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## Office of Management and Budget: Limited Payroll Tax Summary

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### Background

This proposal would impose a payroll tax of 1.5% of wages, or for self-employed individuals, 1.5% of the net earnings from their business. Investment income, interest, retirement income, dividends (including the Permanent Fund Dividend) and other unearned income are all exempt from this tax. Both residents and non-residents will contribute to the tax.

The payroll tax is capped at \$2,200, or twice the amount of the previous year's dividend (i.e. If the dividend was \$1,100, the maximum tax per working individual would be \$2,200, reached at \$147,000 in income). After three years, the tax will sunset. The intent of this proposal is to get Alaskans back to work by using the proceeds of this payroll tax to spent on shovel-ready capital projects that are designed to inject money into Alaska's economy and support job growth.

### Revenue Estimate and Proceeds

The bill is estimated to produce \$320.0 million annually. If the cap were not in place, the revenue from this measure would amount to \$330.0 million.

Revenue will be deposited into a special fund to ensure that proceeds of the tax are used on high-value capital projects. Over the next three years, \$800.0 million (appropriated via separate legislation) will be spent on capital projects such as state facility and school maintenance and critical community infrastructure, which are designed to leverage federal, local, and private funds for a total economic impact of \$1.4 billion. Funds will be directed towards many small-scale projects rather than a few larger projects in order to circulate money around the entire state.

### Implementation

This tax would require 40 additional staff at the Department of Revenue. Staff needs would be smaller than for a full income tax, because of reduced audit requirements. For the agency, the most complex activities in an income tax are avoided, including apportioning of income from a source in the state, identifying complex business income, and (due to the tax cap) auditing the highest income individuals for the full tax due. The withholding and refund elements are similar to a full income tax. The tax would go in effect in 2019. Additionally, a one-time capital appropriation of \$10 million will be needed for initial systems development.

### Considerations

This bill is a transitional measure in anticipation of future natural resource development, budget efficiencies, and other measures that move the state towards sustainability.

Even after the implementation of this tax, Alaska will remain the lowest taxed state in the nation and the majority of Alaskans will pay a tax that is less than the amount of the PFD. The tax is simpler than a traditional income tax and most Alaskans will not require the assistance of an accountant to pay the tax.