



ALASKA TRUST COMPANY

Complete Trust & Investment Solutions™

December 31, 2015

Honorable Bill Walker
Governor, State of Alaska
State Capitol
P.O. Box 110001
Juneau, AK 99811-0001

Re: Alaska Income Tax on Trusts

Dear Governor Walker:

I am writing to you about the possible enactment of an Alaska state income tax. While we understand the need for additional revenue into the State and do not question the validity of an income tax, we would like to inform you of a potential unintended consequence this tax would have on the trust and estate planning industry of Alaska.

Since the passage of the Alaska Trust Act in 1997, Alaska has become a premier jurisdiction for trust planning and administration. Our distinctive statutes have made Alaska a top destination for trust business and have provided Alaska with increased revenue, job creation and great benefits for our residents. A small benefactor of these statutes has been Alaska Trust Company (“ATC”) which helped pioneer these great laws in Alaska. ATC administers approximately 2,500 trust relationships, the majority of which are from non-Alaskan residents. Since 1996, ATC has grown to a 19 team member organization and currently generates approximately \$2 million in payroll. Additionally, assets from our clients have been deposited with Northrim Bank and are now in excess of \$55 million. This growth is only one story amongst many. It has been estimated that tens of dozens of jobs have been created in Alaska on account of its trust laws, ranging from attorneys and CPAs, to managers and assistants.

If an income tax is adopted, I respectfully urge that it be imposed on trusts only as the state of Delaware or the state of New York imposes its income tax on trusts. The trust business has long been an important industry in Delaware and New York. Both states recognized that the imposition of an income tax on non-resident trusts would effectively eliminate them from receiving any out-of-state business. To combat this adverse effect, Delaware imposes its income tax only on trusts that have a Delaware resident as a beneficiary and New York imposes its income tax only on trusts created by residents of the state and not trusts created by non-New Yorkers.

The benefits of favorable trust laws have been studied and quantified in recent industry publications. One such report was written by Harvard Law School Professor Robert Sitkoff and Northwestern Law School Professor Max Schanzenbach which pointed out that favorable trust

laws produce significant business for the states that have them. See "Jurisdictional Competition for Trust Funds: An Empirical Analysis of Perpetuities and Taxes," 115 *Yale Law Journal* 356 (2005). Here is a link to the article which says, among other things, "The official synopsis of the Delaware bill states that it 'is similar to legislation recently enacted in Alaska. It is intended to maintain Delaware's role as the most favored domestic jurisdiction for the establishment of trusts.' *** Rose Ragsdale, Opposing Parties Join Forces To Attract Family Trust Industry to Alaska, *Alaska J. Com.*, Apr. 14, 1997, at 6. On passage of the Act the local media and Alaska lawyers and bankers predicted a substantial inflow of trust business. See Katharine Fraser, With New Law, Alaska Aiming To Be Trust Capital, *Am. Banker*, Apr. 21, 1997, at 1; Carrie Lehman, Legislation Changes Alaska Tax, Trust Laws, Attracts New Investors to State, *Alaska J. Com.*, Aug. 18, 1997, at 6; Deanna Thomas, Trust Bill Could Mean Boon, *Alaska Star*, Mar. 20, 1997, at 1."

http://www.law.harvard.edu/programs/olin_center/papers/pdf/Sitkoff_Schanzenbach_609.pdf

A critical factor to garner and keep trust business in a state is to avoid the imposition of a state income tax.

If Alaska attempts to impose an income tax on trusts merely because they are administered here, those trusts will leave the state and virtually no tax will be collected. It will cause individuals who work here to lose their jobs and they too will leave, meaning Alaska will not be able to impose an income tax on them. For ATC, we would have to shutter our business and relocate to another more favorable state. This would result in Alaska losing out on the income tax generated by our \$2 million in payroll and Northrim Bank would lose over \$55 million in deposits, thus reducing their profits and the profits of other Alaska financial institutions all while decreasing the capital available for loans to Alaska businesses and individuals.

The substantial revenue and business brought to Alaska by these laws over the past nearly 20 years have cost the State nothing. This industry is "green" and has generated quality, skilled jobs. It would be a shame to forfeit the efforts of Alaskans and our Legislature to adopt and continually improve our trust laws.

We and our advisers would welcome an opportunity to work with you and your staff on this important matter.

Thank you for the opportunity to express my views. We continue to work to try to improve Alaska's environment for trust business. We appreciate your support in that endeavor.

Respectfully yours,



Douglas J. Blattmachr
Chairman and CEO

CC: Commissioner of Revenue Randall Hoffbeck