

# Concepts and Revenue Impacts of Employment and Self Employment Tax

Arnold Liebelt – Staff to Representative Paul Seaton  
House Finance Presentation – June 12, 2017

# Intent of Today's Presentation

**SB 12 was included as one element of Governor Walker's Fiscal Plan compromise. The Governor proposed \$100 million in new revenue through this bill.**

- Identify the concepts included in the bill
- How the concepts can serve as a mechanism to generate greater revenue

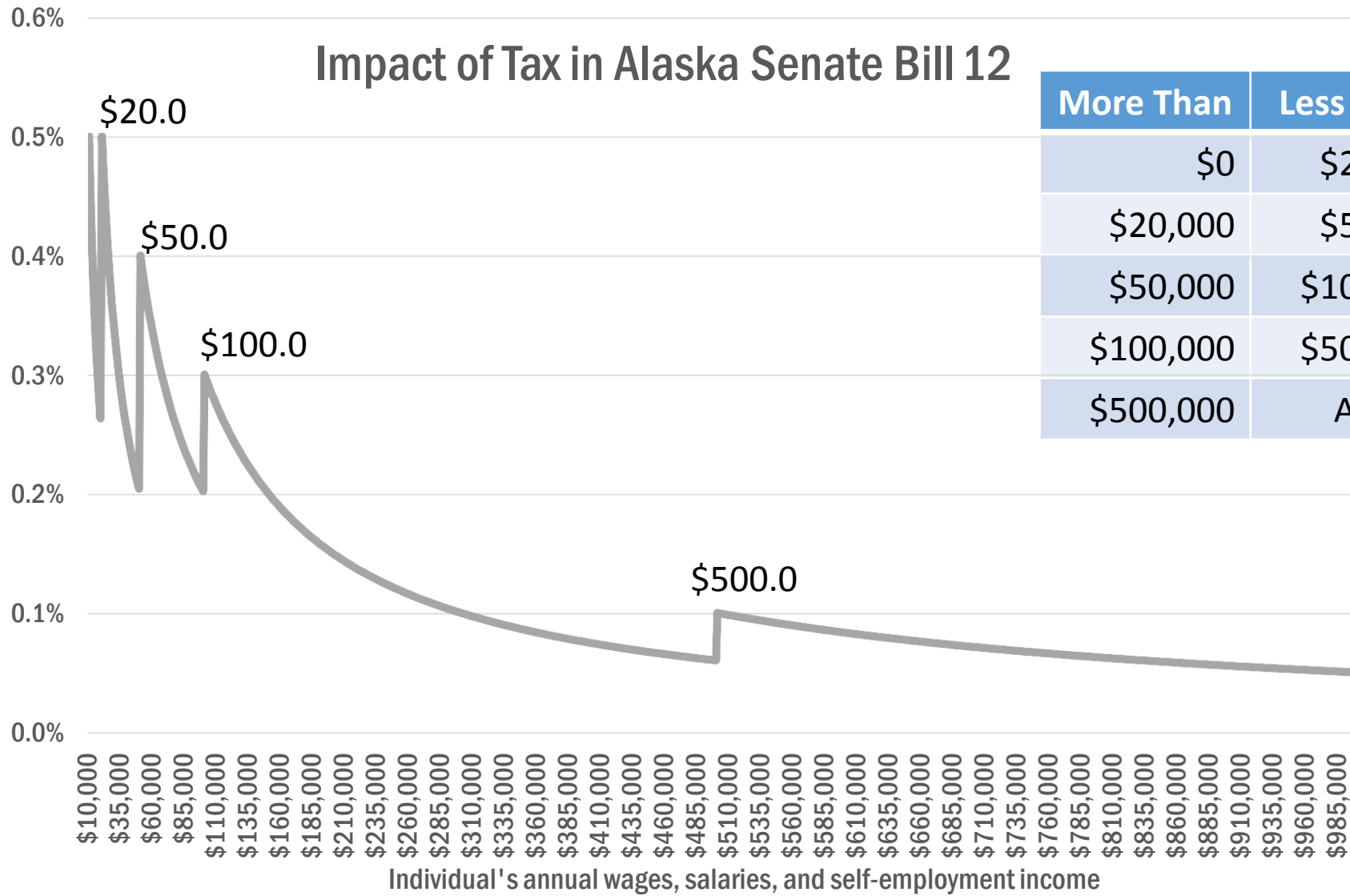
## SB 12 – Employment Tax for Educational Facilities

