

Senate Labor & Commerce

HB 115 - Education Funding Act

Version K.A

30th Alaska Legislature

What does the bill do?

HB 115 creates the Alaska school based income tax and designates revenue to the Public Education Fund.

- Applies to residents and non-residents;
- Includes personal exemption of \$4,000 per person;
- Includes exemption for the permanent fund dividend;
- Creates brackets based on Adjusted Gross Income (AGI);
- Income from S-Corporations will be taxed on the individual partner or owner's tax return;
- Planned implementation is January 1, 2019.

Why do we need the bill?

- Creates consistent stream of funding for education;
- Diversifies revenue to minimize volatility;
- Prioritizes education;
- Progressive (income tax) vs. Regressive (PFD reduction);
- Gives Alaskans a voice in their government's decisions;
- Creates an incentive for the State to grow our economy.

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 income instead of tax liability;

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

***Equity between capital gains & wages** – All income is treated the same in computing adjusted gross income;

***Administrative ease** – Calculating non-resident taxable income is simpler under adjusted gross income than under federal tax liability;

***Alaska Specific** – Alaska taxable income now includes a \$4,000 personal deduction and a deduction for the permanent fund dividend, which cannot be deducted from federal tax liability.

History of Tax in Alaska

Before oil started flowing, Alaskans were accustomed to participating in their state economy through a structured tax program. The income and school taxes created stability for basic programs – education, health, public safety, infrastructure, and more.

- School tax Implemented in 1949 during territorial days;
- Alaska Territorial Legislature also passed income tax in 1949 (in 11 days);
- Alaskans paid both taxes from 1949-1980;
- In 1975 the income tax had changed from 16% of federal tax liability to a tax with brackets from 3 to 14.5%;
- Alaska income tax provided 40% of all state revenue.

