



# **Capped Payroll Tax- Responses to Questions HB 4001 by Governor Walker**

**Presentation to the House Finance Committee**

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## *What we'll talk about today*

1. Revenue Forecast follow-up: on November 2 we provided the committee a response letter to questions that arose during Commissioner Fisher's 10/24 presentation of the Preliminary Fall revenue forecast
2. Refresher on basic structure of HB4001
3. During the 10/26 bill introduction, there were several questions that could be combined into several rough categories. We've divided them as follows:
  - Labor force & population issues
  - Relative impact & progressive-regressive issues
  - Municipal tax & combined tax level issues
  - Profit distribution & other technical tax issues

# **Revenue Forecast Follow-up Questions**

## *November 2 letter answered four questions:*

1. Oil and gas tax credit appropriation formula is based on Spring forecast oil price
2. Shift for motor fuel tax from UGF to DGF is a Leg. Finance suggestion, which we accepted, separate from the tax increase bill
3. O&G Corporate Income Tax negative revenue

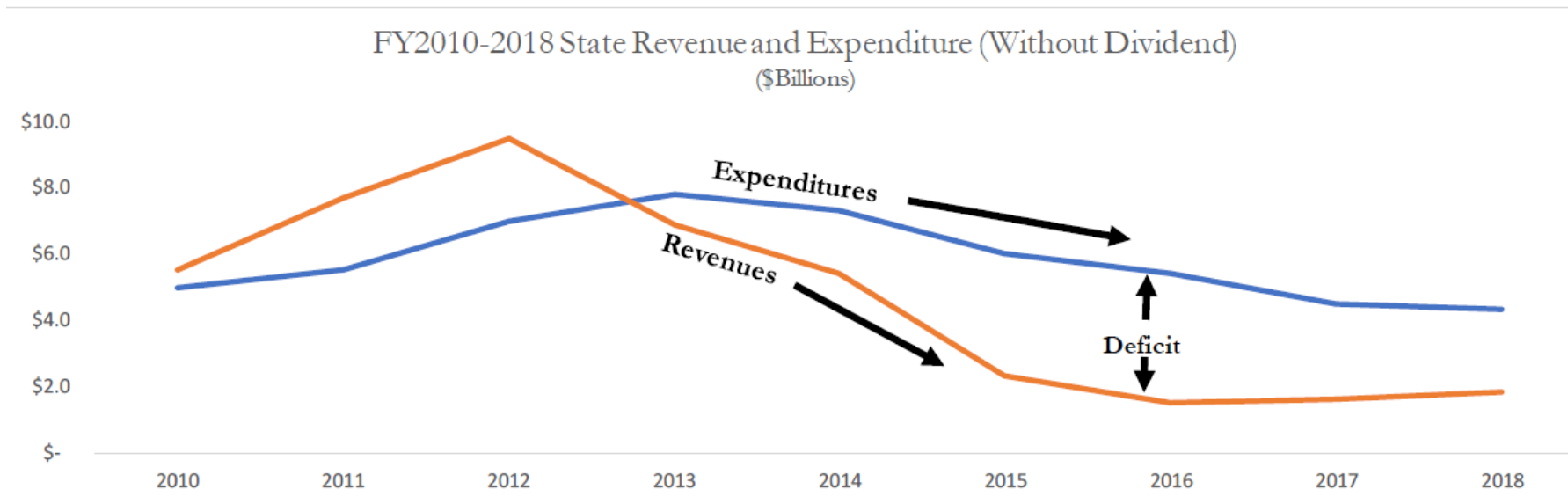
	FY 16	FY 17
<b>Payments</b>	\$ 60.8	\$ 94.9
Regular Estimated Payments	\$ 25.9	\$ 65.6
CBRF Payments	\$ 34.9	\$ 29.4
<b>Refunds</b>	\$ (86.9)	\$ (92.5)
Carry Forward/Back Credits	\$ (7.8)	\$ (50.6)
Return Refunds / Other	\$ (79.1)	\$ (41.9)
<b>CBRF Transfers</b>	\$ (32.7)	\$ (61.8)
Current Year Payments	\$ (3.8)	\$ (42.2)
Prior Year Payments	\$ (28.9)	\$ (19.6)
<b>General Fund Impact</b>	\$ (58.8)	\$ (59.4)

4. \$1 in price of oil => ~\$30 million UGF

# HB 4001 Summary

# *From OMB Director Pitney Yesterday*

## Savings: State Budget Overview



Substantial budget reductions have been made (44 percent since FY2013), but revenues have declined by almost 80 percent during that time.