**"An Act imposing a limited educational facilities, maintenance, and construction tax on net earnings from self-employment and wages; relating to the administration and enforcement of the educational facilities, maintenance, and construction tax; and providing for an effective date."**

The bill as written does the following:

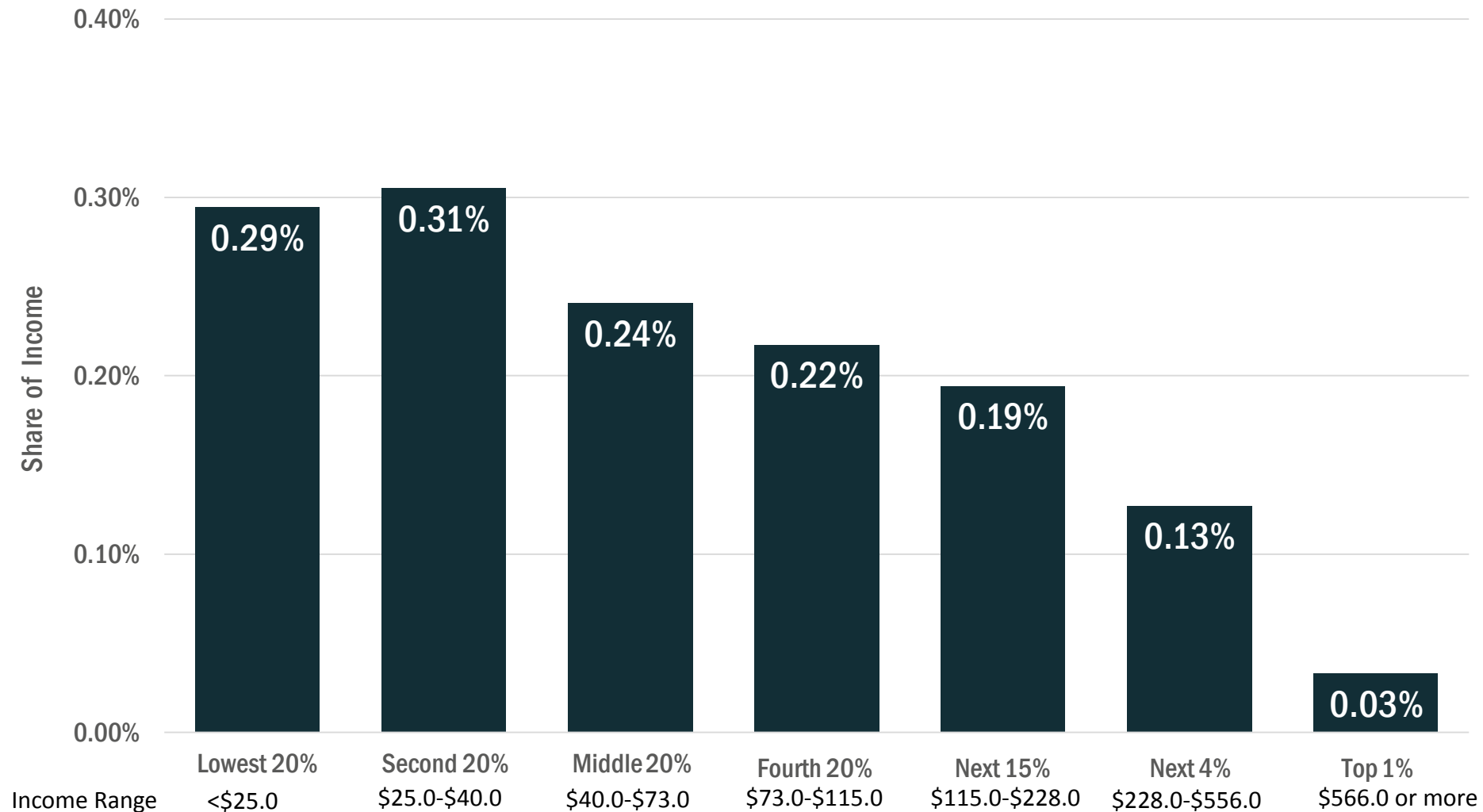
- Imposes a tax on wages and net earnings from self employment (payroll tax)
- Estimated to generate \$60 million annually, with \$5 million from non-residents
- Intent is to designate the funds to the Educational Facilities, Maintenance and Construction Fund (AS 37.05.560)
- Creates tax brackets with corresponding flat tax (not percentages)
- Applies to residents and non-residents with income from a source in the state
- Does not apply to capital gains, investment income, retirement or other unearned income

