

HB 365
Individual Income Tax
&
Permanent Fund
Refundable Tax Payment

House Finance – April 7, 2016

Presentation prepared by the Office of Rep. Paul Seaton

Not paying for what we spend this year means that our children will pay for what we spend this year.

-Gunnar Knapp

The Plan

Sensible
Spending
Cuts

New
Revenue

Addressing the budget deficit through a diversified approach will provide a smoother economic transition for all Alaskans.

PFD

The Plan

Sensible
Spending
Cuts

New
Revenue

Addressing the budget deficit through a diversified approach will provide a smoother economic transition for all Alaskans.

The Legislature controls the budget cuts and will continue reducing.

PFD

The Plan

Sensible
Spending
Cuts

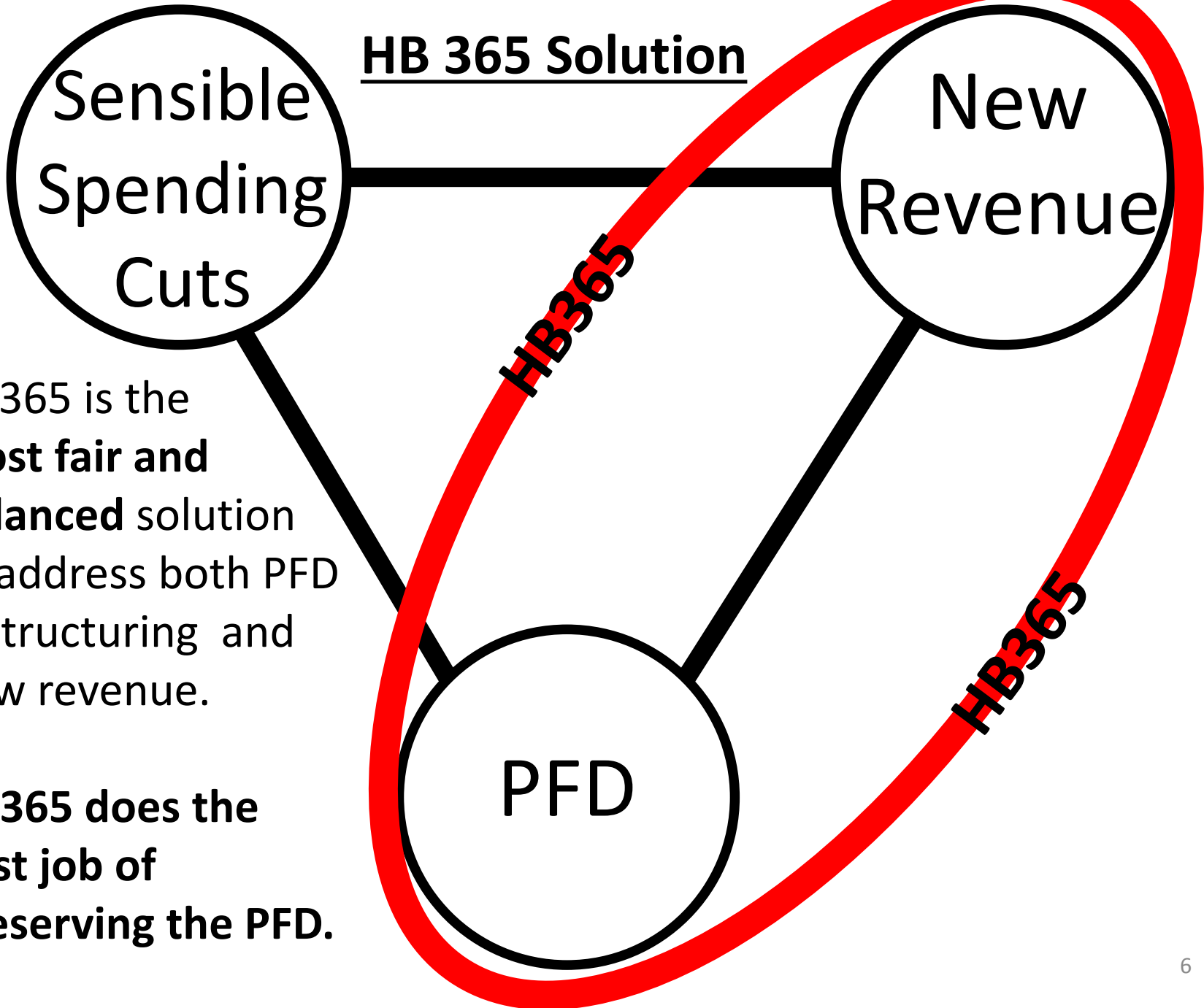
New
Revenue

Addressing the budget deficit through a diversified approach will provide a smoother economic transition for all Alaskans.

