Before the Alaska House Ways & Means Committee

The Economic Impact of Various Fiscal Solutions

Brad Keithley
April 10, 2021

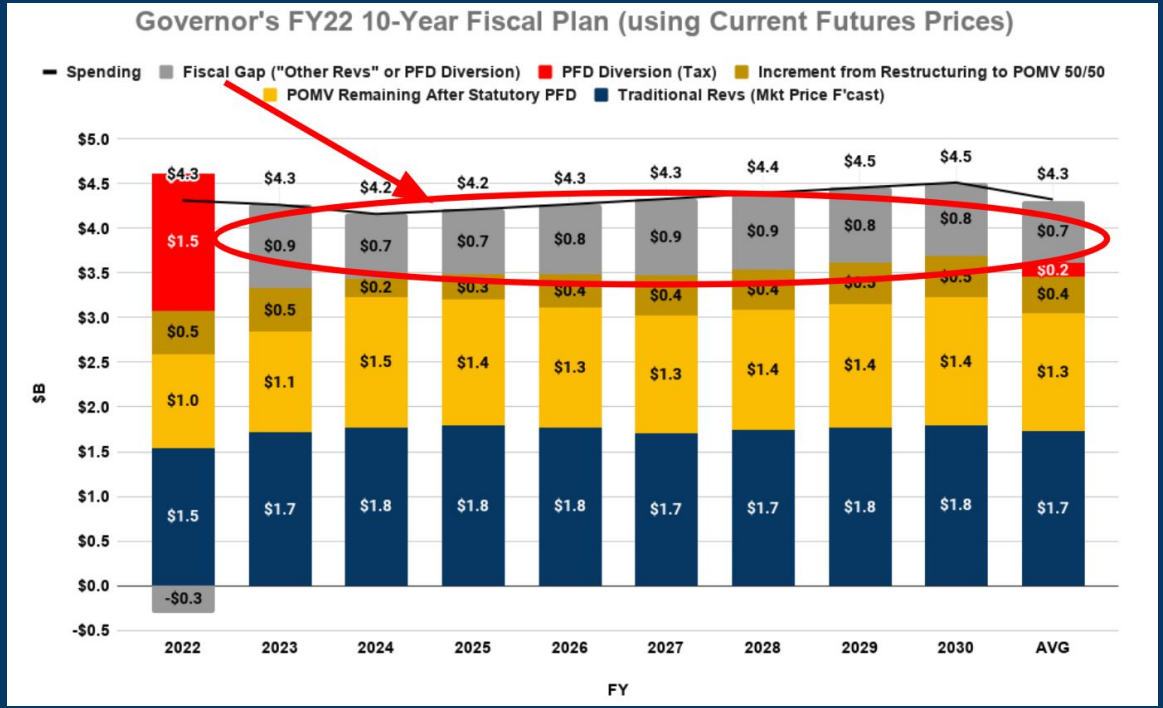
Alaskans FOR SUSTAINABLE BUDGETS

Agenda

- What are the measures of economic impact
- The studies:
  - 2016 ISER Study & follow ups
  - 2019 Buckeye Institute Study
  - 2020 Tax Foundation Study
- Balancing the impacts
- This presentation does not address the economic impact of changes in oil or corporate taxes

Context

* We are facing continued deficits
* What are the options for closing them going forward
* Which has the lowest (least adverse) economic impact



Measuring the economic impact

SHORT-RUN ECONOMIC IMPACTS
OF ALASKA FISCAL OPTIONS

By
Gunnar Knapp, Matthew Berman, and Mouhcine Guettabi
Institute of Social and Economic Research
University of Alaska Anchorage
3211 Providence Drive
Anchorage, Alaska 99508

March 30, 2016

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UAA Institute of Social and Economic Research
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- 2016 ISER Study looked at four impacts on 10 options:
  - Income
  - Jobs
  - Distribution (by income level)
  - Regional
- The Buckeye & Tax Foundation studies are more limited

ISER 2016 Study: Options

Spending cuts:

- Workers
- Capital
- Broad-based
- Pay

Revenues:

- Income tax: progressive
- Income tax: ‘flat-rate’
- Dividend cut
- Sales tax: more exclusions
- Sales tax: fewer exclusions
- Property tax