# *HB4001 Bill Summary*

- Flat rate 1.5% tax on wages and self-employment income
- Tax paid by individuals earning income in Alaska; two income families would pay for each person
- Does not tax investments, retirement income, etc.
- Employers withhold and file for wage employees
- Tax is capped at \$2,200 or twice the previous year's PFD, whichever is greater
  - Cap applies to incomes over \$147,000 / year
  - Cap only impacts top 5% of earners
  - Foregone revenue from the cap is \$10 to \$20 million

# *HB4001 Bill Summary*

- Revenue about \$320 million at full implementation
- About 15% of revenue will come from nonresidents
- \$10 million initial capital cost; operating cost \$4 to \$5.2 million for up to 40 employees
- Total cost over six-year fiscal note period is about 2.5% of projected revenue



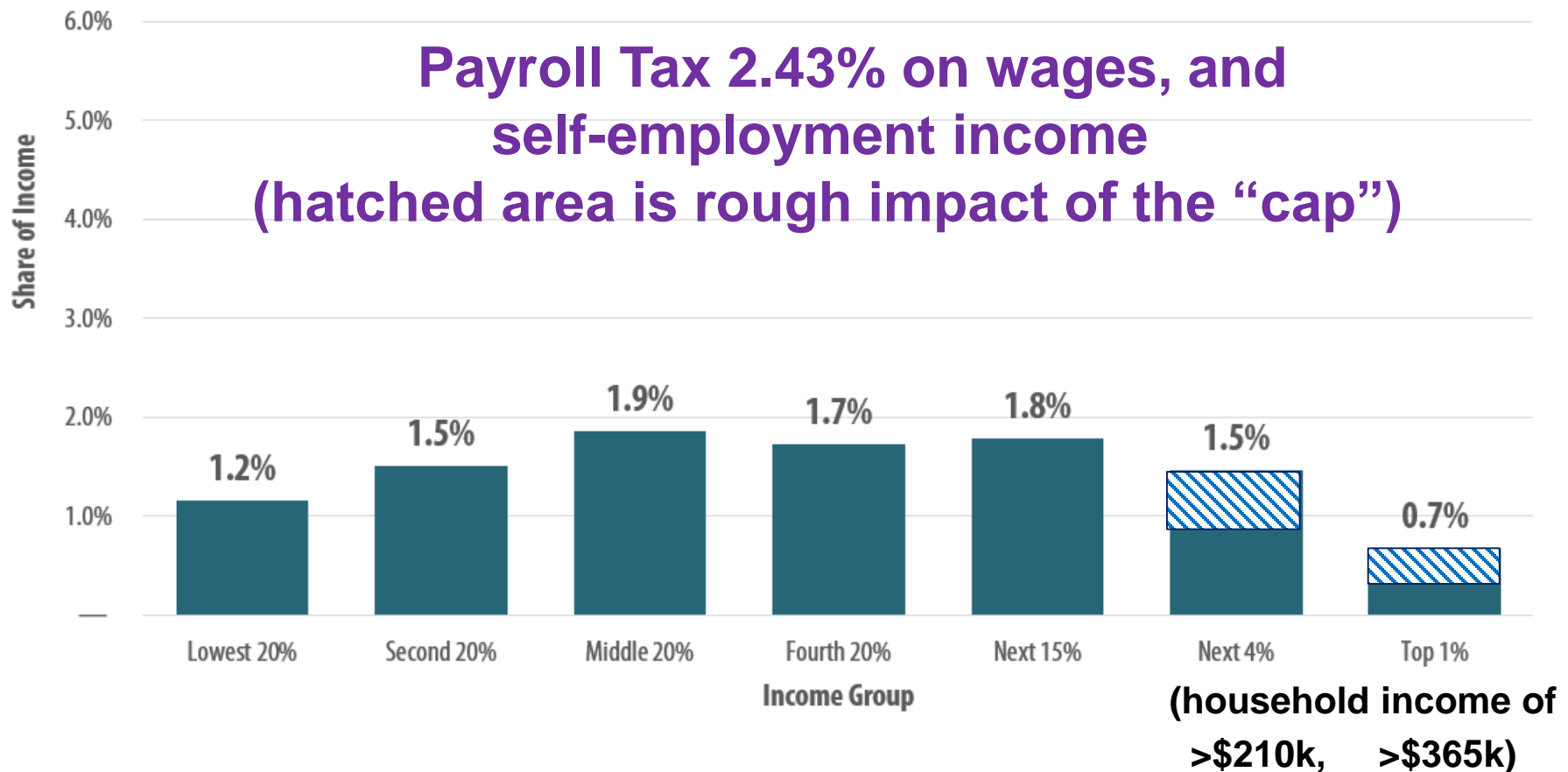
# Labor Force and Population Issues

## ***Labor Force and Population (Fun Facts!)***

- No population decline. Population growth has been less than 1% over the past four years
- Est. population (July 2016) is 739,828
- Modest growth projected through 2045
- Since statehood- three years with negative growth
- Nonresident wages from Alaska Employers 16%
- Through Sept. 2017, statewide job loss 11,600 (3.2%)
- Pat Pitney yesterday, confirmed with DOLWD: state employees down 2,800 (12%)

# **Relative Impact and Progressive/ Regressive Issues**

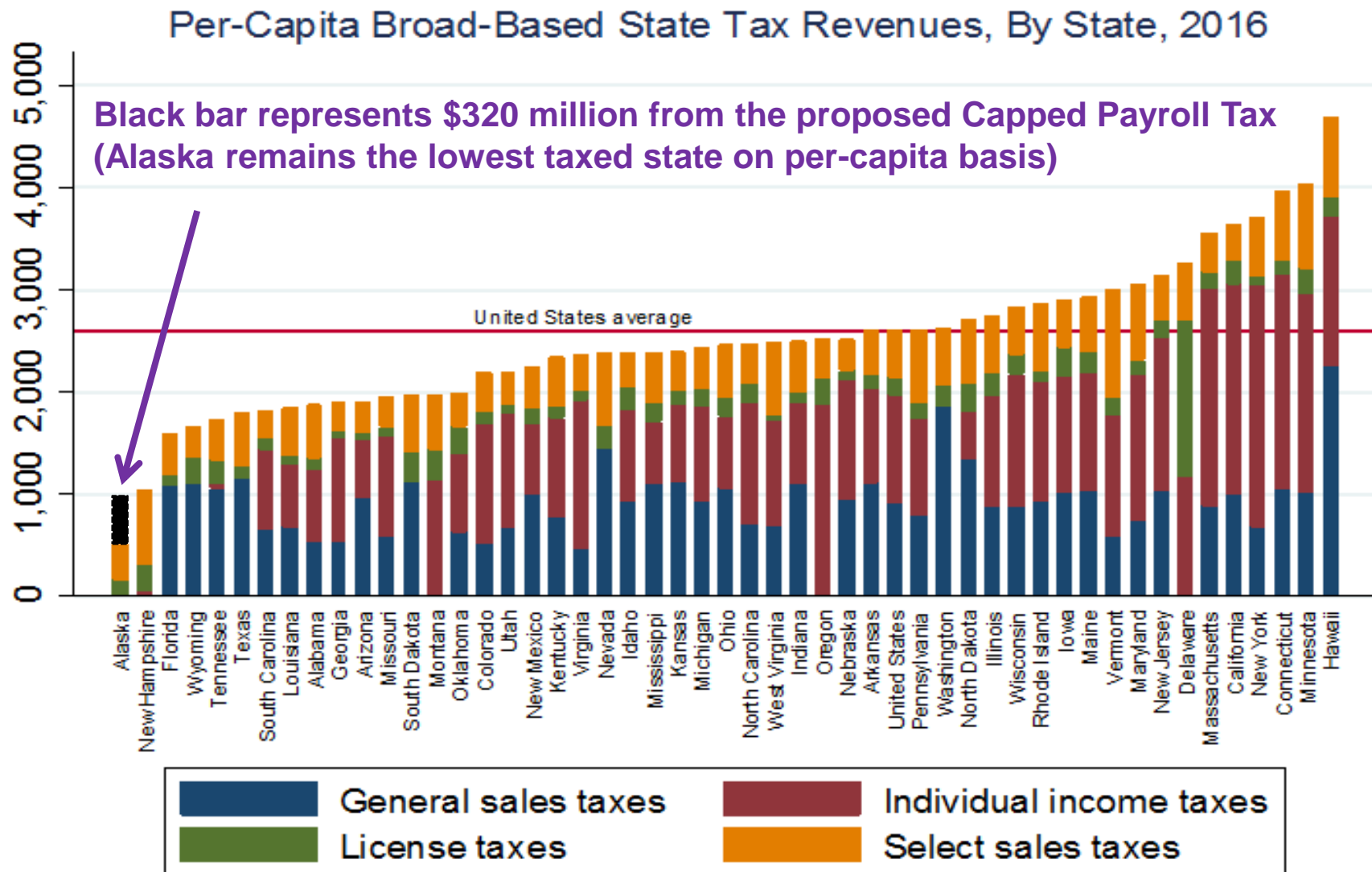
# *ITEP analyzed multiple tax options that each would raise \$500 million*



