

Tax Policy and Diversity, Equity, and Inclusion

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What is Diversity, Equity and Inclusion in Tax Policy?



- Diversity: Who is affected?
- Equity: How are impacts distributed?
- Inclusion: Is everyone getting a fair shot at prosperity?

DEI & Tax Policy: Who pays?

Many different stakeholders in the economy

Wealth and income levels linked to race, gender, geography (rural vs urban), education

- Do policies benefit all income levels?
- Do they increase or reduce income inequality?
- Do all racial and ethnic groups benefit from policies?
- Are we benefiting or disadvantaging those without higher education?
- Is everyone getting a fair shot at the "American Dream"?

DEI & Tax Policy: Who pays?

Examples of taxes where DEI considerations are involved:

- Goods tax vs services tax
- Flat tax vs progressive tax
- Capital gains vs income tax
- Tax expenditures: who benefits for political reasons

Will be looking at DEI impacts of an excise tax and tax credit in demos

Competing Economic Narratives



- Public goods like infrastructure are popular; how to pay and who pays are less popular questions
- Generally, Republicans oppose tax increases; Democrats oppose flat/regressive taxes
- Lack of public confidence that taxes will be well-spent
 - Perception that spending is driven by politics rather than return on investment
 - Inherent tension between distribution of funding and return on investment

Intro to Regional Economic Modeling



- Leading public policy analysis model since 1980
- Practical software solution to analyze dynamic economic and fiscal impacts of policy changes
- Models:
 - PI+
 - TaxPI
 - Transight
 - E3+
- **DEI extension** adds race/ethnicity, gender, education level, geography, income distribution dimensions to policy analysis

Why Economic Modeling?

- Capture direct and indirect effects of taxes
- Understand economic and demographic impacts across industries and over time periods up to 2060
- Articulate costs, benefits, and trade-offs of policies and projects
- Evaluate policy with standardized metrics before implementation
- Clarify complicated policy situations

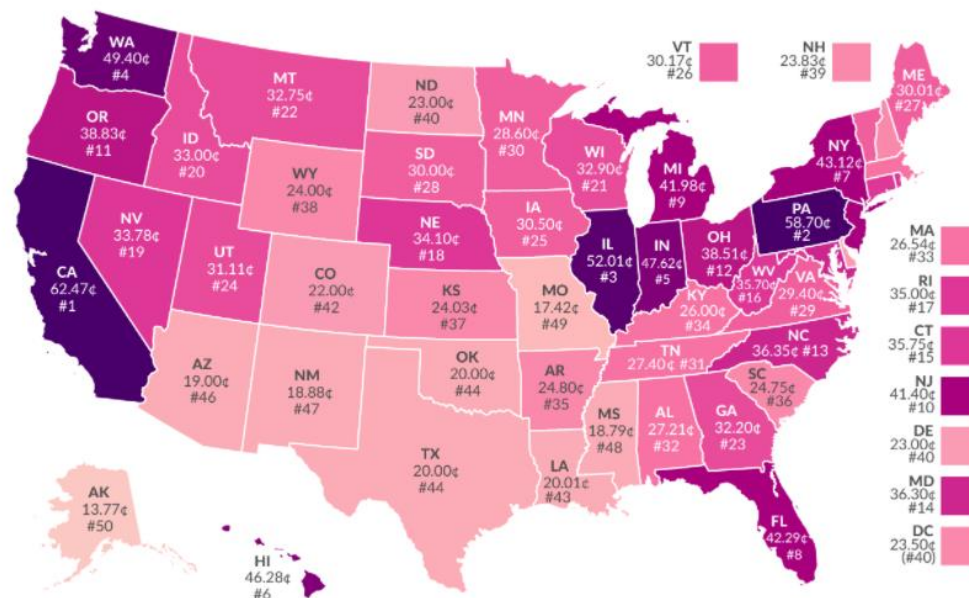
Gas Tax



- Federal gas tax of 18.4 cents
- States levy gas taxes that includes:
 - Per-gallon excise taxes collected at the pump
 - Excise taxes imposed on wholesalers
 - Sales taxes that apply to the purchase of gasoline
- A stable revenue source to fund infrastructure maintenance and repair needs

How High Are Gas Taxes in Your State?

Total State Taxes and Fees on Gasoline, July 2020 (cents per gallon)



Note: These rates do not include the 18.4 cent/gallon federal excise tax rate on gas. The American Petroleum Institute has developed a methodology for determining the average tax rate on a gallon of fuel. Rates may include any of the following: excise taxes, environmental fees, storage tank taxes, other fees or taxes, and general sales taxes. In states where gasoline is subject to the general sales tax, or where the fuel tax is based on average sale price, the average rate determined by API is sensitive to changes in the price of gasoline. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included. Data as of July 2020.

Source: American Petroleum Institute, "Notes to State Motor Fuel Excise and Other Taxes."