2016 ISER Study: Income & Jobs Impact

Table III-6

Estimated Total Short-Run Economic Impacts of Selected Options for Reducing the Deficit by $100 Million: Low and High Scenarios

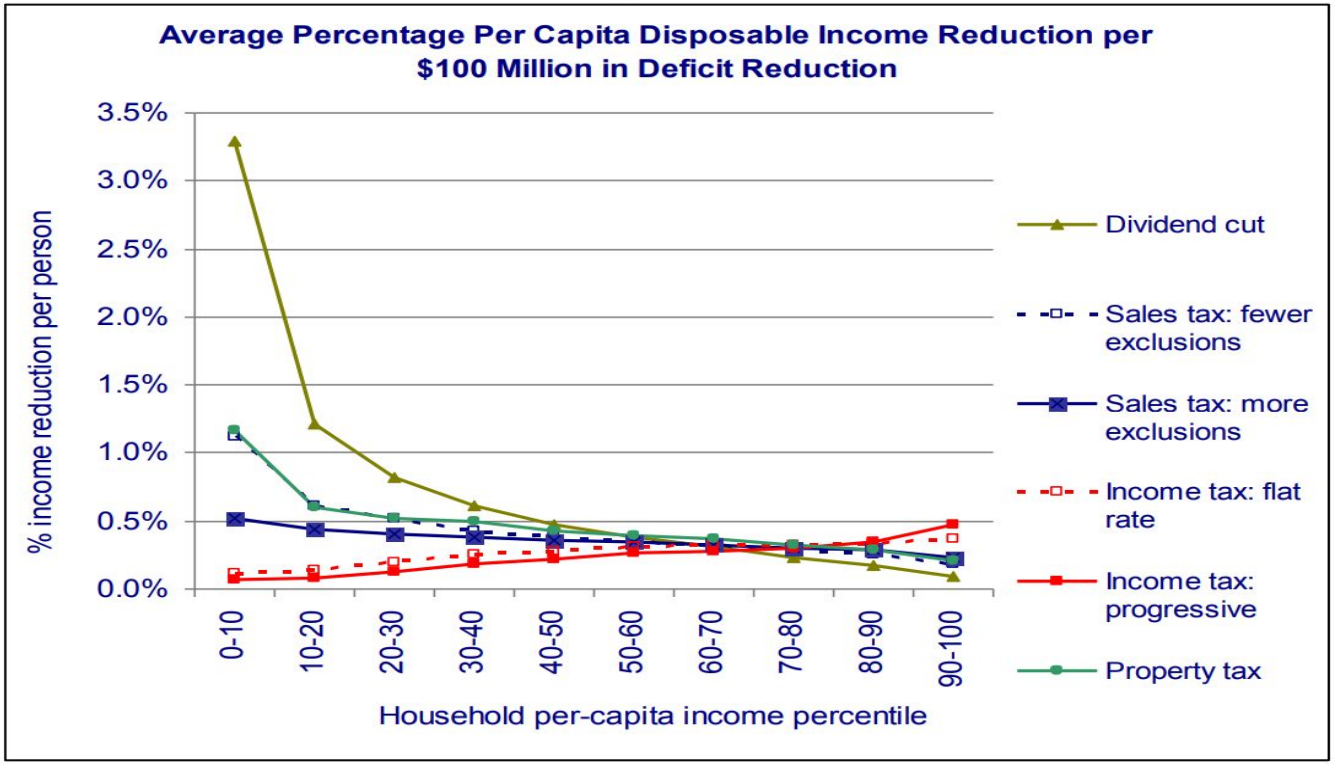
Option	Income Impacts (millions of $ of income)		Employment Impacts (FTE jobs in Alaska)	
	Low scenario	High scenario	Low scenario	High scenario
Spending cut: workers	122	138	1414	1677
Spending cut: broad-based	98	115	980	1260
Spending cut: capital	56	64	775	931
Spending cut: pay	127	143	459	727
Income tax: progressive	124	138	544	786
Income tax: flat rate	122	138	517	798
Sales tax: more exclusions	116	133	477	775
Sales tax: fewer exclusions	117	134	482	788
Property tax	114	132	463	773
Dividend cut	130	149	558	892
Saving less	0	0	0	0

