

CARBON PRICING PROPOSALS IN THE 118TH CONGRESS



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There are various market-based approaches to pricing carbon (e.g., carbon tax, cap and trade, clean energy standard). All of these approaches can reduce emissions cost-effectively while driving clean energy innovation. This factsheet compares two carbon tax proposals introduced in the 118th Congress (2023–2024).

Carbon pricing offers a cost-effective way to reduce greenhouse gas emissions. Fourteen states are already pricing carbon, and a number of states are considering similar action. This factsheet summarizes and compares two federal carbon pricing proposals that have been introduced so far in the 118th Congress (2023–2024), highlighting similarities and differences. Two of these proposals would establish a carbon tax (or “carbon fee”). They are:

- The Energy Innovation and Carbon Dividend Act of 2021 (H.R. 5744) introduced by Rep. Salud Carbajal (D-Calif.) on September 27, 2023
- The Modernizing America with Rebuilding to Kickstart the Economy of the Twenty-first Century with a Historic Infrastructure-Centered Expansion Act of 2023 (MARKET CHOICE Act, H.R. 6665) introduced by Reps. Brian Fitzpatrick (R-Pa.) and Salud Carbajal (D-Calif.) on December 7, 2023

While each proposal would establish a price on carbon, they differ in emissions covered. The Fitzpatrick proposal would apply a tax to greenhouse gas emissions from fossil fuels and certain industrial products and processes, while the Carbajal proposal would apply a tax on carbon dioxide equivalent emissions from fossil fuels and a reduced carbon tax on fluorinated gases. The Fitzpatrick proposal would also replace the gas and aviation fuel tax with a carbon tax.

Other differences include the starting level of the tax, how quickly it increases over time, and how the revenue is used. The Carbajal proposal, for example, would establish a \$15 per metric ton carbon tax that rises \$10 annually and could rise \$15 annually if annual emission targets are not met. All of the revenues would be rebated back to the American people as a dividend.

The Fitzpatrick proposal would establish a \$35 per metric ton carbon tax that rises at 5 percent over inflation annually and could rise \$4 biennially if emission targets are not met. The proposal would primarily fund infrastructure.

Both of the carbon pricing proposals include an emissions reduction target for covered emissions. The Carbajal proposal has an emissions reduction target of 98 percent below 2005 levels by 2050. The Fitzpatrick proposal also has a cumulative emissions schedule from 2025 to 2035 that would reduce emissions about 46 percent below 2005 levels by 2035.

The proposals also differ in the treatment of greenhouse gas regulations and state programs. The Fitzpatrick proposal would place a moratorium on most stationary source greenhouse gas regulations under the Clean Air Act. The Fitzpatrick proposal would place a 12-year moratorium of these regulations, which could be lifted in 2029 or 2033 if emissions reduction targets are not met. Under these proposals, if the moratorium is lifted, the Environmental Protection Agency (EPA) adminis-

BOX: Sector-specific carbon pricing proposals

Three sector-specific carbon pricing proposals have been introduced this Congress. While an economywide carbon price provides the most efficient way to reduce emissions, in its absence, these sector-specific proposals apply similar market-based approaches to reduce sectoral emission.

One proposal would reduce carbon dioxide emissions from ocean shipping. In June 2023, Sens. Sheldon Whitehouse (D-R.I.), Alex Padilla (D-Calif.), and Peter Welch (D-Vt.) introduced the International Maritime Pollution Accountability Act of 2023 (S. 1920). This proposal would establish a fee on the lifecycle carbon dioxide emission from large cargo vessels. The fees would be placed on the fuel burned on the inbound trip to the United States. Starting in 2025, the fees: \$150 per metric ton of carbon dioxide, \$6.30 per pound of nitrogen oxides, \$18 per pound of sulfur dioxide, and \$38.90 per pound for fine particulate matter (PM_{2.5}). The fees would increase five percent above inflation annually. The revenue from the fees would go toward modernizing the Jones Act fleet with low-carbon vessels, decarbonizing ports, and reducing pollution in port communities.

Two proposals would reduce carbon dioxide emission from private and luxury jet travel. In June 2023, Sens. Sheldon Whitehouse (D-R.I.), Edward Markey (D-Mass.), and Peter Welch (D-Vt.) introduced the Assessing International Requirements to Fuel Aviation's Impact Reduction Act of 2023 (AIR FAIR Act, S. 2599). Of relevance, this proposal would establish a surcharge on domestic flights on private jets based on carbon dioxide emissions. Starting in 2025, the surcharge is \$190 per ton of carbon dioxide, increasing ten percent above inflation annually. Revenue from the proposal would be used to invest in and decarbonize airport infrastructure. In July 2023, Sen. Edward Markey (D-Mass.) and Rep. Nydia Velazquez (D-N.Y.) introduced the Fueling Alternative Transportation with a Carbon Aviation Tax Act of 2023 (FATCAT Act, S. 2378 and H.R. 4760). This proposal would increase the excise fuel tax for private jets from \$0.22 to \$1.95 per gallon. This is equivalent to a \$200 per metric ton of carbon dioxide emissions. The fuel tax will be adjusted annually for inflation. Revenues from the proposal would be used to support air monitoring and expand and improve public transportation. At least half of the revenues will go to environmental justice communities; those disproportionately impacted by air pollution.

trator would be required to issue regulations to bring greenhouse gas emissions from covered fuels to levels that are at or below emissions reduction targets. The Fitzpatrick proposal would also offer a declining annual credit to entities covered by both the federal tax and a state greenhouse gas program.

