

Comparing the Distributional Impact of Revenue Options in Alaska

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Presentation Overview



- The ITEP Microsimulation Model
- Five Revenue Options in Alaska
 - Personal Income Tax
 - Permanent Fund Dividend (PFD) reduction
 - Sales Tax
 - Payroll Tax
 - Payroll Tax + Investment Income Tax
- Comparisons Across Options
- Additional Tax Incidence Research
- Questions?

Introduction to ITEP



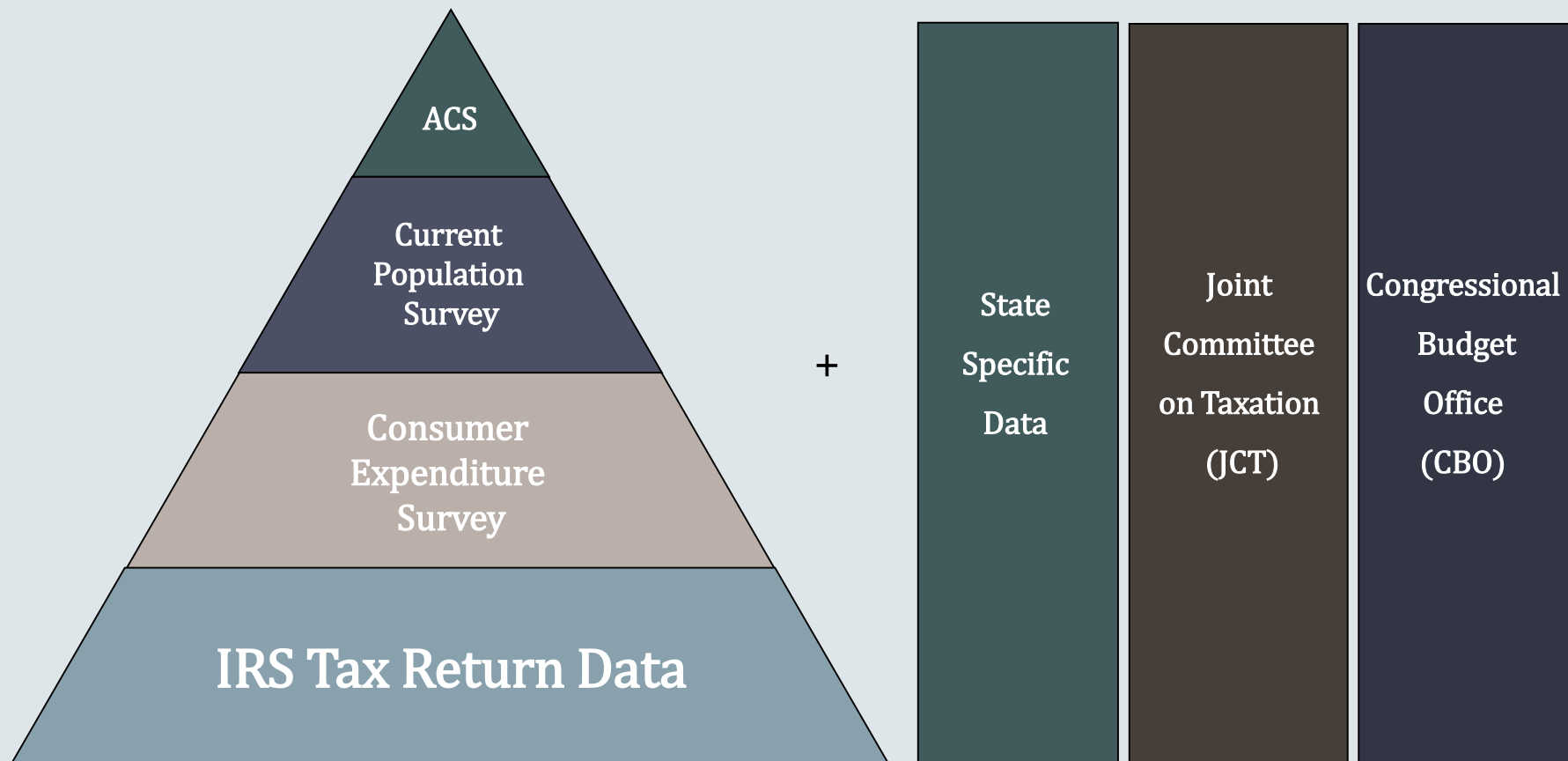
The Institute on Taxation and Economic Policy (ITEP) is a non profit, non-partisan research organization that works on federal, state, and local tax policy issues. ITEP's mission is to ensure that elected officials, the media, and the general public have access to accurate, timely, and straightforward information that allows them to understand the effects of current and proposed tax policies.

ITEP Model Background



- Built in 1994-1996, but still evolving in 2017
- Designed to:
 - ❖ Predict the distributional effect of proposed tax changes on taxpayers at different income levels
 - ❖ Predict the revenue gain (loss) from proposed tax changes
 - ❖ Estimate the impact of current state and local taxes in all 50 states
 - ❖ Measure the interaction between state and federal tax changes
- Employs the same technology used by the US Treasury, Congressional Joint Committee on Taxation, Congressional Budget Office, and some state departments of revenue (e.g. TX, MN, ME)
- Consists of four basic modules: **personal income tax, property tax, consumption tax, and business tax**