**Source: “Comparing the Distributional Impact of Revenue Options in Alaska,”  
ITEP, April 2017**

# **Municipal Tax and Combined Tax Level Issues**

# Comparable Tax Burden (state to state)

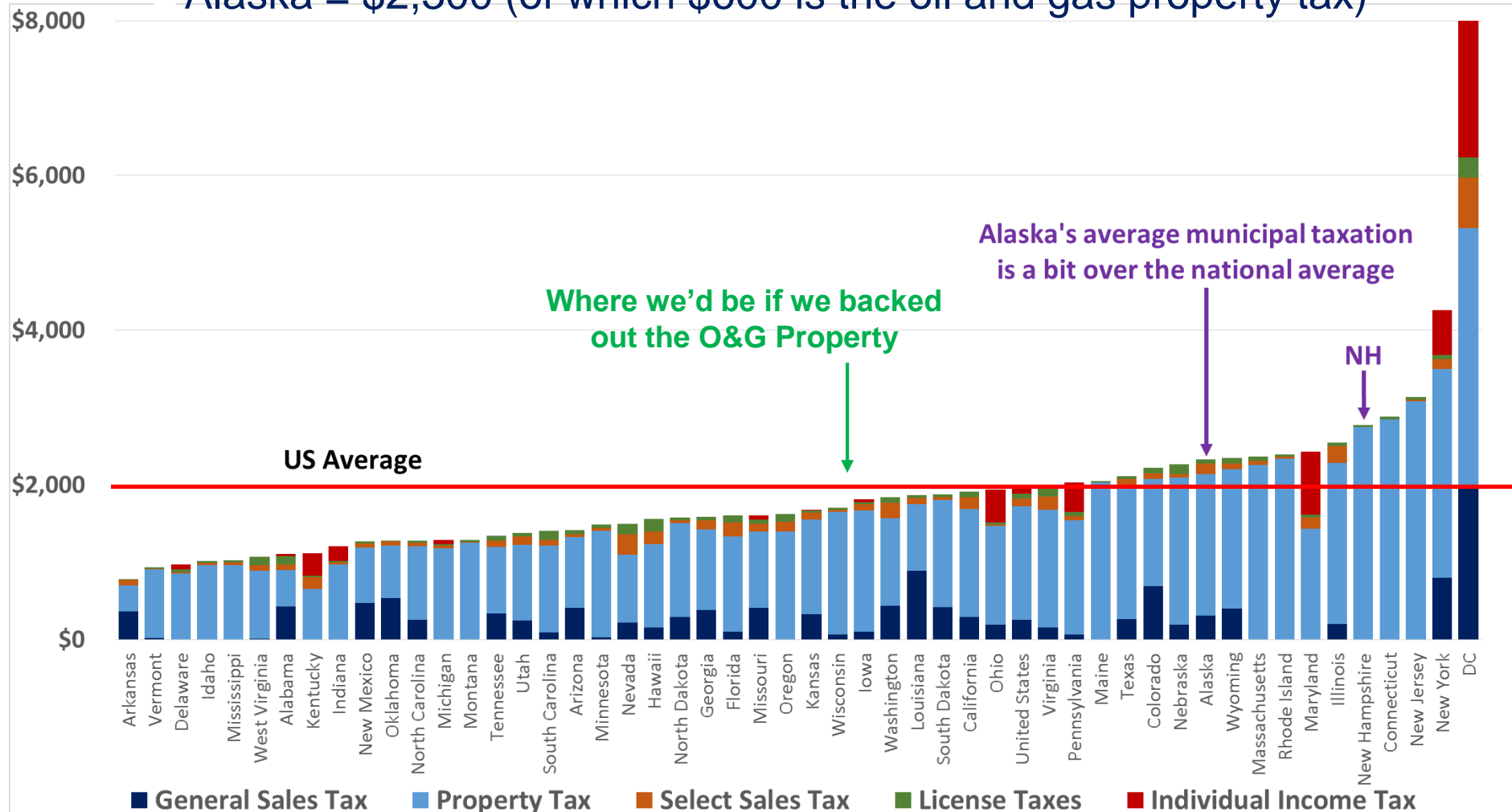


Source: Mouhcine Guettabi, ISER

# Comparable Tax Burden (local only)

Per-capita local tax burden (2015)

Alaska = \$2,300 (of which \$600 is the oil and gas property tax)

