AP7 – Macroeconomic

Proposal for first deliverable – July 2020

There are several challenges regarding the introduction of a carbon tax for transportation and heating fuels, including acceptance risks from low-income households who rely on private transportation on a daily basis, which can undermine the public perception of climate mitigation policies in the long-run. Therefore, the utilization of revenues from the carbon tax plays a critical role on the long-term acceptance of environmental policies as they can make the perceived benefits outweighs the costs.

With the aforementioned challenges in mind, this work focus on the case of Germany and its plan to introduce a carbon tax in 2021 on heating and transportation fuels. In order to assess the potential costs and gains from such policy on German Households, a number of carbon-pricing packages will be explored based on three key pillars: i) level of tax, ii) distribution of tax revenues and iii) utilization of revenues from other sectors. Finally, the impacts will be depicted in terms of income distribution, tax burden, economic growth and collected revenue.

Level of tax

Distribution of tax revenues

Utilization from other sectors