ITEP Model Data Sources

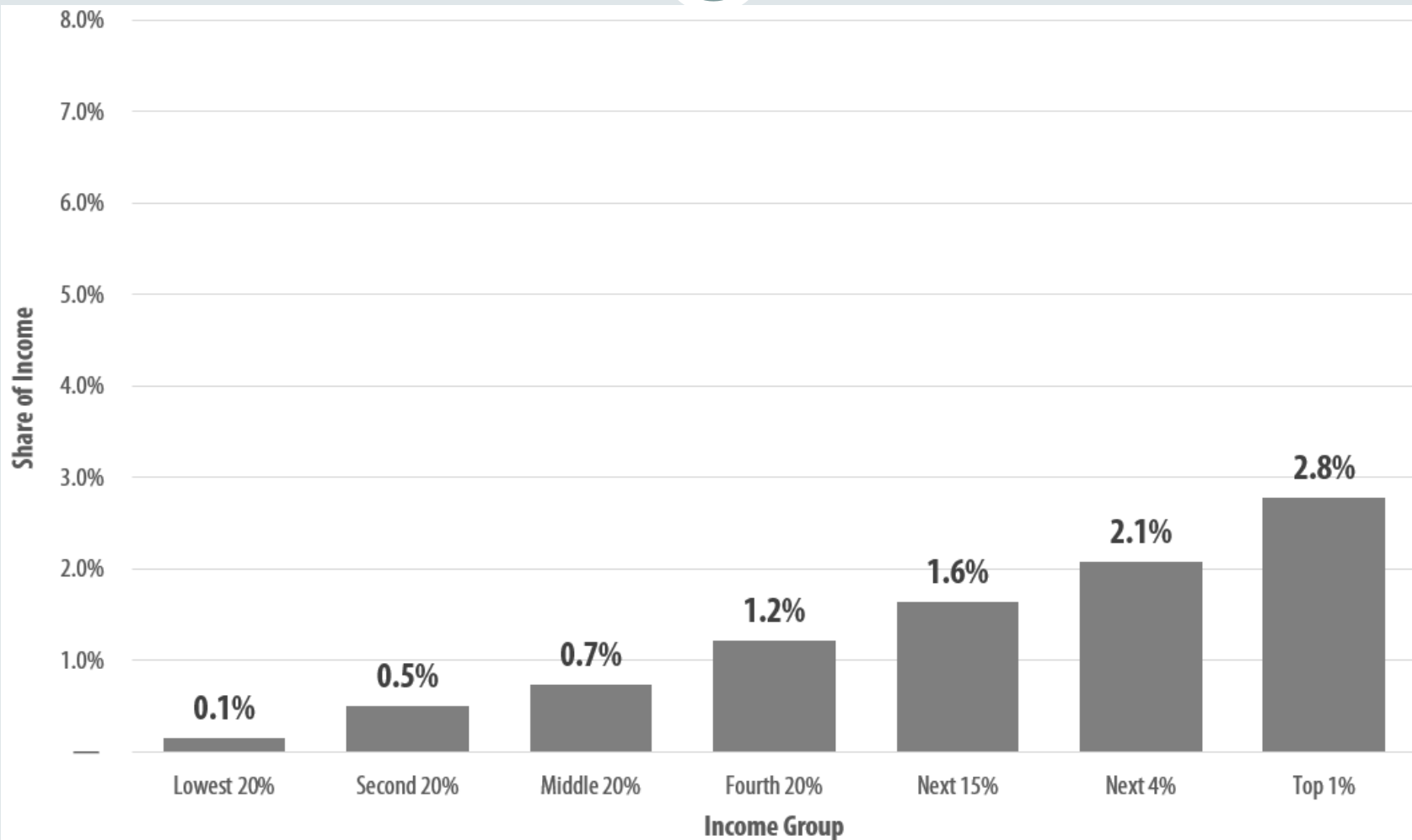


Research Design

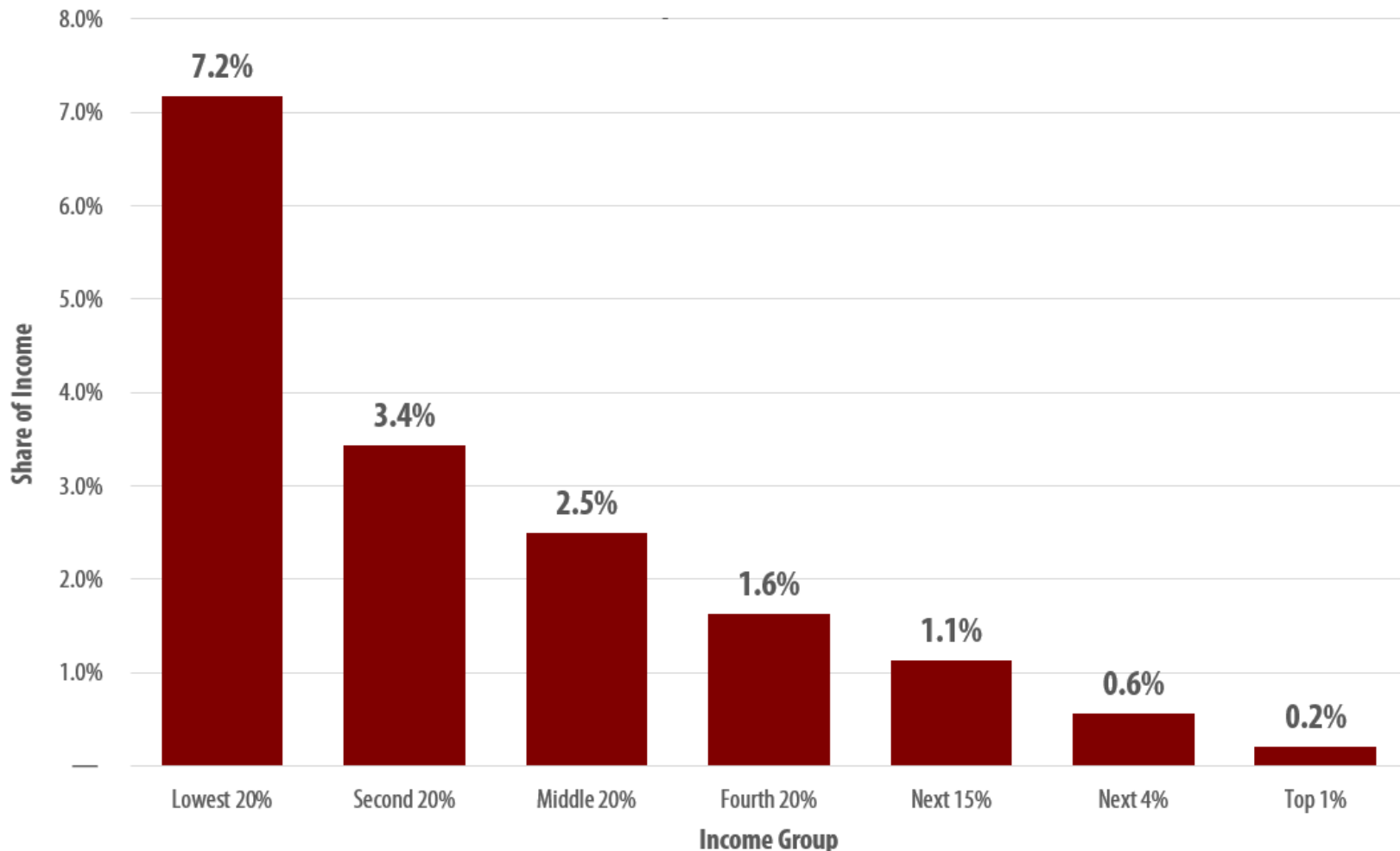


- Five revenue options, each raising \$500 Million per year
 - Revenue amount (\$500m) chosen only to allow for comparisons.
 - Options are not mutually exclusive. In the real world, the discussion centers around striking the right balance, not picking the “best” single option.
- Distributional impact on Alaska residents, grouped by each tax unit’s income level. For example:
