



# UNITED FISHERMEN OF ALASKA

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April 7, 2016

Representative Steve Thompson, Chair  
House Finance Committee  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801

## **RE: Concerns with HB 250 – Income tax –Withholding of Crew Income**

Dear Chairman Thompson and committee members,

UFA does not currently have a position of support or opposition to HB 250 regarding a state income tax. However, we have serious concerns with the current bill as introduced. Many or most fishermen will have major difficulties with the provisions of HB 250 relating to fishing wages and crew.

Generally, most fishing businesses operate as contractors with crew paid as a percentage of the catch, based on a contract, and reported at the end of the year to the payee and to IRS with form 1099-Misc. Fishermen and crew are not treated as employers and employees, they are all considered self-employed, and few would be prepared to withhold an estimated state tax payment based on a percentage of federal income tax.

Our specific concerns are:

### **Section 43.22.050 Tax withholding on wages of individuals**

(c) (1 & 2) Page 4, beginning on line 28 - Withholding on fishing crew.

The bill would have fishermen skippers who pay their crew, subject to requirements to withhold a portion of crew share payments “computed in a manner to approximate the amount of tax due...” This is unworkable because:

-Skippers don’t have the information they would need to estimate a crew member’s potential federal tax liability.

-The typical crew share for most fisheries falls below income thresholds for federal tax liability.

-Many crew members may have federal tax liability through combined income of other employment (which would be subject to withholding by that employer), through fishing on multiple vessels throughout the year, or other sources of income. This information is not available to a skipper, or if it were would only be based on the crew member’s word. In the common case of crew working a summer job, even the crew member may not know their own

estimated tax liability during the summer season when the fishing income takes place, as it would be affected by potential employment in the remainder of the calendar year.

-Even in the cases of crew who work year around with the same skipper in multiple fisheries, where the payments may exceed the threshold for federal taxable income, the tax liability includes marital status and number of dependent allowances in the calculation formula.

For actual employers, number of dependents, and filing status are included in formulas that calculate FICA withholding, and the functions for withholding income taxes and Social Security and Medicare are worth the cost of the overhead expense of accounting software. The 6% of federal tax obligation can be estimated easily as a percentage of federal withholding tables for real employers, but these do not exist for 1099 contractors, and the short term nature of many fisheries results in payment amounts that would fall below minimum income levels for federal withholding. A crew member receiving a 1099 form is considered self-employed and as such are allowed to take many expenses as deductions that reduces their federal liability and makes it impossible for a skipper to determine the amount to withhold from a crew's payment.

**(a) (1) Page 5, line 21-24** - Fishermen as employers. Most small family fishing operations are not classified as employers for state and federal tax purposes. Although this passage is "for this section", we are concerned that the classification opens up potential complications with state and federal laws including workman's comp, health insurance, unemployment insurance, etc.

If a state income tax is to be implemented as part of a comprehensive fiscal package to address the current situation, the only viable treatment of commercial fishing income is through treatment the same as other self employed business owners. The State could require any business that provides a contractor with a 1099 form to provide a duplicate of the IRS form 1099-Misc to the state, with the responsibility for paying of the tax on the individual payee.

We recommend that HB 250 be amended to delete the passages that classify fishermen as employers and crew as employees, and delete those that treat fishermen and crew differently than other contractors or 1099 payees.

Thank you for your consideration,



Jerry McCune  
President



Mark Vinsel  
Executive Administrator

CC:

Representative Cathy Munoz  
Representative Bruce Edgmon  
Senator Bert Stedman  
Commissioner Randal Hoffbeck, Department of Revenue  
Deputy Commissioner Jerry Burnett, Department of Revenue  
Director Ken Alper, Tax Division, Department of Revenue  
Director Pat Pitney, Office of Management and Budget  
Barbara Blake, Office of the Lt. Governor  
Darwin Peterson, Office of the Governor

