Study of Alternate Proposals: *Are there any other proposals for Climate Change Tax?*

(1) Alternate tax proposals for the levy system

In order to maximize the effect of promoting energy-conservation measures in keeping with the intent of adopting Climate Change Tax, it would be preferable to use an extremely easy-to-understand system that charged tax in accordance with efforts to conserve energy. In other words, the people who actually burn the fossil fuels and produce the emissions, or those who sell the fuel, should pay the tax. This kind of system would also make it easy to adopt taxes in combination with other measures, and if the impact of the tax is extremely large, it would make it easy to provide discounts, exemptions, and refunds on the Climate Change Tax, corresponding to the situation of each individual fossil-fuel consumer.

However, just given the fact that there are over 46 million households in Japan, it would either be impossible or represent a huge amount of work for the government (precisely speaking, the tax office) to directly track the fossil-fuel consumption or CO_2 emissions of every household using fossil fuel, or to check tax returns for fraud. This type of system poses major difficulties, because the government would be force to use up the valuable tax revenues actually enforcing the tax. It would be nearly the same situation to attempt to levy the tax on fossil-fuel retailers.

Thus, from the perspective of harnessing the above-mentioned advantages to the greatest extent possible, the Expert Committee studied the following method. Namely, the Expert Committee focused on factories and offices that were large-scale consumers of fossil fuels, and the main targets of additional non-Climate Change Tax. Since it is possible to directly track the fossil-fuel consumption levels of these large consumers, they would file returns for and pay the tax downstream. Meanwhile, taxes for small-scale consumers would be levied at the source or upstream, as described in **2. Nature and requirements of a tax**. This would include fuel and electricity used by households, stores, small offices, and automobiles, or commonly supplied to households, and plants.

If this levy system (hybrid levy system) is applied, it would be necessary to draw the line somewhere, in order to prevent gaps in coverage or double taxation between the source/upstream tax and the downstream tax. It must be noted that such an approach would sacrifice fairness to a certain extent.

The present Expert Committee compared this type of hybrid tax with the system described in **2. Nature and requirements of a tax**, and selected the single tax levied at the source/upstream of the fossil-fuel flow, as its candidate proposal (in other words, the people actually consuming fossil fuels and creating CO_2 emissions would bear the tax in the form of purchases of fossil fuels whose prices already included the Climate Change Tax). The Expert Committee humbly asks the opinions of the Japanese people regarding levying the tax at this stage.

(2) Alternate proposals for the tax rate

As touched upon in **2. Nature and requirements of a tax**, it is the opinion of the Expert Committee that Climate Change Tax should be adopted with a relatively low tax rate. If the reduction of CO_2 emissions at this rate is not sufficient, then it should be adopted in conjunction with other methods, such as new subsidies to return some of the tax revenues, and thus ensure that the totality of these measures achieves the needed reduction. The Expert Committee concluded that when making the transition to a new economy, it should be possible to implement successful reforms, while maintaining the current economic situation, including the current industrial structure.

If the tax rate is set high enough, however, it would be possible to achieve sufficient price-incentive effect from Climate Change Tax, and there would be no need for other ACC measures requiring additional sources of funding (in this case, the revenues from the tax would not need to be used on Climate Change Tax). In other words, if a high tax rate pushed the price of fossil fuels high enough, energy-efficient equipment would become popular on their own account, which would make subsidies for their purchase unnecessary. While this method would also be sufficient to achieve the necessary reduction in emissions, the shape of the economy, including the industrial structure, would likely change more quickly and greatly than with a lower tax rate (and subsidies and other programs used in conjunction). Therefore, while a high tax rate would provide greater motivation to convert to an economy committed to energy conservation, it would be necessary to study using the tax revenues, or providing reductions or exemptions for existing taxes, in order to buffer the consequent economic and other impacts, or for broader socio-economic purposes.

The Expert Committee also humbly asks the opinions of the Japanese people regarding the approach of setting the tax rate for Climate Change Tax high enough that the price-incentive effect of the tax is sufficient to ensure a large reduction in emissions, and using the revenues from this tax for non-ACC measures or to give general tax cuts.