 - Lowest 20% = Total income below \$25,000
 - Middle 20% = Total income between \$40,000 and \$73,000
 - Fourth 20% = Total income between \$73,000 and \$115,000
 - Top 5% = Total income above \$228,000
 - ✦ Average income for this group = \$502,000 per year
- Non-resident impact is considered
 - More revenue from non-residents means lower payments required from Alaskans.

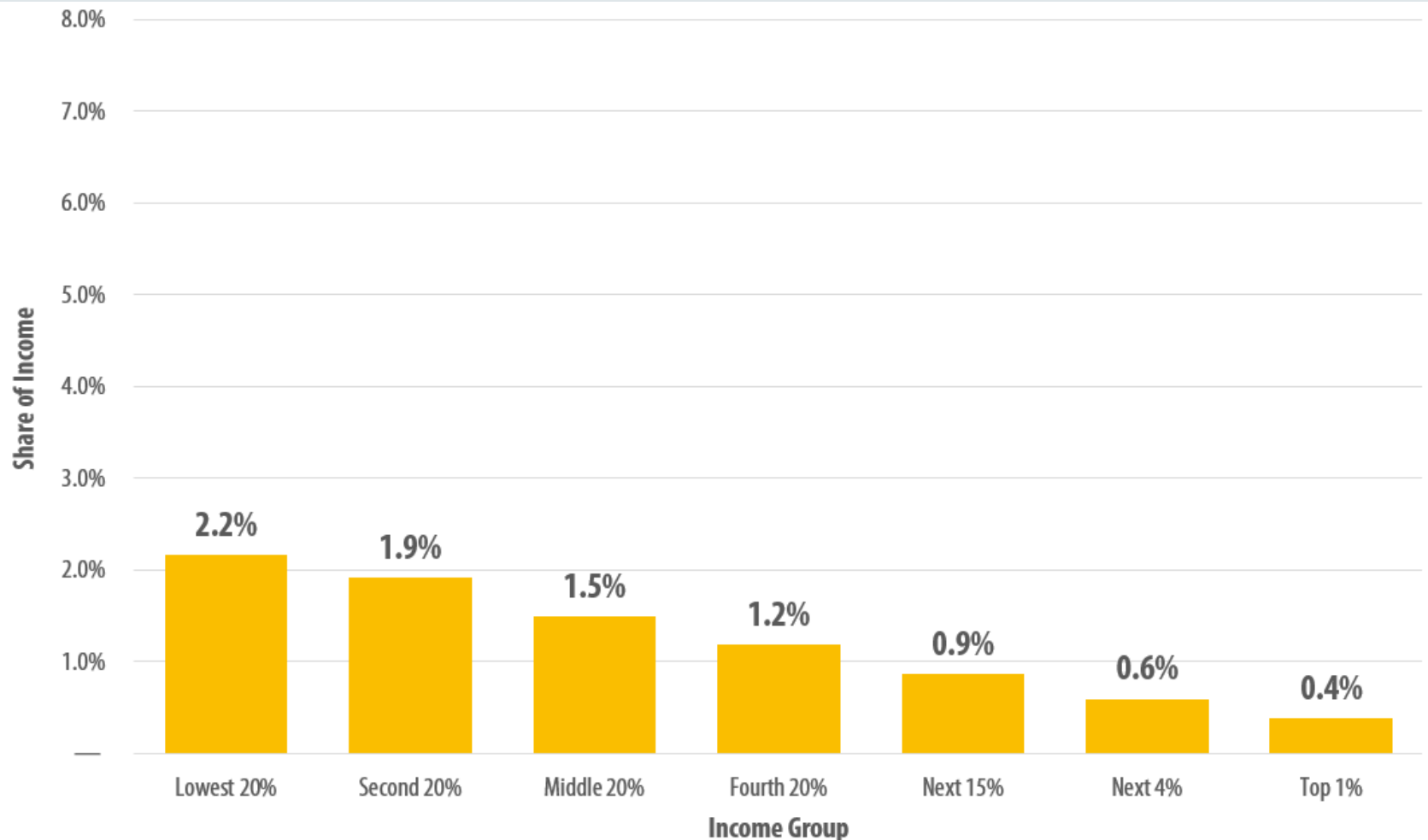
Personal income tax similar to HB115 (rates reduced by 27.75% to conform to \$500m target)