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**From:** Lynette Bergh  
**Sent:** Friday, April 15, 2016 3:22 PM  
**To:** Helen Phillips  
**Cc:** Jane Pierson  
**Subject:** FW: HB 250 Comments

**From:** Jennie Hafele  
**Sent:** Friday, April 15, 2016 9:05 AM  
**To:** House Finance <lhscfin@akleg.gov>  
**Cc:** Rep. Adam Wool <Rep.Adam.Wool@akleg.gov>; Rep. David Guttenberg <Rep.David.Guttenberg@akleg.gov>; Rep. David Talerico <Rep.David.Talerico@akleg.gov>; Rep. Scott Kawasaki <Rep.Scott.Kawasaki@akleg.gov>; Rep. Steve Thompson <Rep.Steve.Thompson@akleg.gov>; Rep. Tammie Wilson <Rep.Tammie.Wilson@akleg.gov>; Sen. Click Bishop <Sen.Click.Bishop@akleg.gov>; Sen. John Coghill <Sen.John.Coghill@akleg.gov>; Sen. Pete Kelly <Sen.Pete.Kelly@akleg.gov>  
**Subject:** HB 250 Comments

Please enter into the record the testimony below to HB 250.

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**From:** D. A. McGilvary

**Subject:** For ALL state legislators: I feel a modest State income tax AFTER MAXIMUM SPENDING CUTS is the way to go.

A modest State Income tax spreads the burden among ALL who earn MONEY in Alaska, including outsiders who have NO skin in the game.

First cut spending, eliminate bonuses, limit state paid travel (- or eliminate state paid travel.) limit State employee perks.

Thank you,  
D. McGilvary,  
Fairbanks, AK 99701-4382

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**From:** Lynette Bergh  
**Sent:** Friday, April 15, 2016 3:22 PM  
**To:** Helen Phillips  
**Cc:** Jane Pierson  
**Subject:** FW: HB 250

**From:** Caroline Storm [mailto:caroline.f.storm@gmail.com]

**Sent:** Thursday, April 14, 2016 3:59 PM

**To:** House Finance <lhscfin@akleg.gov>; Rep. Tammie Wilson <Rep.Tammie.Wilson@akleg.gov>; Rep. Steve Thompson <Rep.Steve.Thompson@akleg.gov>; Rep. Dan Saddler <Rep.Dan.Saddler@akleg.gov>; Rep. Mark Neuman <Rep.Mark.Neuman@akleg.gov>; Rep. Cathy Munoz <Rep.Cathy.Munoz@akleg.gov>; Rep. Scott Kawasaki <Rep.Scott.Kawasaki@akleg.gov>; Rep. Mike Hawker <Rep.Mike.Hawker@akleg.gov>; Rep. David Guttenberg <Rep.David.Guttenberg@akleg.gov>; Rep. Lynn Gattis <Rep.Lynn.Gattis@akleg.gov>; Rep. Les Gara <Rep.Les.Gara@akleg.gov>; Rep. Bryce Edgmon <Rep.Bryce.Edgmon@akleg.gov>; Rep. Lance Pruitt <Rep.Lance.Pruitt@akleg.gov>

**Subject:** HB 250

Rep. Neuman, Rep. Thompson, Rep. Saddler, Rep. Edgmon, Rep. Gattis, Rep. Munoz, Rep. Pruitt, Rep. Wilson, Rep. Gara, Rep. Guttenberg, Rep. Kawasaki, Rep. Hawker,

**I support Bill 250 for the following reasons:**

1. The tax on a family of four living on \$50,000 would be \$15. This is not a crippling tax.
2. The proposed income tax captures money from out-of-state workers, who in 2014 took home \$2.6 billion in wages. That's money that was not circulated in the Alaska economy.
3. An income tax helps offset the disproportionate impacts of a dividend reduction. Three-quarters of the projected \$200 million in revenue would come from six-figure earners.
4. Alaska has the lowest personal tax rate in the nation. Under the Governor's plan, Alaska will have the second lowest personal taxes in the nation - but Alaska offers dividends.