The other Permanent Fund bills only address one part of the plan.

PFD

HB 365 Solution



HB365 is the **most fair and balanced** solution to address both PFD restructuring and new revenue.

HB365 does the best job of preserving the PFD.

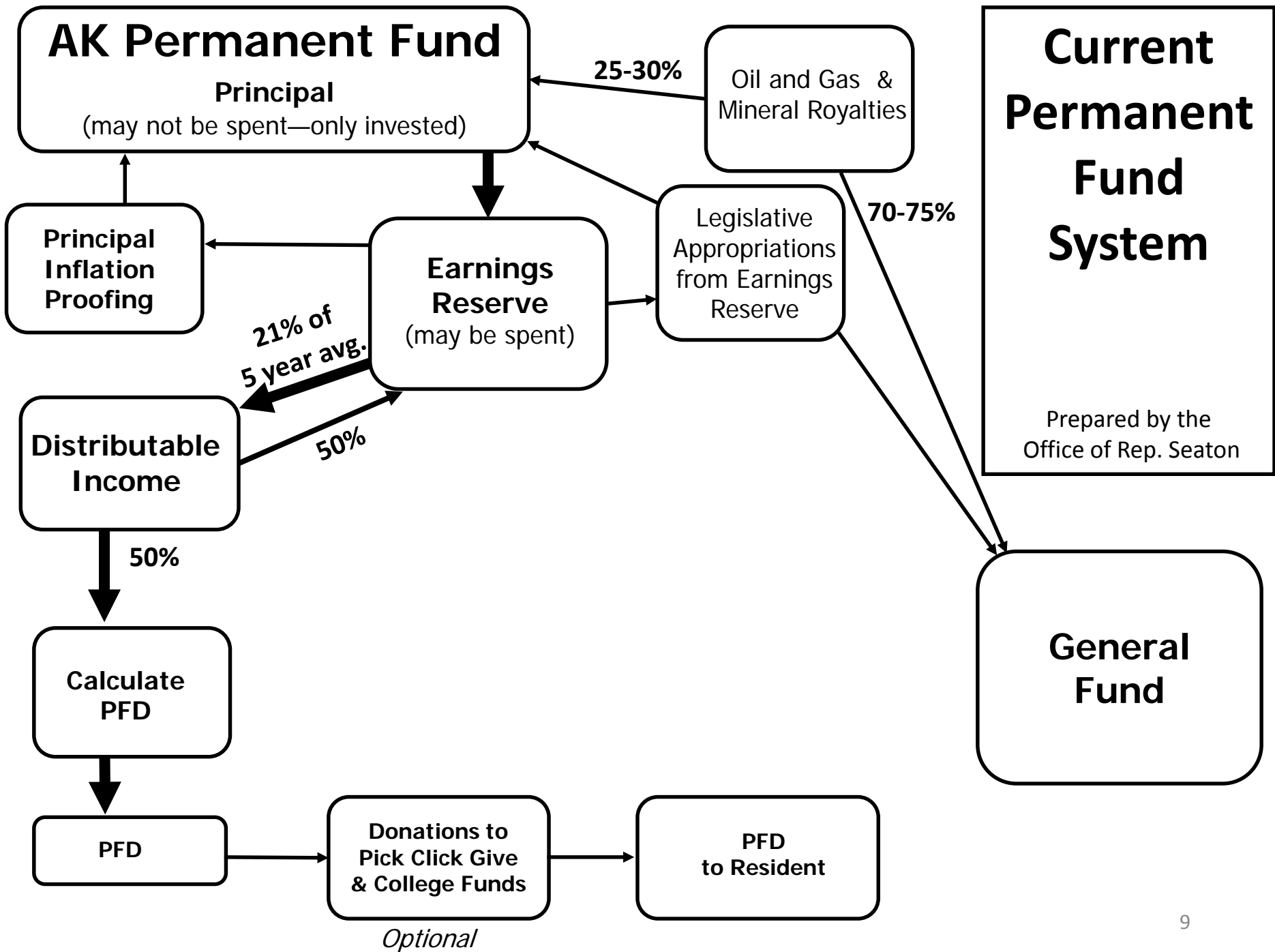
INCOME TAX:

	<u>Revenue*</u>
• 15% Federal Liability	\$500 million
• 10% Long Term Capital Gains	\$ 85 million
• Nonresidents	\$ 70 million
• Total estimated revenue	\$655 million

*Dept. of Revenue fiscal note estimates 4/15/15 from HB182 which is similar to the income tax portion of HB365.

