



Citizens' Climate Lobby

FAQ: Paying Dividends from the Carbon Fee to American Residents

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Questions and Answers

1. How will the monthly per capita Dividend be calculated?

Calculating the monthly per capita Dividend requires the following estimated information:

- A. Numbers of adults and children eligible to receive Dividends. Data would be from the Census Bureau combined with information about tax filing units and children per filing unit from the IRS.
- B. The total number of eligible units would be the number of eligible adults plus 50 percent of the number of eligible children.
- C. Gross Carbon Fee revenue for the year, as estimated for budgetary purposes.
- D. Expenses of Fee collection and Dividend program operation, which would be deducted from gross Carbon Fee revenues to determine the net Carbon Fee revenue available for distribution by Dividends.
- E. After the initial year, calculate the amount of the previous aggregate overpayment or underpayment of Carbon Fee revenue via the Dividend program.
- F. Determine net Carbon Fee revenue available for the year by combining C, D, and E.
- G. Determine the per capita annual adult Dividend by dividing F by B.
- H. Determine the per capita monthly adult Dividend by dividing G by 12.

2. Why are annual adjustments necessary?

Carbon Dividends are calculated to pay out 100% of net Carbon Fee revenue. Carbon Fee revenue will change as the as Fee per ton of CO₂ equivalent emissions increases annually. Changes in carbon use and changes in the numbers of eligible residents will also affect the size of the monthly Dividend. Since before the beginning of each year the dividend is calculated based on estimates, adjustments may be necessary after the final data on revenue is known.

3. What happens when a child turns 19?

Children over age 19 (or over age 23 if they remain dependents as full-time students) would be treated as adults and would be entitled to their own monthly Dividend payments. If they are between ages 19 and 23 but are full-time students, their parents would be eligible for their full adult benefits. Eligibility would be determined on the final day of each month. A child who reaches age 19 during the month would be entitled to the adult benefit for the month. When a child aging out as a dependent (at age 19 or age 24, if a full-time student) might, in turn, permit a younger child in families with three or more children to become eligible for a child's benefit for the month.

4. Why not use the payroll tax system?

Several reasons:

- Using the payroll tax system would not cover those who are not employed. Thus, there would still be a need to create a direct payment mechanism.
- It would place a major new burden on employers.
- Workers would have to provide additional personal information to employers.
- As workers changed jobs and family status changed, there would be both overpayments and underpayments.
- Because of the annual increase in the fee, eventually, the amount of the Dividend would exceed the amount of payroll taxes withheld for low-income earners. Employers would then be required to obtain funds each payday from the federal government to pay these workers, which would put a large burden on businesses, and create enormous opportunities for fraud.

5. Why determine eligibility monthly?

Similar to Social Security and Medicare benefits, a monthly determination helps account for births, deaths, and children turning 19 (or age 23, if full-time student) during a year.

6. What is meant by a “household”?

Here, “household” is consistent with the income tax definition of a household. That is, the individual or couple who file a single Federal income tax return and the dependent children claimed on that return. (Married couples filing separately could claim a Dividend for no more than one dependent child.) Residents not filing income tax returns would be eligible for a Dividend after filing a special form.

7. Do individuals or households get the Dividend?

Households, as defined in FAQ #6, get the Dividend. It would be simpler for the benefits to be paid to family units rather than to individual spouses, with child benefits being paid to the family. Paying benefits to family units reduces the number of payments, eliminates the need to determine which two children actually are entitled to benefits in families with three or more children, and simplifies adjusting for changes in eligible children. At an administrative level, it also greatly reduces the number of monthly payments and may reduce the number of transactions due to family eligibility changes and for adjustments due to underpayments or overpayments.

8. Could the Dividend be combined with other monthly payments, such as social security and federal retirement benefits?

This may be possible in some cases, but it may also be unwise. Most importantly, combining Dividend payments with other government payments would diminish the visibility of the Dividend payment. That visibility may be an important component of support for the entire Carbon Fee program.

Candidate programs for combining payments would include at least monthly social security and other federal retirement benefits. These programs make large numbers of payee payments monthly; e.g. Social security alone makes nearly 60 million disbursements. However, because of underlying program differences, creating combined payments would not be a simple matter of merging two payment lists. One basic difference is that Dividend payments are by tax-filing household. Each household gets one and only one payment even if two adults and up to two children are eligible. In contrast, social security payments are made to individual payees. At least for husbands and wives, the Social Security Administration makes separate payments even if both payments are based on the same earnings history. (That is, even if one of the payments is for spousal benefits.) Thus, when families were involved, there would be different payees under the Dividend and social security programs. In such circumstances, combining payments would not be possible. This type of problem would not prohibit combining payments when the payees were identical.

