



Senate Labor & Commerce Committee

House Bill 115 – Income Tax

Written Comments - Opposition



4205 Minnesota Drive
Anchorage, AK 99503
907.563.7133

April 21, 2017

Senator Mia Costello, Chair
Senate Labor and Commerce Committee
State Capitol Room 510
Juneau, AK 99801

Dear Senator Costello:

RE: HB 115 - Income Tax

The Alaska Association of Realtors (AAR) has followed the continuing debate in the Legislature over the past two Sessions on how best to solve the State's daunting budget shortfall. Individually, AAR members have shared their views and opinions on the multiple options being discussed. With the House passage of HB 115 and its request of the Senate to concur, the members of AAR wish to express our position on this proposed legislation.

Many experts believe 2018 will bring higher interest rates, a rise in foreclosures, and increased housing inventory levels throughout Alaska. The passage of HB 115 will not only compound the impact of those conditions, it will also price a significant number of potential homebuyers out of the market. Additionally, omitting the mortgage interest deduction and implementing an additional capital gains tax will serve to discourage buyers and sellers and delay any recovery in the housing market. For those reasons, AAR cannot support HB 115 in its current form, and we urge the Senate to reject HB 115 as drafted and passed by the House of Representatives.

Sincerely,

Errol D Champion

Errol D Champion, Chair
Industry Issues Committee
Alaska Association of Realtors®

NFIB

The Voice of Small Business®

ALASKA

April 25, 2017

The Honorable Mia Costello, Chair
Senate Labor & Commerce Committee
State Capitol Building
Juneau, Alaska 99801-1182

RE: House Bill 115

Dear Senator Costello:

On behalf of the National Federation of Independent Business/Alaska, I wish to respectfully share our opposition to House Bill 115. The National Federation of Independent Business is the largest small-business advocacy group in Alaska.

House Bill 115 would establish a tax on income earned in Alaska, a tax on long-term capital gains and require employers to act as collecting agents for the state without compensation. We believe that taking an additional \$680,000,000 from the employment sector to support the public sector is short-term solution rather than addressing the size and scope of our state government.

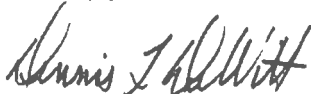
All Alaskans were affected by the reduction in the 2016 Permanent Fund Dividend. HB 115 would add income reductions to only employed Alaskans required to file a federal income tax return.

Most small businesses file federal taxes as individuals, so adding a state tax will impact their businesses differently than most individuals. NFIB has been working at the federal level to reform the federal system that does not provide small businesses with the same benefits provided to larger corporate entities. Thus, forcing an added tax based on the unfair federal system places a larger burden on small Alaskan businesses.

We are concerned that the proposed tax will just be a beginning point. Government has an insatiable appetite for funding. Providing added funding before reducing the size and scope to a level that can be afforded over the long-term simply pushes that to future years while charging Alaskans more of their disposable income in the interim.

We encourage you not adopt a personal income tax.

Sincerely yours,



Dennis L. DeWitt
Alaska State Director

Cc: NFIB/AK Leadership Council



April 25, 2017

Senator Mia Costello
Chair, Senate Labor & Commerce Committee
Alaska State Senate
State Capitol, Rm 504
Juneau, AK 99801

Re: Opposition to House Bill 115 – Income Tax; PFD Credit; Perm Fund Income

Dear Senator Costello:

The Alaska State Chamber of Commerce (Alaska Chamber) opposes the current version of House Bill 115 currently under consideration by the Senate Labor & Commerce Committee.

The Alaska Chamber is a non-profit founded in 1952 working to promote a positive business environment in Alaska. The Chamber is the voice of small and large business representing hundreds of employers and local chambers across Alaska. Our member companies employ over 100,000 hard-working Alaskans.

Alaska is blessed in so many ways, including the resources needed to fix our fiscal problems. Our financial reserves are most certainly under strain and we can't live off savings forever. But our resources are considerable and by working swiftly, collaboratively and wisely, we can close our fiscal gap while encouraging future investment. By cutting the cost of government (living within our means), restructuring the Permanent Fund to protect the dividend and include controlled use of the earnings reserve account to pay for government services (which is in the Senate version of SB 26), and establishing a statutory appropriation limit will make Alaska stable and predictable again.