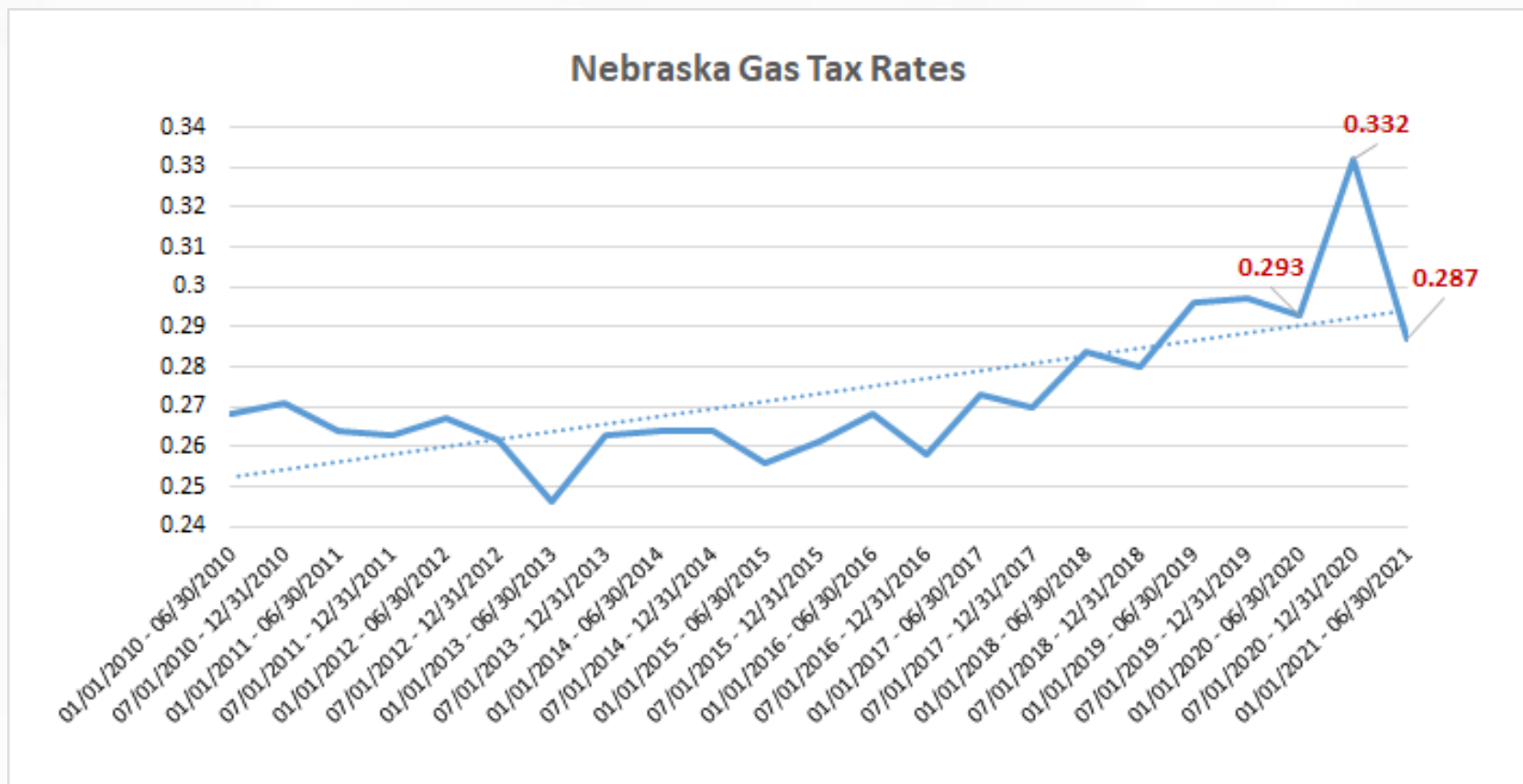
Total State Taxes and Fees on Gasoline,
July 2020 (cents per gallon)



Gas Tax in Nebraska

- Could use any state but focusing on NE because of pandemic policy change
- DOT raised state gas tax to support falling revenues due to covid, instituted July 1, 2020, and ended January 1, 2021
- Variable tax part of state law triggered to keep revenues in balance with the roads budget

Gas Tax in Nebraska



Model Demo 1: Gas Tax Increase



- Single Region Nebraska State model
- Model Scenario:
 - Coronavirus drives up Nebraska's gas tax to a record high
- Model Input:
 - Increase Gas Tax by \$50 Million in Nebraska
 - Year 2021-2030

