



Citizens' Climate Lobby

Dividend Delivery Study FAQ

How are Carbon Dividends to be distributed to American households?

Based on the 2018 Report by Allen H. Lerman:

'Paying Dividends to American Residents from Carbon Fee Revenue'

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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 individual income tax filers and children per tax filer from the IRS.
- B. The total number of per capita adult Dividends 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. Net Carbon Fee revenue available for the year, determined by combining C, D, and E.
- G. Per capita annual adult Dividend, determined by dividing F by B.
- H. Per capita monthly adult Dividend, determined by dividing G by 12.

2. How does the plan ensure that all of the net revenue is paid out as Dividends?

The legislation will mandate that 100% of net Carbon Fee revenue is paid out to households as Carbon Dividends. Carbon Fee revenue will change as the as Fee per ton of CO₂-equivalent emissions increases annually, carbon use changes, both due to the carbon fee and the size of the population. Changes in the numbers of eligible residents will also affect the size of the monthly Dividend. Before the beginning of each year, the dividend will be calculated based on estimates. Later, after the final data on revenue are known, adjustments will be made to Dividends in future year as necessary to bring the accounts into balance.

3. What happens when a child turns 19?

Children who reach age 19 would in all cases become eligible for adult Dividends. If they are between ages 19 and 23 but are still claimed as dependents (generally full-time students), their parents would receive their adult Dividend payments. 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 ages out as a dependent, a younger child in families with three or more children would become eligible for a child's benefit for that month.

4. Why not use the payroll tax system?

Several reasons:

- Using the payroll tax system would not cover the families of those who are not employed. Thus, there would still be a need to create a direct payment mechanism for those residents.
- 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, the amount of the Dividend would eventually 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 significant opportunities for fraud.

5. How often will eligibility be determined?

CCL recommends monthly. Similar to Social Security and Medicare benefits, a monthly determination helps account for births, deaths, and children turning 19 (or 24, if full-time students) during a year.

6. What is meant by a “household”?

Here, ‘household’ is consistent with the income tax definition of a household (also referred to as a ‘tax filing unit’). That is, the individual or couple who file a single Federal income tax return with any dependent children claimed on that return. (However, not more than two dependent children would be eligible for the Dividend. 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?

CCL recommends that households, as defined in the previous FAQ, get the Dividend. This would be simpler and less burdensome than making separate payments to individual spouses and to each eligible child.

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 like Social Security and Federal retirement benefits?

This may be possible in some cases, but CCL considers it to be unwise for three reasons.

- Combining Dividend payments with other government payments would diminish the visibility of the Dividend payment, which may be an important component of support for the entire Carbon Fee program.
- Creating combined payments would not be a simple matter of merging two payment lists, because each household gets one and only one payment even if two adults and up to two children are eligible. By 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
- Given the extremely low cost of making payments by electronic transfers to bank accounts, it might not be cost-effective to combine payments even in cases where it is feasible. The extra cost of combining payments might 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 semiannually to expedite implementation of the program and to eliminate small payments. 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 increases, 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 calculating the number of eligible Dividend recipients, 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?

To begin receiving Dividends, the recipient would have to provide names, addresses, and Social Security Numbers (or Individual Tax Identification Numbers) for the covered adults and dependents, and bank account information for use in making Dividend payments.

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

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 a one-time economic stimulus payments in 2008. A combination of outreach programs could be implemented immediately to assist non-filers and could be continued permanently on a more modest level. 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 application 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 would need to submit a special application form?

For calendar year 2013, about 25 million people (about 8.6 percent of the population) were not included on tax returns either as taxpayers or dependents. Thus, about 25 million people would have needed to be covered on application forms in order to have begun receiving Dividend payments in that year. Since some of those residents would be married and others would be dependent children, only about 10 to 15 million new information forms would have had to be filed. At current levels, the number required to file special application forms would be similar.

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

Inquiries would include questions about implementing changes for 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?

An intermediary organization would process all of these inquiries or change requests, would make the appropriate determinations (including processing and determining appeals), and would calculate the

adjusted future monthly payments (and perhaps, some retroactive adjustments when underpayments were due to agency errors).

There are two options for who this intermediary could be:

- A. Completely new government agency or branch of an existing agency
- B. Government contractor. For option B, this could be similar to (although somewhat simpler than) the system used to process claims, make determinations, and pay out Medicare benefits.

CCL does not have a preference for who this intermediary might be. That decision should be left to legislation.

17. Wouldn't the SSA or IRS for the intermediary be less costly than a new agency?

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, record-keeping, and computer systems would be necessary for the Dividend payments.