2016 ISER Study: Midpoints

2016 ISER Study, Table III-6 Midpoints (Impact by $100 Million)		
Option	Income Impacts	Employment Impacts
Spending cut: workers	130	1546
Spending cut: broad-based	107	1120
Spending cut: capital	60	853
Spending cut: pay	135	593
Income tax: progressive	131	665
Income tax: flat rate	130	658
Sales tax: more exclusions	125	626
Sales tax: fewer exclusions	126	635
Property tax	123	618
Dividend cut	140	725

2016 ISER Study: Distributional Impact

Figure II-6

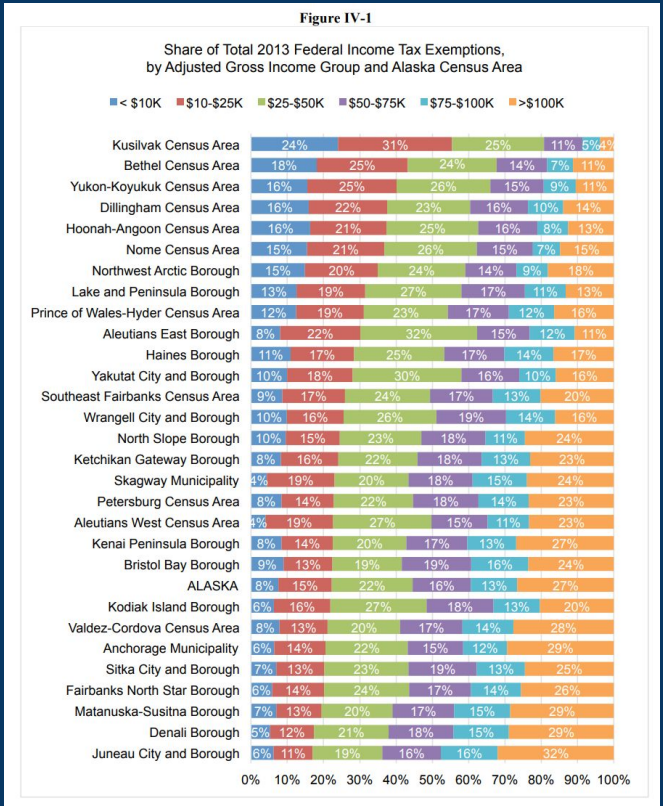


2016 ISER Study: Regional Impact

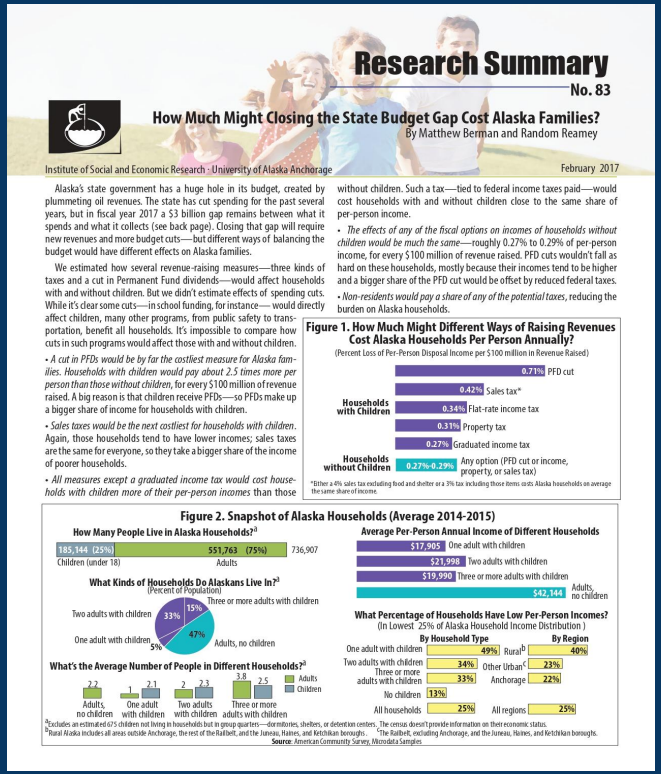
"We would expect variation in revenue impacts by region —

… lower-income regions are likely to be affected relatively more by dividend cuts and sales taxes, which have relatively greater effects on lower-income groups.