On a more practical level, given the extremely low cost of making payments by electronic transfers to bank accounts, even where combining payments were feasible, it might not be cost-effective. The extra cost of combining payments might approximate (or even exceed) the government's costs in making two separate payments.

9. Would the frequency of payments at the program's start be the same as at the end?

Not necessarily. In the early years, payments could be made quarterly or even semi-annually to expedite implementation of the program. Inquiries and complaints tend to cluster just after payments are received; thus, if the payments were made so that each month only one-third or one-sixth of residents received a Dividend payment, the number of telephone calls and letters would be lower and spread out more evenly during the year. That would reduce the need for government or contractor staff to handle inquiries, complaints, and changes in eligibility. As the size of Dividend payments increased, payments could be made more frequently, eventually monthly. It is estimated it would take 2 years for full implementation and monthly Dividends.

10. If the annual tax return is the basis for payments, what about late filers?

As many as 10 percent of filers avail themselves of an "automatic extension" to file until October 15. On an annual basis, that would still be timely because Dividend payments would not be adjusted to reflect tax return data until the January following the April in which tax returns are generally filed.

11. What information would a tax filing unit (household or individual) need to provide in order to begin receiving the Dividend?

Names, addresses, and social security numbers for the covered adults and dependent children, and bank account information for use in making Dividend payments.

12. Wouldn't those who have never filed tax returns before be overwhelmed by the need to file to receive the Dividend?

Possibly. To account for this, CCL has drafted a basic form that such persons could fill out to begin receiving the Dividend. Similar problems were encountered and overcome with the one-time economic stimulus payments in 2008. A combination of outreach programs would have to be implemented immediately to assist non-filers and might have to be continued permanently on a more modest level. Conceivably, helping people sign up for the Dividend could be an action for CCL volunteers in the future.

13. Would the form for current non-filers have to be filed with the IRS?

To overcome fears about dealing with the IRS, the different form could be filed with an agency other than the IRS. However, for simplicity in administration of the Dividend, information would have to be merged with traditional income tax information from IRS files.

It can reasonably be expected that if the Dividend payment system requires filings by current non-filers, free software for such filings will be available.

14. How many people in the US are non-filers?

For calendar year 2013, over 147 million federal individual income tax returns were filed. Those returns included taxpayer or dependent exemptions for 290 million people. Since total United States population was about 315 million, about 25 million residents would have had to be covered on forms with their identifying information in order to begin receiving Dividend payments in that year. Some of those residents would be married and others would be dependent children; thus, only about 10 to 15 million new information forms would have had to be filed.

15. What kinds of inquiries about the Dividend would you expect?

These include newly eligible dependents due to birth, adoption, marriage or divorce of parents, etc. All types of inquiries and requests for error corrections and assistance would also be initiated by, or on behalf of residents.

16. Who would handle such inquiries?

The intermediary (see FAQ #17) would process all of these inquiries or change requests, would make the appropriate determinations (including processing and determining appeals through a separate, independent unit), and would calculate the adjusted future monthly payments (and perhaps, some retroactive adjustments when underpayments were due to agency errors).

17. Who could this intermediary be?

There are 2 basic options: A) A completely new agency or branch of an existing agency, or B) a contractor. For option B, this could be similar to (although somewhat simpler than) the system used to process claims, make determinations, and actually pay out Medicare benefits.

18. Does CCL have a preference for whom the intermediary might be?

No. That decision should be left to our eventual legislative champion.

19. Wouldn't the SSA or IRS for the intermediary be the least-cost solution?

Not necessarily. It is anticipated that costs would not vary substantially based on the choice of intermediary. Although IRS and SSA each have experience that is relevant for the Dividend program, both agencies have many and varied responsibilities and constrained budgets. Even if handled by the IRS or the SSA, a completely separate staff and completely separate accounting, recordkeeping, and computer systems would be necessary for the Dividend payments.

20. What are the major costs that would be associated with this program?

There are 3 basic cost sources associated with this program:

- A. One-time start-up costs, including initiating a program, developing or purchasing systems and software, developing procedures, and recruiting, hiring, and training staff.
- B. Ongoing costs, including employees, office space, communications and data processing and storage equipment, recordkeeping, etc.
- C. Transaction-related costs, especially handling inquiries and resolving errors (the actual cost depends on complexity of the problem and employee time to resolve). The per transaction costs of EFT transfers would be extremely low.

