THE UI PAYROLL TAX
The UI Payroll Tax is Experience Rated

- 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

Graph copyright © 2003 by Pearson Education, Inc.
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
References