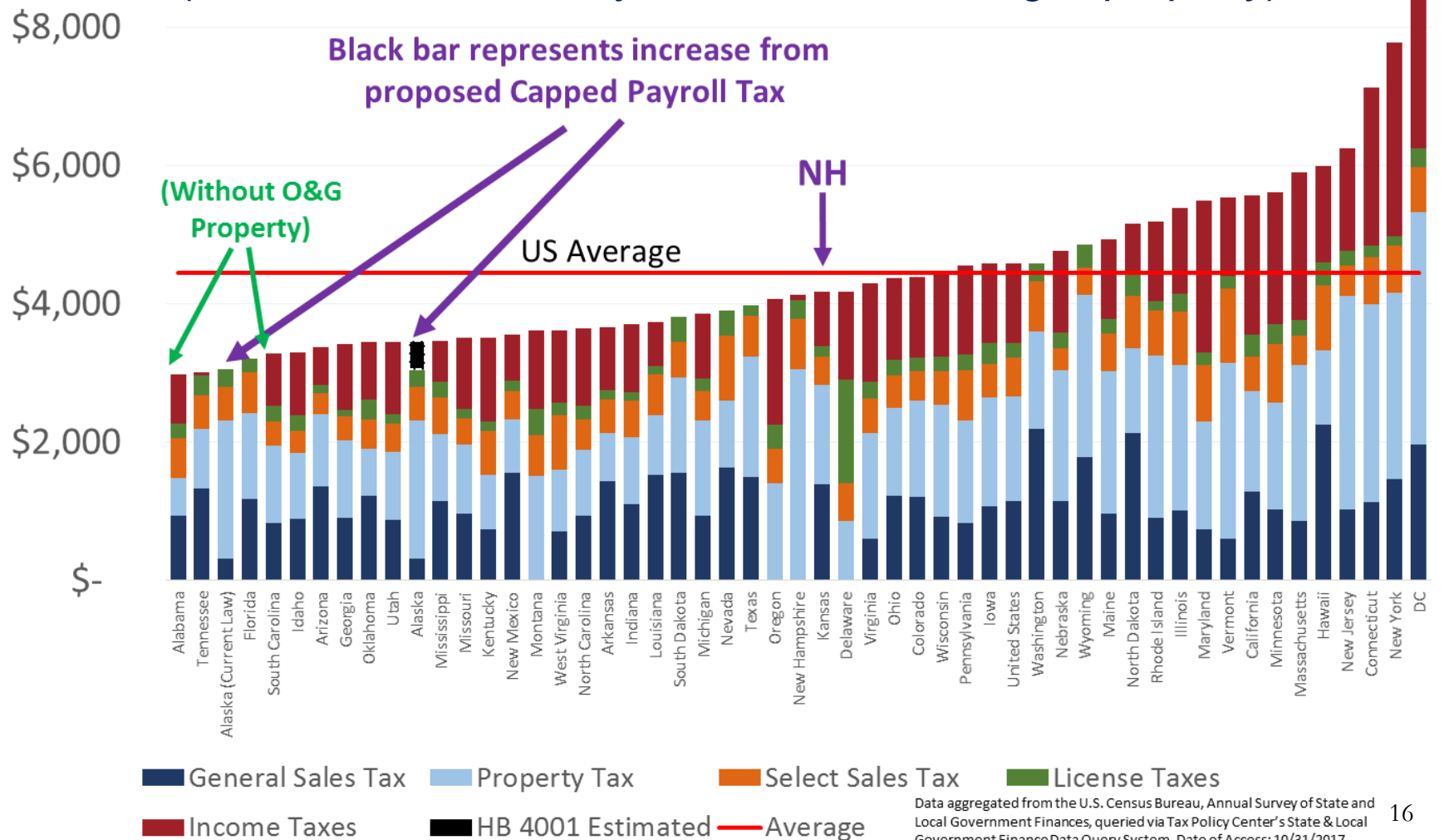


# Comparable Tax Burden (state & local combined)

Per-capita broad-based state and local tax burden (2015)

