

Analyzing Fiscal Solutions

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Carl Davis

Research Director, Institute on Taxation and Economic Policy

carl@itep.org • @carlpdavis

About ITEP

The Institute on Taxation and Economic Policy (ITEP)

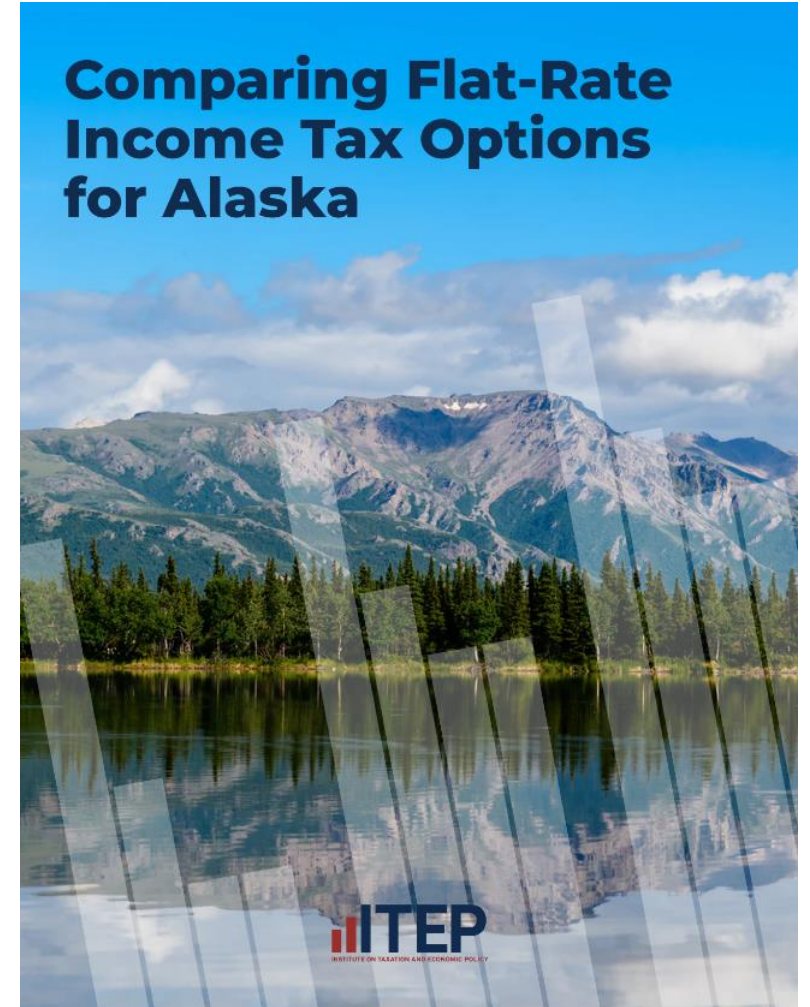
- Non-profit, non-partisan research organization
- Federal, state, and local tax policy issues

Mission:

- Ensure elected officials, media, and general public have access to accurate, timely, and straightforward information that allows them to understand the effects of current and proposed tax policies with an emphasis on tax incidence analysis.

ITEP's Recent Work in Alaska

- Distributional Analyses of Revenue Options for Alaska (Apr. 2016)
- Assessing the Consequences of Alaska's House Bill 115 (Mar. 2017)
- Comparing the Distributional Impact of Revenue Options for Alaska (Apr. 2017)
- Comparing Flat-Rate Income Tax Options for Alaska (Dec. 2020)





Revenue options I'll discuss today:

1. PFD reduction

2. Sales tax

3. Payroll tax

4. Flat income tax (no exemption)

5. Flat income tax (with exemption)

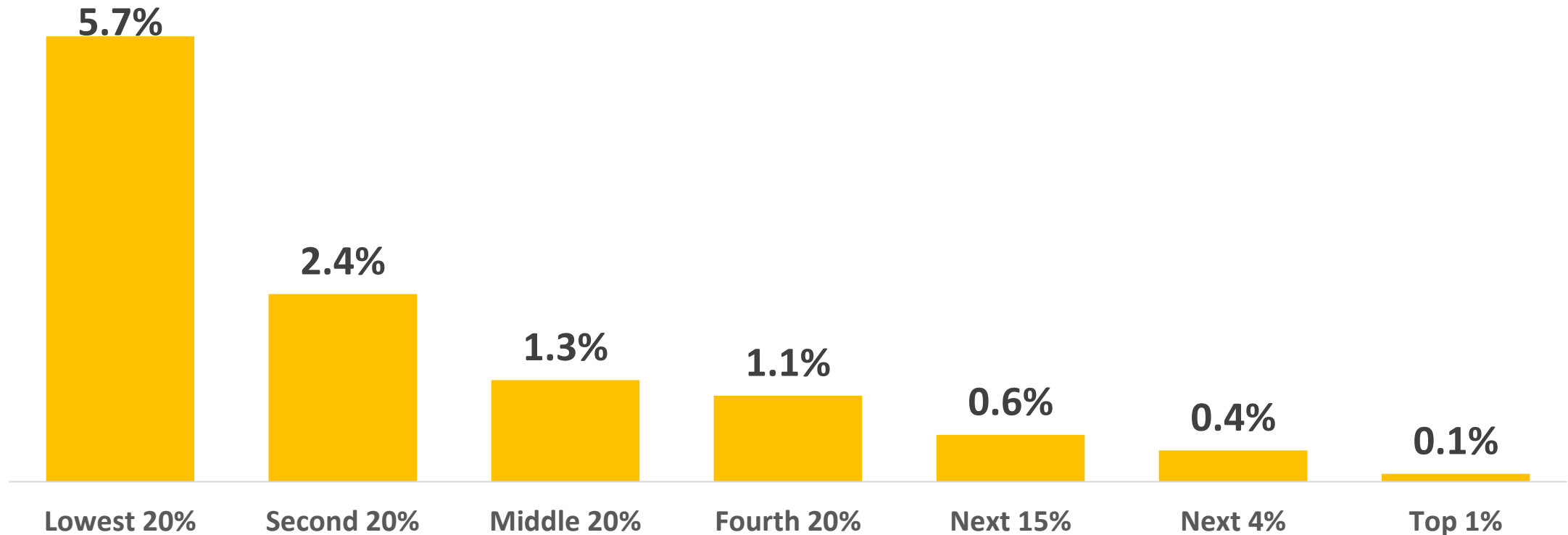
6. Graduated rate income tax

Tax Distributional Analysis: Microsimulation Modeling

- Step 1: Start with a large database of information (from IRS, Census, BLS, etc.) on income sources, deductions, consumption, property value, family size and structure, etc. in Alaska
 - Assembled on a “micro” level for thousands of representative tax units
- Step 2: Run tax calculator repeatedly, for every tax unit
- Same approach used at the federal level (both executive and legislative branches) and in many state governments

