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HB 182 Sectional Analysis Version: 29-LS0771\N

Please note that a sectional analysis of a bill or resolution should not be considered an authoritative interpretation of the measure itself. The legislation is the best statement of its contents.

Section 1 (page 1, line 5) – creates the Individual Income Tax within AS 43.

Section 43.22.010 (page 1, line 7) – Establishes that the tax will be imposed on both residents and nonresidents who have earned income from a source within Alaska for each calendar year or fraction of a calendar year. The tax is equal to 15% of the taxpayer's total federal income tax due on the amount of the taxpayer's income from sources within the state. Long term capital gains are additionally taxed by multiplying the taxpayer's long term capital gains for the calendar year by the lesser of:

- 10%; or
- The difference between the taxpayer's incremental federal income tax rate on ordinary income and the taxpayer's federal tax rate on long term capital gains.

Currently the difference between the taxpayer's incremental federal income tax rate on ordinary income and the taxpayer's federal tax rate on long term capital gains is between 10 -19.6%. Should the federal government change the rates on either, this could increase or decrease this difference. Based on in this section, a taxpayer's long term capital gains will be multiplied by no more than 10%. This section also defines *federal income tax due* and *long term capital gains* as that reported on a taxpayer's federal individual income tax return.

Section 43.22.020 (page 2, line 12) - Establishes how taxpayers will submit tax returns and make payments for the individual income tax. It clarifies that this tax is due and payable to the department at the same time and in the same manner as the tax payable to the U.S. IRS for federal taxes. The section also outlines procedures in case there are changes to the taxpayer's federal income tax return. Refunds will be paid by the department out of the general fund.

Section 43.22.030 (page 3, line 11) - Defines *income from sources in the state* as compensation for services rendered in the state; salary or wages earned in the state; income from real or tangible personal property located in the state; income from stocks, bonds, notes, bank deposits, and other intangible personal property having a taxable or business site in the state; rentals and royalties in the state; patents, copyrights, trade brands, franchises, etc.; and income of any nature from a source with a taxable or business site in the state.

The section also defines that income from a taxable or business site in the state includes: business facilities or property, business, farming, fishing, management or investment for intangible property, partnerships, limited liability companies, estate and trust businesses, corporations conducting business in the state, etc. It also clarifies that if a business, trade or profession is carried on both within and outside of Alaska, the income from the sources in Alaska shall be determined as provided in AS 43.19 "*Multistate Tax Compact*."

Long term capital gains shall be reported from all property regardless of the location of the property.

Section 43.22.040 (page 4, line 19) - Establishes how taxes will be withheld by employers making payment of wages, salaries, or crew shares. The employer shall deduct and withhold the amount of tax, remit the tax to the department, provide a written statement to the employee by January 31 of the succeeding year showing the amount deducted and other necessary information. The department shall publish the rate of withholding required by this section. The terms "employee" and "employer" are defined.

Section 43.22.050 (page 5, line 17) – Establishes that the department shall provide all necessary forms and adopt regulations to implement this tax, including regulations for online filing and online payment of tax due.

Section 43.22.190 (page 5, line 22) - Definitions of the following terms: domiciled, individual, Internal Revenue Code, nonresident, resident, and taxpayer. Resident is defined as an individual who: lives in the state for the entire calendar year; claims to be a resident of Alaska on their federal tax forms; receives an Alaska permanent fund dividend; is registered to vote in Alaska; or has an Alaska resident fishing, hunting, or trapping license during the calendar year.

Section 2 (page 6, line 12) - Repeals the political donation tax credit applied against the tax on individuals under the repealed Alaska Net Income Tax Act, which was still on the books from the 1980's.

Section 3 (page 6, line 13) - States that this tax will be applied to income received on or after the effective date.

Section 4 (page 6, line 17) - Provides an effective date of January 1, 2016.