Currently the Alaska Chamber feels that until the Legislature has taken the actions mentioned above it is premature to tax Alaskans to bolster inflated state government spending. Placing this burden on individuals and their businesses will only exacerbate our current economic situation. Alaskans have spoken loud and clear their thoughts on the Legislature imposing an income tax, with 58% in opposition. In no small part this is in part because Alaskans overwhelmingly realize that taxes will have a negative impact on our economy. Until the Legislature can prove to the Alaskan people that spending is under control and a mechanism is in place to control future spending their opinion on taxes will not change.

While the Alaska Chamber supports restructuring the Permanent Fund to protect the dividend that includes controlled use of the earnings reserve account, we oppose the House Finance Committee's efforts to tackle Alaska's fiscal problems by placing burdensome taxes on its people and businesses.

Best regards,

A handwritten signature in black ink, appearing to read 'Curtis W. Thayer', written over a horizontal line.

Curtis W. Thayer
President & CEO

cc: Senator Shelley Hughes
 Senator Kevin Meyer
 Senator Gary Stevens
 Senator Berta Gardner



April 25, 2017

Senator Mia Costello
Senate Labor & Commerce Chair
State Capitol Room 504
Juneau, AK 99801

Re: Alaska State Income Tax on Trusts and Estates

Dear Senator Costello:

I am writing to you about the possible enactment of an Alaska state income tax. While we understand the need for additional revenue into the State and do not question the validity of an income tax, we would like to inform you of a potential unintended consequence this tax would have on the trust and estate planning industry of Alaska.

Since the passage of the Alaska Trust Act in 1997, Alaska has become a premier jurisdiction for trust planning and administration. Our distinctive statutes have made Alaska a top destination for trust business and have provided Alaska with increased revenue, economic diversification, job creation and great benefits for our residents.

Unfortunately, other states have seen the success of Alaska in this regard and have thus looked to mirror Alaska's laws. This increased jurisdictional competition has become fierce with all states looking to exploit the weaknesses of the others. One of the reasons that Alaska maintains its superior status is due to the lack of an income tax.

Within this industry, there are four states that are considered the "top-tier" of jurisdictions. Those states are Alaska, Delaware, Nevada and South Dakota. Except for Delaware, none of these states have a state income tax. While Delaware does have a state income tax, it has provided an exemption for trusts; which is one of the reasons why it is one of the largest trust jurisdictions in the nation.

It is difficult to fully define all the benefits that this industry has brought to the State: however, the benefits of favorable trust laws have been studied and quantified in recent industry publications. One such report was written by Harvard Law School Professor Robert Sitkoff and Northwestern Law School Professor Max Schanzenbach have pointed out that favorable trust laws produce significant business for the states that have them. See "Jurisdictional Competition for Trust Funds: An Empirical Analysis of Perpetuities and Taxes," 115 *Yale Law Journal* 356 (2005). Here is a link to the article which says, among other things, "The official synopsis of the

Delaware bill states that it 'is similar to legislation recently enacted in Alaska. It is intended to maintain Delaware's role as the most favored domestic jurisdiction for the establishment of trusts.' *** Rose Ragsdale, *Opposing Parties Join Forces To Attract Family Trust Industry to Alaska*, Alaska J. Com., Apr. 14, 1997, at 6. On passage of the Act the local media and Alaska lawyers and bankers predicted a substantial inflow of trust business. See Katharine Fraser, *With New Law, Alaska Aiming To Be Trust Capital*, Am. Banker, Apr. 21, 1997, at 1; Carrie Lehman, *Legislation Changes Alaska Tax, Trust Laws, Attracts New Investors to State*, Alaska J. Com., Aug. 18, 1997, at 6; Deanna Thomas, *Trust Bill Could Mean Boon*, Alaska Star, Mar. 20, 1997, at 1."

http://www.law.harvard.edu/programs/olin_center/papers/pdf/Sitkoff_Schanzenbach_609.pdf