Both proposals include some provisions to ensure environmental integrity (i.e., provide greater certainty that

emissions reduction targets will be met). For example, if the target is not met for a given period, the tax rate goes up or EPA greenhouse gas regulations under the Clean Air Act could come back into force.

The following table highlights key characteristics of each proposal.

POLICY FEATURES	ENERGY INNOVATION AND CARBON DIVIDEND ACT	MARKET CHOICE ACT																																
<i>Sponsor(s)</i>	Rep. Carbajal (D-Calif.)	Reps. Fitzpatrick (R-Pa.) and Carbajal (D-Calif.)																																
<i>Carbon Pricing Mechanism</i>	Carbon Tax	Carbon Tax																																
<i>Start Date</i>	270 days after enactment	Jan. 1, 2025																																
<i>Regulating Authority</i>	U.S. Treasury Department in consultation with EPA	U.S. Treasury Department in consultation with EPA																																
<i>Substances Covered</i>	CO ₂ equivalent emissions from covered fuels: crude oil, natural gas, and coal.	CO ₂ equivalent emissions from fossil-fuel combustion and certain industrial products and processes.																																
<i>Point of Coverage (i.e., Covered Entity)</i>	<p>Covered entities include: refinery, coal mine mouth, those entering pipeline quality natural gas into the transmission system, and any importer of a covered fuels.</p> <p>Exemption for covered fuels used: on a farm for farming purposes and non-fossil fuel GHG emissions which occur on a farm, and by the armed services.</p>	<p>Covered fossil fuel entities include: coal mine mouth or coal preparation and processing plant, refineries, and natural gas processing plant or point of sale, and point at which imported fossil fuels enter the United States.</p> <p>Other covered entities include owner/operator of certain large industrial facilities (initial list of 20) or owner/operator of a facility that makes or imports certain products (initial list of 8) and emits more than 25,000 metric tons of CO₂ equivalent annually.</p> <p>The EPA can revise the list of source categories and producers.</p>																																
<i>Emission Targets and Timetables</i>	<p>The emission target is equal to the previous year's target minus the percentage listed in the table:</p> <table border="1" data-bbox="402 1220 867 1419"> <thead> <tr> <th>Year</th> <th>Emissions Reduction Target (% of 2005 emissions)</th> </tr> </thead> <tbody> <tr> <td>2023–2024</td> <td>5% per year</td> </tr> <tr> <td>2025–2030</td> <td>8% per year</td> </tr> <tr> <td>2031–2050</td> <td>2.5% per year</td> </tr> </tbody> </table> <p>The proposal's emissions reduction target is 98% below 2005 levels by 2050.</p>	Year	Emissions Reduction Target (% of 2005 emissions)	2023–2024	5% per year	2025–2030	8% per year	2031–2050	2.5% per year	<p>The carbon tax can be adjusted if cumulative emissions from covered sources are greater than the specified emissions below:</p> <table border="1" data-bbox="938 1220 1365 1717"> <thead> <tr> <th>Year</th> <th>Total Emissions (MMT CO₂e)</th> </tr> </thead> <tbody> <tr><td>2025</td><td>4,700</td></tr> <tr><td>2026</td><td>9,400</td></tr> <tr><td>2027</td><td>14,000</td></tr> <tr><td>2028</td><td>18,300</td></tr> <tr><td>2029</td><td>22,600</td></tr> <tr><td>2030</td><td>26,800</td></tr> <tr><td>2031</td><td>31,000</td></tr> <tr><td>2032</td><td>35,100</td></tr> <tr><td>2033</td><td>39,100</td></tr> <tr><td>2034</td><td>43,100</td></tr> <tr><td>2035</td><td>47,100</td></tr> </tbody> </table> <p>The proposal's emission reduction target is about 46% below 2005 levels by 2035.</p>	Year	Total Emissions (MMT CO ₂ e)	2025	4,700	2026	9,400	2027	14,000	2028	18,300	2029	22,600	2030	26,800	2031	31,000	2032	35,100	2033	39,100	2034	43,100	2035	47,100
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<i>Price and Escalation Rate</i>	<p>Starting at \$15 per metric ton of CO₂ equivalent in 2023.</p> <p>Increasing annually at \$10 per metric ton, and at \$15 per metric ton if emissions reduction target is not met in the previous year (adjusted for inflation).</p> <p>The carbon fee escalation rate will be \$0 for any year after emissions from covered fuels are 90% below 2005 levels.</p> <p>The carbon fee will be phased out once emissions from covered fuels are 90% below 2005 levels, and the monthly carbon dividend payments to an adult has been less than \$20 for 3 consecutive years.</p>	<p>Starting at \$35 per metric ton of CO₂ equivalent in 2025.</p> <p>Increasing annually at 5% above CPI, and starting in 2027, at an additional \$4 per metric ton biennially if cumulative emissions are greater than the emissions schedule.</p> <p>Any covered person that fails to pay a carbon tax for a given year will be subject to a penalty three time the applicable amount for that year.</p>
<i>Credit or Refund</i>	<p>Treasury secretary can issue payments to the amounts equivalent to the metric tons of CO₂ that is captured, sequestered, or utilized from combustion of covered fuels in the United States.</p>	<p>Treasury secretary can issue credit or refund in the amounts equivalent to the metric tons of CO₂ that is captured and sequestered from combustion of fossil fuels or use as feedstock that has no associated emissions.</p>
<i>Border Adjustment</i>	<p>Begin border adjustment on covered fuels at the same time as the carbon fee, and border adjustment on carbon-intensive products within two years of enactment of this act.</p> <p>A carbon border fee will be imposed on imported covered fuels and on carbon-intensive goods. A carbon border fee could be adjusted if a foreign country has a price on carbon.</p> <p>A credit or refund (without interest) is issued to exporters of carbon-intensive goods.</p> <p>Revenues from the program may be used for administering the border adjustment and then for the Green Climate Fund.</p> <p>If the border adjustment is found to violate aspects of treaties that the United States is a party, then the Secretary of State can alter the border adjustment to bring it into compliance with international law.</p> <p>This fee would be suspended by a treaty or international agreement, or by a determination that a country has implemented a climate policy at least equivalent to the U.S. program.</p>	<p>A border tax adjustment is placed on imported covered goods and a rebate of the tax on exported covered goods.</p> <p>Covered goods are those from eligible industrial sectors (manufacturing sectors, or sectors or part of sectors that beneficiates or processes metal ores) or manufactured items for consumption (as determined by the Secretary) that has a GHG intensity of at least 5% and a trade intensity of at least 15%.</p>