Example PFD Reduction

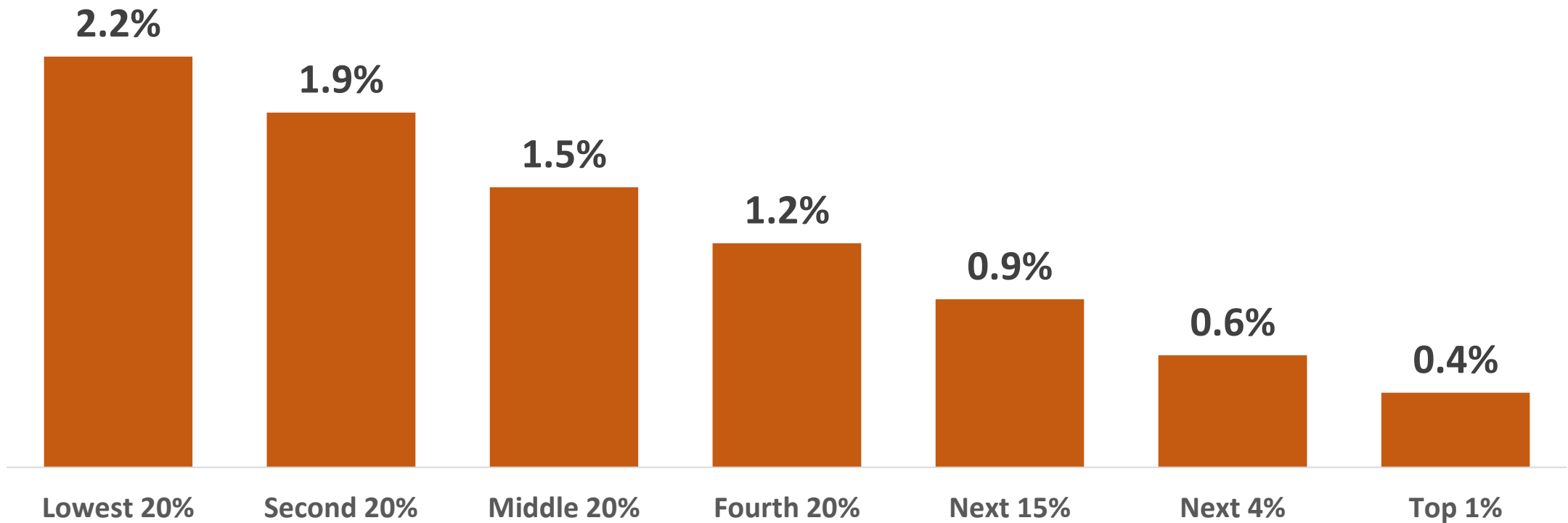
Impact as a share of family income



Note: \$500 reduction. Raising \$316 million if implemented in 2019. From: ITEP, "Comparing Flat-Rate Income Tax Options for Alaska," December 2020.

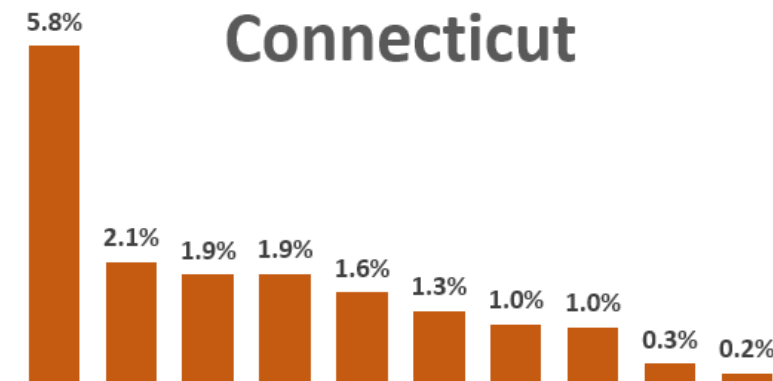
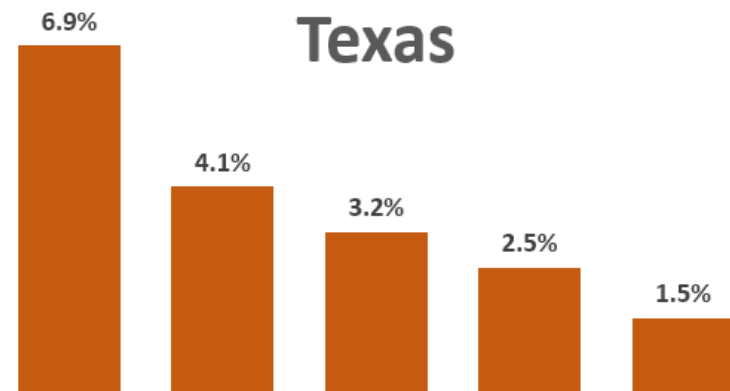
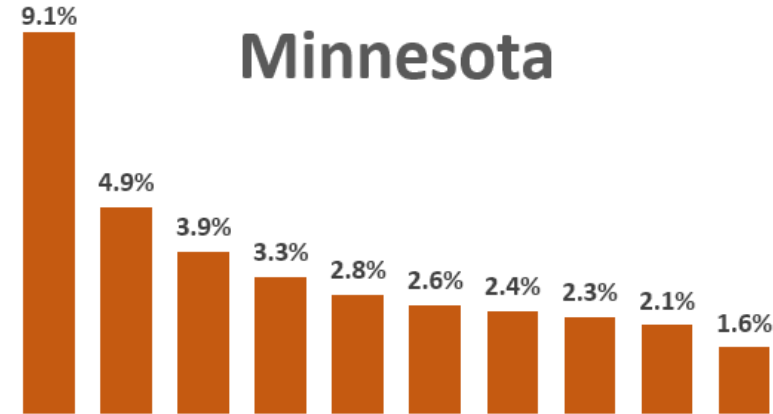
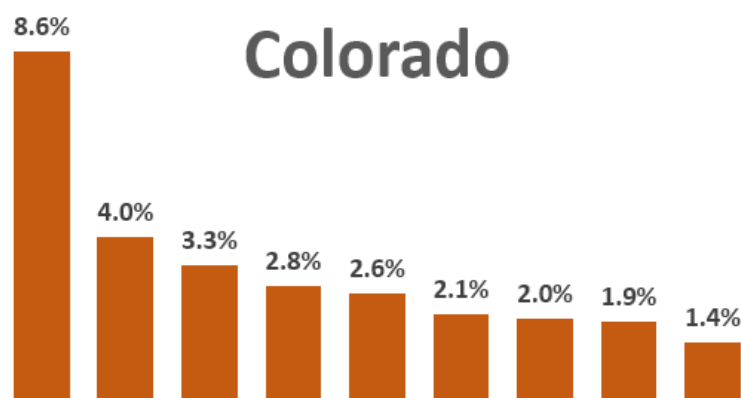
Example Sales Tax

Impact as a share of family income



Note: 3% tax excluding groceries, health care, prescription drugs, shelter, and childcare. Raising \$500 million if implemented in 2016. From: ITEP, "Comparing the Distributional Impact of Revenue Options in Alaska," April 2017.