Outside of these studies, we believe that Peak Trust Company is direct evidence of the value of these Statutes. Peak Trust Company ("PTC"), formerly Alaska Trust Company, which helped pioneer these great laws in Alaska, currently administers over 2,500 trust relationships, the majority of which are from non-Alaskan residents (this is due to the fact that Alaska residents do not require a professional trustee to create an Alaska trust). Since 1997, PTC has grown to a 22 team member organization and currently generates over \$2 million in payroll. Additionally, assets from our clients have been deposited with local Alaska banking institutions and are now in excess of \$65 million. These funds are used to inject capital into the Alaska economy. This growth is only one story amongst many. It has been estimated that tens of dozens of jobs have been created in Alaska because its trust laws, ranging from attorneys and CPAs, to managers and assistants.

If an income tax becomes a reality in Alaska, we respectfully urge that trusts be given proper exemptions, particularly for non-resident grantors and beneficiaries. The trust business has long been an important industry in Delaware and New York. Both states recognized that the imposition of an income tax on non-resident trusts would effectively eliminate them from receiving any out-of-state business. To combat this adverse effect, both states provide for trust exemptions.

A critical factor to garner and keep trust business in a state is to avoid the imposition of a state income tax.

If Alaska attempts to impose an income tax on trusts merely because they are administered here, those trusts will leave the state and virtually no tax will be collected. It will cause individuals who work here to lose their jobs and they too will leave, meaning Alaska will not be able to impose an income tax on them. For PTC, we would have to shutter our business and relocate to another more favorable state. This would result in Alaska losing out on the income tax generated by our \$2 million in payroll and Alaska banks would lose over \$65 million in deposits, thus reducing their profits and the profits of other Alaska financial institutions all while decreasing the capital available for loans to Alaska businesses and individuals.


The substantial revenue and business brought to Alaska by these laws over the past nearly 20 years have cost the State nothing. This industry is "green" and has generated quality, skilled jobs. It would be a shame to forfeit the efforts of Alaskans and our Legislature who worked hard to adopt and continually improve our trust laws.

In regard to HB115, in its current form, it appears that some of our concerns have been addressed; however, we believe there are additional items that should be clarified and potentially revised.

We and our advisers would welcome an opportunity to work with you and your staff on this important matter.

Thank you for the opportunity to express my views. We continue to work to try to improve Alaska's environment for trust business. We appreciate your support in that endeavor.

Respectfully yours,

A handwritten signature in dark ink, appearing to read "Matthew Blattmachr", with a stylized flourish at the end.

Matthew D. Blattmachr
Vice President

KENAI LEGISLATIVE INFORMATION OFFICE

Email: Kenai_LIO@akleg.gov

Phone: 907-283-2030 / Fax: 907-283-3075

WRITTEN TESTIMONY

| | | |
|--------------------|----------------------|-----------------------|
| NAME: | <u>James Johnson</u> | |
| REPRESENTING: | <u>Self</u> | |
| BILL # or SUBJECT: | <u>HB 115</u> | |
| COMMITTEE: | <u>SLAC</u> | DATE: <u>04-25-17</u> |

Greetings:

Obviously, the Alaska budget needs reduced to stop the deficit spending problem. I have been in Alaska long enough to remember when the "state income tax threat" arose many years ago. As I recall, the State of Alaska declared that if they could count on getting \$30 dollars for a barrel of oil, then they would have sufficient funds for operating the Alaska state government. Well we know what happened concerning that situation: the price of oil went up towards the \$100 dollar-a-barrel mark, and state spending went ever upward!

Now we all know how difficult it is to remove government spending! Yes, lots of people working for the State of Alaska and its state programs must be reduced...unless we can get more money out of the Alaskan taxpayer. Big Government does not wish to admit that its massive budget isn't necessary, so now they must "find more money" to support their governmental empire. Taking our PFD's and having a state income tax is not the answer...Big Government's massive appetite can still overspend past the revenues!

