

Government's Hidden Bite Out of Iowans' Take-Home Pay

by Dean Stansel

After you finished filling out your income tax forms last April, you probably thought you knew all about the taxes you pay. Think again. In addition to the amounts itemized on your pay stub and W-2 form, the government stealthily snatches a substantial sum from your employer for taxes he must pay on your behalf. That's money you never see that could have gone to you in take-home pay. And taxpayers in Iowa get hit especially hard.

Workers' compensation premiums, unemployment insurance taxes, and the employer share of the FICA payroll tax are real costs that your employer must pay to the government — over and above your wages and salary — to keep you on the payroll. Those three hidden levies consume almost as much as is already withheld from your paycheck for income taxes and the employee share of the FICA payroll tax.

For example, say you're an average manufacturing wage worker in Iowa. Over the period of a year, those hidden taxes add up to an additional \$3,200 that your employer must pay to keep you on the payroll. But you won't receive one penny of that amount. The government takes it all without even giving you any notice that it has done so. That is the essence of our hidden burden of taxation.

Liberals often tell us that workers' real wages have been stagnant in recent decades, but few have acknowledged that one of the primary reasons is that hidden taxes and government mandates on employers have been growing seemingly without bound. So while employers are finding it more and more expensive just to keep workers on the payroll, those added costs aren't going to the workers in the form of increased take-home pay. Instead that money is going to the government.

The growing "tax wedge" between how much employers pay to keep their workers on the payroll and how much those workers receive in take-home pay is, in effect, crowding out take-home pay. That's why earnings have been stagnant.

Here are the numbers for Iowa from my recent Cato Institute study on the ever-expanding tax wedge:

- ¹ A full-time average manufacturing wage worker earns a gross income of \$27,200.
- ¹ When workers' compensation premiums, unemployment insurance taxes, and the employer share of the FICA payroll tax are included, that worker costs his employer roughly \$30,400. (Of course that does not include the cost of fringe benefits and tax and regulatory compliance.)

- ¹ After income and payroll taxes are withheld, the worker receives only about \$22,000 in take-home pay, ranking Iowa 8th lowest in the nation.
- ¹ The tax wedge for an average manufacturing wage worker is over \$8,300. (That does not include the host of additional taxes — property taxes, sales taxes, gas taxes, cigarette taxes, and so on — that workers must pay out of their remaining take-home pay.)
- ¹ The tax wedge consumes 28 percent of the amount employers pay to keep that worker on the payroll.
- ¹ Nearly 40 percent of the tax wedge is hidden from the worker, that is, it comes from taxes paid directly by the employer on the worker's behalf.

So, if you are an average manufacturing wage worker in Iowa, more than a quarter of every dollar that your employer must pay to keep you on the payroll goes to government, rather than to you in take-home pay. If you're earning a salary of \$60,000, the tax wedge rises to 35 cents on the dollar. Nearly half of that amount doesn't appear anywhere on your pay stub.

One way to address the problem of hidden taxation is to eliminate income and payroll taxes. Replacing those taxes with a national sales tax, paid directly by consumers every time they make a purchase, would make the burden of taxation much more visible.

Short of such fundamental tax reform, repealing the deceptive practice of tax withholding and encouraging employers to adopt the Right to Know Payroll Form would also increase the visibility of our tax burden. The Right to Know Payroll Form was first introduced by the Mackinac Center for Public Policy in Michigan. It itemizes on workers' pay stubs each and every one of the costs imposed by government tax and regulatory policies.

Until we remove the veil of secrecy and bring hidden taxes out into the open, government will continue to take a larger and larger bite out of your take-home pay.

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