21. The fewer the transactions, the lower the transaction costs, right?

Errors and inquiries would be related to the number of adjustments to payment amounts to residents, especially adjustments due to changes in the numbers of eligible persons. Generally, such changes would not be related to the frequency of payments (monthly, quarterly, etc.). In fact, if payments were made infrequently, residents might actually inquire more because they would "forget" about relevant features of the system. Since automated payment costs are very low, the extra cost of monthly versus bi-monthly, quarterly, or semi-annual payments may be offset by reduced direct contact costs.

22. How would the Dividend actually be disbursed?

The vast majority of payments would be made by an automated clearing house (ACH) electronic funds transfers (EFT) to the recipients' bank accounts. For most recipients without bank accounts, the payment would be made by adding funds to a debit card account that would be set up for the recipient by the government. In instances where banks could not process EFT (or debit card) transactions because of closed accounts, incorrect account numbers, lost debit cards, divorces, deaths, etc., or in other unusual situations, payments would be made by paper checks. Paper check payments would always delay the receipt of the Dividend by the resident or family.

23. How many households would be expected to use each disbursement method?

EFT: The federal government has been very successful in mandating that beneficiaries of federal programs, contractors, and other recipients of recurring federal payments supply bank account information so that payments can be made by EFT. To date, the Internal Revenue Service has not mandated that individuals provide bank account information in order to receive tax refunds. Despite the lack of any mandate, the vast majority of the one-time economic stimulus payments (advance income tax rebates) paid in 2008 were paid by EFT. Each year, the percentage of tax returns prepared or prepared and filed electronically has increased, with virtually all refunds related to those tax returns being made by EFT. Over 90 percent of tax returns are prepared with electronic software.

Debit card: According to a study commissioned by the Federal Deposit Insurance Corporation, in 2013 about 7.7 percent of households (or about 9.6 million households) did not have a bank account (were “unbanked”). Note that 9.6 million households may translate in a somewhat larger number of income tax filing units. Over 40 percent of the unbanked previously had a bank account, and the loss of a bank account was often related to loss of employment, etc. When the economy is vibrant and more workers are employed, fewer than 10 million debit card payments would be required. With an economy in recession, as many as 12 to 13 million debit card payments could be necessary.

Paper Check: This would be a small fraction of transactions, mostly related to situations after EFT and debit card payments were rejected for any of number of reasons (such as a resident supplying an incorrect account number or changing bank accounts without notifying the intermediary)

24. What is the basic rationale for the Dividend payment to households?

Primarily, it is meant to reimburse residents for the indirect health and environmental costs of burning fossil fuels. This is why the Dividend is targeted equally to all residents of the US, who are already paying for the damage of climate damage through taxes to cover disaster relief and infrastructure damage, higher insurance costs, higher healthcare costs, and even more military spending.

The burden of the carbon fee should not be piled on top of those; it should be borne by the fossil energy companies and their owners and investors. But since those energy companies will attempt to pass on the carbon fee costs to consumers, families will need the Dividends to help offset them in an equitable way.

25. Why do children receive only a half-share, and why is the number of eligible children limited to 2 per household?

Children account for less fossil fuel consumption than adults, and there are significant economies of scale within large families. Children receiving a full share, or more than 2 children in a household receiving a dividend would reduce the amount available for other families who still bear the additional energy costs of having children but don't enjoy the same economies of scale achieved by larger families. The average household in the US has under 2 children.

26. Could the form for non-filers, as well as the end-of-year reconciliation form, be submitted electronically?

Yes. It is anticipated that providers of income tax preparation software would include Form CFD-5, so that after entering a limited amount of information, the remainder of the form would be calculated automatically and submitted (generally electronically) with an income tax return for with Form CFD-1. Currently, many providers of income tax preparation software do not charge lower-income filers for its use.

27. How long would it take to fully implement this system?

It is estimated that full implementation would take about two years.

28. Could that process be shortened?

A temporary payment system could use the IRS' information about family composition to make annual or semi-annual direct payments until such time as the permanent direct payment system could be fully implemented. Such temporary payments would be similar to the one-time economic stimulus payments (advance income tax rebates) paid in 2008. It is likely that such payments could begin in about three months, and given the high percentage of tax returns for which the IRS has bank account information from the tax return, the payments themselves could be made over a three month period, or less.