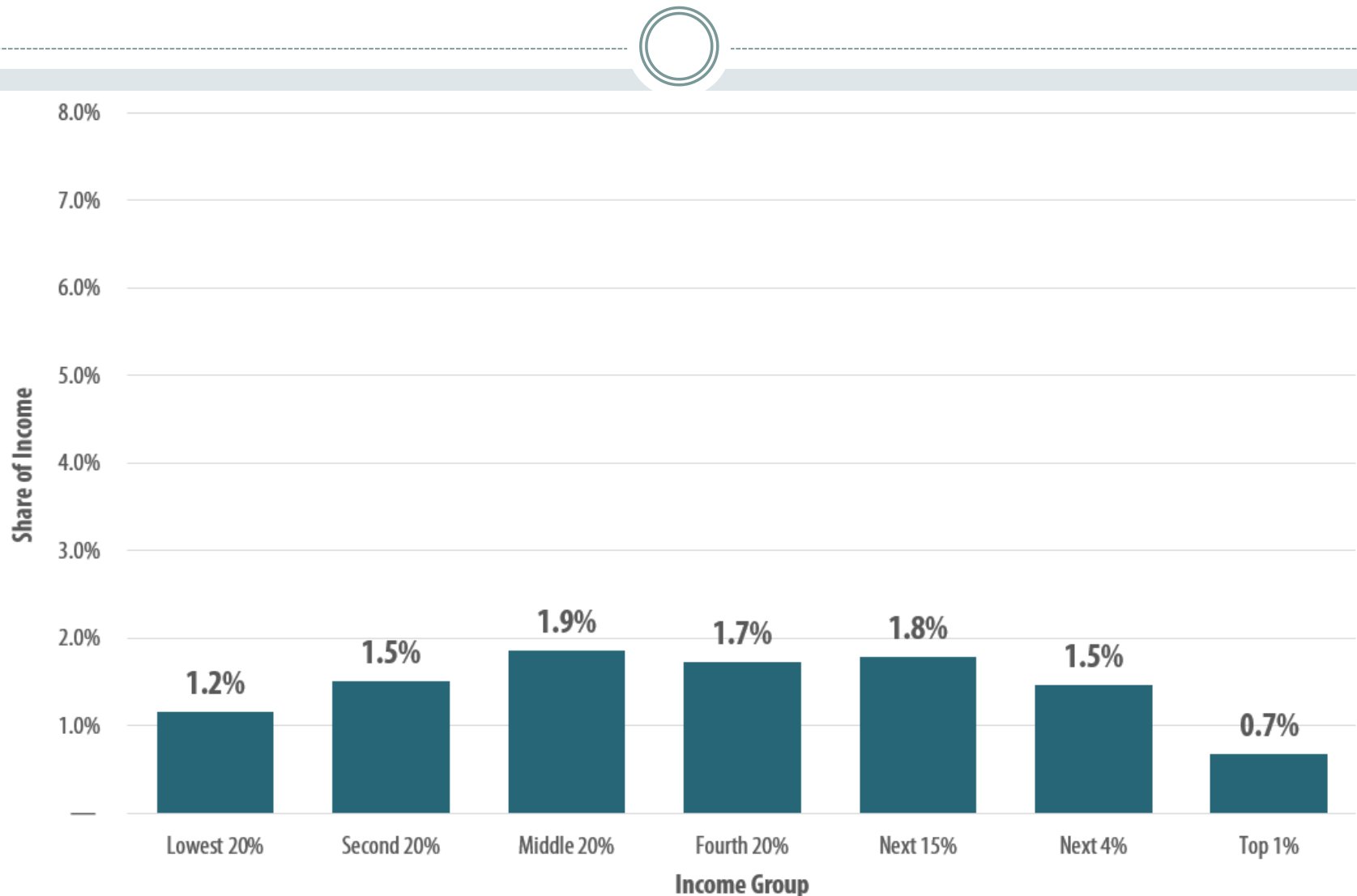
Reduce Permanent Fund Dividends (PFD) by \$784 per person (i.e. dividend of \$1,416 instead of \$2,200)