Sales Taxes Around the Country



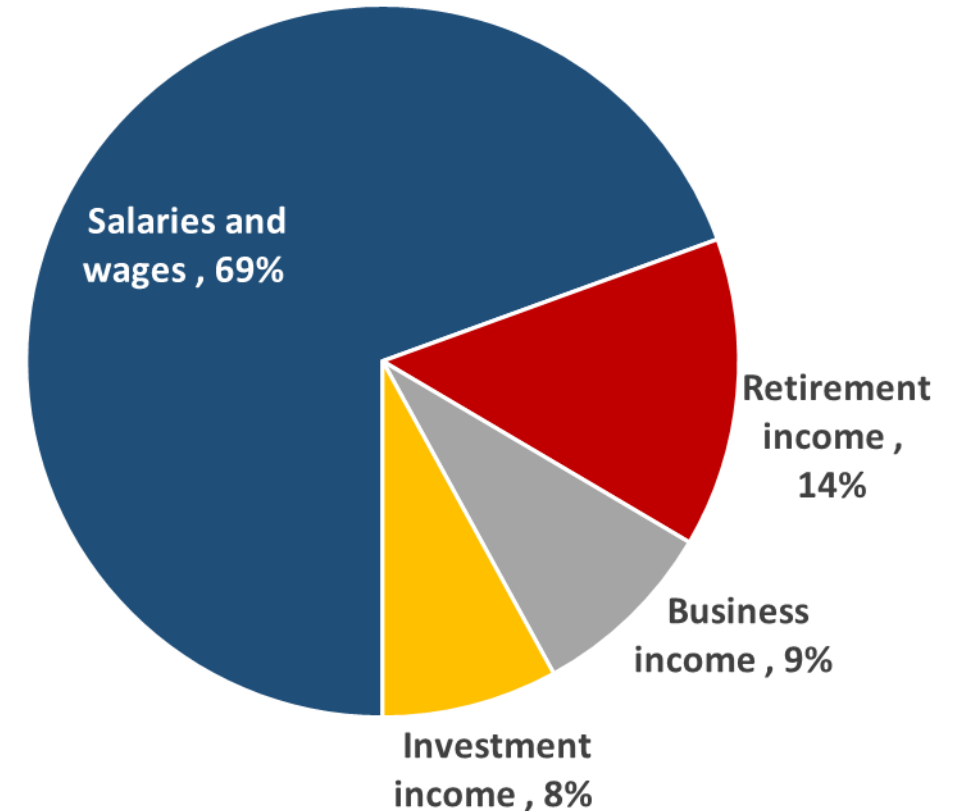
Sources: Colorado Department of Revenue, Minnesota Department of Revenue, Texas Comptroller of Public Accounts, Connecticut Department of Revenue Services

What's personal income?

- Wages, salaries
- Retirement income (IRA, pension, annuities, Social Security)
- Business income (sole proprietorship, partnership, S corporation)
- Investment income (capital gains, dividends, interest)
- Other (PFD, unemployment, farm)