… Higher-income regions are likely to be affected relatively more by income taxes, which have relatively greater effects on higher-income groups."



ISER Follow-ups



Research Summary

No. 83

How Much Might Closing the State Budget Gap Cost Alaska Families?

By Matthew Berman and Random Reamey

Institute of Social and Economic Research · University of Alaska Anchorage — February 2017

Alaska's state government has a huge hole in its budget, created by plummeting oil revenues. The state has cut spending for the past several years, but in fiscal year 2017 a $3 billion gap remains between what it spends and what it collects (see back page). Closing that gap will require new revenues and more budget cuts—but different ways of balancing the budget would have different effects on Alaska families.

We estimated how several revenue-raising measures—three kinds of taxes and a cut in Permanent Fund dividends—would affect households with and without children. But we didn't estimate effects of spending cuts. While it's clear some cuts—in school funding, for instance—would directly affect children, many other programs, from public safety to transportation, benefit all households. It's impossible to compare how cuts in such programs would affect those with and without children.

- *A cut in PFDs would be by far the costliest measure for Alaska families. Households with children would pay about 2.5 times more per person than those without children*, for every $100 million of revenue raised. A big reason is that children receive PFDs—so PFDs make up a bigger share of income for households with children.
- *Sales taxes would be the next costliest for households with children.* Again, those households tend to have lower incomes; sales taxes are the same for everyone, so they take a bigger share of the income of poorer households.
- *All measures except a graduated income tax would cost households with children more of their per-person incomes* than those without children. Such a tax—tied to federal income taxes paid—would cost households with and without children close to the same share of per-person income.
- *The effects of any of the fiscal options on incomes of households without children would be much the same*—roughly 0.27% to 0.29% of per-person income, for every $100 million of revenue raised. PFD cuts wouldn't fall as hard on these households, mostly because their incomes tend to be higher and a bigger share of the PFD cut would be offset by reduced federal taxes.
- *Non-residents would pay a share of any of the potential taxes*, reducing the burden on Alaska households.

Figure 1. How Much Might Different Ways of Raising Revenues Cost Alaska Households Per Person Annually?

(Percent Loss of Per-Person Disposal Income per $100 million in Revenue Raised)

Households with Children	0.71%	PFD cut
	0.42%	Sales tax*
	0.34%	Flat-rate income tax
	0.31%	Property tax
	0.27%	Graduated income tax
Households without Children	0.27%-0.29%	Any option (PFD cut or income, property, or sales tax)

*Either a 4% sales tax excluding food and shelter or a 3% tax including those items costs Alaska households on average the same share of income.

Figure 2. Snapshot of Alaska Households (Average 2014-2015)

How Many People Live in Alaska Households?[a]: 185,144 (25%) Children (under 18); 551,763 (75%) Adults; 736,907

What Kinds of Households Do Alaskans Live In?[a] (Percent of Population): Three or more adults with children 15%; Two adults with children 33%; One adult with children 5%; Adults, no children 47%

What's the Average Number of People in Different Households?[a]: Adults, no children 2.2; One adult with children 1 Adults, 2.1 Children; Two adults with children 2 Adults, 2.3 Children; Three or more adults with children 3.8 Adults, 2.5 Children

Average Per-Person Annual Income of Different Households: One adult with children $17,905; Two adults with children $21,998; Three or more adults with children $19,990; Adults, no children $42,144

What Percentage of Households Have Low Per-Person Incomes? (In Lowest 25% of Alaska Household Income Distribution)

By Household Type		By Region	
One adult with children	49%	Rural[b]	40%
Two adults with children	34%	Other Urban[c]	23%
Three or more adults with children	33%	Anchorage	22%
No children	13%		
All households	25%	All regions	25%

[a]Excludes an estimated 675 children not living in households but in group quarters—dormitories, shelters, or detention centers. [c]The census doesn't provide information on their economic status.
[b]Rural Alaska includes all areas outside Anchorage, the rest of the Railbelt, and the Juneau, Haines, and Ketchikan boroughs. [c]The Railbelt, excluding Anchorage, and the Juneau, Haines, and Ketchikan boroughs.
Source: American Community Survey, Microdata Samples