Alaska goes from 3<sup>rd</sup> lowest to 10<sup>th</sup> lowest

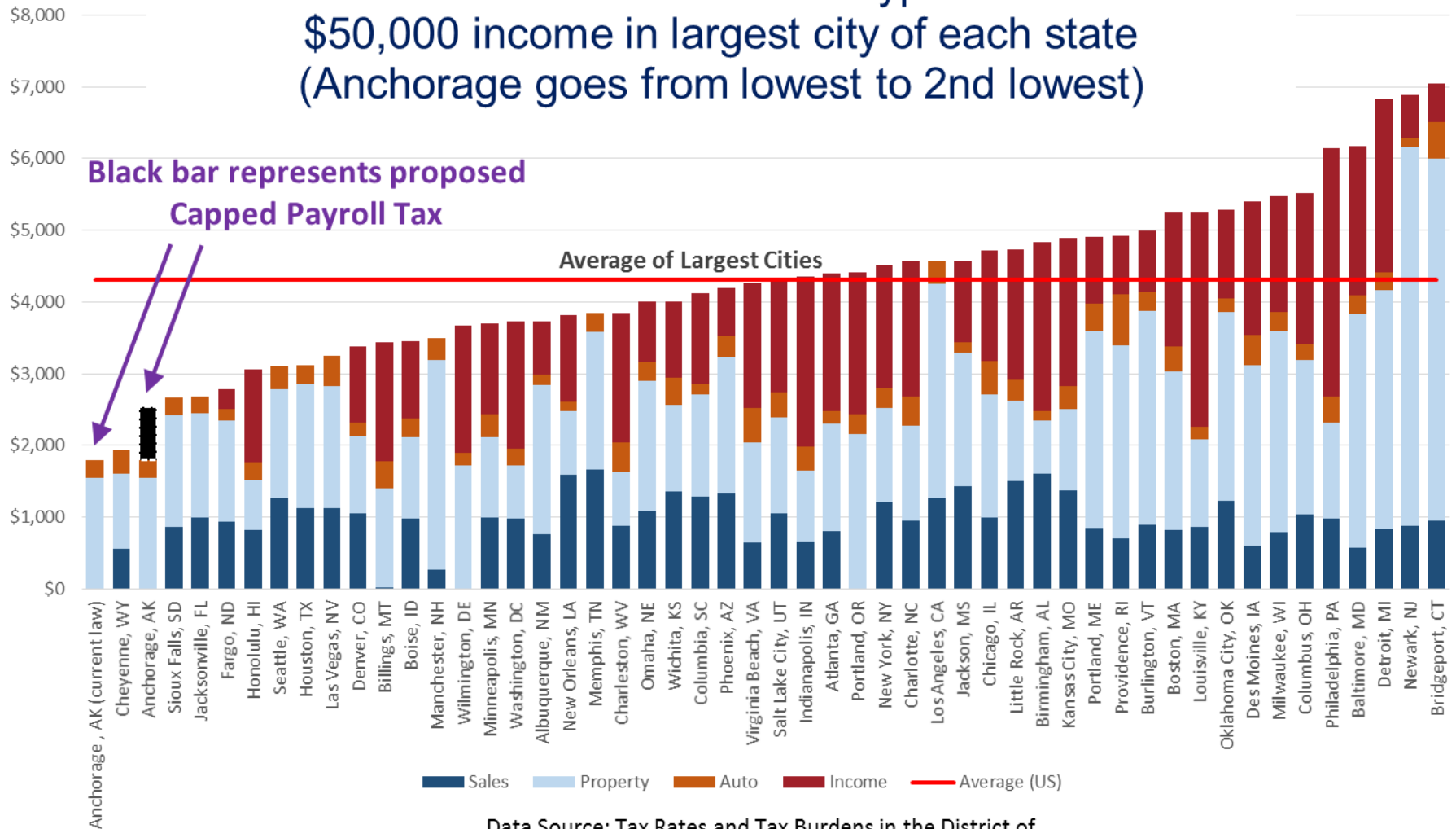
(lowest to 4<sup>th</sup> lowest if you back out oil and gas property)