Major Sources of Personal Income in Alaska, 2018

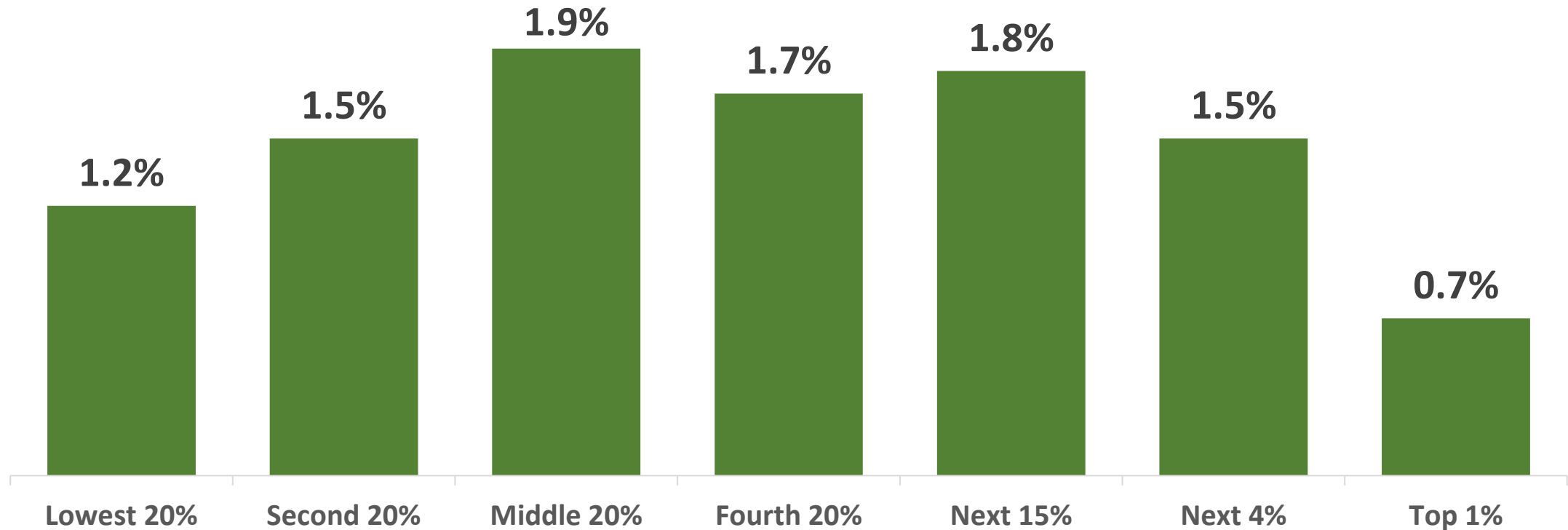
Federal Adjusted Gross Income



Source: ITEP analysis of IRS Historic Table 2, Tax Year 2018

Example Payroll Tax

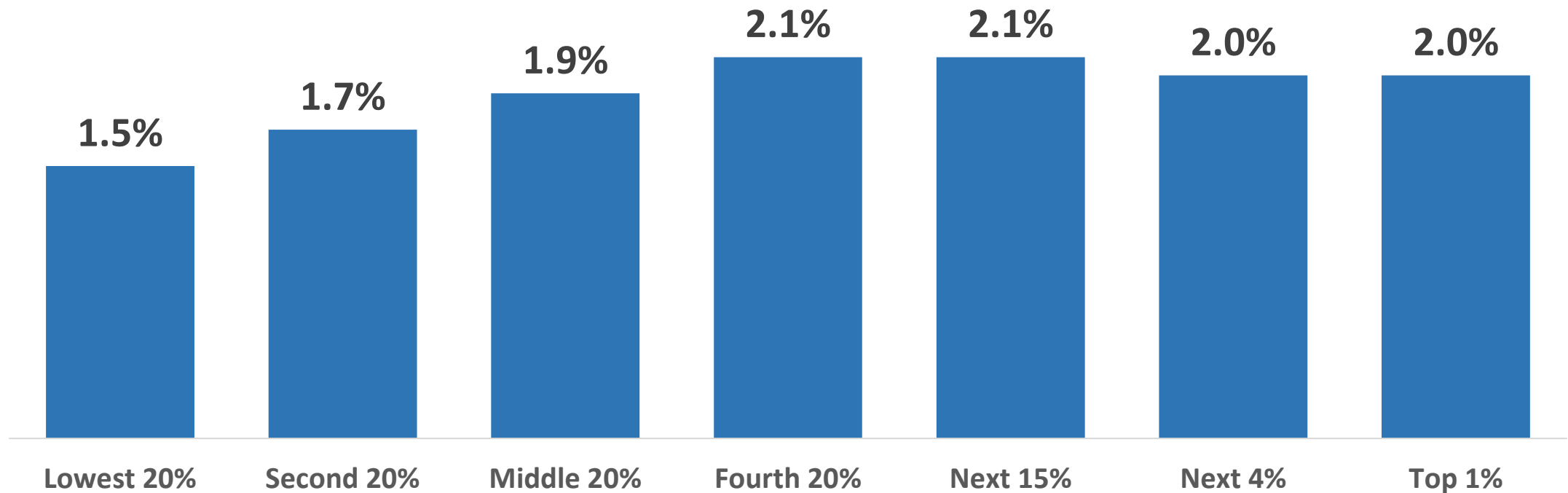
Impact as a share of family income



Note: 2.43% tax on salaries, wages, and self-employment income. Raising \$500 million if implemented in 2016. From: ITEP, "Comparing the Distributional Impact of Revenue Options in Alaska," April 2017.

Example Flat-Rate Income Tax, no Exemption

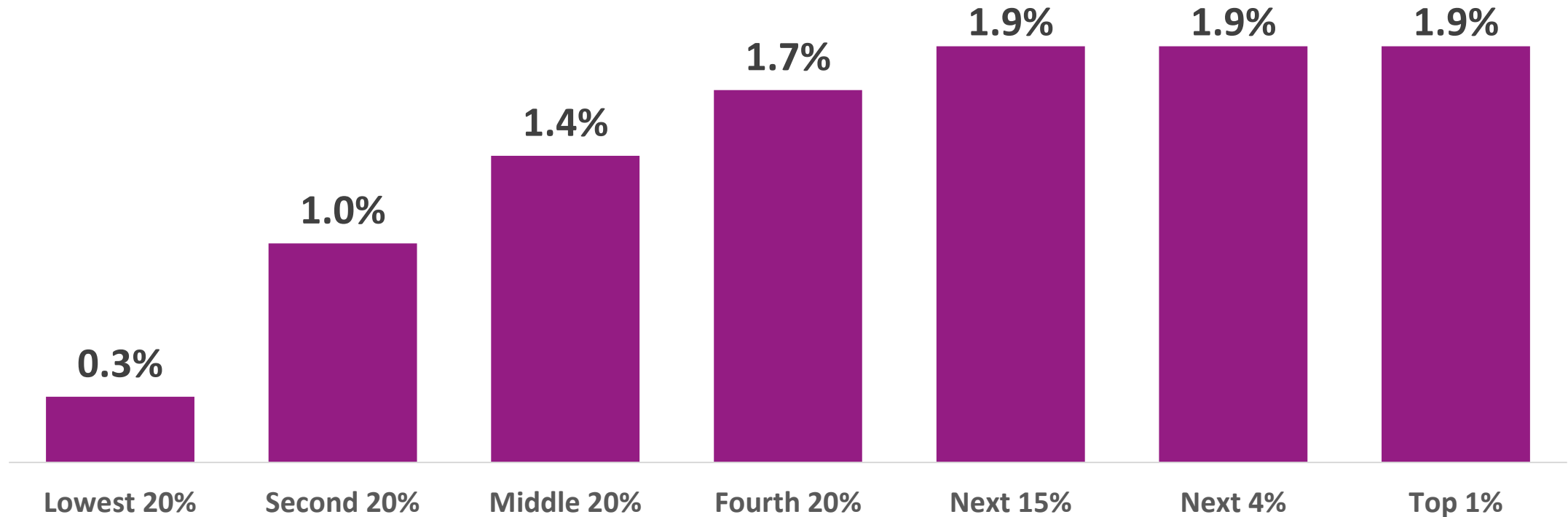
Impact as a share of family income



Note: 2.5% tax on federal AGI. Raising \$696 million if implemented in 2019. From: ITEP, "Comparing Flat-Rate Income Tax Options for Alaska," December 2020.