Please support this Bill in order to develop a sustainable future for Alaska.

Respectfully,

Caroline Storm

## ***As Related to HB250, SB128 and SB138***

As the 29<sup>th</sup> Alaska Legislature winds down in just under 2 weeks, they are 'working hard' to fix the budget and figure out how to pay for it. A couple of weeks ago at a press conference, Governor Bill Walker pretty much said that if Our legislators don't send him a budgeting package that incorporates HB250 & SB128 along with a assortment of other legislation that include an income tax, raises taxes on certain consumer goods and a total restructuring of the Permanent Fund... he will call them into a special session to fix the problem. Sure sounds a lot like President Obama when a 'shutdown' is looming in DC. With an election season looming, it's likely that the Alaska Legislature will buckle and comply to the dictate and pass along several bills that will have adverse impacts upon the private economy across Alaska.

In raising Our voices, #ProtectThePFD has presented options/ideas/solutions/plans to address the fiscal fiasco in Juneau. From the 3-Year Budget Plan that maps out how to pay for the next three years of government to the modifications/amendments to pending legislation, We are doing more than protesting. In looking at the cuts that can be made and trying to balance the numbers, We decided to show what impact these numbers actually have on individual Alaskans.

Over the Winter, United for Liberty coordinated the authoring of an in-depth study at how Alaska is spending it's money and what measures could be taken to restructure/revamp agency operations to be more efficient and economical. Knowing that the first year of cuts on the way to bringing the UGF budget down to a sustainable level would cause a bit of a 'shock' throughout Alaska, recommendations were aimed at minimizing impact upon the services that the State of Alaska provides Alaskans.

Several cost cutting measures were identified for implementation in 2017 that add up to \$720,000,000.00 annually. Wow! That's sure is a big number...especially for most citizens. But what does that number actually mean to Us individual Alaskans? *Let's Look...*

Unfunded PCNs  
250000000 ÷ 760000 =  
328.947368421

Medicaid Revamping  
220000000 ÷ 760000 =  
289.473684211

Education Restructuring...  
250000000 ÷ 760000 =  
328.947368421

Total Savings...  
**\$947.368421053 per Alaskan**

Now, let's re-do these numbers using the approximate 420,000 people in the Alaskan workforce since Governor Walker wants to increase State of Alaska revenues by approximately \$200,000,000.00 to cover above inflation and per-capita government sector spending by implementing a Personal Income Tax.

Unfunded PCNs...  
250000000 ÷ 420000 =  
595.238095238

Medicaid Revamping...  
220000000 ÷ 420000 =  
523.80952381

Education Revamping...  
250000000 ÷ 420000 =  
595.238095238

Total Savings...  
**\$1571.42857143 per Alaskan Taxpayer**

Now, let's figure out what the government spends...

Under the Governor's New Sustainable Alaska Plan:  
 $5200000000 \div 760000 =$

**\$6842.10526316** per Alaskan

Now, let's break this number down again and pull out the above mentioned per Alaskan savings.

$6842.10526316 - 947.368421053 =$   
**\$5894.73684211** per capita spending

$5894.73684211 \div 6842.10526316 =$   
0.86153846153, a **14% reduction** in government cost with minimal impact upon what the SoA provides Alaskans.

Total Budget Size:

$5894.73684211 \times 760000 =$   
**\$4,480,000,000**

This is inline with the 3-Year budget reduction plan that gradually reduces government to an inflation proofed growth rates of \$4.5 Billion, \$4.0 Billion & and \$3.8 Billion for FY 2017, 2018 and 2019 respectively. These aren't the only cuts that can be made as there are efficiency and consolidation measures that can be made all across the spectrum of the State of Alaska that will help continue the path to sustainability under a real plan for Alaska's future.

These measures are just the Step One in fixing the issue of our sinking ship...Stopping The Leaks. If the House and Senate can immediately legislate these three suggestions, the next phase of finding more to trim and fix can be 'kicked down the road' without implementing or raising taxes nor altering the PFD.