Take a look at the states that don't have a state income tax...they appear to be prospering quite well. The U.S. Federal government and the Alaska state government has a spending problem—not a revenue problem! As President Obama once said: "we all need to tighten our belts". Of course, he wasn't talking about "his belt" (as noted by his millions of dollars spent on his taxpayer-funded vacations), but he was referring to the tax-paying American families. If our Alaskan government can't find the wasteful state spending, I would encourage them to check with the Trump Administration, I believe they could help you locate the problem areas for the State of Alaska's budget.

Sincerely standing for accountability,
James K. Johnson

April 25, 2017

To: Senate Labor and Commerce, Senators and House Members

RE: Opposition to SB 115 – PFD – Taxes

This letter is to voice our family's (8 members) opposition to SB 115, the taking of the permanent fund (PFD), and imposing an income tax on Alaskans to subsidize government spending. I am speaking for my wife, mother, son, daughter-in-law, three grandchildren, and myself.

We enjoy what Alaska has to offer and take advantage of the many places to visit and vacation when financially feasible. We have to learn to live within our means to travel, fish, and camp in the great outdoors. To do this though, we have to cut our cost of things we would like to have, places we would like see, to eat, and eliminate toys that would put us in debt. Isn't this what the Governor and Legislators should be doing?

I will highlight only two concerns we have: adding to the cost of living in Alaska and a state spending problems.

- 1) As you know, living in Alaska poses many challenges, especially the cost of living for groceries and material, which are 30% to 54% higher than the lower 48 states not to mention health care cost. The cost of living just in Anchorage compared to other major cities in the U.S. can be anywhere from -25% to -9%. With health care and housing being the most costly, we have learned to adjust our budget and adapt. In Alaska, dental care alone is cheaper down south and many make a vacation out of seeing a dentist.

Question: Why do some of our Legislators and Governor continue to live beyond the State's means and expect the people to give you more control when you can't budget for current and future fiscal needs? You want to take Alaskan's PFD, create a new tax, and put these funds into the State's pocket? I think not! You tried this before (2004) and this is what you were told:

In 2004, the state Economist for the Division of Economic Development provided counter points to implementing new taxes and the consequences they would have on the state if applied to businesses and local residents. Allow me to reiterate a few of those for you:

- The Alaska statewide tax would cost each taxpayer between \$1,000 and \$2,000 a year to raise \$300 million. (This would undoubtedly cost residents more today, 2017!)
- Each Alaskan would have \$100 to \$150 dollars less going back into the Alaskan economy.
- People move-out when taxes are added or increased or incentives are eliminated.¹
- Alaska ceases to be a "great place to retire when pensions, annuities, and fixed income earnings become taxable." When they leave, so do their funds and retirement incomes!

They're true today and we still say:

- **Continue to cut the Budget, reduce the size of State government, and live within our means.**
- **NO New/Increased Revenues (taxes, fees and fines).**
- **Don't touch the Permanent Fund Dividend or Corpus. Period!**
- **Put it to a vote by Alaska residents!**

You have all been provided alternatives to the budget from Senator Dunleavy (SB 21 Amendment) and others but fail to listen. Put it to the people to vote on! We believe this would be a better road to follow than what you want.

¹ The Worst Tax for Texas, pg. 4, Dr. Richard Vedder

Hammond was right about creating a direct distribution to Alaskans for the permanent fund to keep government in "check" on spending. According to Elmer Rasmuson: ²

"Without such a check, asserted Hammond, government spending and lending would create a dependence which would bring a wrenching dislocation when the oil money ran out. ... Further, argued Hammond, if the distribution was paid in the form of annual dividends from the permanent fund's earnings, Alaskans would be more likely to fight raids on their savings account."

2) Dr. Vedder, Professor of Economic at Ohio University, identified the following: States with lower income taxes saw a better growth (455% growth vs. 191% growth) over a 40-year span. ³ In 2002, Dr. Vedder's study includes four "Principles to Live By" for tax policy decision-making:

- Keep the overall tax burden low.
- Make relatively heavy use of sales and other forms of consumption taxation, and make little or no use of income taxation. **States without an income tax should under no circumstances create one.** Try to keep property tax burdens moderate as well.
- De-emphasize federal grants-in-aid, and do not increase local spending to "match" federal funds.
- Charge user fees directly to those who use governmental services.