Changes with the PFD

- Distributable Income: currently 50% of the income available for distribution goes to PFDs and 50% stays in the Earnings Reserve. **HB365: 25% goes to PFDs, 25% goes to the general fund**, 50% still stays in the Earnings Reserve.
- A PFD will not exceed \$1,200. If the amount calculated for the PFD is over \$1,200, the **amount in excess of \$1,200 shall be appropriated to the general fund.**
- Residents may **apply their PFD to their upcoming state income tax due as a Refundable Tax Payment.** Any amount left over after paying taxes will be refunded by the Tax Division.
- **2.3% Permanent Fund POMV directed to the General Fund and delete inflation proofing.**



AK Permanent Fund

Principal

(may not be spent—only invested)

25-30%

Oil and Gas & Mineral Royalties

70-75%

Legislative Appropriations from Earnings Reserve

Earnings Reserve
(may be spent)

21% of
5 year avg.

50%

Distributable Income

2.3%
POMV
Approx.
\$1.1 billion

~~0%~~ HB365: 25%

~~50%~~

HB365: 25%

Income Tax:
\$655 million

15% Fed. Income Tax Due
10% Long Term Cap. Gains

~~0%~~ HB365: Excess amount over \$1200

Calculate PFD
not to exceed
\$1,200/resident

General Fund

PFD

Donations to
Pick Click Give
& College Funds

Optional

Refundable Tax
Payment applied to
State Income
Tax Due

Optional

Tax Refund
or PFD
to Resident

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HB 365— Income Tax & Permanent Fund Refundable Tax Payment

Changes to current Permanent Fund system shown in **Red**.

Green is new revenue & changes to PF system.

Prepared by the Office of Rep. Seaton

HB 365: Total Estimated Revenue to General Fund

Income Tax Revenue*	\$655,000,000
25% PF Distributable Income**	\$686,542,500
2.3% POMV Draw & Delete Inflation Proofing ***	\$1,100,000,000
Total Revenue to General Fund	\$2,441,542,500

*Based on 2015 Fiscal Note for HB 182 which mirrors the income tax portion of HB365

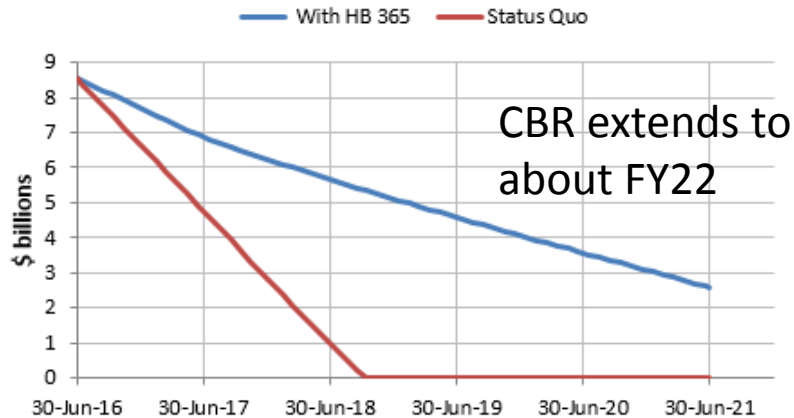
**HB 365 will provide money to the general fund from two sources: 1) it will limit the PFD to \$1200; any excess over \$1200 will go to the General Fund. 2) distributable income from the Earnings Reserve: 25% goes to pay PFDs, 25% goes to the General Fund, & remaining 50% still stays in Earnings Reserve. This amount is based on the 2015 PFD calculation.

