

# State Revenue Restructuring Act HB 115 *Finance CS version L*

*30<sup>th</sup> Legislature*

# HB 115: Permanent Fund Earnings

- **5.25% Permanent Fund POMV, 5% after FY19.**
- **1/3 of POMV to pay dividends.** \$1250 and growing over years, with payouts more stable than current calculation.
- **2/3 of POMV directed to the General Fund.** \$1.69 billion in FY18 growing to \$2 billion in FY25.
- Residents may choose to **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.

# INCOME TAX:

- Adjusted Gross Income  
\$4000 personal exemption  
PFD exemption

## Total estimated revenue

***FY19** –half year* *\$330 million*

***FY20**- First full year* ***\$663 million\****

*Non-residents pay between 7-14% of total tax revenue:*

*\$44-93 million in a full year*

\*Dept. of Revenue initial estimate. Updated fiscal note forthcoming

# AK Permanent Fund

## Principal

(may not be spent—only invested)

Inflation proofing:  
when ERA 4x  
POMV Draw

Distributable Income

Structured  
POMV Draw

FY18 & FY19: 5.25%  
FY20 & beyond: 5%

Calculate PFD

FY18 & FY19= \$1250 min.  
FY20 = \$1250 growing to  
\$1400 by FY26

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

25-30%

Oil and Gas &  
Mineral Royalties

70-75%

Legislative  
Appropriations  
from Earnings  
Reserve

Earnings  
Reserve  
(may be spent)

21% of  
5-year avg.  
POMV: 5 of  
last 6 yrs

0.25%  
POMV  
annually

50%

0% 67% (FY18-FY19: \$1.7 billion FY20: \$1.8 billion)

50% 33%

Income Tax:

\$663 million

Based on  
Adjusted Gross Income

## CS-HB 115

### State Revenue Restructuring Act

after House Finance Perm.  
Fund Amendments and  
change to Adj. Gross Income  
3/23/17

Changes to current  
Permanent Fund system  
shown in Red.

Green is new  
revenue & changes  
to PF system.

Prepared by Rep. Seaton

General  
Fund

**HB Proposal: Total Estimated Revenue to General Fund**  
**FY20** – First Full Year of Tax Implemented

Income Tax Revenue*	\$663,000,000
2/3 of the 5% POMV Draw **	\$1,780,000,000
<b>Total Revenue to General Fund</b>	<b>\$2,443,000,000</b>

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*Separate 1/3 of POMV Draw to dividend* *\$879,000,000*

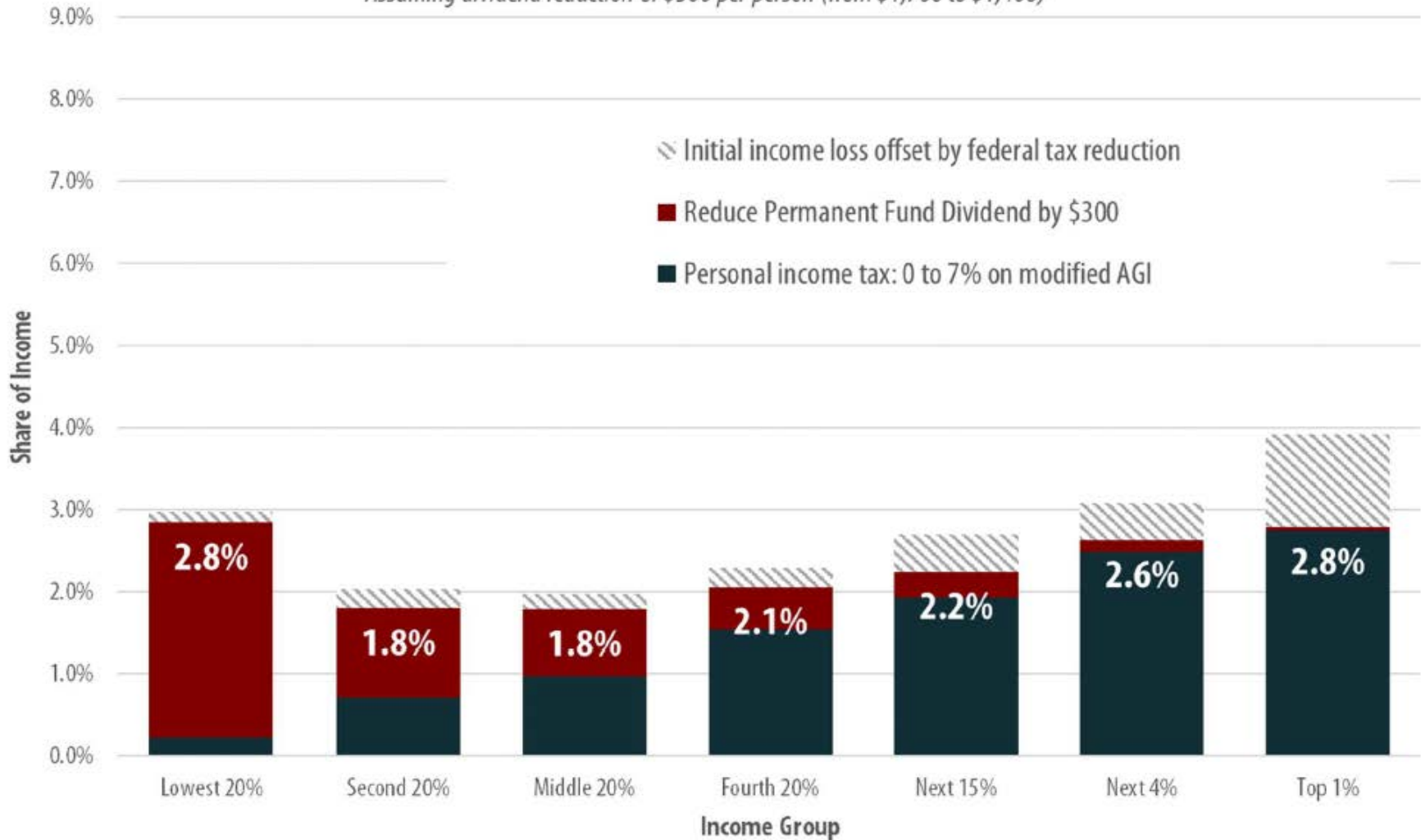
\*Dept. of Revenue initial estimate updated fiscal note forthcoming