CSHB 115

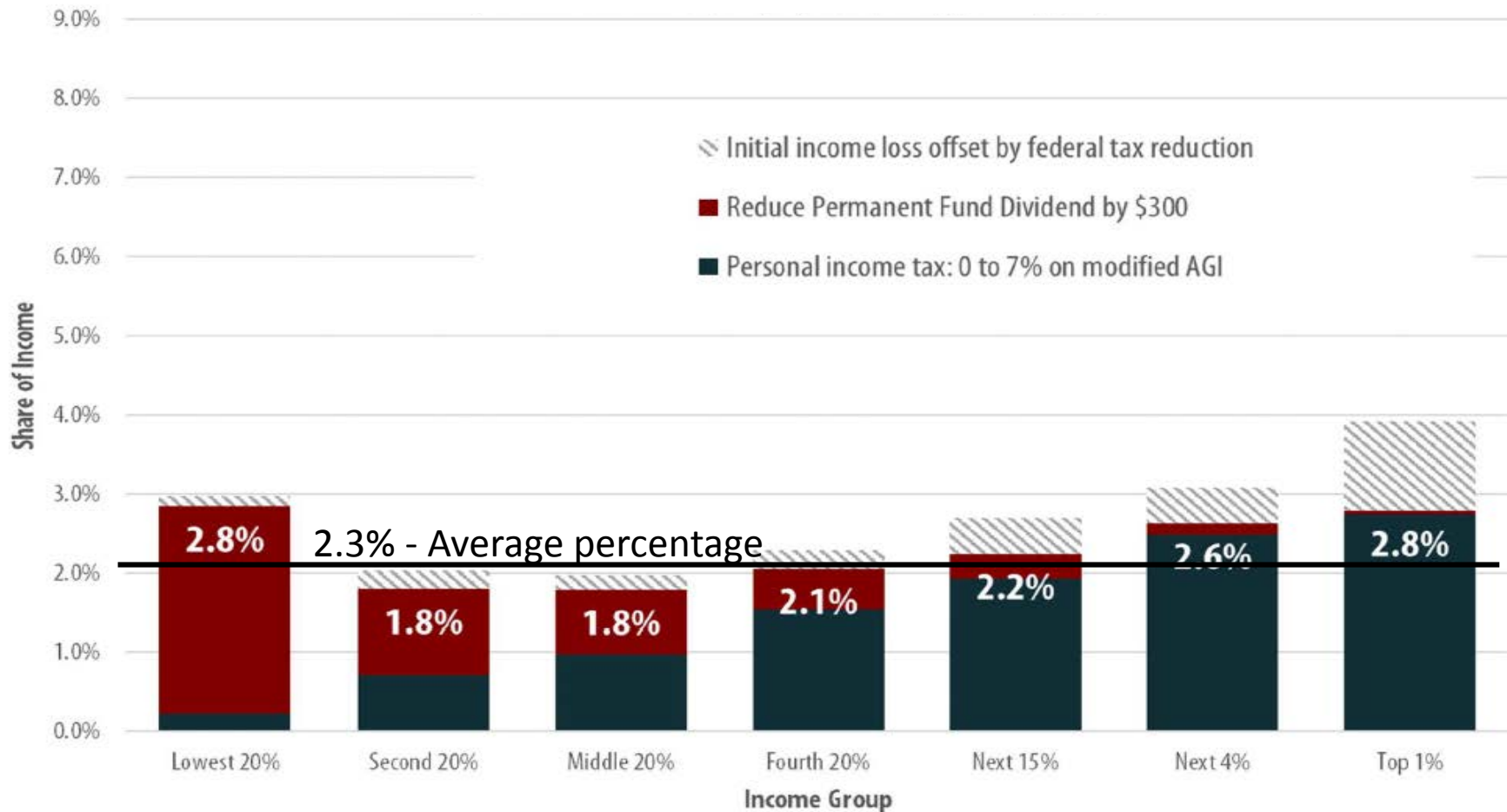
Education Funding Act

Estimated revenue based on effective date of
January 1, 2019

FY2019 - Half year	\$341 million
FY2020 - First full year	\$687 million

*Alaska school tax starts with the federal AGI – Line 37 on Schedule 40.
Approximately \$80 million will come from non-residents when fully
implemented.*

Future impact across income brackets, based on CSHB 115 (Education Tax) & restructure PFD resulting from HCS SB 26.



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 combined impact of HB 115 and HCS SB 26 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.

How does Alaska compare to other States?

*State and Local Tax Burden by Rank



	State-Local Tax Burden as Percent of State Income	Rank	Income	Income Rank
Alaska	6.5%	50	\$49,780	10

*Tax Burden includes all state and local taxes paid directly by residents, but also includes indirect taxes which may be passed to the consumer, such as severance taxes.

Chart from Tax Foundation website:

<http://taxfoundation.org/article/state-local-tax-burden-rankings-fy-2012>. Table 12 for 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 based on AGI

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 averaging 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

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

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
	3.0%	>	\$3,000
<i>Kentucky does not adjust brackets for inflation</i>	4.0%	>	\$4,000
	5.0%	>	\$5,000
<i>Has additional income taxes at local level averaging 2%</i>	5.8%	>	\$8,000
	6.0%	>	\$75,000

Alaska: 2.5% starting at \$10,300 of taxable income. When including the personal exemption and PFD deduction, this means \$15,550 for a single person and \$31,100 for a married couple is tax exempt.