I would like to also echo others that have commented previously on the impact over-spending has on our state and economy. Unions should abandon the practice of incremental increases for a period of no less than 3 years. "While private industry lays off thousands of people around the state, this seems like a minor sacrifice to remain employed. Ultimately, the unions have 2 choices, fire employees, or get the unions to abandon the 'merit' increases." Governor needs to also cut the fat in management instead of just laying-off 74 employees in 2016.

When producing products for our business, we contract with a local processor that employs six (6) people at times in Juneau. We sometimes use part of our PFD to subsidize our marketing expense, ultimately, expanding our market. If the PFD is taken and we are forced to pay on a broad-based income tax, we will have to make other arrangement to produce our product out-of-state. How many other small Alaska businesses will do the same?

- High material cost
- Expensive shipping, and
- Now you want to take our PFD and tax us in the same breath!

At this time, the only income my wife, mother, and I have is our retirements, which is little and won't last long. And now, you want to take a portion of our retirement!

With the revenue our state receives, there is no reason the State of Alaska should need to take our PFD or tax the people in this state because of their spending problem. "You have a campaign taste on a beer budget."

Respectfully,

Michael Hanzuk Sr. and Family

² Juneau Empire October 9, 2005

³ The Worst Tax for Texas, pg. 4, Dr. Richard Vedder

I am adamantly opposed to the creation of an Alaska state income tax. I believe it is unnecessary. I don't think all avenues of cost cutting have yet been explored.

First, I haven't heard much lately about cutting the size of government. Departments could be merged, and as a result the economy of size could cut costs. As a result, executive positions, which are expensive by nature, could be eliminated. That, instead of eliminating positions of those who interface with the public, would be much more palatable. The psychology of eliminating those positions to get voters sympathy for raising taxes is disingenuous, as is threatening the loss of school funding.

Next, the Permanent Fund. Considered the "third rail" of Alaskan politics, its original reason for being created was for times like this, when oil revenues begin to taper off. Governor Jay Hammond did Alaska no favors by pushing for the creation of the dividend program.

Nowhere in our Alaska Constitution does it say that the State owes its residents a living. I would much rather see the dividend program ended, or severely curtailed, than pay an unnecessary income tax.

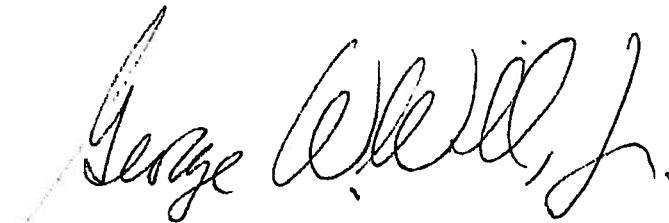
There is precedence for this. When the senior longevity bonus program was eliminated, there wasn't the outcry about cutting the income of those seniors like there is for the dividend program, yet many of those senior citizens were on limited incomes and were hurt greatly.

Long term capital projects could be made more economical, particularly road projects. The reason our roads need to be repaved every five to ten years is due to the use of inferior paving materials. If premium products were used, at greater initial cost, would cut costs in the long run. There is no reason for new pavement to begin dishing within a few months, even before studded tires hit the road. It's wasteful as well as dangerous.

We are no longer in the 1970s and 1980s, and we need to stop wasting money like it's unlimited. I reiterate, I am strongly opposed to the institution of an Alaska income tax.

Respectfully,

George W. Will, Jr.
6660 W Cambridge Dr
Wasilla, AK 99623

A handwritten signature in black ink, appearing to read "George W. Will, Jr.", written in a cursive style.

907-373-5645
wirelessgw@yahoo.com

Public Opinion Message

Please contact your local Legislative Information Office (LIO) with questions or problems.
A complete list of LIOs can be found at <http://akleg.gov/lios.php>

This form must be completely filled out. You may phone, fax, or deliver your POM to any LIO.

From: Please **PRINT** the information below. This form must be signed by the sender.

