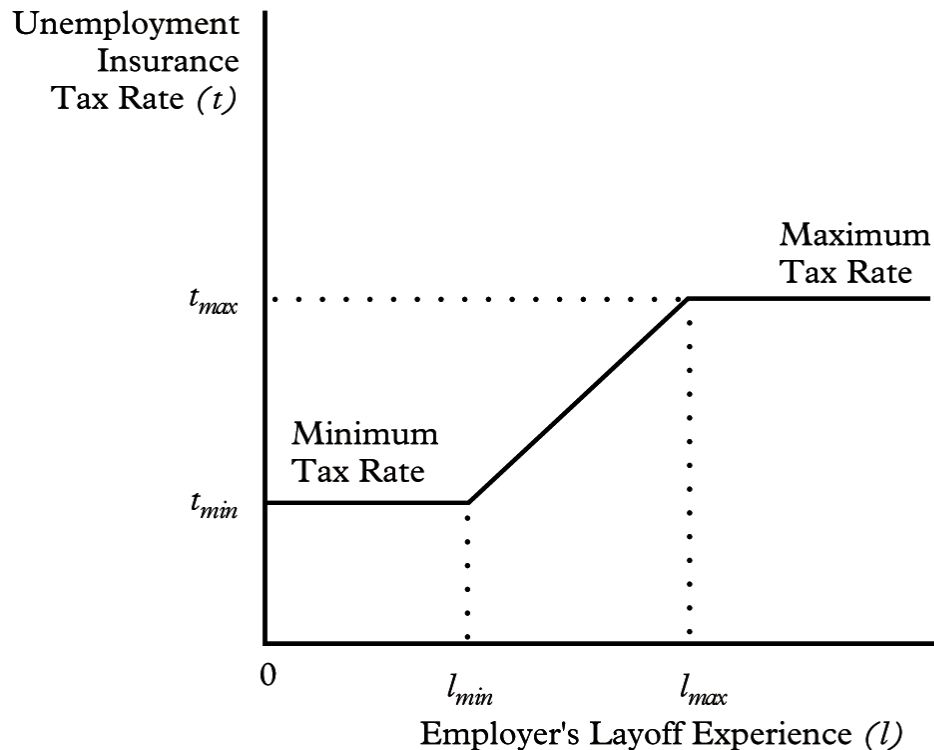

THE UI PAYROLL TAX

The UI Payroll Tax is Experience Rated



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- Subject to a min/max, tax rate increases with layoff experience
- Experience rating is imperfect – not all firms fully pay for the benefits of their employees

Interindustry Cross-Subsidies are Apparent

- Research indicates persistent subsidies over 30 years (Anderson and Meyer, 1993)
 - To:
 - Agriculture
 - Mining
 - Manufacturing
 - Construction
 - From:
 - Trade
 - Finance, Insurance and Real Estate
 - Services

Within Industry Subsidies Also Persist

- The same firms within industries (even within on average subsidizing industries) consistently pay less in UI taxes than their employees receive in benefits (Anderson and Meyer, 1993)
- Predictability of these subsidies lessens any argument that incomplete experience rating provides insurance to firm against potentially bankrupting idiosyncratic shocks

Incomplete Experience Rating Implies Incentives for More Layoffs

- Research implies incomplete experience rating may explain 20 to 30% of temporary layoffs, and up to 50% at bottom of cycle
 - (Anderson & Meyer, 1994; Topel, 1983; Card & Levine, 1994)
- Having some experience rating (vs. flat tax) reduces claims and smooths the business cycle
 - 7.6% drop in claims when WA experience rated (Anderson & Meyer, 2000)
 - Full experience rating can reduce seasonal amplitude of employment by 14% (Anderson, 1993)

The UI Payroll Tax is Regressive

- Average tax can be passed on to workers (Anderson & Meyer, 1997, 2000)
- Currently, with quite low taxable wage base
 - Bottom decile workers pay about 3% of total income, compared to 0.4% for top decile workers
- If the UI taxable wage base had increased like OASDI (with revenue neutral drop in tax rates)
 - Bottom decile workers would pay about 1.3% and top decile workers about 1% (Anderson & Meyer, 2006)
 - Currently only 17 states above \$15,000 taxable wage base, 12 as low as between \$7,000 and \$8,000

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