5 Workers and Wages, Major and Selected Industry Categories

Alaska, 2015

Industry	Total		Nonresident			
	Workers	Wages (mil)	Workers	Percent	Wages (mil)	Percent
Agriculture, Forestry, Fishing and Hunting	2,507	\$55.8	1,354	54.0%	\$28.0	50.2%
Mining	22,349	\$2,416.4	7,937	35.5%	\$805.2	33.3%
Oil and Gas	4,702	\$910.8	1,385	29.5%	\$252.8	27.8%
Oilfield Services*	13,777	\$1,184.4	5,343	38.8%	\$454.7	38.4%
Utilities	2,596	\$201.1	133	5.1%	\$6.7	3.3%
Construction	26,868	\$1,338.0	5,932	22.1%	\$217.8	16.3%
Manufacturing	28,481	\$646.7	18,005	63.2%	\$295.4	45.7%
Seafood Processing	23,131	\$413.8	17,024	73.6%	\$267.5	64.6%
Wholesale Trade	7,315	\$358.0	713	9.7%	\$22.8	6.4%
Retail Trade	49,499	\$1,154.1	8,176	16.5%	\$101.1	8.8%
Transportation and Warehousing	25,515	\$1,222.1	6,704	26.3%	\$288.3	23.6%
Air Transportation	7,718	\$336.3	2,001	25.9%	\$62.3	18.5%
Information	7,551	\$419.0	766	10.1%	\$29.0	6.9%
Finance and Insurance	8,130	\$453.0	665	8.2%	\$19.2	4.2%
Real Estate and Rental and Leasing	7,108	\$220.1	837	11.8%	\$17.0	7.7%
Professional, Scientific, and Technical Services	18,186	\$1,022.2	4,367	24.0%	\$226.8	22.2%
Management of Companies and Enterprises	2,823	\$195.6	566	20.0%	\$29.1	14.9%
Administrative Support/Waste Management and Remediation	17,460	\$545.8	4,171	23.9%	\$101.3	18.6%
Educational Services	2,873	\$68.6	648	22.6%	\$7.4	10.8%
Health Care and Social Assistance	50,996	\$2,232.5	5,457	10.7%	\$183.5	8.2%
Arts, Entertainment, and Recreation	7,405	\$97.0	2,416	32.6%	\$23.2	23.9%
Accommodation and Food Services	43,801	\$676.4	13,822	31.6%	\$147.4	21.8%
Accommodation	12,858	\$211.1	6,080	47.3%	\$68.5	32.4%
Food Services and Drinking Places	30,430	\$460.5	7,565	24.9%	\$77.6	16.8%
Other Services	12,971	\$388.8	1,880	14.5%	\$37.1	9.5%
Other/Unknown	653	\$13.3	257	39.4%	\$4.6	34.5%
Local Government	50,138	\$1,878.0	3,553	7.1%	\$77.5	4.1%
State Government	27,625	\$1,341.8	1,908	6.9%	\$48.0	3.6%