Example Flat-Rate Income Tax, \$10k-\$20k Exempt

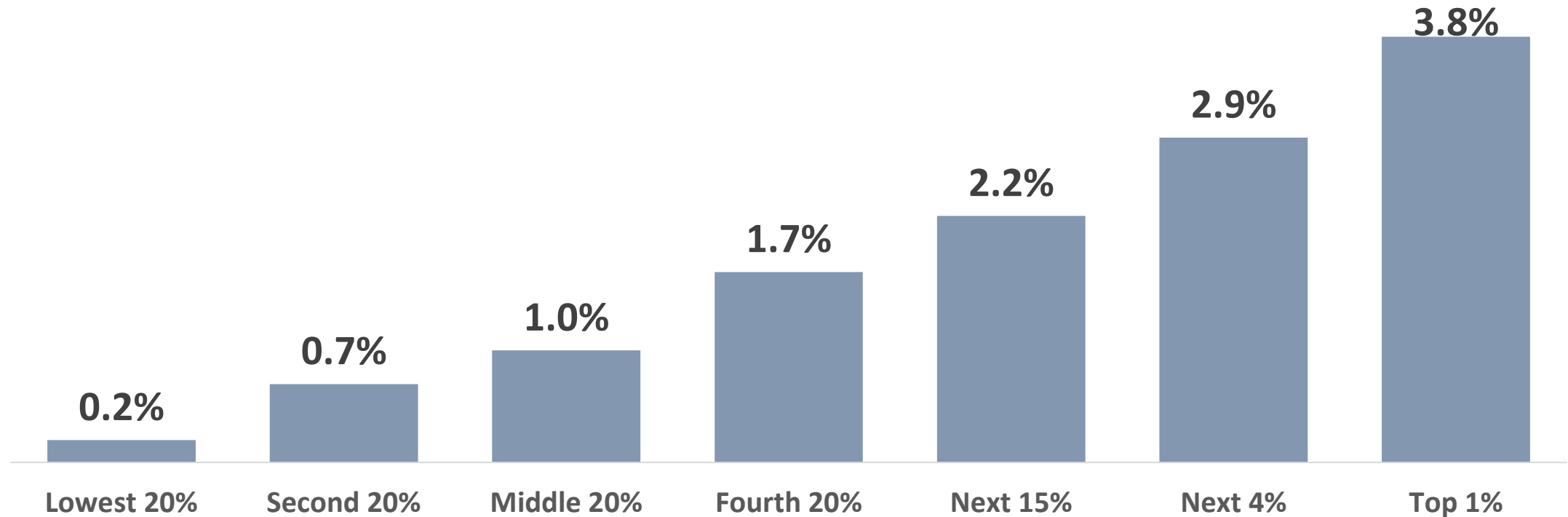
Impact as a share of family income



Note: 2.5% tax on federal AGI with \$10k deduction for single filers and \$20k for married couples. Raising \$581 million if implemented in 2019. From: ITEP, "Comparing Flat-Rate Income Tax Options for Alaska," December 2020.

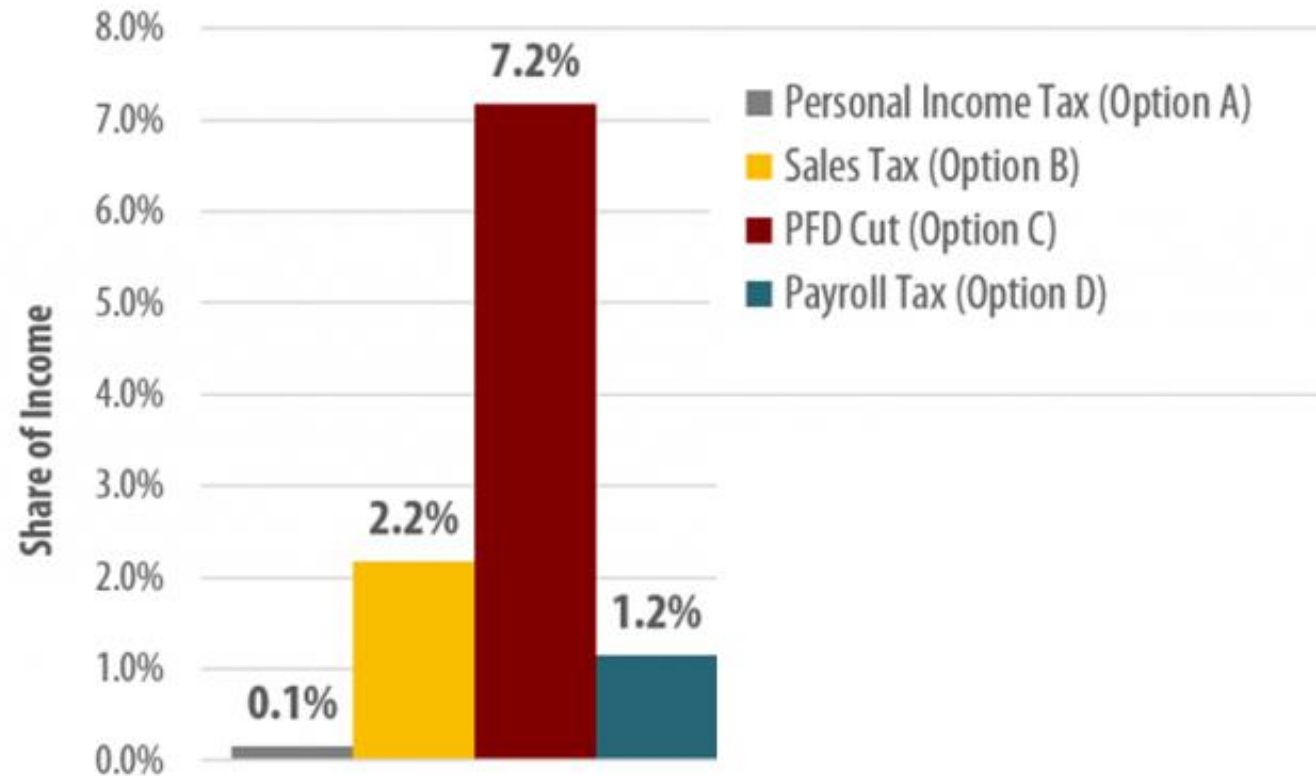
Example Graduated-Rate Income Tax

Impact as a share of family income



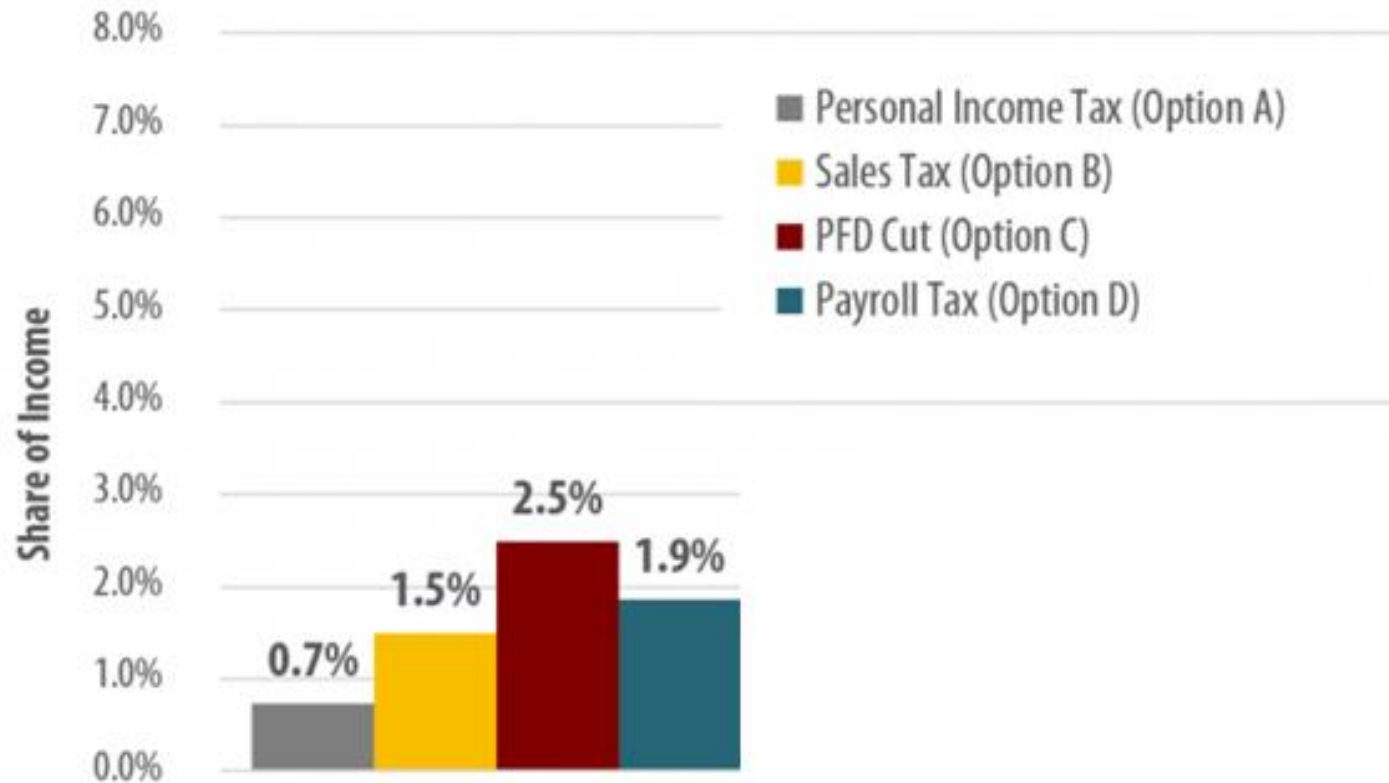
Note: This is the income tax passed by the Alaska House in 2017. 0% to 7% tax on federal AGI with some exemptions. Raising \$687 million if implemented in 2016. From: ITEP, "Assessing the Distributional Consequences of Alaska's House Bill 115 (Version L)," March 2017.

