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*Pulling Together to Build Our Future*

## **Education Funding Act**

**HB 115 by the House Finance Committee**

**Presentation to the Senate Labor and Commerce Committee**

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***Department of Revenue, Tax Division***

**April 25, 2017**

## ***Tax Brackets (on Alaska Taxable Income)***

<b>Single Filer or Non-Resident Income</b>	<b>Tax</b>
Below \$10,300	\$0
\$10,300 - \$50,000	2.5% of amt over \$10,300
\$50,000 - \$100,000	\$992.50 + 4% of amt over \$50,000
\$100,000 - \$200,000	\$2,992.50 + 5% of amt over \$100,000
\$200,000 - \$250,000	\$7,992.50 + 6% of amt over \$200,000
\$250,000 or more	\$10,992.50 + 7% of amt over \$250,000

<b>Joint Filer Income</b>	<b>Tax</b>
Below \$20,600	\$0
\$20,600 - \$100,000	2.5% of amt over \$20,600
\$100,000 - \$200,000	\$1,985 + 4% of amt over \$100,000
\$200,000 - \$400,000	\$5,985 + 5% of amt over \$200,000
\$400,000 - \$500,000	\$15,985 + 6% of amt over \$400,000
\$500,000 or more	\$21,985 + 7.6% of amt over \$500,000

# *Revenue Impact*

- DOR estimates \$341 million in FY19 due to the tax taking effect in January 2019\*
  - This amount is from withholding
  - No tax returns filed until April 2020

*\*(Assumes 1/1/19 effective date as proposed. Bill passed House with a failed effective date.)*

- DOR estimates \$687 million in FY20 based on modeling using aggregated federal income data for Alaska residents

# *Revenue by Income Level*

## Revenue estimates are based on 2017 Baseline Analysis

Prepared 4/15/17 by Department of Revenue

### Single, Head of Household, and other returns

Tax Bracket - based on Adjusted Gross Income (AGI)			Information for returns with top rate in each bracket			
Bottom	Top	Marginal Rate	Total AGI (\$millions)	Number of returns	Total Tax liability (\$millions)	Average tax liability per return
\$0	\$10,300	0.0%	\$251	71,345	\$0	\$0
\$10,300	\$50,000	2.5%	\$2,841	106,962	\$43	\$407
\$50,000	\$100,000	4.0%	\$2,740	39,338	\$70	\$1,778
\$100,000	\$200,000	5.0%	\$1,468	10,375	\$53	\$5,069
\$200,000	\$250,000	6.0%	\$141	624	\$6	\$9,537
\$250,000	\$1,000,000	7.0%	\$573	1,352	\$31	\$23,177
\$1,000,000	and over	7.0%	\$250	110	\$17	\$152,441
<b>Total of all brackets</b>			<b>\$8,264</b>	<b>230,106</b>	<b>\$220</b>	<b>\$957</b>

# Revenue by Income Level

## Married Filing Jointly returns

Tax Bracket - based on Adjusted Gross Income (AGI)				Information for returns with top rate in each bracket			
		Marginal Rate	Total AGI (\$millions)	Number of returns	Total Tax liability (\$millions)	Average tax liability per return	
Bottom	Top						
\$0	\$20,600	0.0%	\$129	17,071	\$0	\$0	
\$20,600	\$100,000	2.5%	\$3,698	62,208	\$60	\$971	
\$100,000	\$200,000	4.0%	\$5,219	37,127	\$134	\$3,608	
\$200,000	\$400,000	5.0%	\$2,228	8,032	\$79	\$9,853	
\$400,000	\$500,000	6.0%	\$910	2,031	\$38	\$18,862	
\$500,000	\$1,000,000	7.0%	\$863	1,230	\$44	\$36,096	
\$1,000,000	and over	7.0%	\$1,182	520	\$76	\$145,933	
<b>Total of all brackets</b>			<b>\$14,229</b>	<b>128,220</b>	<b>\$432</b>	<b>\$3,370</b>	

# Revenue by Income Level and Residency

## Summary of personal income tax estimated revenues, Version: CS HB 115 (House Finance) version K

Prepared 4/15/17 by Department of Revenue

Total Joint return tax liability	\$432
Total Single / other return tax liability	\$220
<b>Total tax before PFD deduction and residency adjustments</b>	<b>\$652</b>
Less PFD deduction	\$30
<b>Total tax after PFD deduction and before residency adjustments</b>	<b>\$622</b>
Less adjustment for Alaska resident income earned in other states	-\$34
Plus adjustment for non-resident income earned in Alaska	\$84
<b>Total estimated revenue</b>	<b>\$673</b>

Note: This analysis presents an estimation of tax revenue and liability for the base model year which is 2017. The DOR income tax model supporting this analysis is based on IRS "Statistics of Income" data for tax year 2014, scaled to 2017 based on economic growth and population change. Multi-year estimates will show revenue slowly increasing over time due to economic growth and inflation.

The Department of Revenue is in the process of reviewing and updating the data on which this analysis is based. As a result, future analysis could have different results.



# Implementation

# *Fiscal Note Implementation Cost*

- Implementing an individual income tax in 18 months will be a significant challenge
  - Need to draft regulations
  - Need to design, develop, and test technology to administer tax that would have estimated 400,000 tax returns filed annually.
- Estimated \$250,000 year 1 appropriation for a contractor to work with DOR on an implementation plan
- Estimated \$14,000,000 one time capital appropriation to build income tax into our current tax revenue system
  - Includes withholding and online filing
- Gradual ramp-up of staffing; eventual annual management cost is \$7.75 million with 60 employees
- Total cost over six-year fiscal note period is about 1.5% of projected revenue.



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**Thank You!**

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