\*\* 5.25% draw for previous two years, 5% POMV Draw starting FY20. amount based Legislative Finance calculations. 33% to the dividend and 67% to the general fund.

\*Potential future impact based on projected status quo & HB 115 dividends in FY25

### Figure 3: Impact of Alaska House Bill 115 (Version L)

Assuming dividend reduction of \$300 per person (from \$1,700 to \$1,400)



Source: Institute on Taxation and Economic Policy, March 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of \$1,700 per person.

\*Long term impact of HB 115 across income groups. Short term impact has a greater effect on the lowest 20% due to immediate & larger change to the Permanent Fund Dividend in the first few years.

# Why Adjusted Gross Income?

\***Volatility of federal tax liability** – If federal tax rates change this automatically impacts state revenue levels, with no state input. Issue is addressed by using adjusted gross instead of tax liability

\***Exemptions & credits** – Using adjusted gross gives a clean slate instead of automatically adopting federal credits and deductions

\***Equity between capital gains & other income types** – All income is taxed at the same rate under adjusted gross income, avoiding the federal tax reduction for capital gains

\***Administrative ease** – Calculating what non-resident income is taxable is simpler under adjusted gross income, and would have been very complex under federal tax liability

\***Alaska Specific** – Adjusted gross income now includes a deduction for the permanent fund dividend, which is not exempt on federal taxes

*Where does Alaska sit currently?*

**Table 1. State-Local Tax Burden by Rank Fiscal Year 2012 by Alaska Residents**

	State-Local Tax Burden as Percent of State Income	Rank	Taxes Paid to Home State	Taxes Paid to Other States	Total State-Local Tax Burden	Income	Income Rank
<b>Alaska</b>	6.5%	50	\$1,986	\$1,242	\$3,229	\$49,780	10



Chart from Tax Foundation website:

<http://taxfoundation.org/article/state-local-tax-burden-rankings-fy-2012>



## State Personal Income Tax Revenue as a Share of Personal Income in States with Broad-Based Personal Income Taxes

2015, dollar amounts in thousands

Rank (1 = lowest)	State	Effective Tax Rate (tax / income)	State Personal Income Tax Revenue	Personal Income
1	North Dakota	1.19%	\$504,394	\$42,349,688
2	Arizona	1.45%	\$3,868,234	\$267,361,132
3	Louisiana	1.46%	\$2,922,499	\$200,594,438
4 (proposed)	Alaska (HB115)*	1.66%	\$681,006	\$40,907,753
4	Kansas	1.70%	\$2,335,804	\$137,316,497
5	New Mexico	1.72%	\$1,358,702	\$79,104,093
6	Mississippi	1.73%	\$1,798,699	\$104,045,259
7	Ohio	1.77%	\$8,950,232	\$505,950,314
8	Oklahoma	1.80%	\$3,209,442	\$178,250,475
9	Pennsylvania	1.84%	\$11,735,689	\$636,857,158
10	Alabama	1.84%	\$3,407,750	\$184,784,917
11	South Carolina	2.03%	\$3,802,638	\$187,532,342