Tax as a % of Each Individual's Wages, Salaries, & Self-Employment Income



Source: Institute on Taxation and Economic Policy, June 2017. Chart shows tax amounts in SB12 as a percentage of wages, salaries, and self-employment income. Note that taxpayers with less than \$10,000 in income from these sources are not depicted in this chart. These taxpayers would pay up to \$50 each, which would amount to at least 0.5% of income in this chart.

## Impact of Tax in Alaska Senate Bill 12



*Source: Institute on Taxation and Economic Policy, June 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of \$2,200 per person. This analysis does not include the offsetting impact of increased federal deductions for state taxes paid.*

## Options for increasing revenue:

1. Increase the number of brackets and tax rate per bracket
2. Change from flat tax rate to percentage
3. Include earnings from capital gains and other investment income

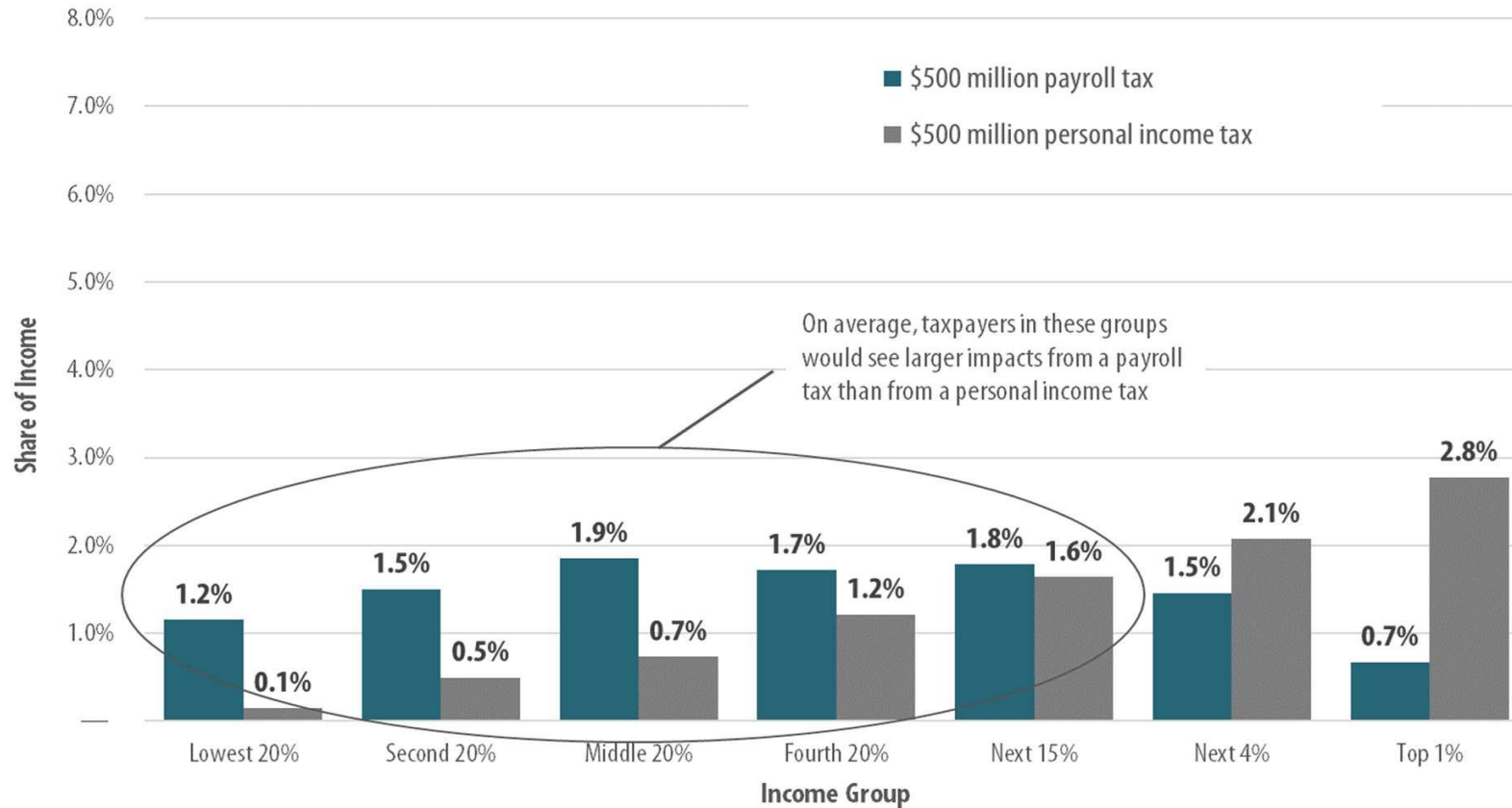
To generate about \$500 million annually through a payroll tax, a tax rate of 2.43% is needed (ITEP).

