Implications of an Alaska Income Tax

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BACKGROUND / OVERVIEW

- Entered fiscal year with $4 billion deficit
- Mining and minerals are about 18% of GDP
- At peak, oil and gas taxes responsible for as much as 72% of all state revenue
- Severance tax based on operators' net income
- Highly volatile: only estimated to bring in $1 billion in oil revenue in 2017, down from $7.4 billion in 2014

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OPTIMAL TAX DESIGN

- Avoid distorting economic choices
- Exempt intermediate goods
- Seek tax neutrality
- Take capital and labor mobility into account

- Capital taxation: tax on intermediate input to the production of future output
- Income taxation: tax on consumption and Δ savings

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OPTIMAL TAX DESIGN

- Sales tax
  - Less impact on economic growth
  - Opportunity for conformity and unification
  - Regressive depending on base design

- Income tax
  - Reduces labor force participation
  - Falls on pass-through businesses
  - Generally progressive depending on design

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VOLATILITY

- Pew: +/-34% revenue swings
- Investment revenue from Alaska Permanent Fund and the Constitutional Budget Reserve Fund are important for smoothing purposes; state can spend interest but not principal on APF
- Fund market value: $55.7 billion

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COMPETITIVENESS

- *State Business Tax Climate Index*

	Current	Proposed
Overall	3	10
PIT Component	1 (tie)	27

- Seven of the nine states which do not levy a PIT grew faster than national average, others had fastest growth in their region
- Mertens & Reven study (federal): 1% cut in PIT raises GDP by up to 1.8% after three quarters

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OTHER CONSIDERATIONS

- Revenue aims: $200M in 2015 vs. $660M now
- Base definitions complicate comparisons
- Permanence: possibility of triggers or sunset
- Expenditure reform: before, after, or not at all?
- Revenue smoothing options to promote stability

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REVENUE STABILITY

- Pew: +/-34% revenue swings
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FEDERAL REFORM IMPLICATIONS

- States can expect significantly broader PIT bases
  - PIT bases by the numbers: 27 states use federal AGI as income tax base, 6 states use federal taxable income, and 3 states use gross income
- Destination-based cash flow tax implications for corporate income tax bases will vary state-to-state
- States can use phase-ins, triggers, and contingent enactment clauses, look at variety of tax reform options to prepare for or respond to federal reform

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QUESTIONS?

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