Model Demo 1: Gas Tax Increase

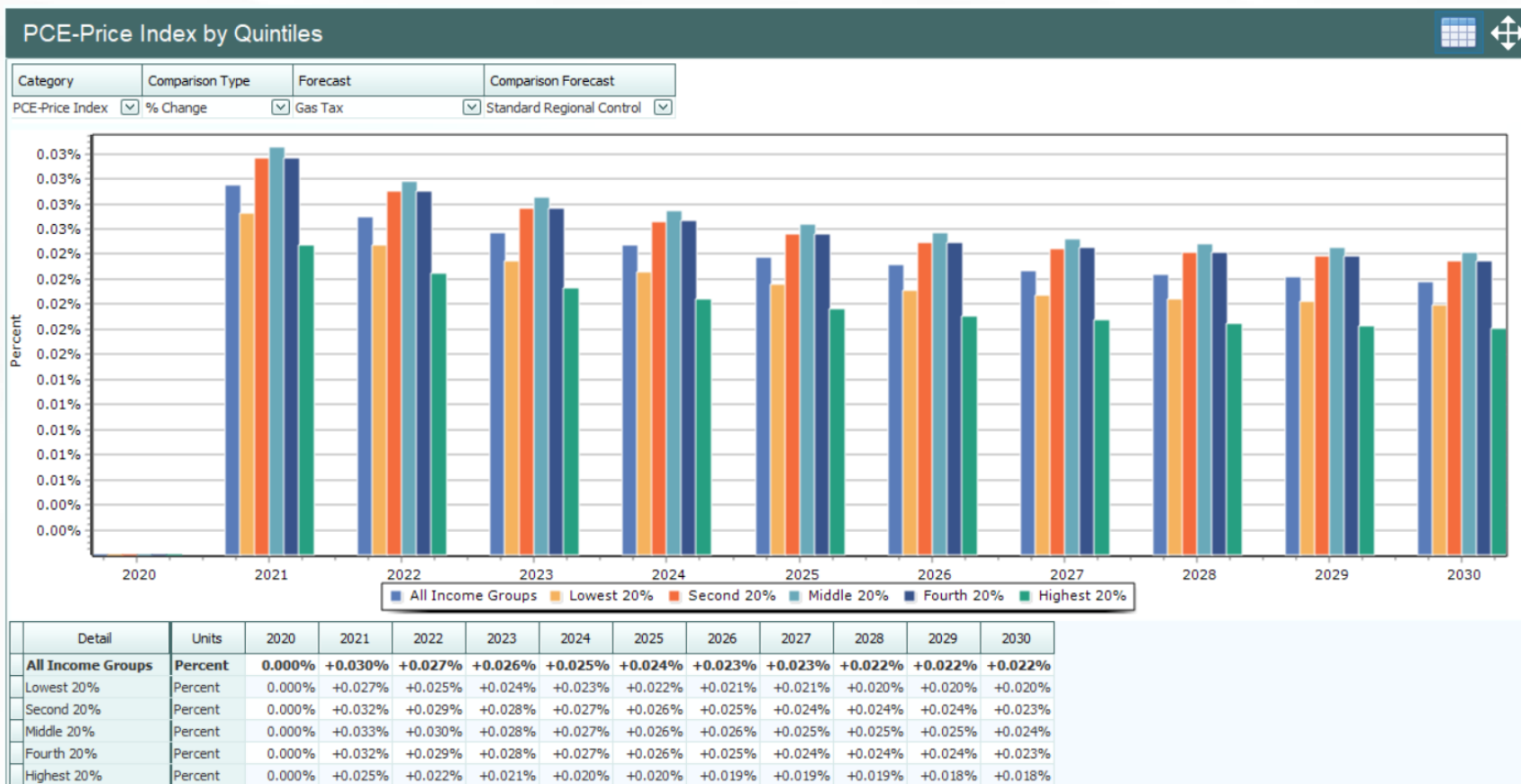


Economic Summary

Comparison Type		Forecast		Comparison Forecast									
Differences		<input checked="" type="checkbox"/> Gas Tax	<input checked="" type="checkbox"/> Standard Regional Control	<input checked="" type="checkbox"/>									
	Category	Units	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Total Employment	Thousands (Jobs)	0.000	-0.226	-0.308	-0.351	-0.369	-0.368	-0.359	-0.347	-0.333	-0.320	-0.308
	Private Non-Farm Employment	Thousands (Jobs)	0.000	-0.213	-0.285	-0.319	-0.332	-0.328	-0.316	-0.303	-0.288	-0.274	-0.262
	Residence Adjusted Employment	Thousands	0.000	-0.241	-0.318	-0.359	-0.378	-0.378	-0.370	-0.360	-0.347	-0.335	-0.323
	Population	Thousands	0.000	-0.141	-0.265	-0.369	-0.459	-0.530	-0.586	-0.632	-0.666	-0.692	-0.711
	Labor Force	Thousands	0.000	-0.136	-0.215	-0.277	-0.312	-0.344	-0.363	-0.369	-0.376	-0.378	-0.378
	Gross Domestic Product	Billions of Fixed (2012) Dollars	0.000	-0.017	-0.024	-0.029	-0.031	-0.032	-0.032	-0.032	-0.032	-0.032	-0.032
	Output	Billions of Fixed (2012) Dollars	0.000	-0.031	-0.044	-0.052	-0.057	-0.059	-0.060	-0.060	-0.060	-0.060	-0.060
	Value-Added	Billions of Fixed (2012) Dollars	0.000	-0.017	-0.024	-0.029	-0.031	-0.032	-0.032	-0.032	-0.032	-0.032	-0.032
	Personal Income	Billions of Current Dollars	0.000	-0.014	-0.020	-0.024	-0.028	-0.030	-0.032	-0.033	-0.034	-0.035	-0.036
	Disposable Personal Income	Billions of Current Dollars	0.000	-0.012	-0.018	-0.022	-0.025	-0.027	-0.028	-0.029	-0.030	-0.031	-0.032
	Real Disposable Personal Income	Billions of Fixed (2012) Dollars	0.000	-0.038	-0.040	-0.042	-0.044	-0.045	-0.045	-0.045	-0.046	-0.046	-0.047
	Real Disposable Personal Income per Capita	Thousands of Fixed (2012) Dollars	0.000	-0.016	-0.014	-0.012	-0.011	-0.010	-0.008	-0.007	-0.006	-0.005	-0.005
	PCE-Price Index	2012=100 (Nation)	0.000	+0.034	+0.031	+0.030	+0.030	+0.029	+0.029	+0.029	+0.029	+0.030	+0.030