Permanent Fund Dividends and Poverty in Alaska

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Anchorage Population and Economic Data Workshop
October 18, 2016
Anchorage, Alaska

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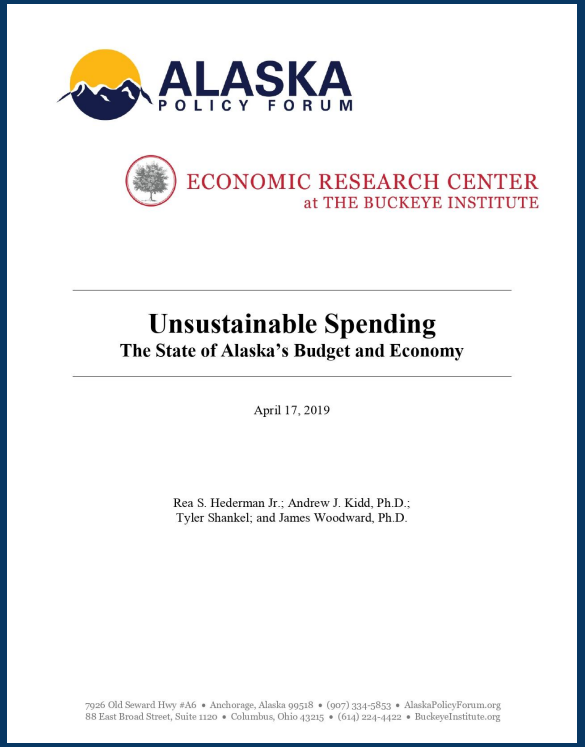
Notable Findings from the ISER Studies

- ***"The impact of the PFD cut falls almost exclusively on residents, and it is highly regressive, so it has the largest adverse impact on the economy per dollar of revenues raised."* (2016 Short-Run Report)**
- ***"A cut in PFDs would be by far the costliest measure for Alaska families. … Sales taxes would be the next costliest for households with children. …The effects of any of the fiscal options on incomes of households without children would be much the same."* (2017 Cost to Families)**

Notable Findings from ISER (con't)

- *"The PFD:*
  - *… annually lifts 15,000-25,000 Alaskans out of poverty, depending on the size of the dividend.*
  - *… reduces the number of Alaska Native living in poverty by one-quarter.*
- *"Reducing the PFD by $1,000 will likely increase the number of Alaskans below the poverty line by 12-15,000 (2% of Alaskans)."* **(2016 PFDs and Poverty in Alaska)**

2019 Buckeye Institute Report



ALASKA POLICY FORUM

ECONOMIC RESEARCH CENTER at THE BUCKEYE INSTITUTE

Unsustainable Spending
The State of Alaska's Budget and Economy

April 17, 2019

Rea S. Hederman Jr.; Andrew J. Kidd, Ph.D.;
Tyler Shankel; and James Woodward, Ph.D.

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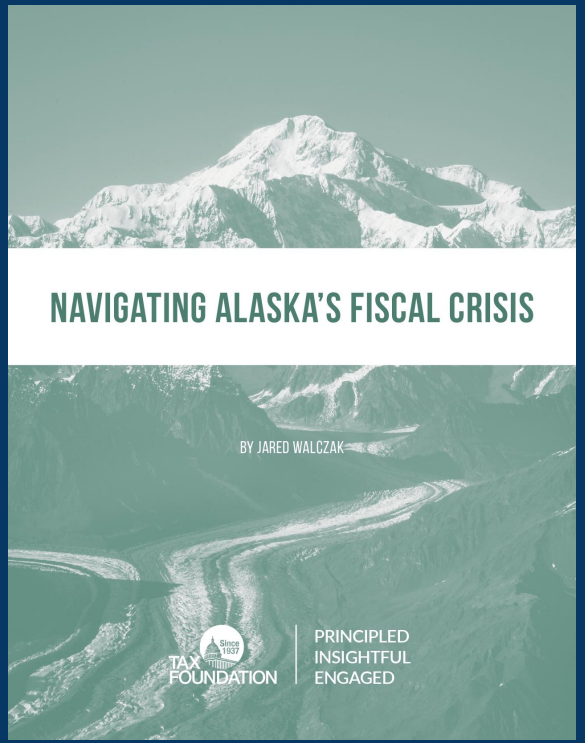
- No distributional or regional analysis
- Notional argument for reduced govt spending
- Analysis of revenue alternatives
  - Static (projected)
  - "Dynamic" ("predicts how individuals, households, and businesses will alter their economic choices in response")