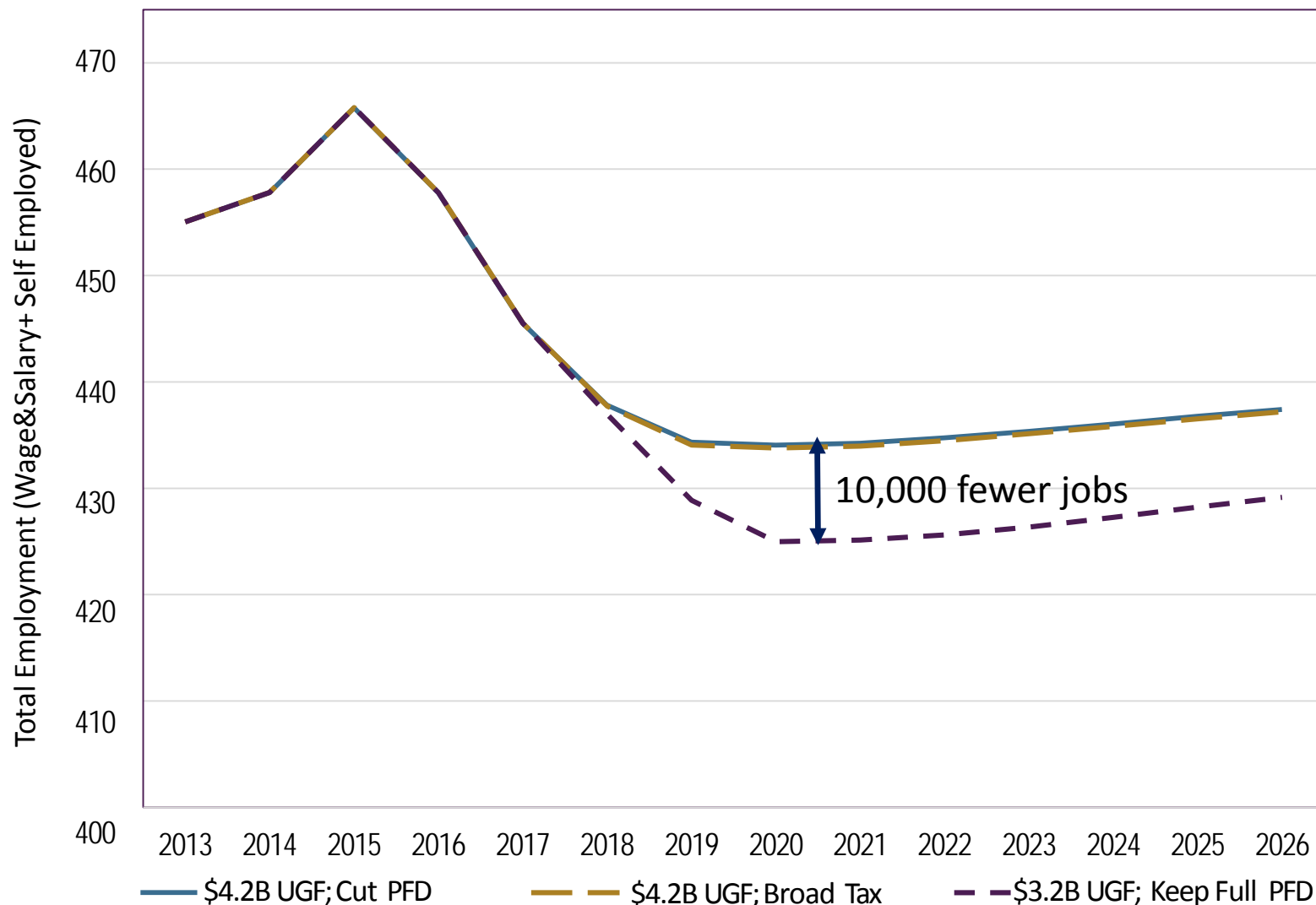
Total

422,850 \$16,944.3 90,267 21.3% \$2,716.0 16%

Note: Data exclude the self-employed, fishermen, and other agricultural workers, and private household workers. For estimates of fish harvesting employment, go to labor.alaska.gov/research/seafood/seafood.htm.

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section, 2015 Nonresidents Working in Alaska report.