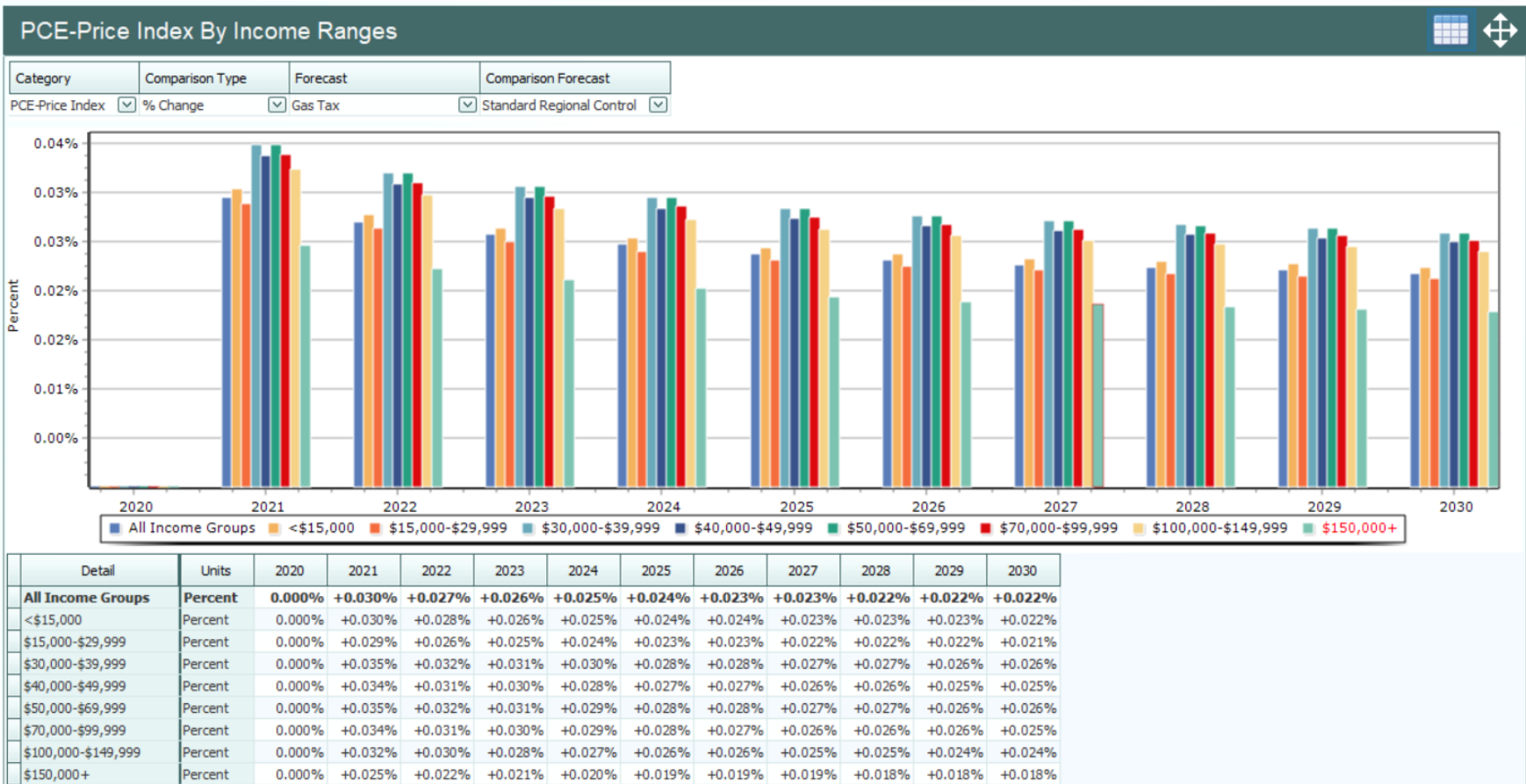
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Model Demo 1: Gas Tax Increase



