

HB 115 income tax- Main points of a tax on Adjusted Gross Income

- Creates an Alaskan income tax based on federal adjusted gross income (AGI), with modifications to remove items the state can't tax under federal law and to add in a few things the federal government doesn't tax but the states can.*
 - Paid by Alaskan residents on all income and by non-residents on their income from a source within the state.
 - Includes a per person exemption of \$4000. This will take into account the size of a family or the number of dependents [a couple filling jointly with 2 kids would receive 4 deductions for a total of \$16,000.]
 - The federal per person exemption of \$4,050 is not included in the federal adjusted gross income that is the base for the tax, which is why a state personal exemption has been added in its place.
 - Includes an exemption for the permanent fund dividend¹
- Creates brackets based on that adjusted gross income (considered Alaska taxable income):
 - Individual residents / Nonresident:

▪	Less than \$10,300	\$0
▪	\$10,300-\$50,000	2.5% of amount over \$10,300
▪	\$50,000-\$100,000	\$992.50 + 4% of amount over \$50,000
▪	\$100,000-\$200,000	\$2,992.50 + 5% of amount over \$100,000
▪	\$200,000-\$250,000	\$7,992.50 + 6% of amount over \$200,000
▪	>\$250,000	\$10,992.50 + 7% of amount over \$250,000
 - Married / Joint:

▪	Less than \$20,600 ²	\$0
▪	\$20,600-\$100,000	2.5% of amount over \$22,600
▪	\$100,000-\$200,000	\$1,985 + 4% of amount over \$100,000
▪	\$200,000-\$400,000	\$5,985 + 5% of amount over \$200,000
▪	\$400,000-\$500,000	\$15,985 + 6% of amount over \$400,000
▪	>\$500,000	\$21,985 + 7% of amount over \$500,000

Department of Revenue modeling: ~\$663 million once fully implemented

- To calculate the tax, a resident individual or a couple will take their adjusted gross income from their federal tax form, then subtract \$4000 per person in their household and would also subtract the permanent fund dividend of each resident. That is the income that would be entered into the tax brackets.
 - Example: A single parent with one child has an adjusted gross income of \$45,000, and includes their child's dividend on their federal tax return. They would deduct \$8000 [two

¹ This version of the Alaskan income tax will be based on *federal adjusted gross income or AGI* (as opposed to federal tax liability or federal taxable income). However, because some things are being added and subtracted from federal AGI as necessary for federal law, and because we are including a personal exemption, the bill will refer to the income being taxed in Alaska as "taxable income". This does not mean the Alaska tax is based on *federal taxable income*. "Taxable income" in this case means Alaska taxable income, and still has its basis in federal adjusted gross income.

² This bottom number for the joint bracket was intended to be double of the \$10,300 for the individual bracket, which is \$20,600. The bill currently has this bottom bracket as **\$22,600**, which was not the intended amount. This handout and the income tax filing status charts have been updated to reflect the intended number of \$20,600, which the bill will be changed to shortly, and not the \$22,600 that is currently drafted.

personal exemptions] and another \$2500 [two dividends @ \$1250 as under HB 115]. Their *taxable* income is now \$34,500. The first \$10,300 is taxed at zero. $\$34,500 - \$10,300 = \$24,200$. $\$24,200 * 2.5\% = \605 in tax due.

- Anyone making under \$10,300 plus the \$4,000 personal exemption [\$14,300 for a single filer] would not owe tax under this chapter.
 - Anyone who owes a tax under this chapter would be required to file a return with the state.
 - Withholding will be required for independent contractors as well. If the independent contractor then does not file their 1099 with the state (which they are *supposed* to do) the state will still have that withholding as that person's tax while they pursue full collection of the tax due. [*note: After further research, we are going to remove this requirement as the payer does not have a fiduciary duty to the independent contractor.*]
 - Individuals are not required to file electronically but can do so if they choose. Professional tax preparers are required to file electronically.
 - Individuals still have the *option* to use their dividend to pay their state income tax due.
- This version of the income tax also includes some more administrative details that were missing from the original draft:
 - How to handle joint filers, especially if they are not both residents of the state.
 - How a trust would be taxed (7% on resident trusts, except for 2.5% on AK native trusts which have an existing lower federal rate. Non-resident trusts are not taxed unless they have income from a source within the state. This mirrors federal law, which taxes trusts at the highest marginal rate but qualified Alaska Native Trusts at the lowest marginal rate).
 - How to define resident and non-resident trusts.
 - How income from S-corporation shareholders or from partnership shares is determined or apportioned.
 - How to tax and account for part-year residents.
- The definition of resident includes someone who gets a dividend or who is domiciled in Alaska, or who receives a resident property tax exemption. Items that could indicate someone being domiciled in Alaska include voting, whether they got a resident hunting or fishing license, their place of employment, ownership of real property, to name a few.
- Estimated revenue: \$663³million

³ Revenue's model is based on federal tax returns, so does not account directly for the revenue impact of things that are removed or added to the definition of Adjusted Gross Income (which will not be common for most individuals), but does account for the personal exemption and the exemption of the dividend.

*Below are the items added into federal adjusted gross income to get to Alaska taxable income, in so far as they are not already included under the federal adjusted gross income (AGI).

- Interest from Municipal bonds and obligations
 - These are not taxed federally (see line 8b of the 1040) but states can tax them and most do. Alaska bonds are currently taxed by other states with income taxes, if their residents own any bonds from Alaska.
- Interest from certain US bonds that are *exempt* from federal tax but not from state tax.
- Gain realized but not recognized under 26 USC 1031.
 - This is a federal tax rule that allows companies or individuals to trade “like kind” items or property without “realizing” or taxing any gain from that trade. Like kind items include oil and gas property and even oil itself. Adding this into the calculation of Alaska Gross Income means that for state purposes they would need to recognize the gain from that trade. Without this being included, one result would be that non c-corporations would be able to ‘trade’ all kinds of Alaska properties for properties outside of the state and not pay any Alaska income tax on their gain.
- Any deductions allowed to the federal AGI that relate to income or interest that is not taxable or will not be taxed by Alaska. [In other words, we don’t allow expense deductions related to income that the state is not going to get any tax revenue from, such as interest expenses related to federal bonds.]

These items are subtracted from federal adjusted gross income (AGI) to get to the state taxable income, because there are some items the state cannot tax. These deductions are:

- Interest or dividends from federal bonds or obligations, which federal law does not allow the states to tax.
- Income under 4 USC 114, which says that states cannot tax pensions of non-residents. Example: a former state employee who gets a pension from Alaska but has since moved to California cannot have his pension taxed by Alaska even if the pension would otherwise be considered income from a source in the state.
- Military compensation or pay to military service members posted here but that have not declared themselves residents of the state. [States are not allowed to tax the military pay of services members who are nonresidents just because they are currently posted here.]
- Gain recognized under 26 USC 1031. [Since we are taxing the gain from the trade of like-kind items on the front end, if any of that gain is later recognized by the feds we cannot tax it again.]
- Deductions for expenses directly related to income not taxed by the federal government but being taxed by the state. [For example, since the federal government doesn’t tax municipal bonds they also do not allow write-offs for expenses related to those bonds. If the state is going to tax the bonds we will also allow expenses related to those bonds to be deducted.]
- \$4000 for each individual exemption claimed on a federal tax return. [This is the personal exemption.]
- The permanent fund dividend. [We cannot change the *federal* taxable status of the dividend but we do believe we have the option to exempt it from the state income tax.]