Source: Analysis by the Institute on Taxation and Economic Policy (ITEP) of Calendar Year 2015 state income tax data from the U.S. Census Bureau and personal income data from the Bureau of Economic Analysis (BEA).

## Sample of Other State Income Brackets

Hawaii	1.40%	>	\$0
	3.20%	>	\$2,400
<i>Hawaii does not adjust brackets for inflation</i>	5.50%	>	\$4,800
	6.40%	>	\$9,600
	6.80%	>	\$14,400
	7.20%	>	\$19,200
	7.60%	>	\$24,000
	7.90%	>	\$36,000
	8.25%	>	\$48,000

Ohio	0.495%	>	\$0
(b, c, e, g)	0.990%	>	\$5,250
	1.980%	>	\$10,500
<i>Has additional income taxes at local level of 2.25%</i>	2.476%	>	\$15,800
	2.969%	>	\$21,100
	3.465%	>	\$42,100
	3.960%	>	\$84,200
	4.597%	>	\$105,300
	4.997%	>	\$210,600

Mont.	1.0%	>	\$0
(a, e, g)	2.0%	>	\$2,900
<i>Allows deduction for some of federal taxes</i>	3.0%	>	\$5,200
	4.0%	>	\$7,900
	5.0%	>	\$10,600
	6.0%	>	\$13,600
	6.9%	>	\$17,600

Ky. (b)	2.0%	>	\$0
<i>Kentucky does not adjust brackets for inflation</i>	3.0%	>	\$3,000
	4.0%	>	\$4,000
<i>Has additional income taxes at local level of 2%</i>	5.0%	>	\$5,000
	5.8%	>	\$8,000
	6.0%	>	\$75,000

**Source: Tax Foundation** "Facts & Figures 2017: How Does Your State Compare?" [www.taxfoundation.org/publications/facts-and-figures/](http://www.taxfoundation.org/publications/facts-and-figures/)



# Corporate Income Tax avoided by Sub S Corps and Limited Liability Corps in Alaska.

**Table 15.**  
State Corporate Income Tax Rates  
As of January 1, 2015

Tax Foundation: Facts & Figures 2015

State	Rates	Brackets
Ala.	6.50%	> \$0
Alaska	0.00%	> \$0
	2.00%	> \$25,000
	3.00%	> \$49,000
	4.00%	> \$74,000
	5.00%	> \$99,000
	6.00%	> \$124,000
	7.00%	> \$148,000
	8.00%	> \$173,000
	9.00%	> \$198,000
	9.40%	> \$222,000
Ariz.	6.00%	> \$0
Ark. (a)	1.00%	> \$0
	2.00%	> \$3,000
	3.00%	> \$6,000
	5.00%	> \$11,000
	6.00%	> \$25,000
	6.50%	> \$100,000

State	Rates	Brackets
La.	4.00%	> \$0
	5.00%	> \$25,000
	6.00%	> \$50,000
	7.00%	> \$100,000
	8.00%	> \$200,000
Maine	3.50%	> \$0
	7.93%	> \$25,000
	8.33%	> \$75,000
	8.93%	> \$250,000
Md.	8.25%	> \$0
Mass.	8.00%	> \$0
Mich.	6.00%	> \$0
Minn.	9.80%	> \$0
Miss.	3.00%	> \$0
	4.00%	> \$5,000
	5.00%	> \$10,000
Mo.	6.25%	> \$0
Mont.	6.75%	> \$0