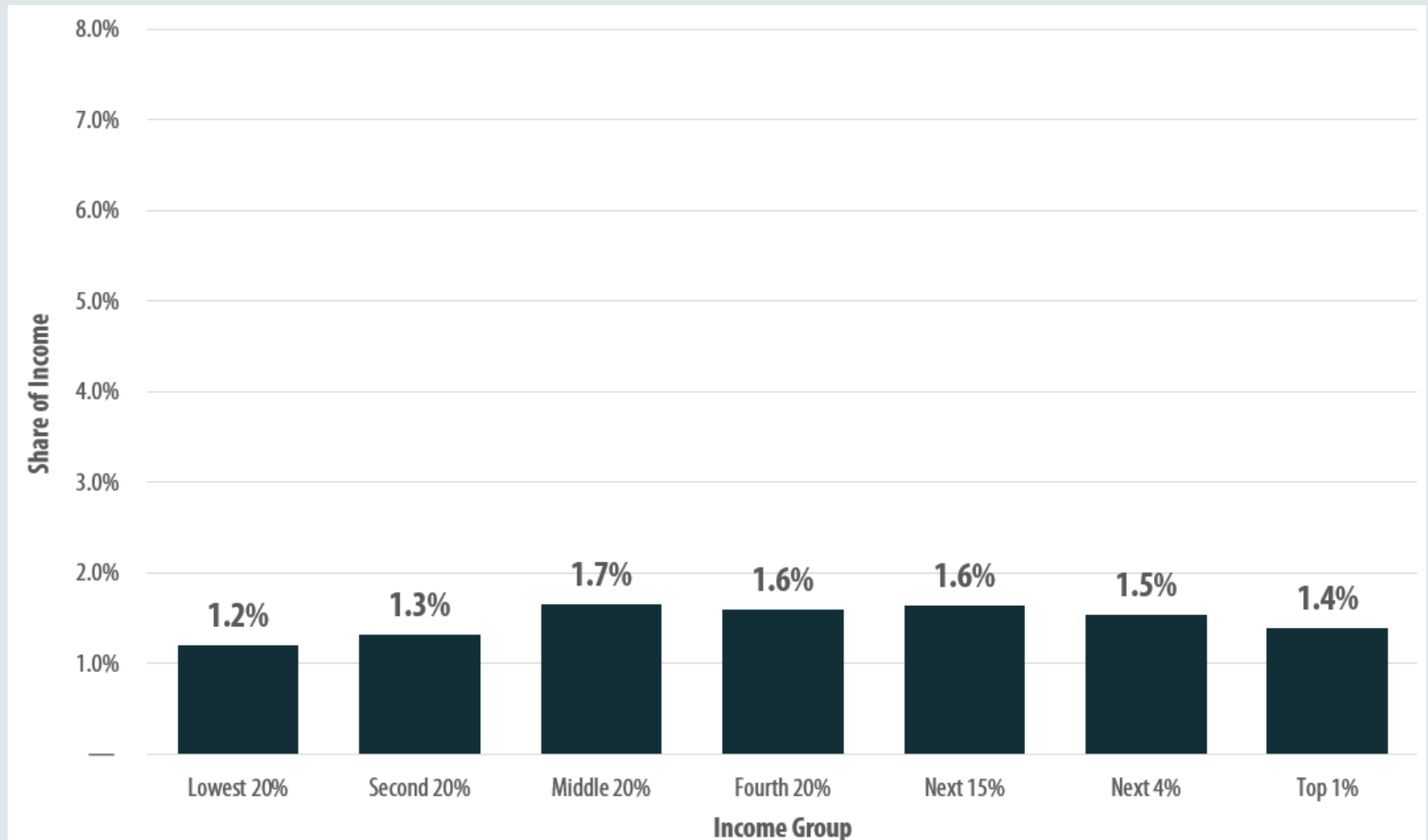
Sales tax of 3% on most goods and services (exempt groceries, health care, shelter, child care)



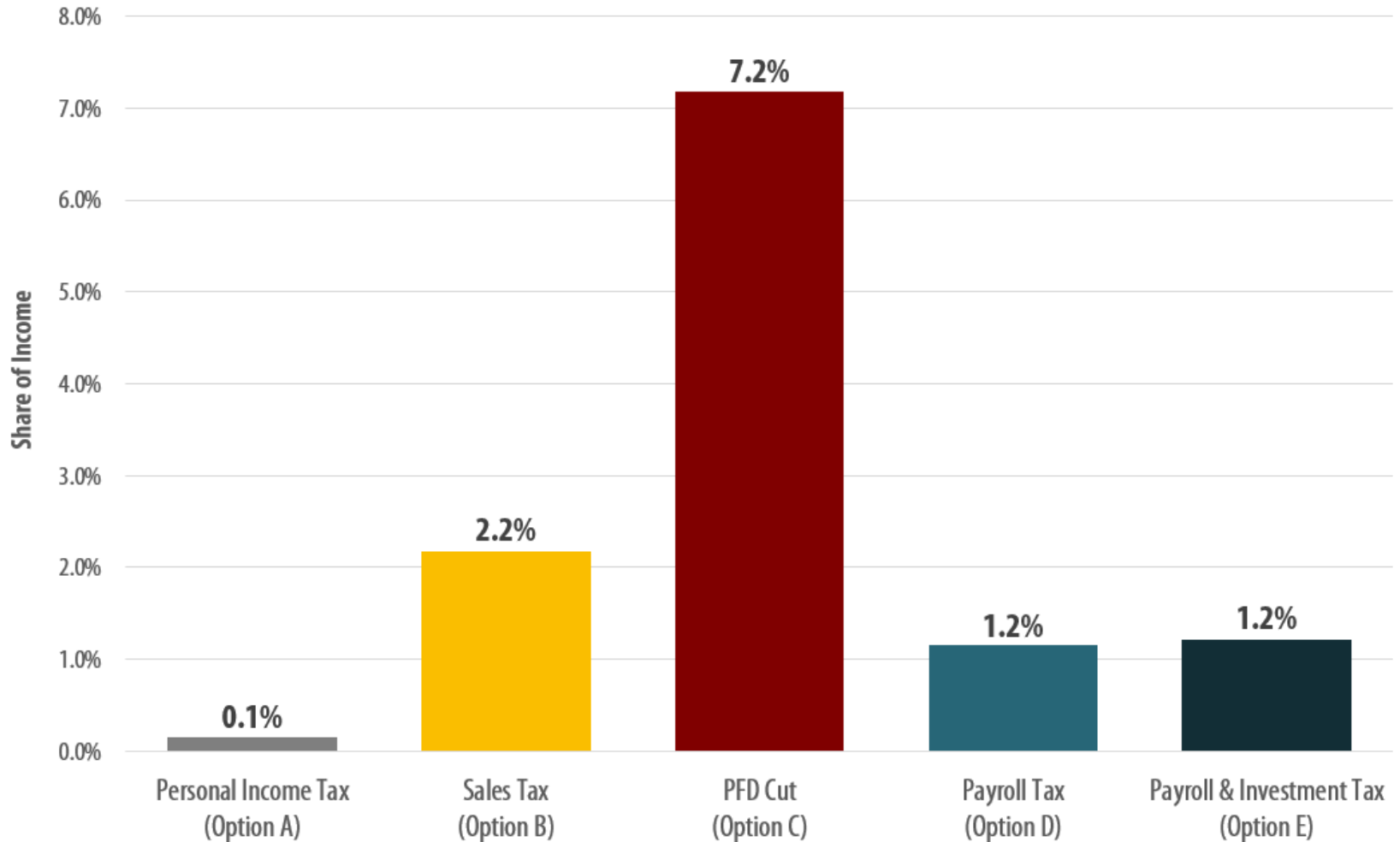
Payroll tax of 2.43% on salaries, wages, and self-employment income