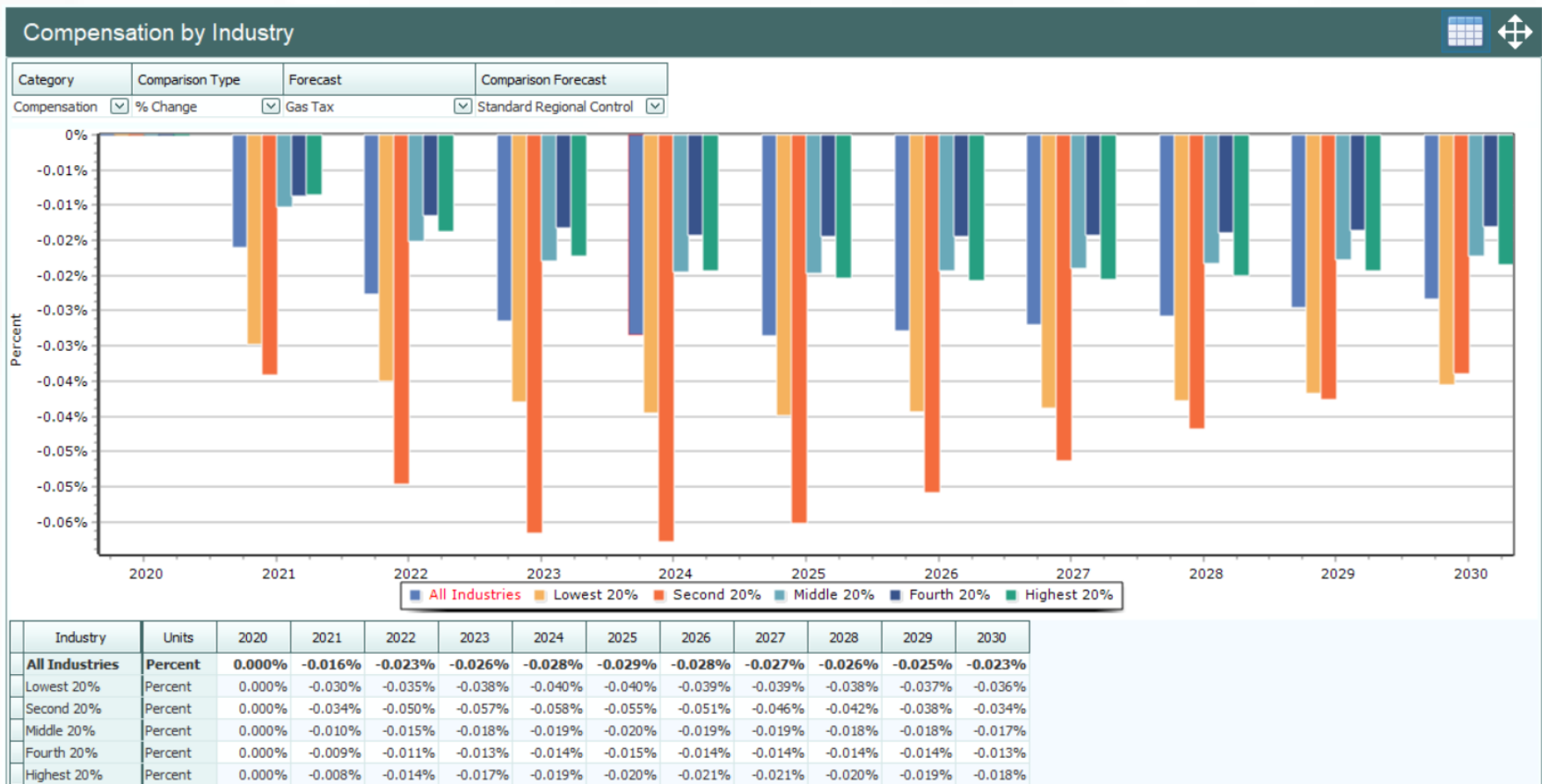
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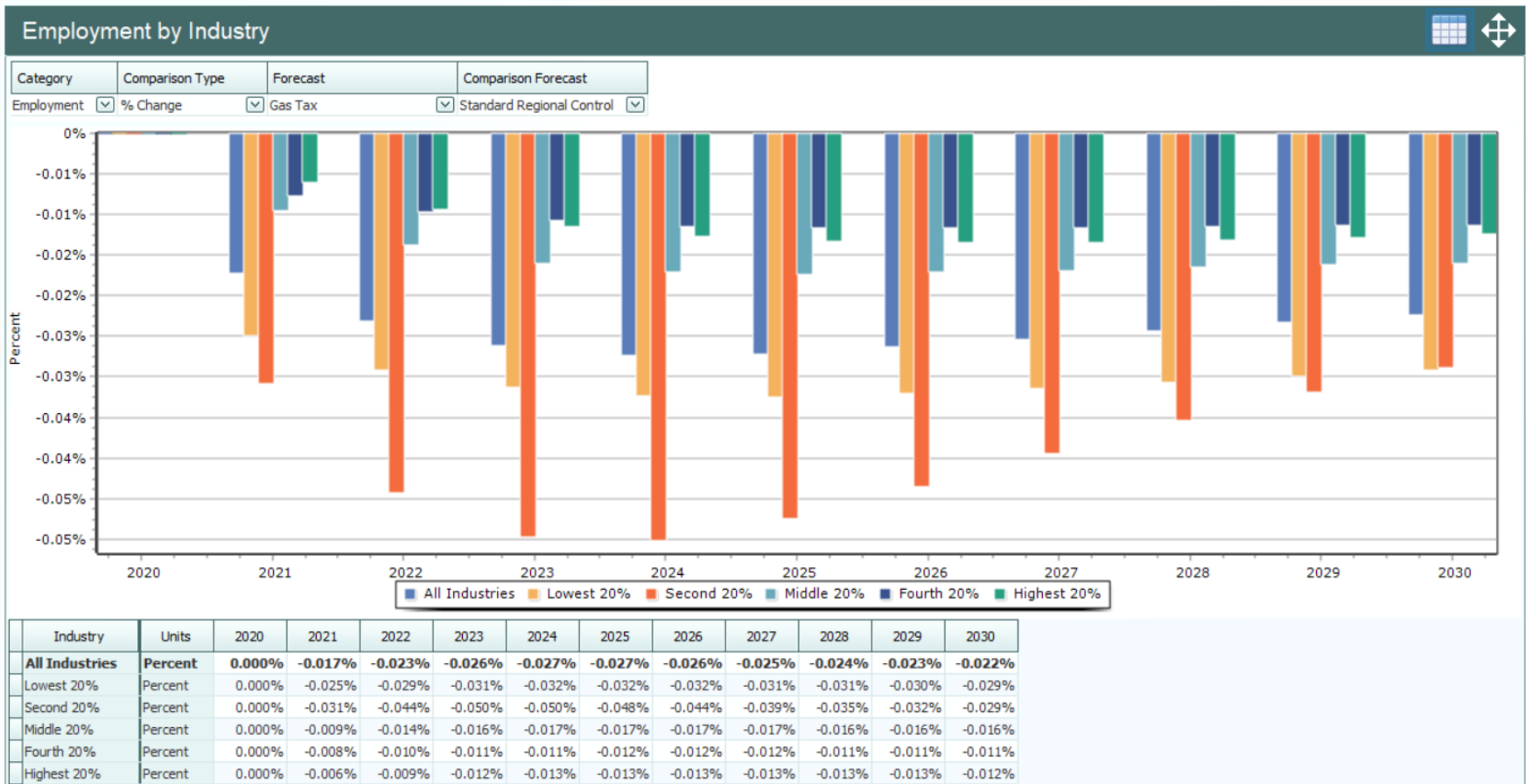
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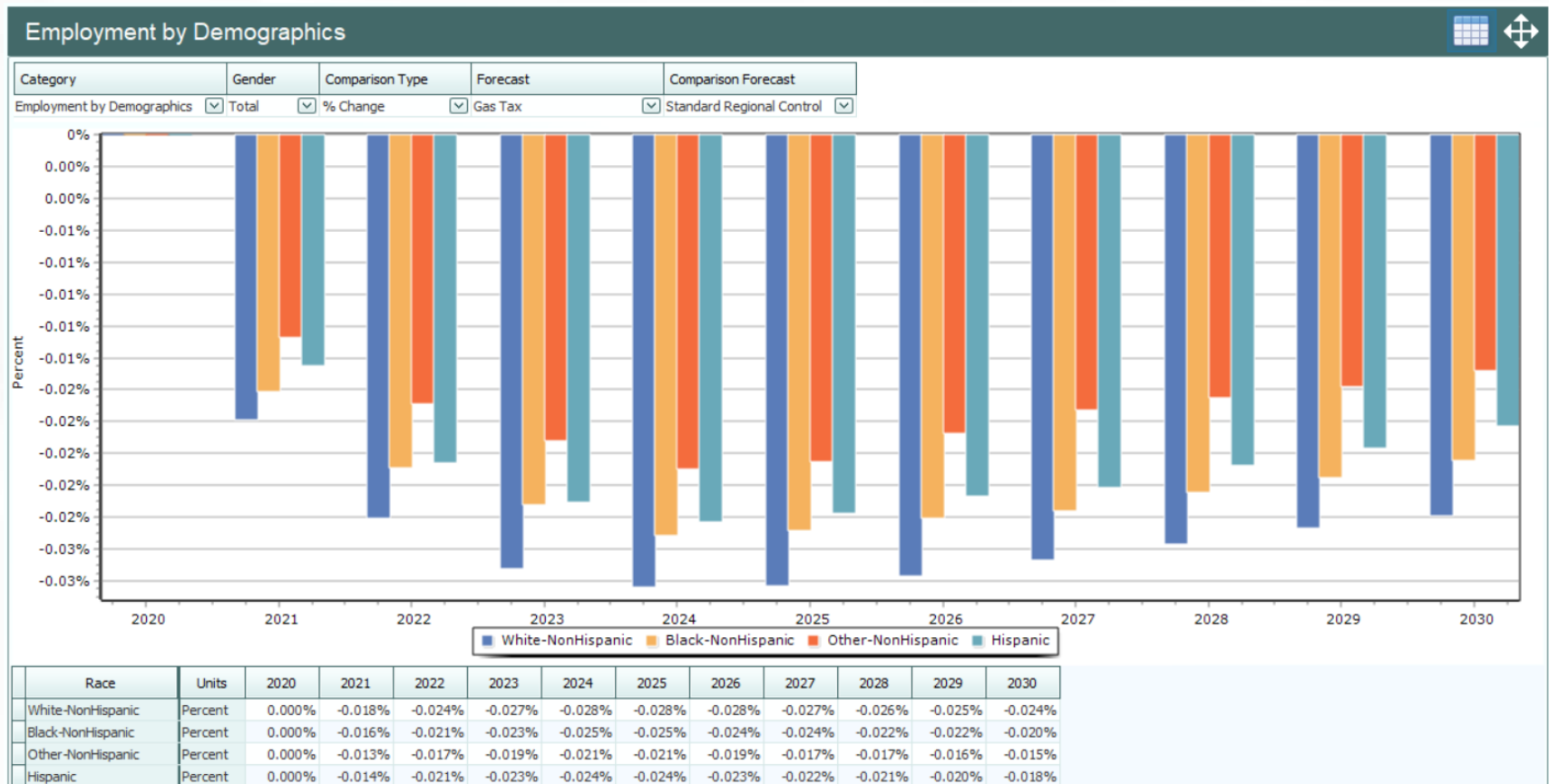
