

CLMS BRIEF 1 – Estimate of Revenues for ABE from SUI Tax Surcharge

Estimating the Annual Levels of U.I. Tax Collections for
Financing Adult Basic Education/Job Training
Programs for U.S. Workers Under Alternative Wage
Base/Supplemental UI Tax Rate Policies

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Council for Advancement of Adult Literacy

New York City

October 2008

Introduction

In the final report on its deliberations over the future of the nation's adult basic education system, the National Commission on Adult Literacy recommended a substantial expansion and restructuring of the nation's adult basic education system.¹ Among the major recommendations was an expansion in annual service levels to 20 million participants by the year 2020. Such substantial growth in service levels will have to be supported by additional monies from the national and state government and from employers and private foundations.

One of the major challenges facing the nation's adult basic education system in its efforts to expand service levels is to identify a source of stable funding for such investments that would be less sensitive to annual funding decisions by the U.S. Congress and state legislatures. In this brief research paper, we lay out the case for using a supplemental unemployment insurance tax on the payrolls of private and public employers already covered by the provisions of the unemployment insurance system to finance part of the proposed expansion. A growing number of states (now 22) have levied supplemental UI taxes to fund an array of workforce development programs including job placement, job search training, job training, customized employer training, and adult education for workers, especially dislocated workers, in their states.²

This paper will provide a series of simulations of the amount of tax revenue that could be generated from alternative supplemental UI taxes on various maximum annual earning levels for covered payroll employment levels that have recently prevailed in the U.S. In a follow-up paper, we will present estimates of the amount of UI tax revenues that would be generated in each state using their existing maximum earnings contributions and alternative supplemental UI tax rates.³

¹ See: National Commission on Adult Literacy, Reach Higher, America: Overcoming Crisis in the U.S. Workforce, Council for Advancement of Adult Literacy, New York City, 2008.

² For a review of recent state efforts that use a supplemental UI tax to finance selected workforce development activities,

See: (i) U.S. Department of Labor, Employment and Training Administration, "Taxes for UI Administration or Non-UI Purposes", Chapter 2, Financing, pp. 31-32, web site; (ii) Massachusetts Executive Office of Labor and Workforce Development, Workforce Training Fund Contribution, web site.

A description of the financing, operations, and impacts of the California Employment Training Panel can be found in the following publication:

Richard W. Moore, Daniel Blake, et al., Training that Works: Lessons from California's Employment and Training Panel Program, W.E. Upjohn Institute for Employment Research, Kalamazoo, 2003.

³ Under existing state laws, the maximum annual wage levels subject to the regular UI tax range from lows of \$7,000 to highs of \$31,000 to \$32,000 in three states.

Simulating the Expected Annual UI Tax Revenues From Alternative Supplemental UI Tax Policies

The amount of tax revenue that could be generated from any supplemental unemployment insurance (UI) tax on the payrolls of employers will be dependent on the supplemental tax rate adopted and the maximum annual wages of workers in each state that are subject to the UI tax. In calendar year 2007, according to data provided by the U.S. Department of Labor’s Employment and Training Administration, the maximum annual wages and salaries subject to a state’s unemployment insurance tax varied quite widely across the 50 states (Table 1). At the low end of the distribution were eight states that had a maximum wage base of \$7,000. These states included Arizona, California, Florida, and Tennessee. At the upper end of the distribution were 12 states with a maximum annual earnings subject to the tax of \$20,000 or more, including three states (Alaska, Idaho, and Washington) with a maximum earnings base of \$31,000-32,200.⁴

Table 1:
Distribution of States in 2007 by the Maximum Value of the
Annual Wage Levels Subject to the UI Tax

Maximum Annual Wage Level	Number of States
\$7,000	8
\$7,100 – 10,000	19
\$10,100 – 14,000	8
\$14,001 – 20,000	3
\$20,000 +	12
Median	\$10,000

Source: U.S. Department of Labor, Employment and Training Administration, “Financing of the UI System”.

The second key factor that will determine the amount of taxes that could be collected by a supplemental UI tax rate is the size of the supplemental tax rate imposed by a state. According to information provided by the national office of the Employment and Training Administration, there were 22 states across the country that levied a supplemental UI tax to help finance job placement services for laid off workers, job search, or job training of dislocated workers,

⁴ To finance any given level of unemployment benefits, a higher maximum wage base will allow a lower average UI tax rate on earnings.

remedial education, or customized training grants. The supplemental tax rates ranged in value from .02% to 2.00% across these 22 states. The median supplemental UI tax rate was .10%.