2017-2026 Employment Forecast under Three Budget Scenarios



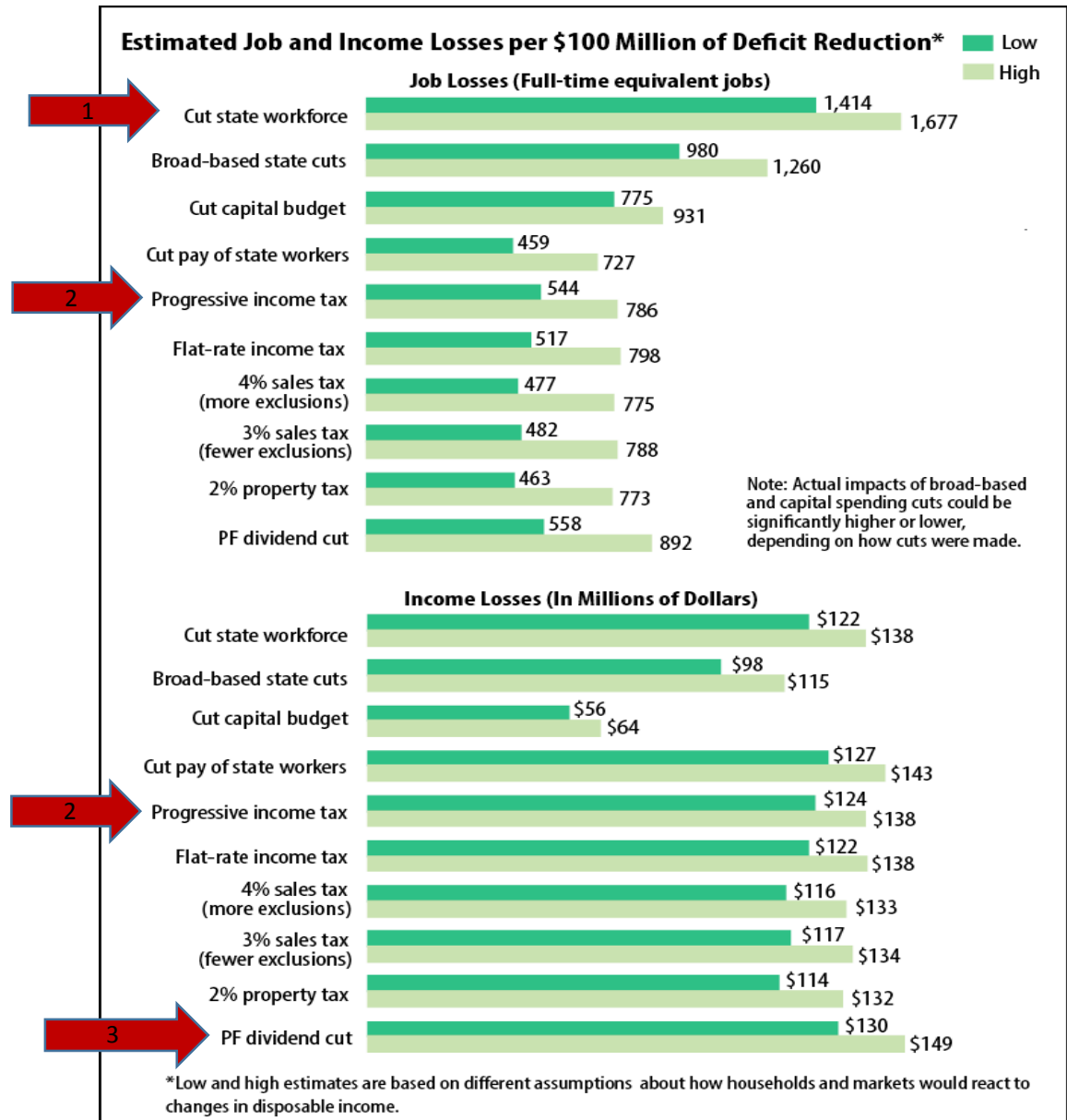
Source: Northern Economics "Forecasting Alaska's Economy: 2016-2017".
By Jonathan King

Impacts of cuts on Alaska's workforce

1. Closing the deficit just by cutting state jobs would cost the economy the most jobs.

2. Progressive income tax has a smaller impact on job losses, and would be partly paid by non-residents, so they have smaller direct impacts on incomes.

3. Dividend cuts would have the greatest short-run effects on Income.



Form 1040		Department of the Treasury—Internal Revenue Service		(99)	2015	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
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).						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. <input type="checkbox"/> You <input type="checkbox"/> Spouse	
Foreign country name		Foreign province/state/country		Foreign postal code			
Filing Status Check only one box. 1 <input type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 <input type="checkbox"/> 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 <input type="checkbox"/> Qualifying widow(or) with dependent child							
Exemptions 6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. b <input type="checkbox"/> Spouse. c Dependents: (1) First name Last name (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) If more than four dependents, see instructions and check here ▶ <input type="checkbox"/> d Total number of exemptions claimed							
Income Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a W-2, see instructions. 7 Wages, salaries, tips, etc. Attach Form(s) W-2 7 8a Taxable interest. Attach Schedule B if required 8a b Tax-exempt interest. Do not include on line 8a 8b 9a Ordinary dividends. Attach Schedule B if required 9a b 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 ▶ <input type="checkbox"/> 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

“I feel we are running out of time... savings are draining out at \$10 million a day... In an ideal world it would be good to go slowly, carefully, but there is not enough time left for that.”

-Gunnar Knapp

House Finance Presentation

January 25, 2017