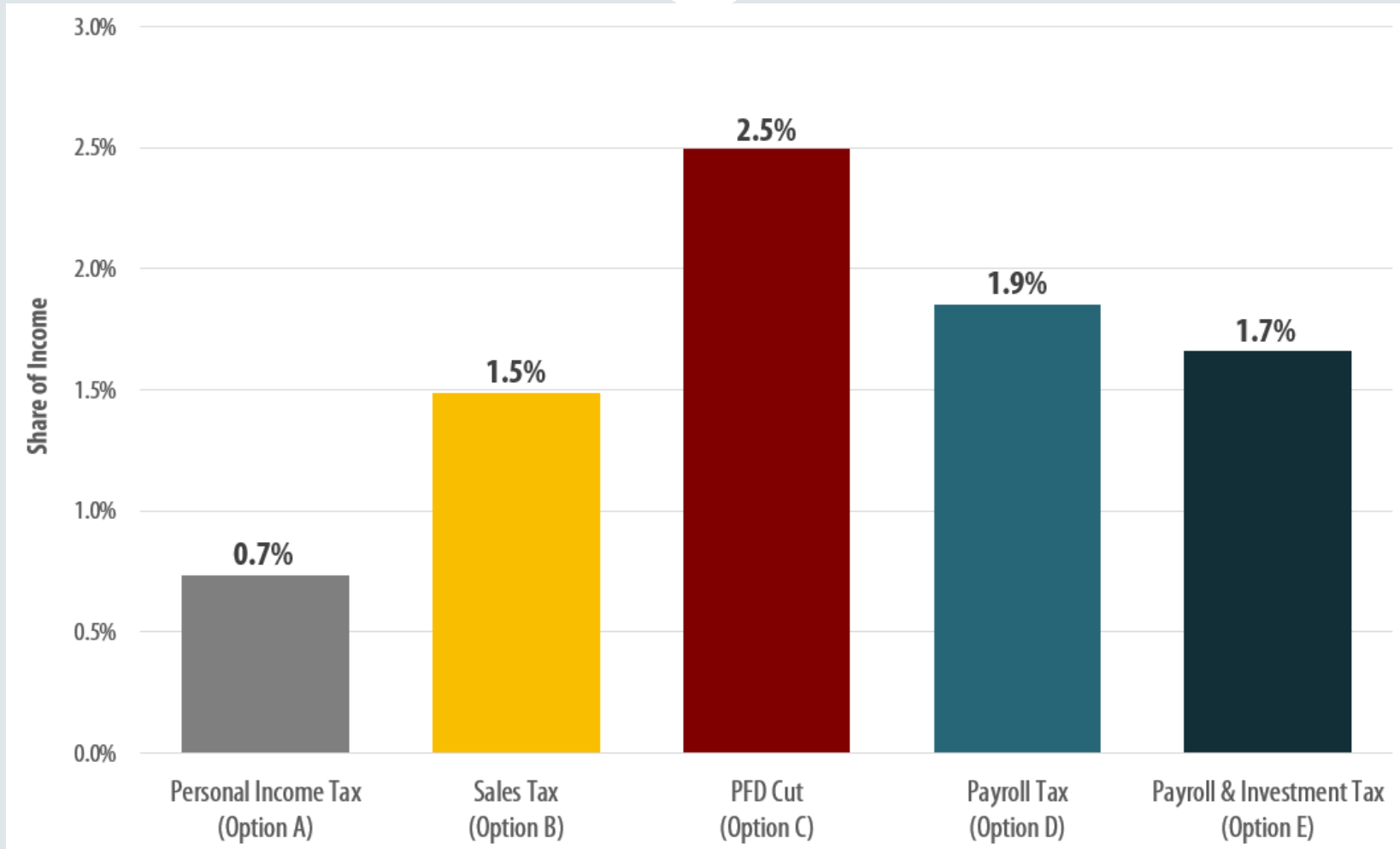
Payroll tax of 2.1% on salaries, wages, self-employment; Investment tax of 6% on capital gains and dividends