State	Rates	Brackets	State	Rates	Brackets
Calif.	8.84%	> \$0	Nebr.	5.58%	> \$0
Colo.	4.63%	> \$0		7.81%	> \$100,000
Conn. (b)	9.00%	> \$0	Nev.	None	
Del. (c)	8.70%	> \$0	N.H.	8.50%	> \$0
Fla.	5.50%	> \$0	N.J. (f)	6.50%	> \$0
Ga.	6.00%	> \$0		7.50%	> \$50,000
Hawaii	4.40%	> \$0		9.00%	> \$100,000
	5.40%	> \$25,000	N.M. (g)	4.80%	> \$0
	6.40%	> \$100,000		6.40%	> \$500,000
Idaho	7.40%	> \$0		6.90%	> \$1,000,000
Ill. (d)	7.75%	> \$0	N.Y.	7.10%	> \$0
Ind. (e)	7.00%	> \$0	N.C.	5.00%	> \$0
Iowa	6.00%	> \$0	N.D.	1.48%	> \$0
	8.00%	> \$25,000		3.73%	> \$25,000
	10.00%	> \$100,000		4.53%	> \$50,000
	12.00%	> \$250,000	Ohio	(c)	
Kans.	4.00%	> \$0	Okla.	6.00%	> \$0
	7.00%	> \$50,000	Ore.	6.60%	> \$0
Ky.	4.00%	> \$0		7.60%	> \$1,000,000
	5.00%	> \$50,000	Pa.	9.99%	> \$0
	6.00%	> \$100,000	R.I.	7.00%	> \$0

For the year (Jan. 1–Dec. 31, 2015, or other tax year beginning . . . , 2015, ending . . . , 20 . . . ) See separate instructions.

Your first name and initial . . . Last name . . . Your social security number . . .

If a joint return, spouse's first name and initial . . . Last name . . . Spouse's social security number . . .

Home address (number and street). If you have a P.O. box, see instructions. . . Apt. no. . .

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

Foreign country name . . . Foreign province/state/country . . . Foreign postal code . . .

Presidential Election Campaign  
Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.  You  Spouse

**Filing Status** Check only one box.

1  Single  
2  Married filing jointly (even if only one had income)  
3  Married filing separately. Enter spouse's SSN above and full name here. ▶  
4  Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶  
5  Qualifying widow(or) with dependent child

**Exemptions**

6a  Yourself. If someone can claim you as a dependent, do not check box 6a . . . . .  
b  Spouse . . . . .

c Dependents:		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions)
(1) First name	Last name			
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

d Total number of exemptions claimed . . . . .

Boxes checked on 6a and 6b  
No. of children on 6c who:  
• lived with you  
• did not live with you due to divorce or separation (see instructions)  
Dependents on 6c not entered above  
Add numbers on lines above ▶

**Income**

7 Wages, salaries, tips, etc. Attach Form(s) W-2 . . . . . 7  
8a Taxable interest. Attach Schedule B if required . . . . . 8a  
8b Tax-exempt interest. Do not include on line 8a . . . . . 8b  
9a Ordinary dividends. Attach Schedule B if required . . . . . 9a  
9b Qualified dividends . . . . . 9b  
10 Taxable refunds, credits, or offsets of state and local income taxes . . . . . 10  
11 Alimony received . . . . . 11  
12 Business income or (loss). Attach Schedule C or C-EZ . . . . . 12  
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶  13  
14 Other gains or (losses). Attach Form 4797 . . . . . 14  
15a IRA distributions . . . . . 15a b Taxable amount . . . . . 15b  
16a Pensions and annuities . . . . . 16a b Taxable amount . . . . . 16b  
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E . . . . . 17  
18 Farm income or (loss). Attach Schedule F . . . . . 18  
19 Unemployment compensation . . . . . 19  
20a Social security benefits . . . . . 20a b Taxable amount . . . . . 20b  
21 Other income. List type and amount . . . . . 21  
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶ 22

**Adjusted Gross Income**

23 Educator expenses . . . . . 23  
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ . . . . . 24  
25 Health savings account deduction. Attach Form 8889 . . . . . 25  
26 Moving expenses. Attach Form 3903 . . . . . 26  
27 Deductible part of self-employment tax. Attach Schedule SE . . . . . 27  
28 Self-employed SEP, SIMPLE, and qualified plans . . . . . 28  
29 Self-employed health insurance deduction . . . . . 29  
30 Penalty on early withdrawal of savings . . . . . 30  
31a Alimony paid b Recipient's SSN ▶ . . . . . 31a  
32 IRA deduction . . . . . 32  
33 Student loan interest deduction . . . . . 33  
34 Tuition and fees. Attach Form 8917 . . . . . 34  
35 Domestic production activities deduction. Attach Form 8903 . . . . . 35  
36 Add lines 23 through 35 . . . . . 36  
37 Subtract line 36 from line 22. This is your adjusted gross income ▶ 37

Multiply by \$4000 for AK personal exemption

Adjusted Gross Income line 37