A rapidly effective transitional system initially would not provide Dividend payments to residents who had not filed income tax returns for the preceding year. Such residents would begin to receive both retroactive and prospective Dividend payments soon after they filed an income tax return or a Form CFD-1 to provide the information necessary for Dividend payments. The transitional system might be slightly less accurate and, in some instances, might not be able to handle resolution of discrepancies between the transitional Dividend payments and actual entitlement. Thus, when overpayments were made, the transitional Dividend payments might have to be treated as final payments.

29. Is it possible to leave the IRS completely out of this process?

Avoiding such involvement would require every resident family and individual to supply to a different government agency or contractor with virtually identical demographic information to the information that he or she currently provides to the IRS on the annual income tax return. Such duplication would be expensive for all parties and would only increase the public's resentment of large, inefficient government. CCL would not favor such an expensive approach.

Basically, IRS would only have to share: names and social security numbers of taxpayers and dependent children, ages of dependents, addresses, and bank account information from income tax returns. IRS might also be tasked to receive and process the reconciliation form (CFD-5), because having IRS process the CFD-5 as part of income tax return process and payment of refunds would be less burdensome for residents. Even for that task, the IRS involvement would be limited to processing information. It would not necessarily be involved in error correction, compliance, or enforcement.

30. Wouldn't there be a "marriage penalty" with this program?

There is no intention to discourage marriage. The only situations where it could be argued to occur would be if two unmarried people each with children marry, and their combined family has more than two children under age 19. That "penalty" would decline or disappear as minor children reach the age of 19, resulting in younger children qualifying for a child Dividend.

31. Would citizens living abroad be eligible for the Dividend?

Generally, no. However, it is often difficult to determine if a U.S. citizen or permanent resident actually lives in the United States or abroad. With the border adjustment and existing carbon pricing regimes in most other wealthy countries, such individuals would not bear the costs of the fee, and would in any case be covered by their country of residence. To the extent that it could be determined from information on income tax returns on a consistent basis, some provision might be envisioned for those who reside in the US for part of the year.

32. Is the dividend taxable income?

Yes, the dividend in CCL's policy is taxable as income, but would not count towards limits for federally supported social programs. Since it is taxable as income, the Congressional Budget Office will score it as revenue-neutral, which eliminates the need to legislate offsetting expenditure reductions or tax increases.

33. Since the dividend is taxable, how would withholding be handled?

Withholding would be optional, at the discretion of the recipient. Residents who file income tax returns could fill out a simple form (CFD-4) to indicate their desired withholding as a percentage of their Dividend payments. A similar option would be added to for CFD-1 for nonfilers who file CFD-1 to obtain their Dividend, thus requiring only a single additional line on CFD-1.

34. Why is the dividend taxable for income tax purposes, but not for benefits programs?

Dividends would be treated as income for income tax purposes but would not be treated as income for other purposes, especially federal and federally supported social programs. This is a compromise position that increases the net amount of Dividends to be received by residents while still reducing the adverse budgetary impact. This would prevent its consideration as income for most social programs because of their full or partial funding by the federal government.

The exclusion of Dividends from being considered as income under social programs is intended to prevent large reductions in benefits under means-tested programs. Taken together with the effective high marginal tax rates on the Dividends received by some residents, the associated reductions in benefits received from social programs could result in effective marginal rates close to, or even exceeding, 100 percent, so that the after-tax and after-benefit incomes of some lower and middle-income individuals and families could actually be reduced as the result of the Carbon Fee Dividend program. This compromise position avoids that outcome.

35. How would CCL handle the dividend for prisoners?

CCL believes the dividend should go to as many people as possible, including prisoners. Prisoners live in the same climate as everyone else, after all. See FAQ#24 for our rationale on this.

36. Doesn't section 6103 of the Internal Revenue Code (tax code) prevent contractors from using tax data?

Yes, section 6103 of the Internal Revenue Code generally imposes strict nondisclosure requirements on IRS' taxpayer information including information IRS receives from other government agencies.

However, many narrow exceptions have been enacted legislated for other government programs that require use of otherwise non-disclosable IRS data. For each such program, the Congress has enacted legislation (generally included in subsections of section 6103) so that those programs can obtain the IRS data. The data so disclosed continues to be subject to strict nondisclosure limitations on the receiving agencies. The data may be uses only for its intended purposes, and it may not be disclosed to additional agencies except as permitted by statute.

Thus, the enabling legislation for the Dividend program would need to include the appropriate amendments to section 6103 (and possibly other sections) to permit the relevant government agencies and contractors to have access to the IRS data that they will need to implement the Carbon Fee and the Dividend. Similar disclosure authority would be necessary for any information from the Social Security Administration.