Table 2:
Range of UI Tax Rates Used by States in 2007 to Finance Job Training/
Job Search, Adult Basic Education Services for Workers in Their State

Tax Rate	Number of States	States
.02 to .10	16	Alabama, Alaska, Arizona, California, Hawaii, Indiana, Maine, Massachusetts, Minnesota, Mississippi, Nevada, New Jersey, New York, South Carolina, Texas, Washington
.11 to .30	4	Delaware, Montana, Rhode Island, Tennessee
.31 to .50	0	
.51 to 1.00	0	
More than 1.00	2	Idaho, D.C.
Median tax rate	.10	

The third factor that will determine the value of the additional UI tax revenues from a supplemental UI tax rate to finance adult education and training is the number of wage and salary workers covered by the operations of the federal and state unemployment insurance system. The annual average numbers of wage and salary workers covered by the unemployment insurance system in selected years over the 2001-2007 period are displayed in Table 3. In 2001, there were 129.6 million such workers. The count of payroll workers fell to 127.8 million in 2003 due to the jobless recovery but rose steadily from 2003 to 2007 to a historical peak of 135.4 million. Due to turnover in the ranks of the employed over the year, the number of individuals with some paid employment in covered jobs will be greater than this.

Table 3:
Trends in the Number of Wage and Salary Workers Covered by the Provisions of
Unemployment Insurance Laws in the U.S., Selected Years, 2000 – 2007

Year	Number (in Millions)
2001	129.6
2003	127.8
2005	131.6
2007	135.4

To simulate the national amount of UI tax revenues that could be generated by a supplemental UI tax to finance adult education and job training, we conducted a set of nine different simulations. These simulations varied along the following two dimensions:

- The maximum individual earnings base that would be subject to the supplemental UI tax rate. The annual earnings base will be varied from \$10,000 to \$20,000 under our simulations.
- The size of the supplemental UI tax rate. The values of these supplemental tax rates will be varied from a low of .1% to a high of 1.0%

The tax collections under each of these nine scenarios are based on the 135.4 million wage and salary workers covered by the unemployment insurance system in 2007. We later will modify these estimates to take into account the number of workers holding covered jobs at some point during the year and the number with earnings above a given threshold.

Under our first scenario, the maximum earnings subject to the UI tax was set at \$10,000 and the supplemental UI tax rates were varied from a low of .1% to a high of .75%. Annual tax revenues under these four scenarios would range from \$1.35 billion to a high of \$10.16 billion.

Under our second set of scenarios, we raise the maximum earnings base to \$12,000 and vary the tax rate from .5% to .75%. The estimated annual amount of tax revenue that would be generated by such tax scenarios range from \$8.12 billion to \$12.18 billion.

Our final set of UI tax revenue simulations is based on a maximum earnings tax base of \$20,000 and supplemental tax rates that range from .5% to 1.0%. There were only 12 states that had an earnings tax base of \$20,000 or higher in 2007. The hypothetical \$20,000 earnings base is twice as high as the average (median) UI earnings base across the 50 states in 2007. The hypothetical tax rate of 1.0% was ten times as high as the median supplemental UI tax rate of the 22 states that levied a supplemental UI tax in 2007 to finance adult education and workforce development programs for laid off and dislocated workers.

Table 4:
Alternative Estimates of the Annual Amount of UI Taxes that Could Be Collected from Covered
Wage and Salary Workers to Finance Adult Basic Education/Job Training Under Different
Supplemental UI Tax Rates and Wage Bases For 2007 Employment Levels

Scenario	Annual Amount Of Taxes
\$10,000 wage base, .1% tax rate	\$1.35 billion
\$10,000 wage base, .3% tax rate	\$4.06 billion
\$10,000 wage base, .5% tax rate	\$6.77 billion
\$10,000 wage base, .75% tax rate	\$10.16 billion
\$12,000 wage base, .5% tax rate	\$8.12 billion
\$12,000 wage base, .75% tax rate	\$12.18 billion
\$20,000 tax base, .5% tax rate	\$13.54 billion
\$20,000 tax base, .75% tax rate	\$20.31 billion
\$20,000 tax base, 1.0% tax rate	\$27.08 billion

The last three tax simulations yielded annual UI tax receipts that ranged from \$13.54 billion to a high of \$27.08 billion. The last, highest revenue stream was generated by a \$20,000 earnings tax base and a 1% supplemental UI tax. A total of slightly more than \$20 billion in additional tax revenue would have been generated by a \$20,000 tax base and .75% tax rate.

As noted above, each state adopts its own maximum earnings base (subject to the national FUTA minimum) in financing its UI system, and 22 states have levied some supplemental UI tax to help finance job development, job search, and job training for dislocated workers and customized training/adult education for its resident workforce. These supplemental tax rates vary widely across these 22 states. Our next set of UI tax simulations will be generated on a state by state basis using each state's maximum earning base and variations in a supplemental UI tax rate. The national UI revenue stream will be estimated by summing the 50 state estimates.