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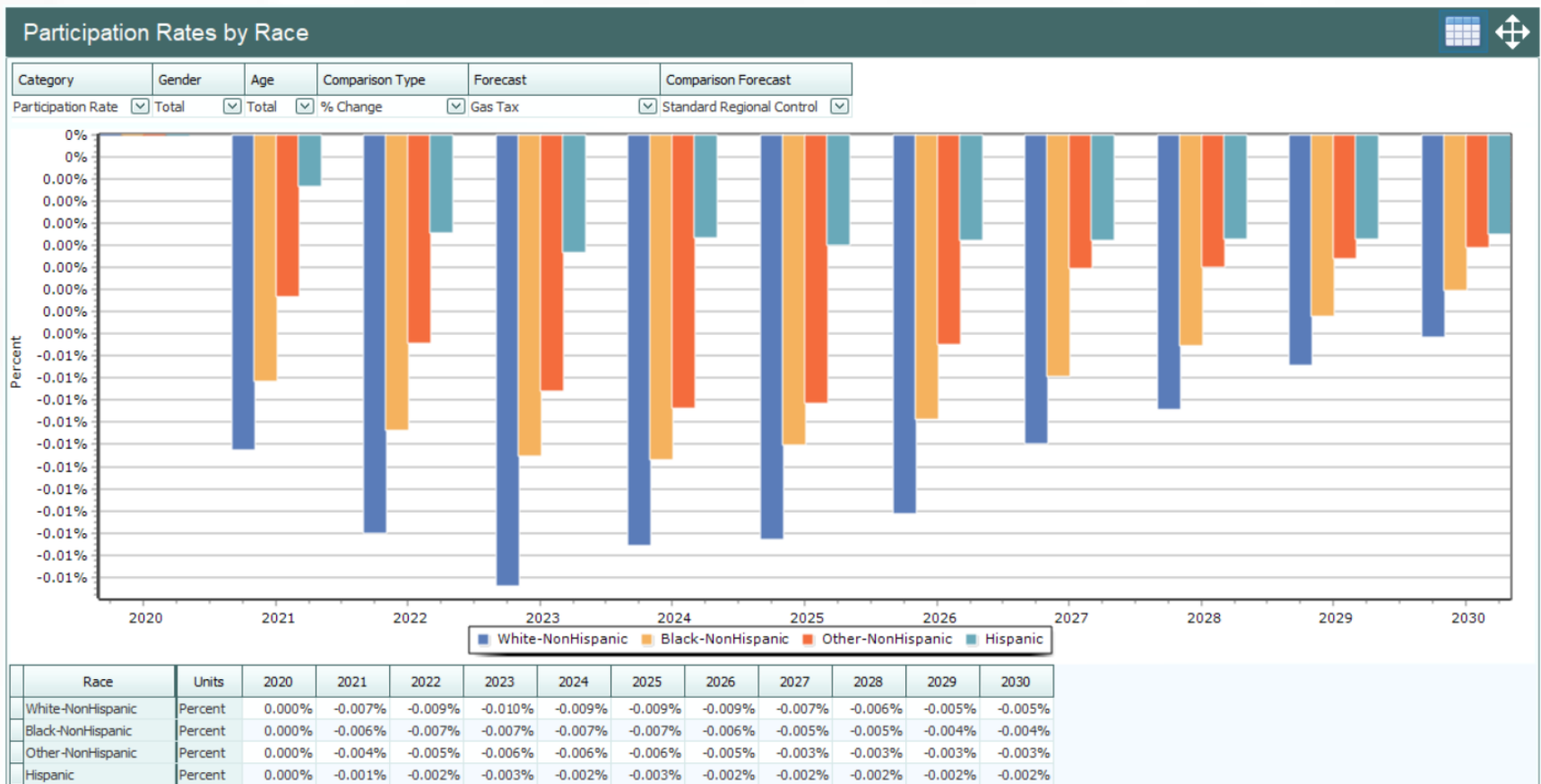
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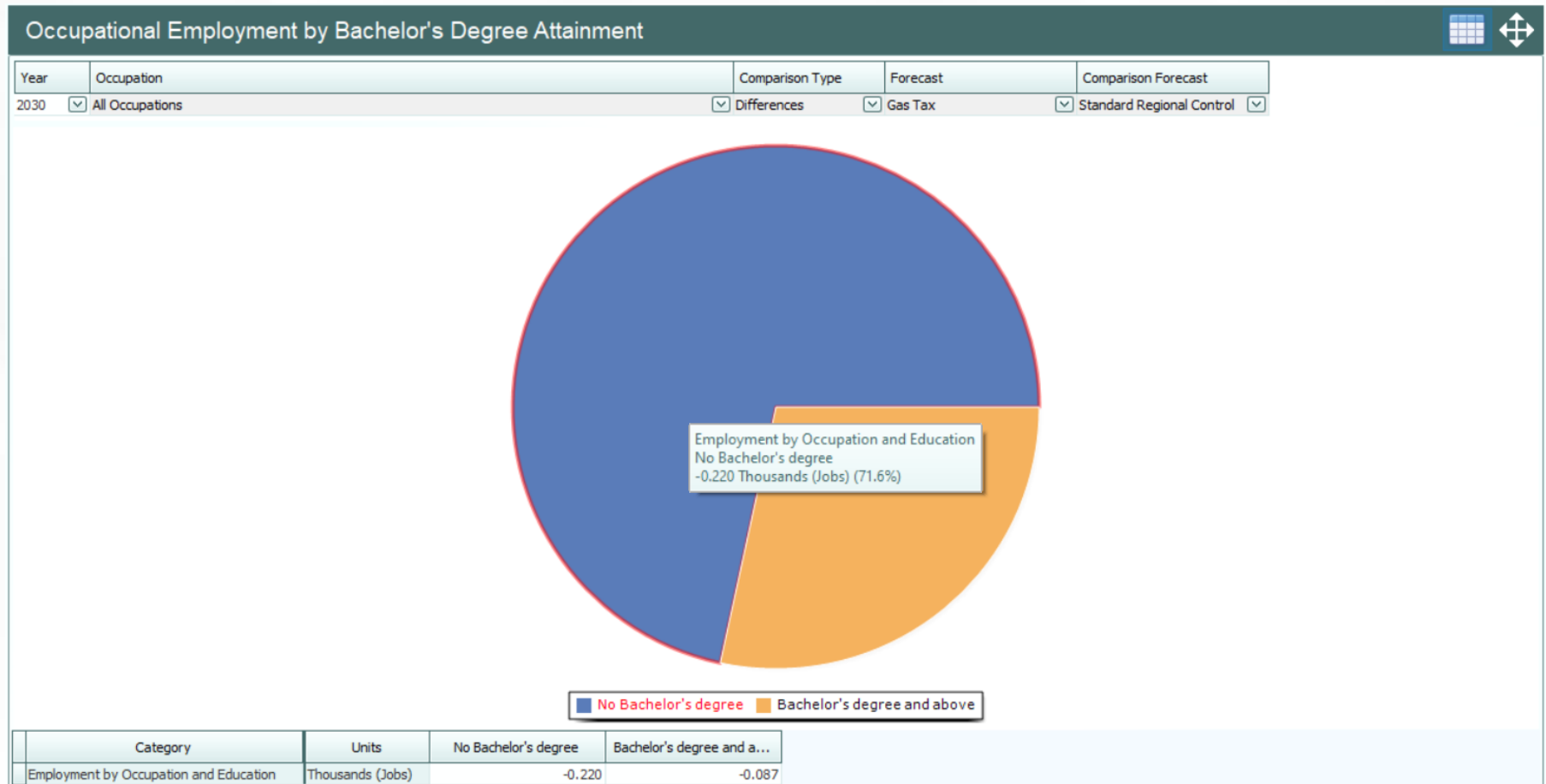
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Model Demo 1: Gas Tax Increase



