League of Women Voters® of Washington

**Nov 8, 2016 General Election Ballot Measure Summary Series**

# I-732

**Measure:** State of Washington Initiative 732 — Relates to taxes, including a Carbon Tax

**Ballot Title (what you will see on the ballot):**

*Initiative Measure No. 732 concerns taxes.*
*This measure would impose a carbon emission tax on certain fossil fuels and fossil-fuel-generated electricity, reduce the sales tax by one percentage point and increase a low-income exemption, and reduce certain manufacturing taxes.*
*Should this measure be enacted into law? Yes [ ] No [ ]* *(official – as filed with the Secretary of State's Office)*

**Summary:**

This measure would impose a carbon emission tax on the sale or use of certain fossil fuels, including gasoline, and fossil-fuel-generated electricity, at $25 per metric ton of carbon dioxide in 2017, and increasing gradually to $100 per metric ton. This tax will be phased in more gradually for some users. It would reduce the sales tax rate by 1% over two years, increase a low-income tax exemption to as much as $1500, and reduce some manufacturing taxes to promote energy sources other than fossil fuels.

**Immediate Effects, if Passed:** The cost of gasoline and other fossil fuels with the tax added will increase significantly for the consumer and businesses. By increasing the cost of fossil fuels and electricity generated using those fuels, use of fossil fuels is expected to decline, and electricity generation to shift from carbon-intensive coal toward hydro, wind, and solar. This may reduce carbon dioxide emissions. Higher fuel costs will be partially offset, for lower income people, by the reductions in sales taxes, and the increase in the tax rebate program of up to $1500 for 400,000 low income households.

**Fiscal Effects, if passed:** I-732 was intended to be "revenue-neutral" – that is, so that overall Washington State tax revenues would be unchanged. However, its effects on revenue are controversial, and very difficult to predict. The Washington State Department of Revenue estimates a loss of state General Fund revenue by a net amount of $797.2 million. This results from implementing a new carbon tax, reducing the state retail sales tax rate by 1 percentage point and reducing some business and occupation taxes. State expenditures would increase by $37.4 million. However, *local* tax revenue would increase by $156.1 million to offset some of the losses. This all would happen while the state still has shortfalls in basic education funding identified in the McCleary decision by the Washington State Supreme Court.

**Arguments for the measure:**

People who support the measure argue that time is of the essence, and we must start addressing the causes of climate change now. Passing I-732 will make Washington State a global leader in climate action. Reductions in carbon dioxide emissions will slow the pace of global warming, and reductions in other kinds of air pollution resulting from fossil fuel use might also result, with health benefits. Economists who drew up this initiative predict this tax will eventually raise $2.2 billion per year; these revenues will be returned to the public by lowering taxes. As a result of these changes, state tax burdens may become somewhat less "regressive", shifting the burden toward higher income residents. Job losses in manufacturing due to increased energy costs are expected to be limited by the reductions in manufacturing taxes. Thus, the state economy and family incomes could benefit, despite increased energy costs.

**Arguments against the measure:**

Some people who oppose the measure state that it is difficult to rule out the negative effects of the proposed carbon tax on the Washington State economy, including job losses in energy industries that could move to other states. They also argue that this tax would have a much harder effect on poor people since gasoline costs would rise significantly.

Other opponents of I-732 strongly support reductions in carbon dioxide emissions, but argue that this measure is badly designed and would substantially reduce State tax revenue when it is sorely needed and the courts have found that Washington schools are under-funded. They also object that carbon tax revenues, which will be put in the state general fund, would not be targeted toward developing clean-energy jobs, infrastructure, and industry. Some opponents of 732 argue that a cap-and-trade system like those currently implemented in California and the European Union would reduce carbon dioxide emissions more effectively and efficiently.