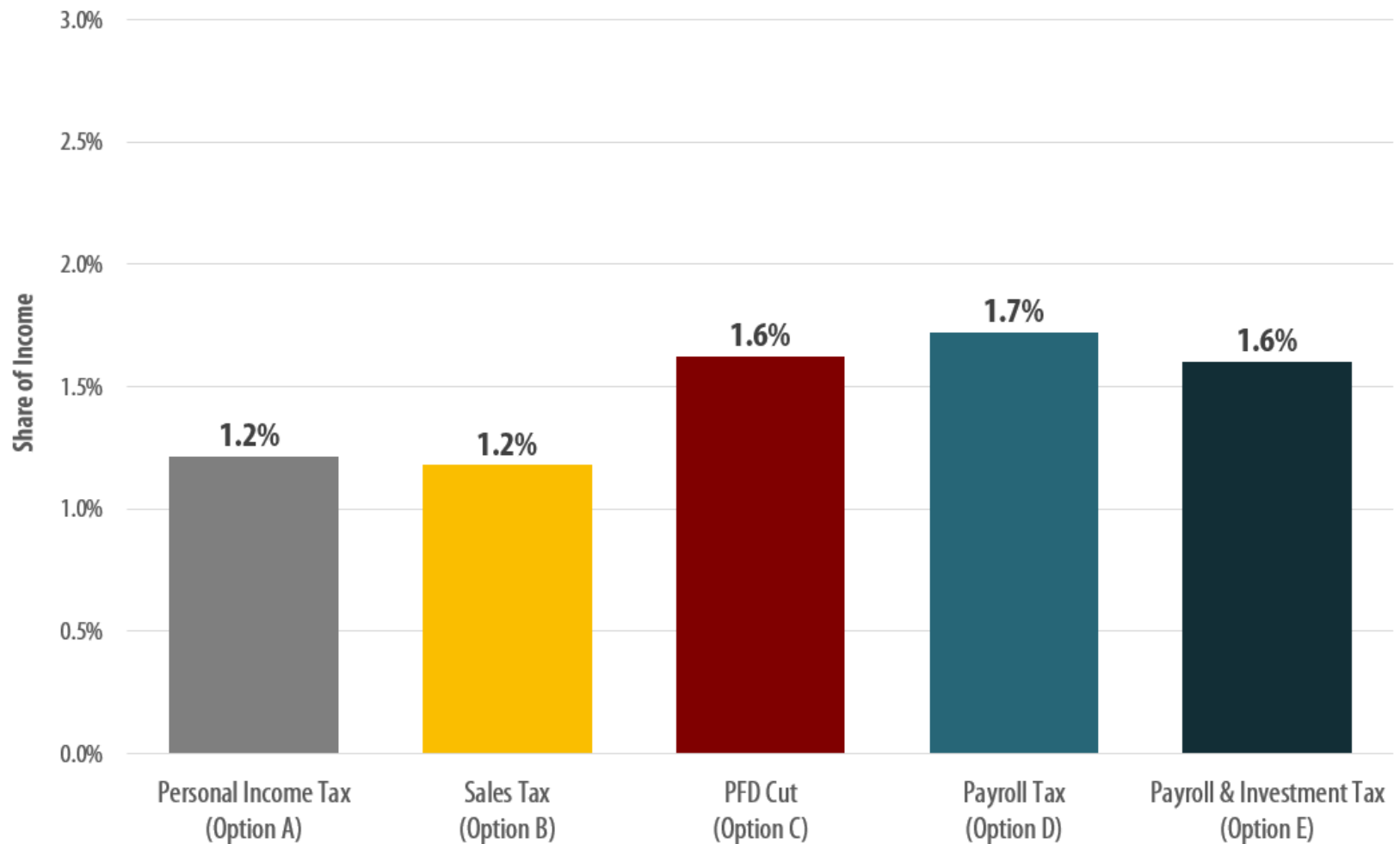
Impact on bottom 20% of Alaskans (income under \$25,000) of options raising \$500M



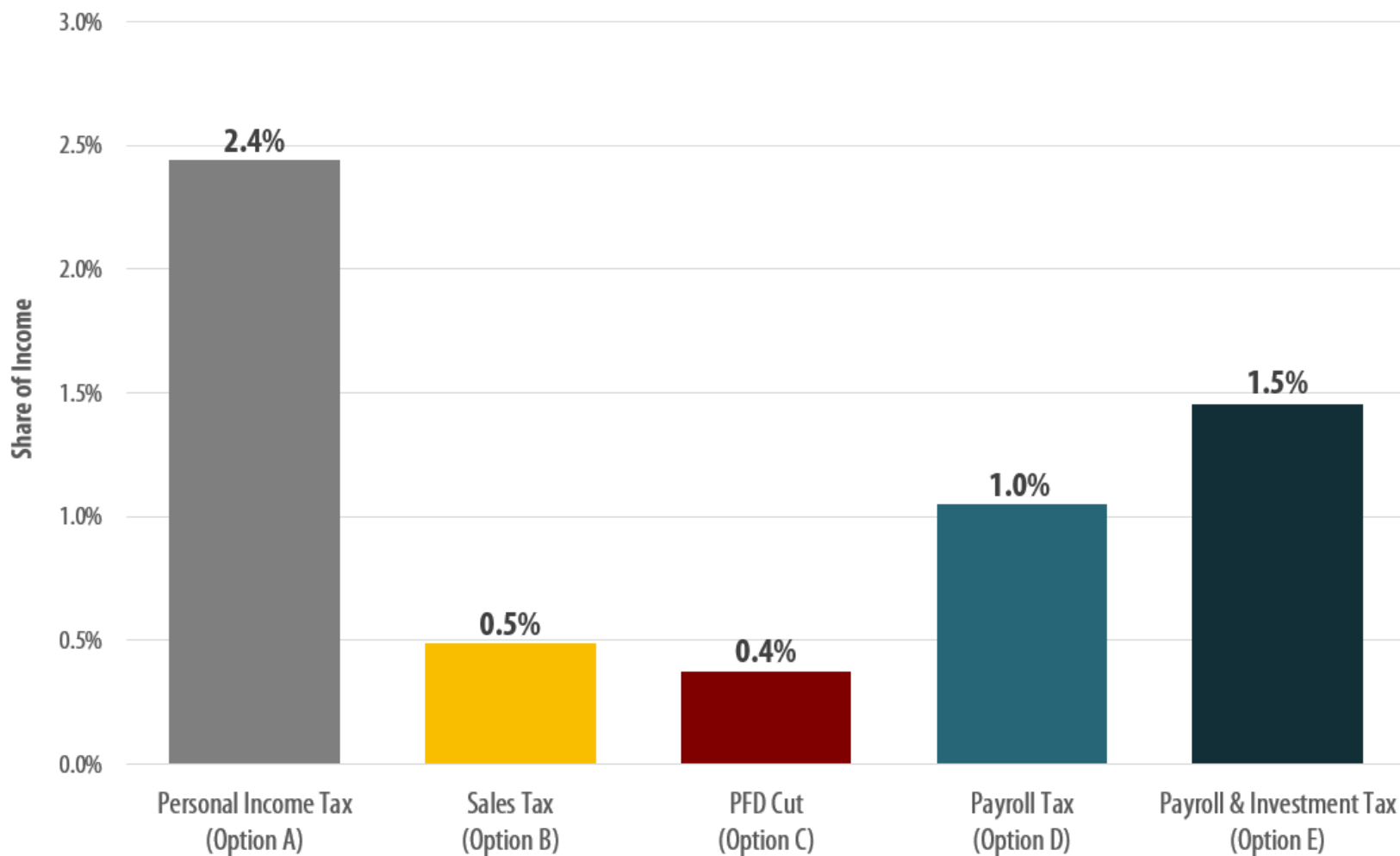
Impact on middle 20% of Alaskans (income b/w \$40k and \$73k) of options raising \$500M