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Model Demo 1: Gas Tax Increase



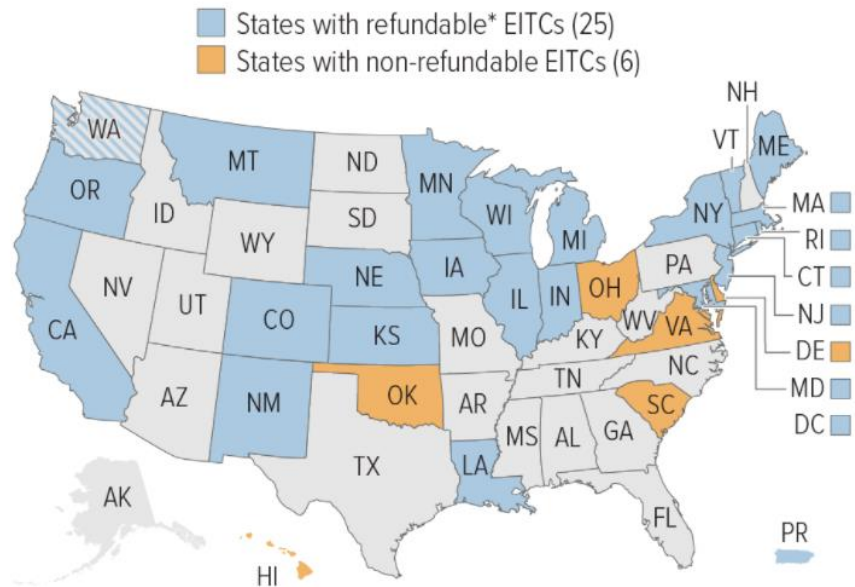
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Earned Income Tax Credit (EITC)



