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HB 115: State Revenue Restructuring Act Version: E

Sectional Analysis –Short Form

*Please note that a sectional analysis of a bill or resolution should not be considered an authoritative interpretation of the measure itself.
The legislation is the best statement of its contents.*

Section 1 (page 1, line 7) – Clarifies that all components of this bill are part of a comprehensive revenue act.

-----**Appropriations from the Earnings Reserve Account**-----

Section 2 (page 1, line 10) – Amends AS 37.13.140, net income of the Permanent Fund, to remove “income available for distribution” and adds “market value” to section title.

Section 3 (page 2, line 9) – Adds a new subsection (b) to AS 37.13.140 determining the amount available for distribution each year from the earnings reserve account, equal to 4.75 percent of market value of the entire fund. Defines how the average market value of the fund is calculated.

Section 4 (page 2, line 19) – States that 33 percent of the amount available for distribution under AS 37.13.140 may be directed to the dividend fund and 67 percent to the general fund.

Section 5 (page 2, line 27) – Amends AS 37.13.145(d), relating to the Amerada Hess settlement, to clarify that income from that settlement may not be used for distribution. Additionally removes references to subsection (c), relating to inflation proofing, which is repealed by this act.

Section 6 (page 3, line 6) – Provides that money from the earnings reserve may be transferred to the principal of the permanent fund for purposes of inflation proofing the fund when the value of the earnings reserve account is four times the annual amount calculated under AS 37.13.140(b).

Section 7 (page 3, line 11) – Includes the unexpended balance of the Alaska Permanent Fund Corporation’s budget in the calculation of the fund’s market value; this budget balance is already calculated as a part of the net income of the fund under current law.

Section 8 (page 3, line 18) – Clarifies that income from mental health trust fund, which is managed by the Alaska Permanent Fund Corporation, is not included in the market value of the Permanent fund.

Section 9 (page 3, line 22) – Asserts that the income of the mental health trust fund shall continue to be calculated as before, in the same manner as the net income of the entire fund.

-----**Start of Income Tax section**-----

Section 10 (page 3, line 29) – AS 43.05.045(a) states that there is a penalty if a state income form is not filed electronically but that individuals are exempt under AS 43.22.020 (f).

Section 11 (page 4, line 8) – Creates the Individual Income Tax within AS 43.

Subsection: Sec. 43.22.010 (page 4, line 10) – Imposes an income tax and a long-term capital gains tax on residents, as well as nonresidents with income from within the state. The tax is equal to 15% of the taxpayer’s total federal income tax due or \$25.00, whatever is greater. Long term capital gains are additionally taxed at the lesser of 10% or the federal tax rate difference between earned income and capital gains. Currently capital gains are taxed by the federal government at a lower rate than earned income.

Subsection: Sec. 43.22.020 (page 5, line 14) – Establishes how a taxpayer will submit the tax return for the individual income tax. It clarifies that this tax is due and payable to the department at the same time and in the same manner as the tax payable to the U.S. IRS for federal taxes.

Subsection: Sec. 43.22.030 (page 6, line 17) – Defines *income from sources in the state* for the purpose of the tax. Note – the Internal Revenue Service definition for income is adopted in a later section.

Subsection: Sec. 43.22.035 (page 7, line 12) – Provides a credit to residents for taxes paid to another state based on income earned in that other state, ensuring a resident is not taxed twice on the same income.

Subsection: Sec. 43.22.040 (page 7, line 27) – States a person may choose to apply some or all of their PFD as a refundable tax payment to their upcoming state income tax due (see Sec. 12). Any remaining dividend after the payment will be refunded to the dividend applicant.

Subsection: Sec. 43.22.050 (page 8, line 6) – Establishes how taxes will be withheld by employers making payment of wages or salaries, or a person paying crew shares, similar to the way in which employers withhold federal income taxes.

Subsection: Sec. 43.22.055 (page 9, line 4) – Allows a person’s income tax information to be shared with a banking institution to verify direct deposit of refunds.

Subsection: Sec. 43.22.060 (page 9, line 7) - Authorizes the department to create all necessary forms and adopt regulations to implement this tax.

Subsection: Sec. 43.22.190 (page 9, line 17) – Provides definitions of terms used in this section, including the definition of resident for the purpose of this tax.

-----**end of Income Tax section**-----

Section 12 (page 10, line 9) – Directs the Permanent Fund Division to create a place on the PFD application where an applicant may choose to apply some or all of their PFD to their upcoming state income tax due.

Section 13 (page 10, line 15) – Repeals AS 37.13.145(c) inflation proofing of the permanent fund. Also, repeals sections relating to a former tax credit for political contributions that existed under Alaska’s prior individual income tax which was repealed in 1980.

Section 14 (page 10, line 16) Clarifies that the state income tax created under section 11 of this act only goes into effect starting on January 1, 2018, and will not be applied to any income earned prior to that date.

Section 15 (page 10, line 20) – Authorizes the Department of Revenue to adopt regulations to implement the act.

Section 16 (page 10, line 25) – If sections 2 through 9 take effect after June 30th of 2017, sections 2 through 9 are retroactive to June 30th, 2017. The appropriation from the earnings reserve described in sections 2 through 4 will be applicable in fiscal year 2017.

Section 17 (page 10, line 29) – Sections 1 through 9, relating to the earnings reserve account and the permanent fund, and sections 15 and 16, take effect immediately.

Section 18 (page 10, line 31) – The effective date of the act, except those noted in Section 17 above, is January 1, 2018.