Impact on upper-middle income Alaskans (income b/w \$73k and \$115k) of options raising \$500M



Impact on top 5% of Alaskans (income over \$228,000) of options raising \$500M

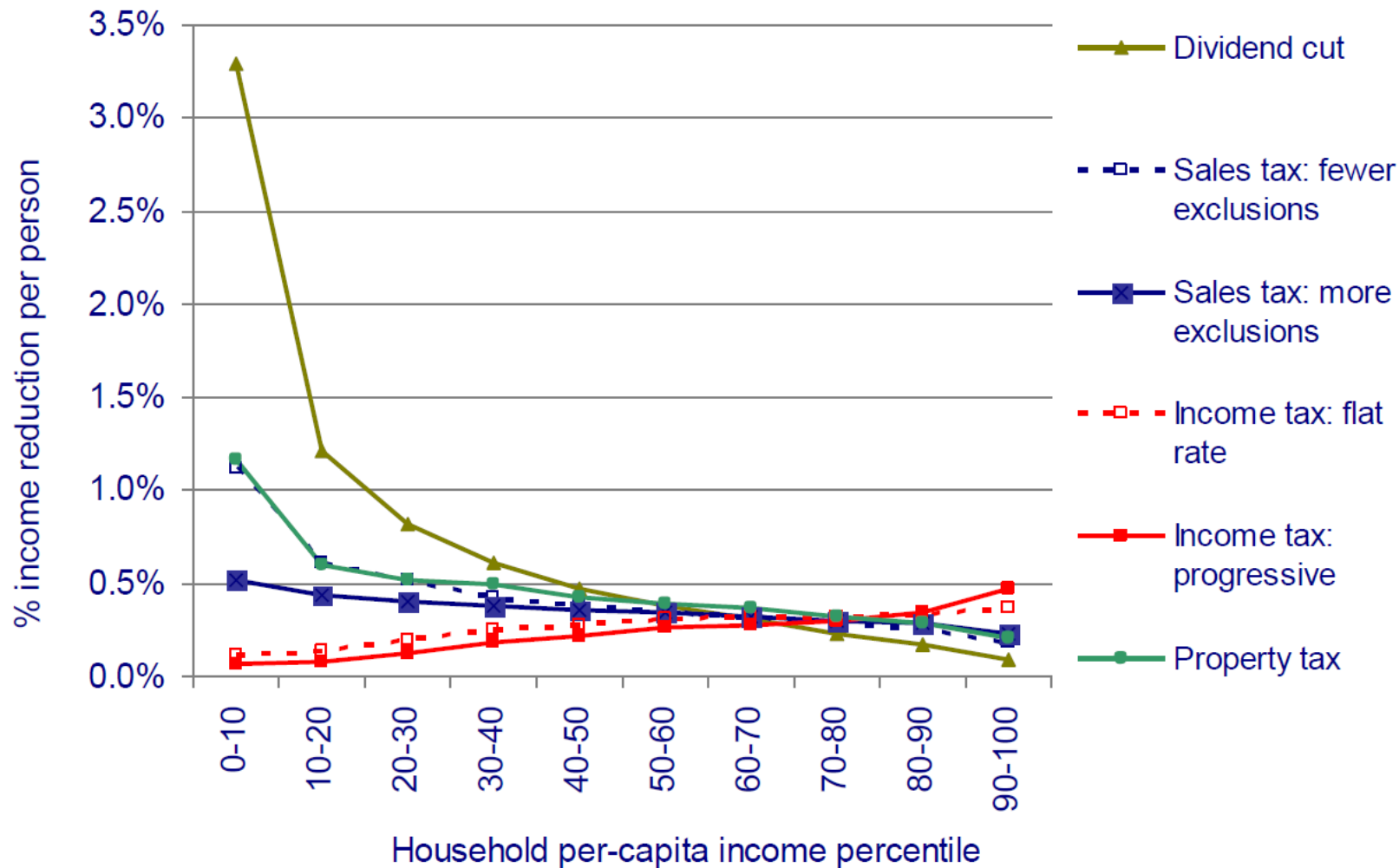


Additional Tax Incidence Research



- Gunnar Knapp, Matthew Berman, and Mouhcine Guettabi (ISER)
 - “Short-Run Economic Impacts of Alaska Fiscal Options” (March 2016)
- Berman, Matthew and Random Reamey (ISER)
 - “Effect of Alaska Fiscal Options on Children and Families” (February 2017)
- Minnesota Department of Revenue
 - “2017 Tax Incidence Study” (March 2017)
- Texas Comptroller of Public Accounts
 - “Tax Exemptions & Tax Incidence” (February 2017)
- Colorado Department of Revenue
 - “Tax Profile & Expenditure Report, 2016” (January 2017)

Knapp, Gunnar et al. research into fiscal options with \$100 million annual impact (from “Short-Run Economic Impacts of Alaska Fiscal Options”)



Questions?



Find the full study
online at:

www.itep.org

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Institute on Taxation & Economic Policy

April 2017

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About The Institute on Taxation & Economic Policy

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