18. What are the major costs associated with this program?

There are 3 sources of administrative cost associated with this program:

- A. Onetime startup 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 electronic payment transfers would be extremely low.

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

Not necessarily. Errors and inquiries would be related to the number of adjustments required, 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 bimonthly, quarterly, or semiannual payments may be offset by reduced direct contact costs.

20. 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 the relatively small percentage of 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.

21. 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. Even though the IRS has not mandated that individuals provide bank account information in order to receive tax refunds, the vast majority of taxpayer elect to receive their tax refunds electronically. 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”). 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. 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)

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

Primarily, it is meant to drive the decarbonization of our economy from the bottom up by incentivizing households and the businesses that serve them. It also helps mitigate the indirect health and environmental costs of climate damage, which are impossible to quantify on an individual basis, but which residents are already paying through taxes to cover disaster relief and infrastructure degradation, higher insurance costs, and higher health care costs.

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 energy companies will pass some portion of the carbon fee costs to consumers, families will need the Dividends to help offset those extra costs in an equitable way, while also providing households with more cash to invest in ways to reduce their carbon footprints.

23. Why do children receive only a half share Dividend?

Children account for less fossil fuel consumption than adults, and there are significant economies of scale within larger households. There is no practical way to exactly match Dividends to carbon costs for every American, but giving full Dividends to children would reduce the amount available for other residents who bear the additional energy costs. CCL believes that granting children a full Dividend share would unfairly penalize smaller households, especially elderly persons living on a limited income in a home that they own.

24. Why are only the first two children in a household eligible for Dividends?

The reasons similar to those behind giving only the half-Dividend for children. Larger families have much lower carbon costs per person. Only 5 percent of American households would face this limitation, but granting Dividends to more than two children per household would still reduce the Dividend size available to smaller households, including those mentioned above.

25. What about Dividends for non-child dependents such as elderly parents or other relatives?

The Dividend for non-child dependents can be handled in one of two different ways.

- Include Dividend payments for dependent adults with the payment for the entire tax-filing unit. That method may increase the complexity of the form that many residents would use to reconcile Dividend payments actually received with actual entitlements.
- Require non-child dependents to file separate claims for the Dividend in the same manner as residents who do not file their own tax returns would do to claim the Dividend. That method would be burdensome for at least some non-child dependents, all of whom have little income

CCL would leave this decision either to legislation or administrators, based on trying to minimize burden and complexity for affected residents.

26. Could forms for non-filers and end-of-year reconciliation be submitted electronically?

Yes. The application form for non-filers proposed in this analysis is Form CFD-1. It is anticipated that providers of income tax preparation software would include Form CFD-1, so that after entering a limited amount of information, the remainder of the form would be calculated automatically and could be submitted electronically. Currently, many providers of income tax preparation software do not charge lower-income filers for its use.

Similarly, the Form CFD-5 suggested for end-of-year reconciliation would presumably be offered to both filers and non-filers every year at tax time. To continue receiving Dividends, non-filers would have to submit both CFD-1 and CFD-5 annually.

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

It is estimated that full implementation would take about two years. To shorten that process, a temporary payment system could use the IRS' information about family composition to make annual or semiannual direct payments until 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 the payments themselves could be made over a three month period, or less.

Residents who had not filed income tax returns for the preceding year 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.

A transitional system might be less accurate and might not be able to handle resolution of discrepancies between the transitional Dividend payments and actual entitlement. Thus transitional Dividend payments might have to be treated as final payments.

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

Avoiding such involvement would require every resident family and individual to supply the information that he or she currently provides to the IRS on the annual income tax return to a different government agency or contractor with virtually identical demographic information to. 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, the IRS would only have to share: names and social security numbers of taxpayers and dependent children, ages (or dates of birth) of dependents, addresses, and bank account information

from their database of 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.

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

This could occur if two unmarried people with Dividend-eligible children marry, and their resulting combined family has more than two children under age 19 (or 24, if full-time students). That "penalty" would decline or disappear as children become older, and some age out of being dependents. When there are only two or fewer potentially eligible children in the merged family, there would not be any marriage penalty.

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

Generally, no. 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 U.S. for part of the year. With the carbon fee's border adjustment and existing carbon pricing regimes in most other wealthy countries, such individuals would not bear the costs of the fee.