- Benefit to help low- to moderate-income taxpayers
- Federal credit, also state credit in 29 states, DC & PR
- Over 25 million people received approx. \$63 billion in federal EITC in 2019 tax year
- Average EITC received was \$2,476 in 2019 tax year

29 States Plus D.C. and Puerto Rico Have EITCs



*Refundable earned income tax credits (EITCs) give working households the full value of the credit they earn even if it exceeds their income tax liability.

Note: Washington's EITC has never been implemented, but would likely be worth 10 percent of the federal credit or \$50, whichever is greater.

Source: CBPP analysis. Data are as of 2020.

Earned Income Tax Credit (EITC)



- Proposed in 1970s, enacted by Ford, expanded greatly under Reagan
 - Broad bipartisan support initially, later more politically controversial for those wanting to scale back tax expenditures
- Reduces income tax owed for those who qualify
 - Progressive
 - Refundable credit
 - Based on earnings, number of children/qualifying dependents, marital status
- Intended to reduce poverty & income inequality

Model Demo 2: Gas Tax Increase Paired With EITC



- Single Region Nebraska State model
- Model Scenario:
 - Fund an expanded Earned Income Tax Credit (EITC) alongside a higher gas tax
- Model Input:
 - Increase Gas Tax by \$50 Million
 - Decrease Personal Tax by \$50 Million
 - Year 2021-2030

Demo Discussion



- Gas tax simulation
 - Negative effects on employment, compensation, labor force, population, output; increase in price indices
 - Differential effects on price index across income groups
- Gas tax with EITC
 - Positive effects on employment, compensation, labor force, population, output; increase in price indices
 - Decrease in compensation and employment by industry for highest income group
 - Small decreases for second lowest quintile at end of time horizon
 - Notable increase in employment for female population
 - Increases in employment across demographic groups

The REMI Model

- Only widely available economic model that accounts for these DEI issues & captures direct/indirect tax effects
 - Clients include Washington State Legislature, Alaska Department of Revenue, New York State Division of the Budget, National Education Association, Louisiana Department of Revenue, Illinois Department of Commerce, Texas Legislative Budget Board, Massachusetts Department of Revenue
- Authoritative: uses standard metrics to evaluate public policies
- Academic: peer-reviewed, publicly available equations

Model Applications

Washington: Aerospace tax credit analysis

Oklahoma: Fiscal effects of health care modernization

Texas: Statutory impact analysis requirement for appropriations legislation

Maryland: Corporate tax rate reduction analysis

North Carolina: Medicaid expansion analysis

Arkansas: Big River Steel manufacturing facility analysis



Economic Modeling: Why it matters



- Inform policy with standard metrics rather than ideology or intention
 - DEI reporting requirements at the federal, state, local levels
- Address stakeholders with evidence that communicates how policy benefits or disadvantages their communities broadly
 - DEI impact analysis needed to address stakeholder concerns
- Understand economic and demographic implications of policies before implementing them
 - Ensure that public policy serves the broad-based interests of the public

Q&A

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