2019 Buckeye Institute Report

Buckeye Institute Analysis of Various Revenue Options (Normalized to per $100 million of dynamic revenue)							
Approach (Year 3)	Revenues ($mil)		Normalized to per $100 million of Dynamic Revenue				
	Static (Projected)	Dynamic	Dynamic Revenue	Jobs	GDP ($mil)	Consumption ($mil)	Investment ($mil)
Sales Tax	$244	$191	$100	-942	-$131	-$70	-$30
"Flat" (Payroll) Income Tax	$326	$284	$100	-880	-$236	-$59	-$105
Progressive Income Tax	$583	$347	$100	-893	-$283	-$61	-$136
Proportional (Taxes Paid) Income Tax	$209	$90	$100	-889	-$256	-$62	-$117

2020 Tax Foundation Study



- No distributional or regional analysis
- Notional argument for "reallocations (POMV 50/50), reductions (spending) & revenues"
- Notional analysis of sales, income, motor fuel and oil & gas taxes

Notable Arguments by the Tax Foundation

Sales tax: Because it is imposed on consumption rather than on labor, the economic impact of a sales tax is smaller and collections are less volatile than under an income tax. To reduce distributional effects, sales taxes also should be broad based, to include both goods and services.

Motor fuel tax: While the revenues a motor fuel tax could raise are insufficient to the task of closing Alaska's revenue gap, an increase could make sense particularly since its effects on the state's overall competitiveness would be modest.

Details/Tax Base Matter

All "flat taxes" aren't the same

- **ISER: Taxable Income**
- **Buckeye: Payroll tax**
- **Tax Foundation: Adjusted Gross Income**
- **HB37/ITEP Dec 2020 Study: Adjusted Gross Income, w/ exemptions**

Tax Rate Required to Raise $900mil Using Total, Adjusted Gross Income, Taxable Income, Tax Paid or Sales

Category	Tax Base ($B)	Percent of Total Income	Required Tax Rate on Base (Rounded to nearest %)	Amount Raised ($Bil)
Income Based				
Total Income	$25.46	100%	3%	$0.91
Adjusted Gross Income	$25.18	99%	3%	$0.91
Taxable Income	$19.28	76%	4%	$0.91
Taxes Paid	$3.75	15%	23%	$0.91
PFD (POMV 50/50)	$1.55	6%	59%	$0.91
Sales Based				
Fewer exclusions	$14.4	57%	6%	$0.91
More exclusions	$9.0	35%	10%	$0.91

Source: Income Based (Internal Revenue Service, Table 2. Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2018, Alaska. In calculating rate, income grossed up by 7% to reflect ISER estimate of additional income that would result from taxing non-resident income sourced in Alaska.)

Sales Based (Sales Tax Data: Calculated from ISER, Short-Run Economic Impacts of Alaska Fiscal Options, Table II-2 (2016))

Way Forward: Balancing the Impacts

- Determining the overall economic impact of each option requires balancing various criteria: income, jobs, investment, distributional & regional impact
- No clear “best”: For example, viewed from some criteria, a sales tax has the lowest impact, *but* it is unavoidably regressive and has a disproportionately higher adverse impact on mid & lower income Alaska families (and regions) than other alternatives

Balancing the Impacts (con't)

- But a clear worst: PFD cuts have the "*largest* adverse impact" both on the overall Alaska economy & Alaska families of the revenue options
- We support a flat tax (based on AGI) because:
  - It has a relatively low impact on all factors
  - Is distributionally (and regionally) neutral
  - Importantly, also ensures that ALL Alaska families have the same "skin" in govt spending

About
Alaskans for Sustainable Budgets

Envisioned to function as a state equivalent of the Committee for a Responsible Federal Budget, The Concord Coalition and Peter G. Peterson Foundation at the federal level …

… Alaskans for Sustainable Budgets works to develop and advocate for economically robust and durable fiscal policies at the Alaska state level.