Impact (as a share of income) for Low-Income Alaska Residents (bottom 20%, income < \$25k)



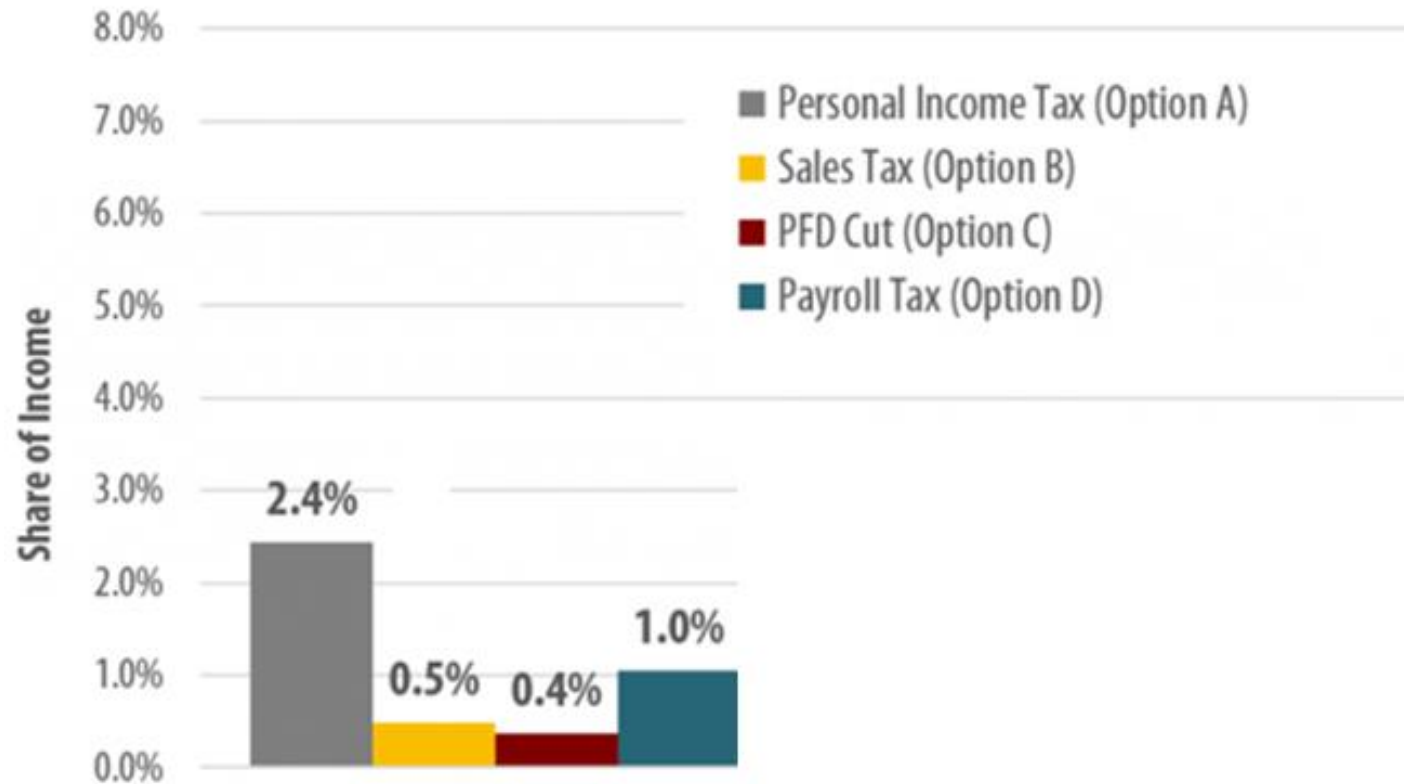
Source: Institute on Taxation and Economic Policy, April 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of \$2,200 per person.

Impact (as a share of income) for Middle-Income Alaska Residents (middle 20%, income \$40k-\$73k)