*** 2.3% POMV Draw & delete inflation proofing amount based on Alaska Futures model 5 year average projection FY17-FY21.

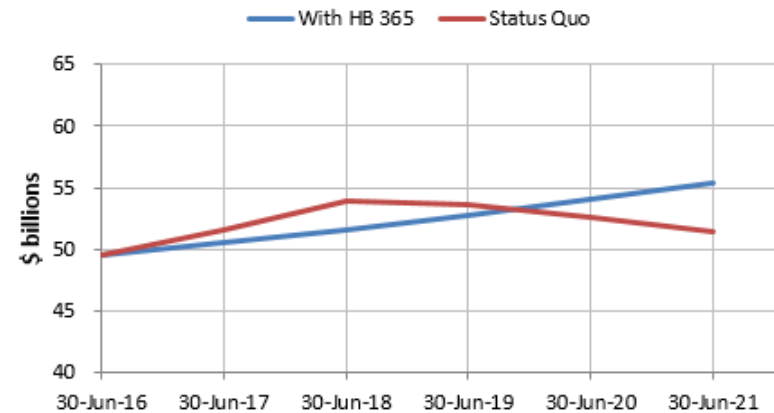
Alaska Futures – CS HB 365 ver. P

These charts were created using the Alaska Futures model program developed by economist Alan Mitchell.

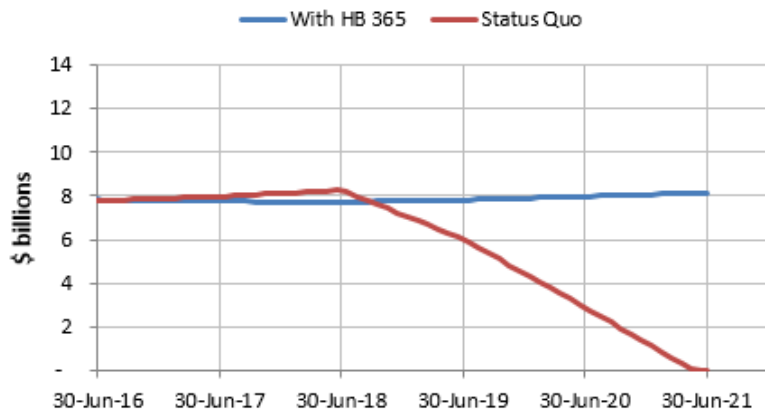
Constitutional Budget Reserve + Misc Funds



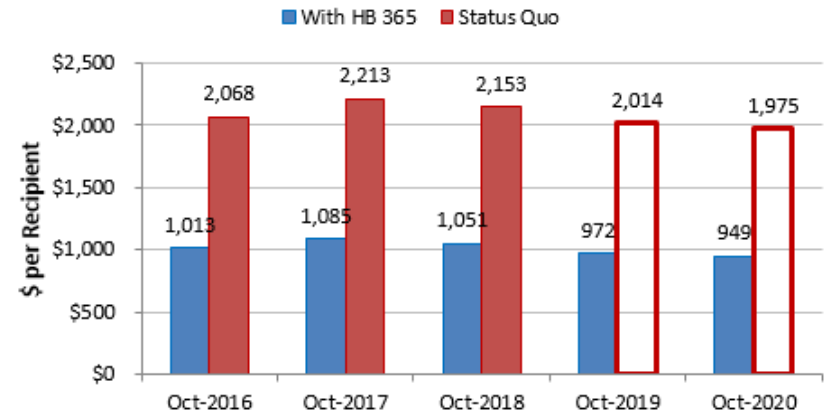
Total Permanent Fund



Permanent Fund Earnings Reserve



Dividend Check Forecast



Assumption:	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21
Oil Price Forecast, \$/bbl:	\$40	\$39	\$44	\$49	\$54	\$60

Average Dividend Check for the last five years (2011 - 2015) was **\$1,382**.

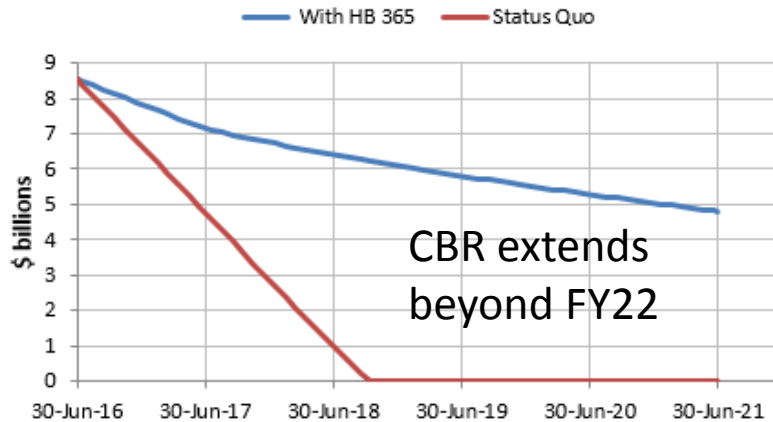
2019 & 2020 - Empty Red bars indicate PFD could be gone if status quo