Payroll Tax Rate	1.82%	2.43%	3.65%
Estimated Revenue (millions)	\$375	\$500	\$750

Only includes tax on earnings – wages, salaries, and self employment income

Applies to residents and non-residents with sources of income within the state

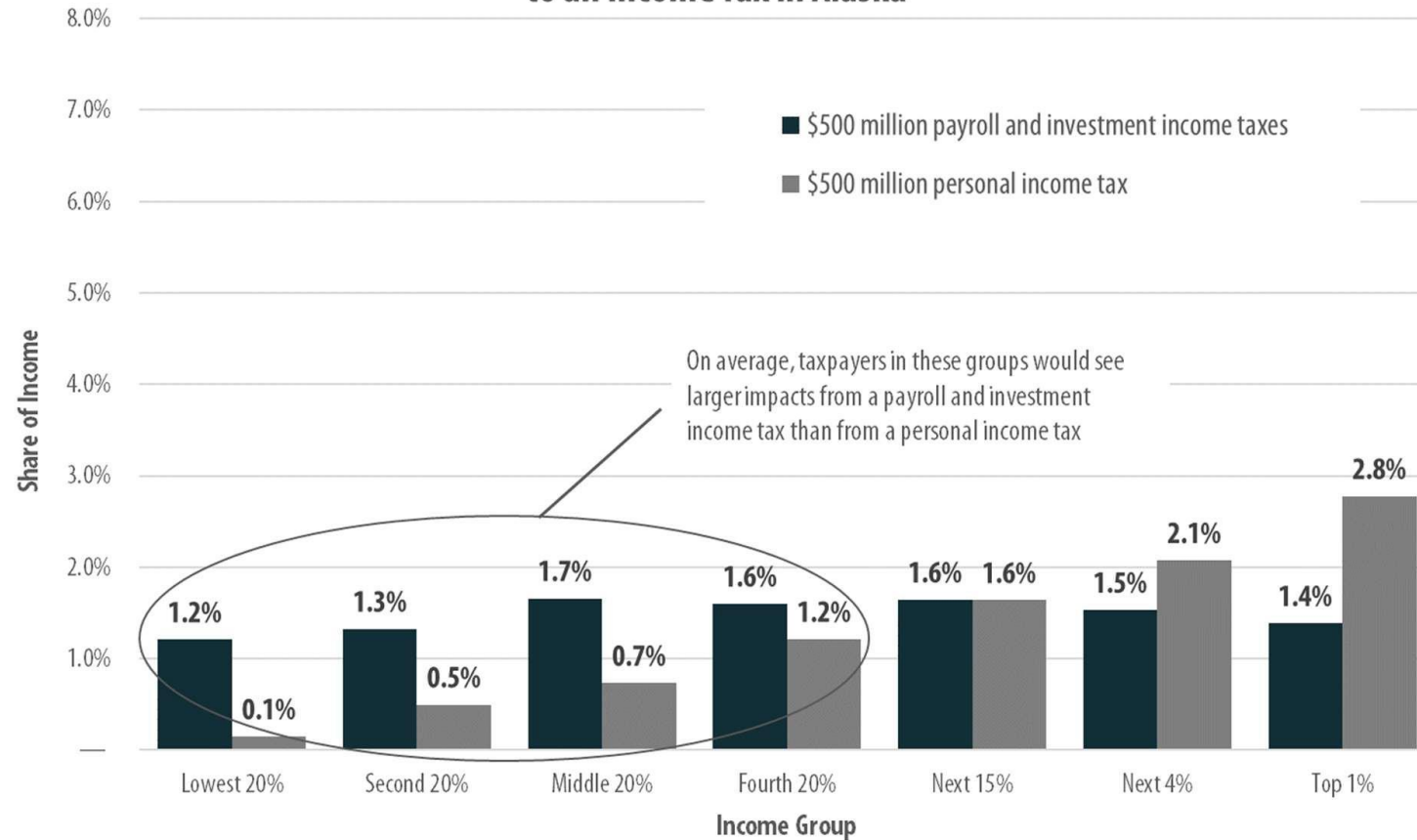
**Figure 14: Comparing the Impact of a Payroll Tax to an Income Tax in Alaska**



95% of wage earners would be impacted to a greater extent by a payroll tax than a personal income tax.

Source: Institute on Taxation and Economic Policy, April 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of \$2,200 per person. In the payroll tax scenario the rate is 2.43% on salaries, wages, and self-employment income. In the personal income tax scenario, the tax is assumed to be very similar to House Bill 115 of Alaska's 2017 legislative session, though its rates have been reduced by 27.75% across the board to reduce its yield to \$500 million per year.

**Figure 15: Comparing the Impact of a Payroll/Investment Tax to an Income Tax in Alaska**



The impact from a payroll tax that includes capital gains and investment income is more equitable across income brackets.

Source: Institute on Taxation and Economic Policy, April 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of \$2,200 per person. In the payroll/investment tax scenario the rate is 2.1% on salaries, wages, and self-employment income and 6% on capital gains and dividends. In the personal income tax scenario, the tax is assumed to be very similar to House Bill 115 of Alaska's 2017 legislative session, though its rates have been reduced by 27.75% across the board to reduce its yield to \$500 million per year.



There are many options available to close the state's budget fiscal gap using a broad based tax. Each option will impact families at different income levels in very different ways.

### Examples:

- **Personal Income Tax:** More progressive. Higher payments from higher income families
- **Sales Tax:** More regressive. Impacts lower income families to a greater extent.
- **Reduction to PFD:** Most regressive. Greatest impact to lower income, least impact to highest income
- **Payroll Tax:** Impacts middle class more than the lowest or highest income brackets.
- **Payroll and Investment Income Tax:** Most equitable across income brackets. Will impact lower income earners more on their income, and higher income earners more on their investments.

**THANK YOU**