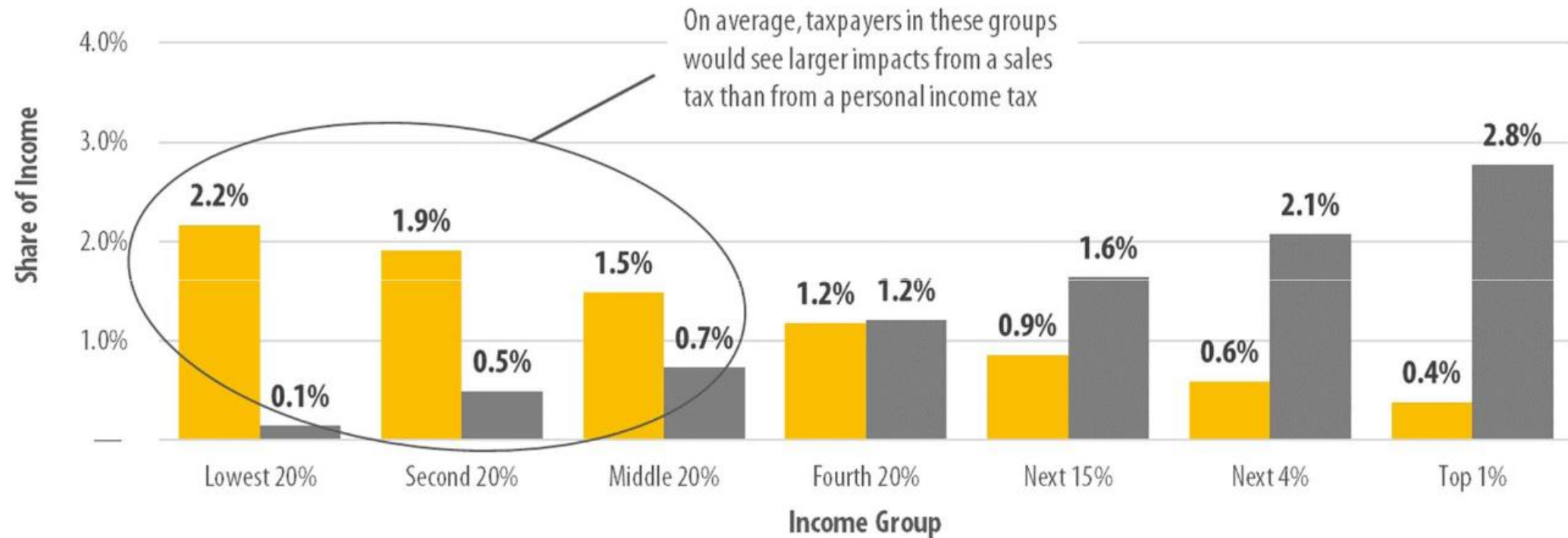
Source: Institute on Taxation and Economic Policy, April 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of \$2,200 per person.

Impact (as a share of income) for High-Income Alaska Residents (top 5%, income \$228k+)



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.

Comparing a \$500m Alaska sales tax to a \$500m Alaska personal income tax

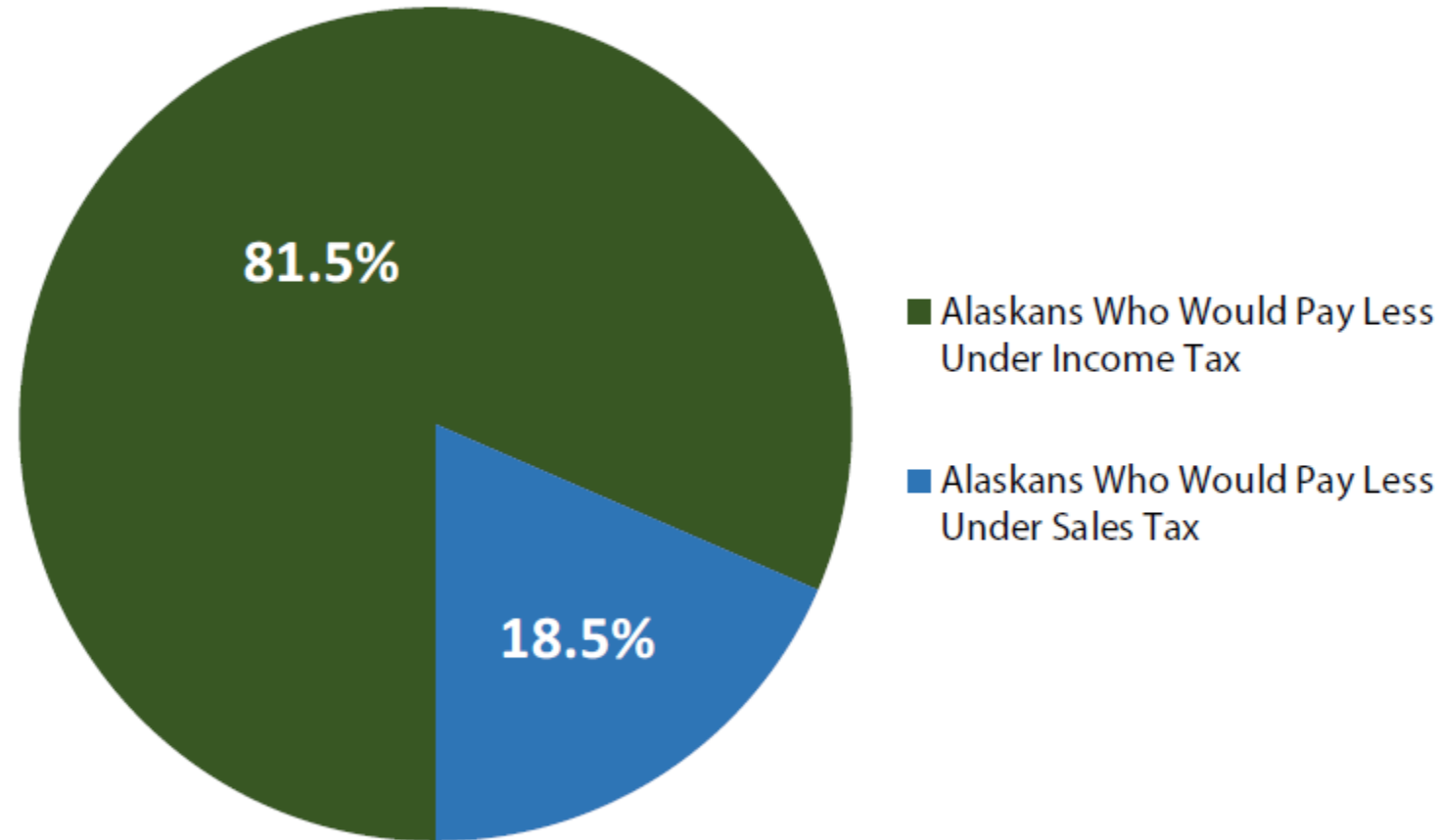


Source: Institute on Taxation and Economic Policy, April 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of \$2,200 per person. In the sales tax scenario the rate is 3% and includes exemptions for purchases of groceries, health care, prescription drugs, shelter, and child care. 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.