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<i>Use of Revenue</i>	<p>Revenues from the program will be used to provide a monthly dividend to individuals with a valid Social Security number or a taxpayer identification number and is a citizen or lawful resident of the United States.</p> <p>A carbon dividend payment is one pro-rata share for each adult and half a pro-rata share for those under 19 years old, with a limit of 2 children per household.</p> <p>The dividend would be included in determining gross income for tax purposes.</p> <p>The carbon dividend amount will not be considered income when determining eligibility for federal assistance programs.</p>	<p>The bill creates a trust and would allocate three-quarters of the revenue from the program to the trust for the following:</p> <p>70% for the Federal Highway Trust Fund;</p> <p>10% to states in the form of grants for low-income households;</p> <p>4% for flooding mitigation and adaptation infrastructure projects;</p> <p>3% for displaced energy workers;</p> <p>2.5% for the Airport and Airway Trust Fund;</p> <p>2.2% for carbon capture utilization and storage;</p> <p>1.5% for weatherization programs;</p> <p>1.5% for Abandoned Mine Reclamation Fund; and</p> <p>The remaining revenues will be used for R&D and other purposes (e.g., Reforestation Trust Fund, support for carbon sequestration, and Leaking Underground Storage Trust Fund).</p>
<i>Treatment of Federal GHG Regulations</i>	Not specified.	<p>This bill will establish a rolling moratorium for most stationary source GHG regulations under the Clean Air Act upon enactment of this act that will expire on January 1, 2037.</p> <p>The moratorium is lifted if emissions exceed the specified emissions levels for 2028 or 2032.</p>
<i>Treatment of Existing State Programs</i>	Does not preempt state GHG programs.	<p>Starting in 2025, a covered entity will receive a credit for payment(s) on GHG emissions made under state programs. The amount of the credit will start at 100% of the amount paid under the state program, and then decline 20% annually. No credits will be provided beyond the fifth year.</p>

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<p><i>Other Relevant Items</i></p>	<p>Ten years after enactment of this act, the National Academies of Science is required to prepare a report to review the carbon fee program’s impacts and efficacy in meeting the emission reduction targets, and to make recommendations to reduce emissions in economic sectors where carbon emissions have not decreased.</p> <p>The Energy Secretary shall enter into an agreement with the National Academies of Science and the EPA Administrator to conduct a study and make recommendations on the carbon fee impact on the use of biomass as an energy source and the resulting impact on carbon sinks and biodiversity.</p>	<p>Extends the 45Q tax credit by 2 years. Modifies 48A tax credit for advanced coal projects.</p> <p>Would establish a bipartisan National Climate Commission to prepare a report to Congress with analysis and recommendations for reducing greenhouse gas emissions.</p>



The Center for Climate and Energy Solutions (C2ES) is an independent, nonpartisan, nonprofit organization working to forge practical solutions to climate change. We advance strong policy and action to reduce greenhouse gas emissions, promote clean energy, and strengthen resilience to climate impacts.