# Combined Tax Burden (largest cities per state)

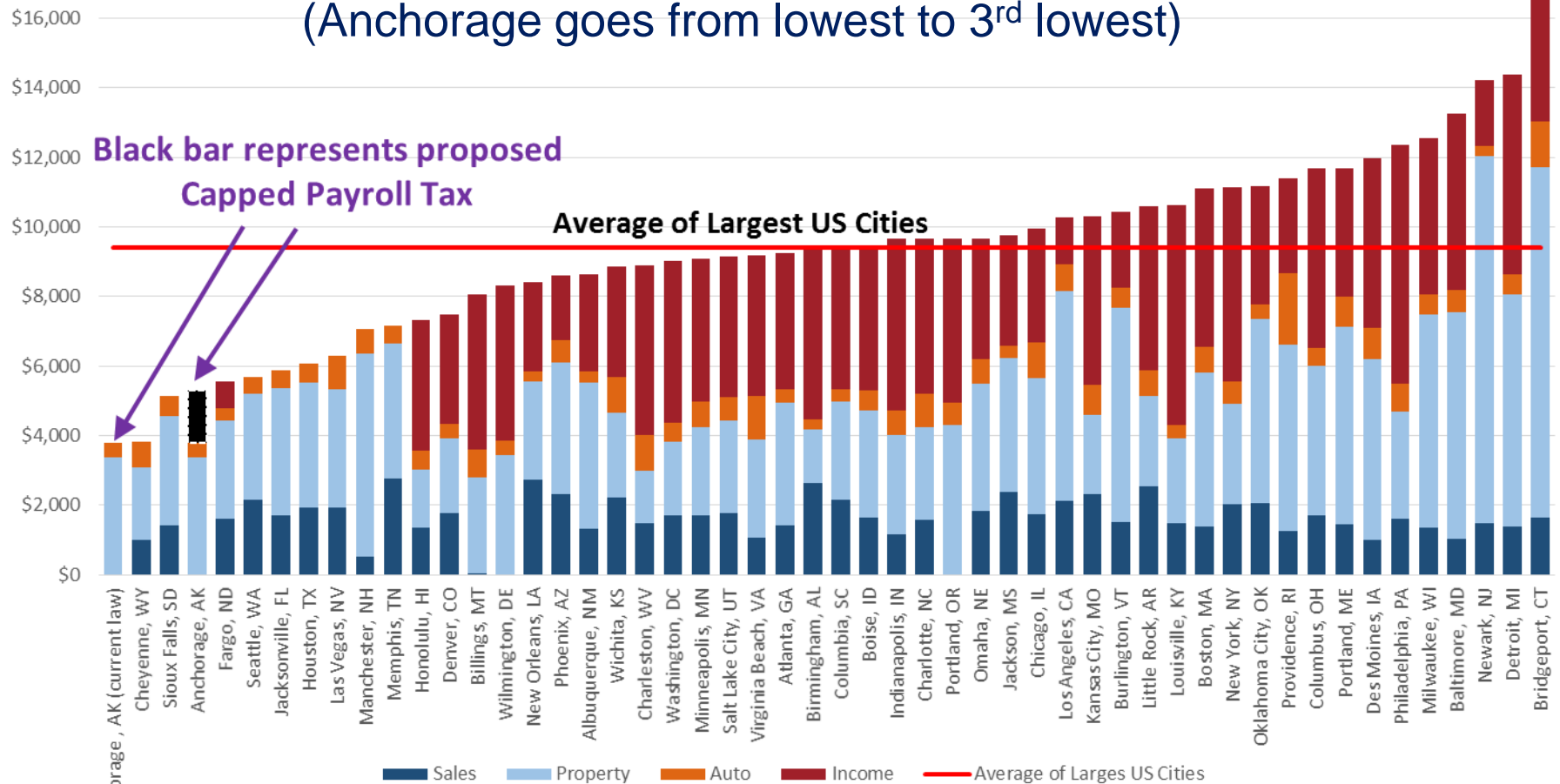
Total State and Local Tax Burden for typical household with \$50,000 income in largest city of each state  
(Anchorage goes from lowest to 2nd lowest)



Data Source: Tax Rates and Tax Burdens in the District of Columbia - A Nationwide Comparison (December 2016)

# Combined Tax Burden (largest cities per state)

Total State and Local Tax Burden for typical household  
with \$100,000 income in largest city of each state  
(Anchorage goes from lowest to 3<sup>rd</sup> lowest)



Data Source: Tax Rates and Tax Burdens in the District of

# **Profit Distribution and other Technical Tax Issues**

# *Partnership Distributions*

- This bill would tax a partner's distributive share of the partnership's net taxable income
- Does not matter whether or not a partnership actually pays a partner a distribution
- Partner share is reported to him/her on Schedule K-1 of federal Form 1065
- If both spouses are partners, they will each receive a separate Sch. K-1 reporting their individual share – there is no such thing as a joint K-1
- If they file jointly, K-1s would be combined on their federal Form 1040
- Federal 1040 is not used to prepare a state tax return under this bill. Each spouse would use their individual Sch. K-1 to prepare their separate state returns

## *PFD Tax Status / Voluntary Donations*

- From a federal tax perspective, what matters is if someone is issued a PFD
- All recipients get a 1099 which is also sent to the IRS
- PFD is a dividend (Sch. B) for federal tax purposes. Dividends are taxed at filer's regular tax rate
- For federal purposes, if someone doesn't want to be taxed on their PFD, they would need to not file for (or receive) it
- Alternatively, someone could make a tax deductible charitable donation to the state of their PFD
- However, that would only make a taxable difference if they itemized their deductions (Sch. A) on their federal tax return
- Plausible work-around, establishing a GF designation for the share of the state population that does not apply for a PFD
- No way to "donate" an individual's dividend without it first being received and considered taxable income



# Thank You!

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