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| Mr. / Ms. / Mrs. | First name | M.I. | Last name | Jr. / Sr. / III |
| | Joann | | UTT | |
| Group affiliation (if applicable) | | | | Daytime telephone number |
| nla | | | | 907-376-4938 |
| Mailing address | | | | Zip code |
| PO Box 1114, Palmer AK | | | | 99645 |
| Residence (street) address if different from mailing address | | | | Zip code |
| 9643 Laurie Lane, Wasilla | | | | 99654 |
| Email address | | | Signature | Date |
| redraven2mta online.net | | | [Signature] | 4/26/17 |

To: Put a ☒ in the appropriate box(es).

| Committees | | House members | | Senate members | |
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| HB | 115 | <input checked="" type="checkbox"/> | Oppose | |
| | | <input type="checkbox"/> | Amend | |

Message: Your **PRINTED** message cannot exceed 50 words or contain any vulgar language.

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| you | ! | JoAnn | UTT | | 50 |

HB115 is a horrible bill; it steals 2/3 of the PFD, it taxes corporations, it taxes workers and finally it taxes the estate which a worker has already paid taxes on to accumulate. It damns the living and the dead.

Alaska's economy is already challenged; businesses are leaving Alaska. SB115 would present a real challenge to businesses, to collect the tax, certainly, but more importantly to compete with other states, to attract creative, productive workers to our state.

Some thoughts on an income tax:

- An income tax is not fair, because it doesn't tax everyone, only those who actually earn an income.
- An income tax lessens the discretionary income which a worker has to spend in Alaska further deepening the recessionary spiral which Alaska is experiencing. Let the workers decide how and where to spend their money and support the Alaskan economy.
- If an income tax is in place, the legislature will find it easier to raise the tax than to control spending
- An income tax taxes those who are producers and gives money to bureaucrats to spend on special projects and those who don't work, while automatically adding a hundred non-productive employees in government to administer the tax while adding to the burden on business to collect the tax.
- An income tax removes the incentive to control the state budget and also removes the incentive to work—why work harder when the state is only going to take it away?

We have the money and financial savvy in Alaska to develop a long-range business plan that builds our economy without more taxes. If we absolutely have to have a tax, then institute a sales tax so everyone who lives, works, or visits in Alaska would share the tax.

Briefly, develop a long-term budget, cap the PFD and agree to a sales tax only if the budget can't be balanced any other way, but hold the line—no income tax.

Karen Lackey, CFO
Alaska Raceway Park
3900 S English Bay Drive
Wasilla, AK 99654
Phone 907-376-1003,
Cell 907-355-7223

April 26, 2017

Written testimony HB115

My name is Garvan Bucaria. I am opposed to CS HB115 (Fin). I am against top down economics that involves funding Government and excessive social programs.

Governor Walker has continued his irresponsible actions:

- (1) By cutting the Permanent Fund Dividend by 50%.
- (2) By rewarding state workers with salary increases when severe reductions have occurred in private enterprise.
- (3) By failing to pay incentives promised under SB21.
- (4) By promoting an untimely rail link with Canada.
- (5) By promoting his uneconomic LNG pipeline, satellite offices and staff
- (6) By perpetuating the staff funding of the Knik Arm Crossing.

Obviously, I support the bottom up economics view that supports private enterprises.

Thank you for not submitting to the House Majority Legislators. I don't relish sharing my limited income with ^{the} growing state work force. Your objectives should be to maintain current PF Corporation favorable returns. Don't change its present structure. The Permanent Fund investment portfolio was up 4.5% for the first half of FY17. Between April 21-25, 2017 the permanent fund gained \$497,500,000.

Passage of SB21 in 2013 increased North Slope production significantly. Accelerate new oil field discoveries that under reasonable incentives, are two to three years away from linking to the TRANS Alaska Pipeline.

Reduce this budget. Don't pass HB115. Use the Constitutional Budget Reserve to fund a reduced budget. So far it's not sustainable. Use it, ^(can) and yes numerous Legislative slush funds to fund government. Don't cave to the House Majority!

Garvan Bucaria

Garvan Bucaria
Written testimony orally
delivered 04/25/2017