Permanent Fund Total Return Rate, FY17 & beyond **6.90%**/year

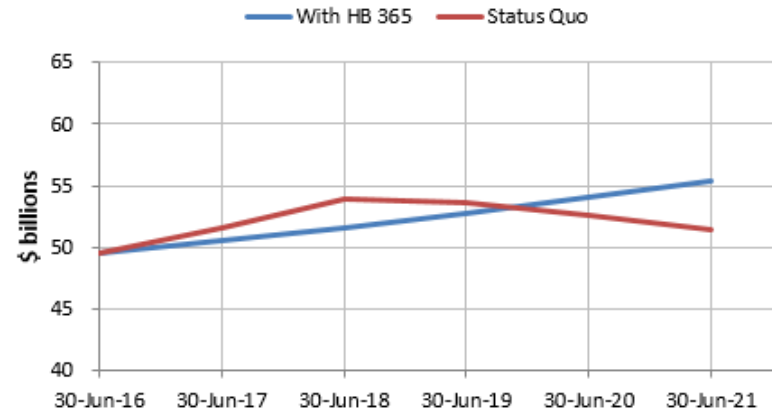
Alaska Futures – CS HB 365 ver. P – with Additional Budget Reductions & Revenues

These charts were created using the Alaska Futures model program developed by economist Alan Mitchell.

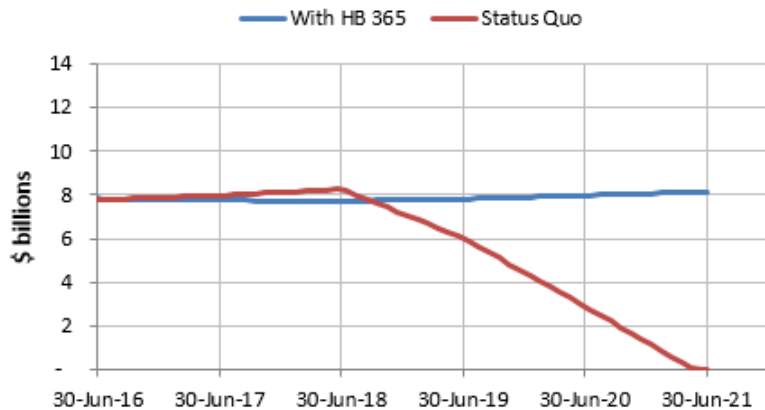
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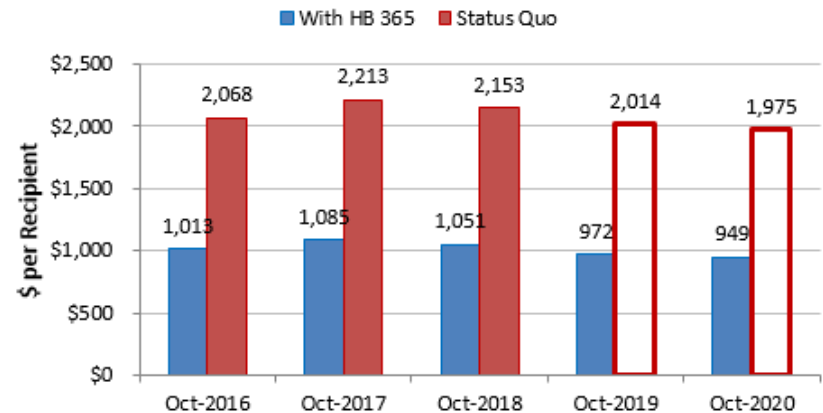
Total Permanent Fund



Permanent Fund Earnings Reserve



Dividend Check Forecast



Same assumptions as slide 12 with the following included:

Transportation Fuel Tax Increase: \$49 million (M) each year FY 17-FY21

Fisheries Tax Increase: \$18M FY17, \$19M FY18-FY19, \$20M FY20-FY21

Cook Inlet Tax Credit WLE expire 7-1-16, QCE expire 1-1-17: \$150M FY17, \$300M FY18-FY21

North Slope NOL Tax Credit reduce 35% to 25% 1-1-17: \$50M FY17, \$100M FY19-21

Average Dividend Check for the last five years (2011 - 2015) was **\$1,382**.