31. Is the Dividend taxable income?

Yes. In order to comply with the anticipated revenue offset requirements under the Pay-As-You-Go Act of 2010, the Dividend in CCL's proposed policy is taxable as income for income tax purposes. However, Dividend income would not be counted towards income limits for federally supported social programs such as SNAP and EITC, in order to avoid penalizing low-income recipients of those programs. Since the Dividend is taxable except, as noted, for certain social programs, we believe that the Congressional Budget Office (CBO) will consequently score the policy as revenue-neutral, eliminating the need to either divert 25 percent of the revenue to the Treasury or legislate offsetting expenditure reductions.

32. 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 (Form CFD-4) to indicate their desired withholding as a percentage of their Dividend payments. A similar option requiring only a single additional line would be added to Form CFD-1 for non-filers who file Form CFD-1 to obtain their Dividend.

33. Why is the Dividend taxable for income tax purposes, but not for benefits programs?

As explained above, CCL anticipates that the bill will need to comply with the Pay-As-You-Go Act of 2010. CCL finds that making the Dividends taxable for income tax purposes but not treating Dividends as income under means tested federal and federally supported social programs is a reasonable compromise that increases the net amount of Dividends to be received by residents while still maintaining budget neutrality according to CBO scoring methods.

The exclusion of Dividends from being considered as income under social programs is intended to prevent large reductions in benefits under means-tested programs which when combined with high marginal tax rates could result in effective marginal rates close to, or even exceeding, 100 percent.

34. Does this study account for 2017 changes to the tax laws?

Yes. Although the Tax Cuts and Jobs Act, PL 115-97, signed into law on December 22, 2017, eliminates personal exemptions for taxable years 2018 through 2025, we expect income tax returns to include the information about taxpayers and children needed for determining the Dividend. It is likely, however, that the draft forms for the Dividend will have to be modified slightly to reflect changes in federal income tax forms due to the changes in tax law.

35. How would CCL handle the Dividend for prisoners?

CCL believes the Dividend should go to as many people as possible, including incarcerated persons. Prisoners live in the same climate as everyone else, after all. See previous FAQ entitled ‘What is the basic rationale for the Dividend payment to households?’

36. Doesn’t the Internal Revenue Code prohibit contractors from using tax data?

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

However, many narrow exceptions have been 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 used 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.

37. Does this study examine alternatives for some key provisions?

Yes, in order to fully prepare CCL for future policy debate, the author looked into five possible simplifications of the Carbon Fee and Dividend policy that might arise, and explained their implications.

- **Provide a Dividend to all children in a household.** This would simplify eligibility tracking, but would reduce the size of an adult Dividend by about 2 percent.
- **Increase the child Dividend to 100 percent of adult Dividend.** This would also simplify eligibility tracking and adjustments, but would reduce the size of an adult dividend by about 12 percent.
- **Keep the Dividend size unchanged through a calendar year.** This would remove the need to adjust Dividends every month to account for changes in the Carbon Fund balance as fossil fuel emissions change. Any imbalance would be adjusted in the following years’ Dividends.
- **Determine Dividend eligibility annually rather than monthly.** This would simplify the processing of data about births, adoptions, deaths, etc., but would introduce inequities between, for example, children born early or later in the calendar year.
- **Exclude Dividends from income taxation.** This would remove the necessity to implement a withholding system for Dividends, and would be perceived by some as more equitable. However, unless the Pay-As-You-Go Act of 2010 could be waived in the legislation, a 25 percent offset to the federal budget would have to be provided in some other way that would might reduce the progressivity of the policy.

38. How is the Carbon Fee and Dividend different from the Climate Leadership Council proposal with respect to Dividend delivery?

There are several differences between CCL's proposal and the proposal outlined by the Climate Leadership Council (CLC), such as the Carbon Fee rate structure and regulatory rollbacks, which are outside the scope of this study. Differences that are germane to this study include the following:

- **Taxability of the Dividend.** The CLC proposal considers the Dividend to be exempt from federal income tax. However, they are silent on the issue of compliance with the Pay-As-You-Go Act of 2010, which presumably would have to either be waived under the legislation or would require a 25 percent offset somewhere else in the federal budget.
- **Administrative agency.** The CLC proposal names the Social Security Administration (SSA) as the administrator of the Dividends program. In CCL's view, adding the burden of a dividend payment program to the already overburdened SSA might overly stretch its ability to perform its primary functions of administering the social security retirement and disability programs and partially administering Medicare eligibility and enrollment. The SSA currently has the necessary information to process Dividend changes due to births and deaths, but it does not have any information about the payment of Dividends to dependent minors, nor does it have the means to determine eligibility based on place of residence. Placing such responsibilities on the SSA would require residents to supply information to the SSA that duplicates information they already give the IRS.

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