plastics, chemical manufacturing, and ethanol production.
    - 50% for the Liquid Natural Gas industry.
    - The expected value of these concessions was $9.2 billion over 4 years
- These free permits will be scaled back by 1.3% per year. The assistance package will last for at least 6 years.
- Companies exporting coal will not be eligible for free permits.
- At $23/t, costs to consumers for everyday items are expected to rise as follows:
    - Electricity 10.0%
    - Gas 9.0%
    - Food <0.5%
    - Overall 0.7%

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Support for Households

An adjustment to tax brackets, targeted at those on lower incomes, will apply from 1 July 2012 and another tax cut from 1 July 2015 was proposed as follows:

Pre 1 July 2012

Bracket	Rate
$0 - $6,000	0%
$6,001 to $37,000	15%
$37,000 to $80,000	30%
$80,001 to $180,000	37%
$180,000 & above	45%

2012 – 2015

Bracket	Rate
$0 - $18,200	0%
$18,201 to $37,000	19%
$37,000 to $80,000	32.5%
$80,001 to $180,000	37%
$180,000 & above	45%

From 1 July 2015

Bracket	Rate
$0 – $19,400	0%
$19,401 to $37,000	19%
$37,000 to $80,000	33%
$80,001 to $180,000	37%
$180,000 & above	45%

- The Low Income Tax Offset will reduce from $1,500 to $445. This will result in the effective tax free threshold changing as follows:
    - Previous $16,000
    - From 1 July 2012 $20,542
    - From 1 July 2015 $21,742

- Pensions and Family Tax Benefit will rise by an additional 1.7% on top of normal CPI rises

- Self funded retirees who hold a Commonwealth Senior Health Card will receive an increase in the Senior Supplement of up to $380 per household

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Other spending

- Targeted industry assistance packages are available including:
    - $300 million for innovation in steel package;
    - $1.26 bilion over six years to assist with emissions from 'gassy mines' which release large amounts of CO^2 trapped underground as part of the mining process;
    - $1.2 billion to support low-emissions manufacturing
- Setup of the Energy Security Fund to provide up to $5.5 billion to pay for the closure of some of the country's dirtiest power stations
- The Clean Energy Finance Corporation was to be setup to invest $10 billion over five years from 2013 in renewable energy and low emission technology (not carbon capture & storage) and was to be run by an independent board
- The Australian Renewable Energy Agency was setup to oversee $3.2 billion in renewables funding
- Programs to assist household energy efficiency and implementation spending of $220 million over 4 years

Economic Effect

- Expected fiscal effect of all measures from 1 July 2011 to 30 June 2015 was to be a total cost of nearly $4 billion as follows:

Total additional tax revenue	$27.26 billion
Less: Tax cuts and welfare increases	($14.94 billion)
Less: Free permits to EITE industries	($9.22 billion)
Less: Spending on specific programs	($1.49 billion)
Less: Energy Security Fund	($3.05 billion)
Less: Clean Energy Finance Corporation	($0.94 billion)
Less: Land and biodiversity funding	($1.19 billion)
Less: Additional governance costs	($0.38 billion)
Net fiscal effect	($3.96 billion)

- CPI was expected to rise in 2012-13 by an additional 0.7%.
- GDP growth was to reduce by less than 0.1%