

# *A Personal Income Tax*

## Alaska's Last Tax

By

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February 2016

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Greetings legislators and interested Alaskans,

As the current state budget crisis continues to challenge us, and its potential severity to all of Alaska's residents continues to evolve and become more widely understood, the search for additional revenues streams to support Alaska's General Fund operating and capital budgets will be methodically and dutifully explored. Each stream will have its own positive benefits and each will have its own negative detractors. Our elected leaders will each have to make a list, some real, some virtual, and rank the order of each of these revenue options. I respectfully suggest an income tax should be at the bottom of every list. We may need it some day, but it should be "*Alaska's Last Tax*". Below I offer my support for this position for your consideration.

### 1) An income tax is a "broad based" tax..... Is it?

What is "broad based" about a tax that takes only from the working families and the retired of Alaska to support government? A personal income tax is not a broad based tax - it taxes only 43% of the Alaska's total population of 735,000. (In 2013 there were 419,000 workers and pensioners) And those folks range from the young wage earners bringing home their earnings for their family to the retired senior citizen living on a fixed income.

In a letter to Senate Finance on February 6, 2015, Revenue Commissioner Hoffbeck estimated that to raise \$1 billion (less than 1/3 of our projected deficit) thru an income tax, it would take 29% of an Alaskans' federal tax liability. He predicted for a working Alaskan, with an Adjusted Gross Income of \$50,000, the cost to raise a billion dollars was estimated to be \$1,700 for every Alaskan with taxable income, both young and elderly.

## 2) Wait a minute - but an income tax "gets" that out-of-state worker

Yes it does, true. However, in 2013 they represented about 15% of the earned income. That darned US Constitution makes us tax residents and non-residents alike, so I ask, "Do we tax 100% of the Alaskan income earners and seniors just to get even with the 15% out-of-staters we're mad at?"

It's like going after a fly with a hammer; there has to be a better way.

## 3) Every state has an income tax.....we should too

This statement is often repeated and widely accepted but is in fact false. Six other states do not have an income tax and have figured out a way to fund their government without one.

It is true, however, that Alaska is the only state without an income tax or a sales tax. Some apologize for that as if it were a bad thing. I suggest we celebrate. We should sit back, rub our bellies, and, rather than rush to the family checkbook, remember none of those states (or any of the other 43) have \$62+ billion in the bank and but 735,000 state residents.

## 4) An income tax grows government spending and is expensive to administer

In Representative Paul Seaton's HB 182, (which is in the legislature as current income tax legislation) to have an income tax in Alaska would require 64 new bureaucrats and cost \$8 million per year to administer. It should be noted the fiscal note (the estimated cost) attached to this legislation is being met with considerable skepticism as it is modeled after Montana. Montana has approximately the same number of residents as Alaska but it costs Montana double what the HB 182 is predicting for Alaska, so the real cost may be significantly greater than \$8 million per year.

So just at the time we should be shrinking state government, we are instead, making it larger just to collect a tax.

#### 5) An income tax promotes government spending

An income tax is imbedded in the revenue stream and keeps injecting tax money into the income stream whether state government needs it or not. The tax would be taking money out of the family checkbook even if not needed. Goodness knows the legislature had more money than they could count 2007 - 2013, so they spent two dollars for every dollar saved. All an income tax would have done in those years was give them more money to spend rather than leaving it on the dinner table for Alaska's working families and pensioners.

#### 6) An income tax brings no "new" money to our economy

An income tax is simply a transfer of money from the citizens to the government. With an income tax we are just "doing each others laundry" and no new dollars are created and then injected into our economy. Economists will tell you the economic multiplier for an income tax is exceedingly weak.

#### 7) An income tax will require a significant and time-consuming effort to become law

An income tax is always at the bottom of every public opinion poll taken. It's just not a widely popular tax. To attempt to pass legislation for such a tax requires time, money, and legislative talent. Those assets should be better used to pass more efficient and achievable legislation in order to create needed additional revenues.

#### 8) Alaskans' nest eggs are world class

We currently have over \$50 billion dollars spread across the world's investment market plus balances in the Constitutional Budget Reserve and the Permanent Fund Earnings account. The world's best money managers, on the behalf of 735,000 Alaskans, manage these funds. Our wealth is truly "world-class" and we shouldn't apologize for one moment. Instead Alaskans should embrace the reality that we possess the talent to utilize this nest egg for the benefit of all Alaskans spread equally over all of Alaska. Before we throw up our hands and start funding state government just from the

resources of the working class and our seniors, we must be creative and we must be bold in utilizing the resources that bless our owner state.

In conclusion, I respectfully suggest a document for your review and use. It's an interesting five-page document, published in June of 2015 by the Walker administration, and it lists possible new revenue enhancements (taxes). Some are obvious and talked about daily (gas tax, sales tax, oil tax, PF Earnings, et. al.) and some are more subtle and unknown (increase level nine in the state's corporate income tax structure, medical devise tax et. al). I suggest that document be the sounding board when the subject of a statewide personal income tax surfaces. Please not only ask yourself, but also ask others to answer the question, if an income tax creates a revenue stream coming only from our workers and our seniors, isn't there a better way? A way that spreads the burden of government across all Alaskans, will capture new revenues, won't grow the bureaucracy, and is achievable.

I think you will conclude there is and a personal income tax should really be "*Alaska's Last Tax*".

Thank you for your interest and your consideration.

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February 2016