From: ITEP, "Comparing the Distributional Impact of Revenue Options in Alaska," April 2017

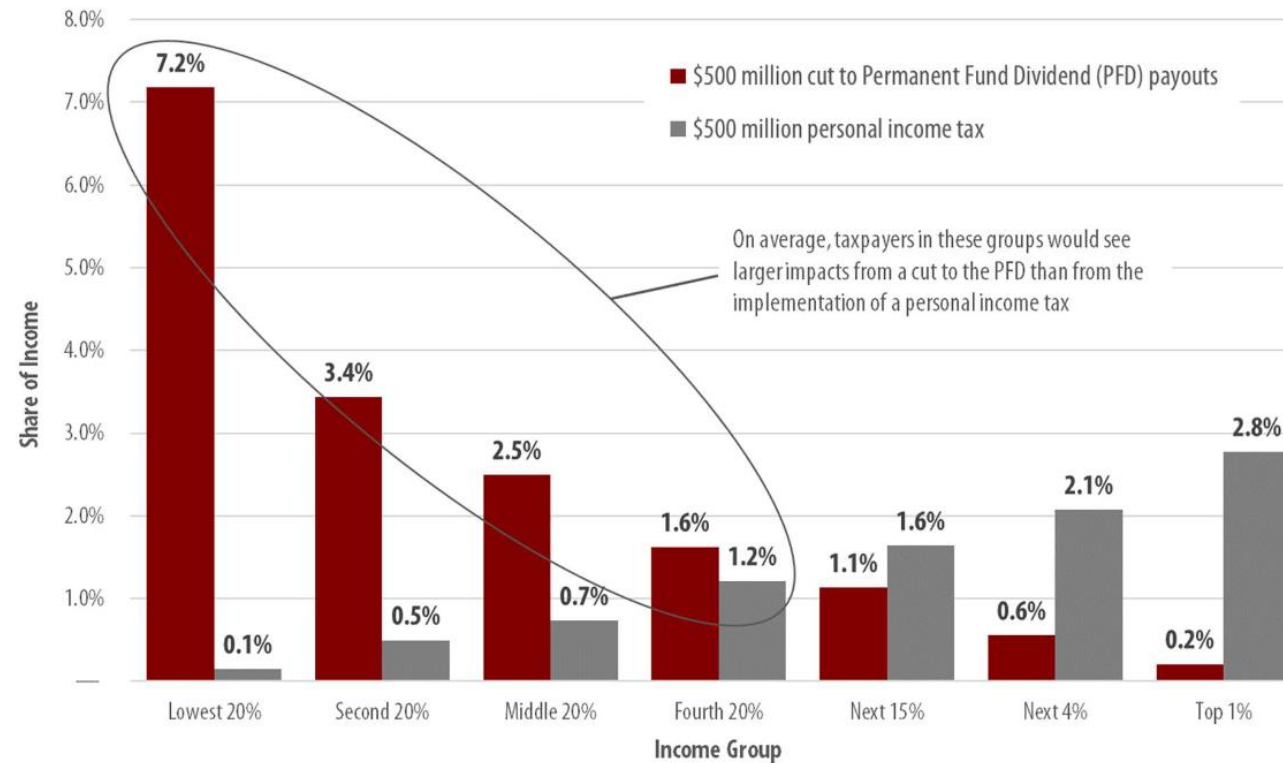
Most Alaskans Would Pay Less Under an Income Tax

Comparing Two Taxes Designed to Generate Identical Levels of Revenue



Note: Analysis by researchers at the Institute of Social and Economic Research (ISER), University of Alaska Anchorage as of June 2016. Precise share paying less under the income tax falls somewhere between 77 and 86 percent of the state's population, with 81.5 percent representing the midpoint. Chart compares the hypothetical impact of income and sales taxes designed to generate identical levels of revenue. Income tax is calculated as a percentage of federal tax liability (e.g., Gov. Bill Walker's proposal). Sales tax is assumed to apply to all retail expenditures except food at home, health care, education, and shelter.

Comparing a \$500m PFD cut to a \$500m Alaska 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 PFD scenario the payout is reduced to \$1,416 per person. 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.

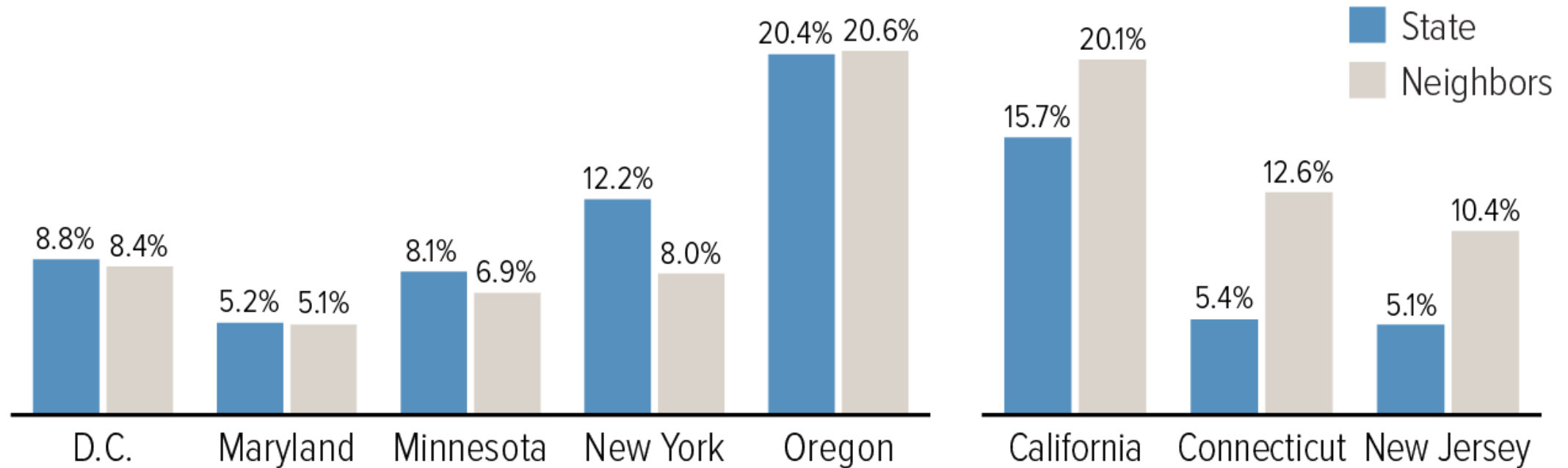
From: ITEP, "Comparing the Distributional Impact of Revenue Options in Alaska," April 2017

Taxes and Economic Growth

- “Some studies by reputable economists ... find that above-average state and local taxes have a measurable and consistently adverse impact on state economic performance. However, many equally reputable studies reach the opposite conclusion, and the results of many more are mixed, ambivalent, or show that any adverse impacts are small. There is simply no consensus...”
 - Review of 27 academic articles by Michael Mazerov, CBPP

Most States That Raised Taxes Kept Pace on Jobs

Change in nonfarm employment since tax hikes took effect



Source: CBPP analysis of U.S. Bureau of Labor Statistics. Rates of neighbor states are weighted average of each state's immediate geographic neighbors and in some cases additional regional economic competitors. Start dates for analysis: CA 1/2005, CT 10/09, DC 10/11, MD 1/08, MN 5/13, NJ 6/04, NY 04/09, OR 9/09. Analysis of each state runs through September 2018.

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